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Labster ApS

Danneskiold-Samsøes Allé 41, 1434 København

Annual report

2018

Company reg. no. 34 45 78 08

The annual report was submitted and approved by the general meeting on the 14 May 2019.

Michael Bodekær Jensen
Chairman of the meeting

Contents

Notes:
- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points have not been used in the usual English way. This means that for instance DKK 146.940 means the amount of DKK 146,940, and that 23,5 % means 23.5 %.

Management's report

The board of directors and the managing director have today presented the annual report of Labster ApS for the financial year 1 January to 31 December 2018.

The annual report has been presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position at 31 December 2018 and of the company's results of its activities in the financial year 1 January to 31 December 2018.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

København, 14 May 2019

Managing Director

Mads Tvillinggaard Bonde

Board of directors

Mads Tvillinggaard Bonde

Michael Bodekær Jensen

Independent auditor's report

To the shareholders of Labster ApS

Opinion

We have audited the annual accounts of Labster ApS for the financial year 1 January to 31 December 2018, which comprise accounting policies used, profit and loss account, balance sheet, statement of changes in equity and notes. The annual accounts are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January to 31 December 2018 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 below section “Auditor’s responsibilities for the audit of the annual accounts”. We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

The management's responsibilities for the annual accounts

The management is responsible for the preparation of annual accounts that give a true and fair view in accordance with the Danish Financial Statements Act. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the management is responsible for evaluating the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the annual accounts, unless the management either intends to liquidate the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report including an 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 may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the annual accounts.

Independent auditor's report

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, design and perform audit procedures in response 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 the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the 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 by the management and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management’s preparation of the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about 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 annual accounts 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 annual accounts, including the disclosures in the notes, and whether the annual accounts reflect 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 the internal control that we identify during our audit.

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the annual accounts does not cover the management’s review, and we do not express any kind of assurance opinion on the management's review.

Independent auditor's report

In connection with our audit of the annual accounts, our responsibility is to read the management’s review and in that connection consider whether the management’s review is materially inconsistent with the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, 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 believe that the management's review is in accordance with the annual accounts and that it has been prepared in accordance with the requirements of the Danish Financial Statement Acts. We did not find any material misstatement in the management's review.

Copenhagen, 14 May 2019

Martinsen
State Authorised Public Accountants
Company reg. no. 32 28 52 01

Michael Marseen
State Authorised Public Accountant
mne32165

Company data

The company	Labster ApS Danneskiold-Samsøes Allé 41 1434 København	
	Company reg. no.	34 45 78 08
	Established:	12 March 2012
	Domicile:	
	Financial year:	1 January - 31 December 7th financial year
Board of directors	Mads Tvillinggaard Bonde Michael Bodekær Jensen	
Managing Director	Mads Tvillinggaard Bonde	
Auditors	Martinsen Statsautoriseret Revisionspartnerselskab Øster Allé 42 2100 København Ø	
Parent company	Labster Group ApS	
Subsidiary	Labster Inc., USA	

Management's review

The principal activities of the company

Like previous years, the principal activities have been developing and sale of software.

Development in activities and financial matters

The gross profit for the year is DKK 6.798.893 against DKK -801.515 last year. The results from ordinary activities after tax are DKK -22.028.888 against DKK -17.186.568 last year. The management consider the results satisfactory.

Accounting policies used

The annual report for Labster ApS is presented in accordance with those regulations of the Danish Financial Statements Act concerning companies identified as class B enterprises. Furthermore, the company has chosen to comply with some of the rules applying for class C enterprises.

Recognition and measurement in general

Income is recognised in the profit and loss account concurrently with its realisation, including the recognition of value adjustments of financial assets and liabilities. Likewise, all costs, these including depreciation, amortisation, writedown, provisions, and reversals which are due to changes in estimated amounts previously recognised in the profit and loss account are recognised in the profit and loss account.

Assets are recognised in the balance sheet when the company is liable to achieve future, financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the company is liable to lose future, financial benefits and the value of the liability can be measured reliably.

At the first recognition, assets and liabilities are measured at cost. Later, assets and liabilities are measured as described below for each individual accounting item.

Certain fixed asset investments and liabilities are measured at amortised cost, by which method a fixed, effective interest is recognised during the useful life of the asset or the liability. Amortised cost is recognised as the original cost with deduction of any payments and additions/deductions of the accrued amortisation of the difference between cost and nominal amount. In this way capital losses and capital profits are spread over the useful life.

At recognition and measurement, such predictable losses and risks are taken into consideration, which may appear before the annual report is presented, and which concerns matters existing on the balance sheet date.

The profit and loss account

Gross profit

The gross profit comprises the net turnover, grants, work for own account, recognised under assets, and external costs.

