

Bawat A/S

Dr. Neergaardsvej 3, 2970 Hørsholm
CVR no. 34 05 34 99

Annual report for 2016

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 24.03.17

Klaus Nyborg
Dirigent

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The company

Bawat A/S
Dr. Neergaardsvej 3
2970 Hørsholm
Registered office: Hørsholm
CVR no.: 34 05 34 99
Financial year: 01.01 - 31.12

Board Of Management

Kim Diederichsen

Board Of Directors

Klaus Nyborg
Carsten Philip Melchior
Marcus Hummer
Jacob Bro Eriksen

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Statement of the Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.16 - 31.12.16 for Bawat A/S.

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

In our opinion, the financial statements give a true and fair view of the the company's assets, liabilities and financial position as at 31.12.16 and of the results of the the company's activities for the financial year 01.01.16 - 31.12.16.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Hørsholm, March 24, 2017

Board Of Management

Kim Diederichsen

Board Of Directors

Klaus Nyborg
Chairman

Carsten Philip Melchior

Marcus Hummer

Jacob Bro Eriksen

To the shareholders of Bawat A/S**Opinion**

We have audited the financial statements of Bawat A/S for the financial year 01.01.16 - 31.12.16, which comprise the income statement, balance sheet, statement of changes in equity and notes, inclusive of accounting policies. The financial statements are prepared in accordance with Danish Financial Statements Act

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.16 and of the results of the company's operations for the financial year 01.01.16 - 31.12.16 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Furthermore the Management is responsible for the internal control as the 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 International Standards on Auditing 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 International Standards on Auditing 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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement regarding the 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 Statement Acts. We did not identify any material misstatement of management's review.

Hobro, March 24, 2017

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Thomas Andersen
State Authorized Public Accountant

Primary activities

The business scope of the Company comprises research, development and sales of systems for ships ballast water treatment.

Development in activities and financial affairs

The income statement for the period 01.01.16 - 31.12.16 shows a loss of DKK -5,254,223 against DKK -6,632,055 for the period 01.01.15 - 31.12.15. The balance sheet shows equity of DKK 29,759,140.

The management considers the net profit for the year to be as expected.

During first half of 2016 the Company ownership changed resulting in an additional shareholder capital injection of DKK 18.6 million and loan commitment from Danmarks Grønne Investeringsfond. The bulk part of the capital injection was from Delta Climate K/S, a fully owned subsidiary of MP Pension. By year end the Company received information of being selected for the SME Instrument Grant Phase 2 resulting in subsidy support under the EU Horizon 2020 program. The loan commitment from Danmarks Grønne Investeringsfond and the EU Horizon 2020 subsidy funds are tied to the U.S. Coast Guard Type Approval (TA) testing program to be conducted throughout 2017/2018.

Throughout the year the organization has been strengthened with additional sales and engineering staff. In order to handle the expected material increase in sales of ballast water treatment systems the organization is planned to be further developed during 2017.

The Company has appointed multiple new business partners located within strategic geographical maritime hubs. Further appointment of business partners are expected throughout 2017.

Market overview

In 2016 the ballast water treatment market situation has developed positively. Accession by Finland triggered the entry into force of the IMO Ballast Water Management Convention on September 8, 2016. The Convention will be effective as of September 8, 2017, and require all ships in international trade to manage their ballast water and sediments to certain standards, according to the ship-specific ballast water management plan. The ballast water performance standard will over a period of time gradually be phased in peaking within the next 5 to 7 years.

Throughout 2016 the Company experienced increased sales activities and interest from world-wide vessel owners and managers. Multiple leads are maturing within different vessel segments and expected materialized in 2017.

Research and development activities

Beyond optimization of current IMO type approved system for treatment of ships ballast water, handling of patents and trademarks, 2016 activities also included identification of an alternative use of the patented technology. With financial support from "Miljø- og Fødevareministeriet Ecoinnovation MUDP 2015 program", the Company developed a containerized, mobile "one-pass" treatment system based on pasteurization only. Contract and deployment of first unit is expected in 2017.