The net turnover comprises the value of services provided during the year, including outlay for customers less VAT and price reductions directly associated with the sale.

The turnover is recognised in the profit and loss account when the sale has been completed. This is generally considered to be the case when:

- The service has been provided before the end of the financial year
- There is a binding sales agreement
- The sales price has been determined

Accounting policies used

- The payment has been received, or it can with reasonable assurance be expected to be received.

Hereby, it is ensured that recognition does not take place until the total income and costs as well as the scope of completion on the balance sheet date can be determined reliably, and when it is likely that the economic benefits, including payments, will be received by the enterprise.

Other operating income comprise accounting items of secondary nature in proportion to the principal activities of the enterprise, including gains on disposal of intangible and tangible fixed assets.

Other external costs comprise costs for distribution, sales, advertisement, administration, premises, loss on debtors, and operational leasing costs.

Staff costs

Staff costs include salaries and wages including holiday allowances, pensions and other costs for social security etc. for staff members. Staff costs are less public reimbursements.

Depreciation, amortisation and writedown

Depreciation, amortisation and writedown comprise depreciation on, amortisation of and writedown relating to intangible and tangible fixed assets respectively.

Net financials

Net financials comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the profit and loss account with the amounts that concerns the financial year.

Results from equity investment in group enterprise

After full elimination of intercompany profit or loss and deduction of amortisation of consolidated goodwill, the equity investment in the group enterprise is recognised in the profit and loss account at a proportional share of the group enterprise's results after tax.

Tax of the results for the year

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

The company is subject to the Danish legislation concerning compulsory joint taxation with the Danish group enterprises.

The current Danish corporate tax is allocated among the jointly taxed companies in proportion to their respective taxable income (full allocation with reimbursement of tax losses).

Accounting policies used

The balance sheet

Intangible fixed assets

Development projects, patents, and licences

Development costs and internally generated rights are recognised in the profit and loss account as costs in the acquisition year.

Patents and licenses are measured at cost with deduction of accrued amortisation. Patents are amortised on a straight-line basis over the remaining patent period, and licenses are amortised over the contract period, however, for a maximum of 10 years.

Gain and loss from the sale of development projects, patents, and licenses are measured as the difference between the sales price with deduction of sales costs and the book value at the time of the sale. Gain or loss are recognised in the profit and loss account as other operating income or other operating expenses respectively.

Public grants comprise grants to financing of the product development and is recognized directly in the account by set-off against product development costs, the grants relate to.

Tangible fixed assets

Tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown.

The basis of depreciation is cost with deduction of any expected residual value after the end of the useful life of the asset. The amortisation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the book value, the amortisation discontinues.

The cost comprises the acquisition cost and costs directly attached to the acquisition until the time when the asset is ready for use.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life:

	Useful life
Other plants, operating assets, fixtures and furniture	*3-5 years*

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Accounting policies used

Leasing contracts

All leasing contracts are considered operational leasing. Payments in connection with operational leasing and other rental agreements are recognised in the profit and loss account over the term of the contract. The company's total liabilities concerning operational leasing and rental agreements are recognised under contingencies etc.

Writedown of fixed assets

The book values of both intangible and tangible fixed assets as well as equity investments in subsidiaries and associated enterprises are subject to annual impairment tests in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation respectively.

If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets respectively. Writedown takes place to the recoverable amount, if this value is lower than the book value.

The recoverable value is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net cash flow deriving from the use of the asset or the group of assets.

Previously recognised writedown is reversed when the condition for the writedown no longer exist. Writedown relating to goodwill is not reversed.

Financial fixed assets

Equity investment in group enterprise

Equity investment in group enterprise is recognised in the balance sheet at a proportional share under the equity method, the value being calculated on the basis of the accounting policies of the parent company by the deduction or addition of unrealised intercompany profits and losses, and with the addition or deduction of residual value of positive or negative goodwill measured by applying the acquisition method.

Group enterprise with negative equity is recognised without any value, and to the extent they are considered irrevocable, amounts owed by these companies are written down by the parent's share of the equity. If the negative equity exceeds the debtors, the residual amount is recognised under liability provisions to the extent the parent has a legal or actual liability to cover the negative equity of the subsidiary.

Deposits

Deposits are measured at amortised cost and represent rent deposits, etc.

Debtors

Debtors are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, writedown takes place at the net realisable value.

Accounting policies used

Accrued income and deferred expenses

Accrued income and deferred expenses recognised under assets comprise incurred costs concerning the next financial year.

Available funds

Available funds comprise cash at bank and in hand.

Equity

Reserves for development costs

Reserves for development costs comprise recognised development costs with deduction of related deferred tax liabilities. The reserves can not be used as dividend or for payment of losses. The reserves are reduced or dissolved if the recognised development costs are amortised or abandoned. This takes place by direct transfer to the distributable reserves of the equity.

Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years' taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

According to the rules of joint taxation, Labster ApS is unlimited, jointly and severally liable towards the Danish tax authorities for the total corporation tax, including withholding tax on interest, royalties and dividends, arising within the jointly taxed group of companies.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.

Deferred tax assets, including the tax value of tax losses eligible for carry-over, are recognised at the value at which they are expected to be realisable, either by settlement against tax of future earnings or by set-off in deferred tax liabilities within the same legal tax unit.

Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax.

Liabilities

Mortgage debt and bank debt are for instance measured at amortised cost. As to cash loans, this corresponds to the outstanding debt of the loan. For bond loans, the amortised cost corresponds to an outstanding debt calculated as the underlying cash value at the date of borrowing adjusted by amortisation of the market value adjustment on the date of the borrowing carried out over the repayment period.

Other liabilities are measured at amortised cost which usually corresponds to the nominal value.

Accounting policies used

Accrued expenses and deferred income

Received payments concerning income during the following years are recognised under accrued expenses and deferred income.

Profit and loss account 1 January - 31 December

All amounts in DKK.

Note		2018	2017
	Gross profit	**6.798.893**	**-801.515**
1	Staff costs	-18.602.543	-12.284.481
	Amortisation and writedown relating to intangible fixed assets	-2.915.378	-1.441.292
	Operating profit	**-14.719.028**	**-14.527.288**
	Results from equity investment in group enterprise	-9.294.948	-2.831.847
	Other financial income from group enterprises	247.848	52.722
	Other financial income	121.678	64.595
	Other financial costs	-2.991.504	-2.414.986
	Results before tax	**-26.635.954**	**-19.656.804**
	Tax on ordinary results	4.607.066	2.470.236
	Results for the year	**-22.028.888**	**-17.186.568**
	Proposed distribution of the results:		
	Allocated from results brought forward	-22.028.888	-17.186.568
	Distribution in total	**-22.028.888**	**-17.186.568**

Balance sheet 31 December

All amounts in DKK.

Note	Assets	2018	2017
	Fixed assets		
2	Completed development projects	28.031.147	10.969.184
3	Development projects in progress	7.179.070	8.825.575
	Intangible fixed assets in total	35.210.217	19.794.759
4	Other plants, operating assets, and fixtures and furniture	0	0
	Tangible fixed assets in total	0	0
5	Equity investment in group enterprise	0	0
	Deposits	130.000	0
	Financial fixed assets in total	130.000	0
	Fixed assets in total	**35.340.217**	**19.794.759**
	Current assets		
	Trade debtors	4.009.632	1.037.310
	Amounts owed by group enterprises	3.103.170	0
6	Receivable corporate tax	4.607.066	2.470.236
	Other debtors	973.662	2.071.683
	Deferred expenses	682.967	510.282
	Debtors in total	13.376.497	6.089.511
	Available funds	1.482.989	69.793
	Current assets in total	**14.859.486**	**6.159.304**
	Assets in total	**50.199.703**	**25.954.063**

Balance sheet 31 December

All amounts in DKK.

Note	Equity and liabilities	2018	2017
	Equity		
	Contributed capital	240.000	240.000
	Reserve for development expenditure	26.075.621	17.110.204
	Results brought forward	-38.027.521	-31.533.216
	Equity in total	**-11.711.900**	**-14.183.012**
	Liabilities		
7	Bank debts	26.865.008	19.466.515
	Long-term liabilities in total	26.865.008	19.466.515
	Short-term part of long-term liabilities	5.648.613	0
	Bank debts	3.345.632	2.704.697
	Trade creditors	1.849.092	2.045.604
	Debt to group enterprises	714.340	0
	Other debts	2.158.133	2.067.796
	Deferred income	21.330.785	13.852.463
	Short-term liabilities in total	35.046.595	20.670.560
	Liabilities in total	**61.911.603**	**40.137.075**
	Equity and liabilities in total	**50.199.703**	**25.954.063**

8 Mortgage and securities

9 Contingencies

Statement of changes in equity

All amounts in DKK.

	Contributed capital	Reserve for development expenditure	Results brought forward	In total
Equity 1 January 2018	240.000	17.110.204	-31.533.216	-14.183.012
Distribution of the results	0	0	-22.028.888	-22.028.888
Grants from Parent Company	0	0	24.500.000	24.500.000
Transferred from results brought forward	0	8.965.417	-8.965.417	0
	240.000	**26.075.621**	**-38.027.521**	**-11.711.900**

Reserve for development expenditure comprises without deduction of deferred tax 33.430.283 DKK, and with deduction of deferred tax 26.075.621 DKK.