2016 R&D expenditures accumulate to DKK 5.1 million mainly covering pre-tests tied to the U.S. Coast Guard TA process and the MUDP project.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income statement

Note		2016 DKK	2015 DKK
	Gross loss	-1.950.685	-1.188.554
1	Staff costs	-1.748.108	-3.739.626
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	-3.698.793	-4.928.180
	Depreciation, amortisation, impairment losses and write-downs of property, plant and equipment	-2.930.299	-2.901.087
	Profit/loss before net financials	-6.629.092	-7.829.267
	Financial income	150.222	2.935
2	Financial expenses	-261.226	-339.290
	Profit/loss before tax	-6.740.096	-8.165.622
3	Tax on profit or loss for the year	1.485.873	1.533.567
	Profit/loss for the year	-5.254.223	-6.632.055
	Proposed appropriation account		
	Retained earnings	-5.254.223	-6.632.055
	Total	-5.254.223	-6.632.055

ASSETS		31.12.16	31.12.15
Note		DKK	DKK
	Completed development projects	26.081.950	29.344.475
	Development projects in progress	6.344.031	1.339.229
4	Total intangible assets	32.425.981	30.683.704
	Other fixtures and fittings, tools and equipment	104.353	0
	Total property, plant and equipment	104.353	0
	Total non-current assets	32.530.334	30.683.704
	Trade receivables	1.034.460	0
	Deferred tax asset	20.687	0
	Income tax receivable	892.500	0
	Other receivables	440.328	79.905
	Prepayments	32.425	4.788
	Total receivables	2.420.400	84.693
	Cash	11.075.327	743.549
	Total current assets	13.495.727	828.242
	Total assets	46.026.061	31.511.946

EQUITY AND LIABILITIES		31.12.16	31.12.15
		DKK	DKK
Note			
	Contributed capital	4.258.243	1.353.815
	Reserve for development costs	3.903.746	0
	Retained earnings	21.597.151	13.197.798
	Total equity	29.759.140	14.551.613
	Provisions for deferred tax	0	465.187
	Total provisions	0	465.187
5	Payables to other credit institutions	2.100.000	0
5	Other payables	6.911.563	6.431.199
5	Deferred income	4.432.664	3.835.500
	Total long-term payables	13.444.227	10.266.699
5	Short-term portion of long-term payables	11.587	0
	Trade payables	2.296.649	911.890
	Payables to group enterprises	0	3.395.881
	Other payables	514.458	1.920.676
	Total short-term payables	2.822.694	6.228.447
	Total payables	16.266.921	16.495.146
	Total equity and liabilities	46.026.061	31.511.946
6	Contingent liabilities		
7	Charges and security		

Statement of changes in equity

Figures in DKK	Share capital	Share premium	Reserve for develop- ment costs	Retained earnings	Total equity
Statement of changes in equity for 01.01.16 - 31.12.16					
Balance as at 01.01.16	1.353.815	0	0	13.197.798	14.551.613
Capital increase	2.904.428	15.786.879	0	0	18.691.307
Group contribution	0	0	0	3.420.443	3.420.443
Cost of changes in capital	0	-1.650.000	0	0	-1.650.000
Other changes in equity	0	0	5.004.803	-5.004.803	0
Tax on changes in equity	0	0	-1.101.057	1.101.057	0
Transfers to/from other reserves	0	-14.136.879	0	14.136.879	0
Net profit/loss for the year	0	0	0	-5.254.223	-5.254.223
Balance as at 31.12.16	4.258.243	0	3.903.746	21.597.151	29.759.140

	2016 DKK	2015 DKK
1. Staff costs		
Wages and salaries	1.612.007	3.607.517
Pensions	0	50.975
Other social security costs	21.639	28.501
Other staff costs	114.462	52.633
Total	1.748.108	3.739.626
Average number of employees during the year	4	4

2. Financial expenses

Interest, group enterprises	0	212.149
Other interest expenses	68	0
Foreign currency translation adjustments	0	2
Foreign exchange losses	1.777	0
Other financial expenses	259.381	127.139
Other financial expenses total	261.226	127.141
Total	261.226	339.290

3. Tax on profit or loss for the year

Adjustment of deferred tax for the year	-1.378.374	-633.128
Adjustment of tax in respect of previous years	-107.499	-900.439
Total	-1.485.873	-1.533.567

4. Intangible assets

Figures in DKK	Completed development projects	Development projects in progress	Total
Cost as at 01.01.16	33.288.422	1.348.767	34.637.189
Additions during the year	0	5.091.281	5.091.281
Transfers during the year to/from other items	86.478	-86.478	0
Cost as at 31.12.16	33.374.900	6.353.570	39.728.470
Amortisation and impairment losses as at 01.01.16	-3.943.938	-9.539	-3.953.477
Amortisation during the year	-3.349.012	0	-3.349.012
Amortisation and impairment losses as at 31.12.16	-7.292.950	-9.539	-7.302.489
Carrying amount as at 31.12.16	26.081.950	6.344.031	32.425.981