Notes

All amounts in DKK.

		2018	2017
1.	**Staff costs**		
	Salaries and wages	18.087.714	11.776.464
	Other costs for social security	99.276	73.177
	Other staff costs	415.553	434.840
		18.602.543	**12.284.481**
	Average number of employees	35	26

		2018	2017
2.	**Completed development projects**		
	Cost opening balance	13.345.037	8.208.731
	Transfers	19.977.341	5.136.306
	Cost closing balance	**33.322.378**	**13.345.037**
	Amortisation opening balance	-2.375.853	-934.561
	Amortisation for the year	-2.915.378	-1.441.292
	Amortisation closing balance	**-5.291.231**	**-2.375.853**
	Book value closing balance	**28.031.147**	**10.969.184**

The development projects of the enterprise concern the development of fully interactive advanced lab simulations based on mathematical algorithms that support open-ended investigations. The lab simulations include gamification elements such as an immersive 3D universe, storytelling and a scoring system which stimulates students' natural curiosity and highlights the connection between science and the real world.

The development projects in progress proceed as planned and are expected to be completed within 1-3 years.

Labster ApS are working with leading universities globally including MIT, Harvard and Imperial College, and have received more than 10m USD in grant funding for cutting edge R&D projects.

The completed development projects have shown their worth as the software is currently being used by California State University, Harvard, Gwinnett Technical College, MIT, Exeter University, University of New Haven, Stanford, University of New England, Trinity College, University of Hong Kong and Berkeley among others internationally.

The management has not identified indication of impairment of the recognised projects.

Notes

All amounts in DKK.

		31/12 2018	31/12 2017
3.	**Development projects in progress**		
	Cost opening balance	8.825.575	3.319.063
	Additions during the year	18.330.836	10.642.818
	Transfers	-19.977.341	-5.136.306
	Cost closing balance	**7.179.070**	**8.825.575**
	Book value closing balance	**7.179.070**	**8.825.575**
	Additions are specified as:		
	Development costs	20.621.665	18.462.176
	Grants	-2.290.829	-7.819.358
		18.330.836	**10.642.818**
4.	**Other plants, operating assets, and fixtures and furniture**		
	Cost opening balance	18.031	18.031
	Cost closing balance	**18.031**	**18.031**
	Depreciation and writedown opening balance	-18.031	-18.031
	Depreciation and writedown closing balance	**-18.031**	**-18.031**

Notes

All amounts in DKK.

		31/12 2018	31/12 2017
5.	**Equity investment in group enterprise**		
	Acquisition sum, opening balance opening balance	0	0
	Cost closing balance	**0**	**0**
	Revaluations, opening balance opening balance	-2.831.847	0
	Results for the year before goodwill amortisation	-9.847.149	-2.831.847
	Other movements (exchange differences)	552.201	0
	Writedown closing balance	**-12.126.795**	**-2.831.847**
	Offsetting against debtors	12.126.795	2.831.847
	Set off against debtors and provisions for liabilities	**12.126.795**	**2.831.847**
	Book value closing balance	**0**	**0**

Group enterprise:

	Domicile	**Share of ownership**
Labster Inc.	USA	100 %

6. Receivable corporate tax

The company uses the danish tax credit rules and has thus utilized tax value of research and development costs. The tax value of not recognised tax asset amounts to 4.607 TDKK.

Notes

All amounts in DKK.

		31/12 2018	31/12 2017
7.	**Bank debts**		
	Bank debts in total	32.513.621	19.466.515
	Share of amount due within 1 year	-5.648.613	0
		26.865.008	**19.466.515**
	Share of liabilities due after 5 years	5.919.931	9.270.977

8. Mortgage and securities

For bank debts, DKK 30.211, the company has provided security in company assets representing a nominal value of TDKK 38.900. This security comprises the below assets, stating the book values:

Intangible fixed assets	TDKK 35.210
Trade debtors	TDKK 4.010

9. Contingencies

Contingent assets

The company has deferred tax asset of 329 TDKK.

Joint taxation

Labster Group ApS, company reg. no 38597183 being the administration company, the company is subject to the Danish scheme of joint taxation and unlimited jointly and severally liable with the other jointly taxed companies for the total corporation tax.

The company is unlimited jointly and severally liable with the other jointly taxed companies for any obligation to withhold tax on interest, royalties and dividends.

The total tax payable under the joint taxation amounts to TDKK 0 thousand.

Any subsequent adjustments of corporate taxes or withheld taxes etc. may cause changes in the company's liabilities.