5. Longterm payables

Figures in DKK	Repayment first year	Total payables at 31.12.16	Total payables at 31.12.15
Payables to other credit institutions	11.587	2.111.587	0
Other payables	0	6.911.563	6.431.199
Deferred income	0	4.432.664	3.835.500
Total	11.587	13.455.814	10.266.699

6. Contingent liabilities

Lease commitments

The company has concluded lease agreements with an irrevocability of 6 months and monthly lease payments of DKK t.DKK 12.

Other contingent liabilities

The company have recieved grants for development projects from public authorities. The grants can be demanded reimbursed if the company transfers/sells/rents the projects, if the projects are given up, if the projects are not used or if the projects turns out to generate significant more earnings than expected. The total recieved grants for the projects is t.DKK 557, t.DKK 2.780 and t.DKK 1.037. A total amount of t.DKK 3.398 are included in deferred indcome ad long-term payables.

7. Charges and security

As collateral for debt to credit institutions a company pledge of DKK 4.000 has been provided comprising goodwill, intellectual property rights, other plant, fixtures and fittings, tools and equipment, inventories as well as trade receivables. The total carrying amount of the comprised assets is t.DKK 33.564.

8. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for enterprises in reporting class B.

The accounting policies have been applied consistently with previous years.

Change in accounting policies

The company has changed its accounting policies in the following areas:

Because of changes to the Danish Financial Statements Act additions to development projects in progress is now kept as an reserve for development costs in the company equity statement. Figures for 2015 in the annual report are not modified to this change in accounting policies.

Furthermore grants received in connection with completed and development projects in progress are now shown as deferred income as part of the company's liabilities. As a result of the change the total assets in this report is t.DKK 3.836 higher in the 2015-figures compared to last years report. The total liabilities are equally t.DKK 3.836 higher.

In 2016 the change have made the total assets t.DKK 4.433 higher and the total liabilities equally higher.

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 depreciation, amortisation, impairment losses and write-downs, 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 such assets 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 such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

8. Accounting policies - continued -**LEASES**

Lease payments relating to operating leases are recognised in the income statement on a straight-line basis over the lease term.

GOVERNMENT GRANTS

Government grants are recognised when there is reasonable certainty that the grant conditions have been met and that the grant will be received.

Grants received for the production or construction of assets are recognised as deferred income under payables. For depreciable assets, the grant is recognised as the asset is depreciated.

INCOME STATEMENT**Gross loss**

Gross loss comprises other external expenses.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises, bad debts to the extent that these do not exceed normal write-downs, and operating lease expenses.

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

8. Accounting policies - continued -**Depreciation, amortisation and impairment losses**

The amortisation and depreciation of intangible assets and property, plant and equipment aim at systematic depreciation and amortisation over the expected useful lives of the assets. Assets are depreciated/amortised according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value, per cent
Completed development projects	5-10	0
Development projects in progress and acquired rights	10	100
Other plant, fixtures and fittings, tools and equipment	3	0

The basis of depreciation/amortisation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation/amortisation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Intangible assets and property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Other net financials

Interest income and interest expenses etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

BALANCE SHEET**Intangible assets***Completed development projects and development projects in progress*

Development projects are recognised in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development

8. Accounting policies - continued -

projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognised in the income statement in the year in which they are incurred.

Development projects in progress are transferred to completed development projects when the asset is ready for use.

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

Completed development projects are amortised using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Acquired rights

Acquired rights are measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Acquired rights are amortised using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Gains and losses on the disposal of intangible assets

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal.

Property, plant and equipment

Property, plant and equipment comprise other fixtures and fittings, tools and equipment

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on

8. Accounting policies - continued -

useful lives and residual values, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation/amortisation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

8. Accounting policies - continued -

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

An amount equivalent to internally generated development costs in the balance sheet is recognised in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortisation and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings. In accordance with act no. 738 amending the Danish Financial Statements Act of 1 June 2015, development costs will initially be recognised in the reserve, with initial recognition in the balance sheet from 1 January 2016.

Current and deferred tax

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

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

8. Accounting policies - continued -**Payables**

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

Deferred income

Deferred income under liabilities comprises government grants received for construction of assets.