Cardlab Innovation ApS

Hørkær 14, 1, 2730 Herlev

Company reg. no. 34 62 61 89

Annual report

2017

The annual report have been submitted and approved by the general meeting on the 18 May 2018.

Frank Sandeløv
Chairman of the meeting

Contents

Notes to users of the English version of this document:

- To ensure the greatest possible applicability of this document, British English terminology has been used.
- Please note that decimal points remain unchanged from the Danish version of the document. This means that for instance DKK 146.940 is the same as the English amount of DKK 146,940, and that 23,5 % is the same as the English 23.5 %.

Management's report

The board of directors and the managing director have today presented the annual report of Cardlab Innovation ApS for the financial year 1 January to 31 December 2017.

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 as on 31 December 2017 and of the company's results of its activities in the financial year 1 January to 31 December 2017.

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.

Herlev, 18 May 2018

Managing Director

Frank Sandeløv

Board of directors

Bjarne Lyngsø Chairman	Tagi Hüseyn Ibrahimov	Noriki Okubo
Kim Wagner Jørgensen	Ulrich Tandrup Østergaard	Torben Henrik Ridiger Gerlach

Independent auditor's report

To the shareholder of Cardlab Innovation ApS

Opinion

We have audited the annual accounts of Cardlab Innovation ApS for the financial year 1 January to 31 December 2017, which comprise accounting policies used, profit and loss account, balance sheet 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 2017 and of the results of the company's operations for the financial year 1 January to 31 December 2017 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, 18 May 2018

Redmark
Statsautoriseret Revisionspartnerselskab
Company reg. no. 29 44 27 89

Anders Schelde-Mollerup Funder
State Authorised Public Accountant
MNE-nr. 30220

Company data

The company	Cardlab Innovation ApS Hørkær 14, 1 2730 Herlev	
	Company reg. no.	34 62 61 89
	Financial year:	1 January - 31 December
Board of directors	Bjarne Lyngsø, Chairman Tagi Hüseyn Ibrahimov Noriki Okubo Kim Wagner Jørgensen Ulrich Tandrup Østergaard Torben Henrik Ridiger Gerlach	
Managing Director	Frank Sandeløv	
Auditors	Redmark, Statsautoriseret Revisionspartnerselskab Dirch Passers Allé 76 2000 Frederiksberg	

Management's review

The principal activities of the company

The company's purpose is to conduct development, production and sale of electronic products, to license patents and other intellectual property rights from the mother company CardLab ApS for the commercial exploitation, and any other related activities.

Uncertainties as to recognition or measurement

Investment in development activities is in nature related with risk, and the assessment of the investments is therefore related with some uncerntainty. It is Management's assessment that the value of intangible assets as a minimum have a value corresponding to the value accounted for in the financial statements.

Development in activities and financial matters

Technologically 2017 yielded additional breakthroughs in the development of the company's core products, which have now progressed into the initial production phase.

The company did in 2017 receive recognition from the EU Commission as one of the most innovative companies in EU and was therefore granted support to develop card solutions to provide protection of critical infrastructure. The company has subsequently been enrolled in the EU business acceleration program due to its deemed high growth potential and positive "socio impact".

Net profit of the company's earnings in 2017 showed a loss of 5.995 tkr.

The expected development

It is expected that 2018 will yield an increase of turnover, partly through new client related development agreements and license agreements, and a volume based breakthrough for products based on the Companies technologies.

Liquidity and capital readiness

The Parent Company have undertaken to invest capital required in 2018 to ensure execution of planned development activities, if such capital injektion should be needed.

Events subsequent to the financial year

After the end of the financial year a license agreement has been signed with Thai British Secure Printing Limited, TBSP taking a license on all CardLab technologies and gradually implement them into TBSP product portfolio.

Accounting policies used

The annual report for Cardlab Innovation 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.

The accounting policies used are unchanged compared to last year, and the annual accounts are presented in Danish kroner (DKK).

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.

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 loss

The gross loss comprises the net turnover, changes in inventories of finished goods and work in progress, work performed for own purposes and capitalised, other operating income, and external costs.

The net turnover is recognised in the profit and loss account if delivery and risk transfer to the buyer have taken place before the end of the year, and if the income can be determined reliably and is expected to be received. The net turnover is recognised exclusive of VAT and taxes and with the deduction of any discounts granted in connection with the sale.

Costs of sales includes costs for the purchase of raw materials and consumables less discounts and changes in inventories.

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, amortisation and writedown for the year and gains and losses on disposal of intangible and tangible fixed assets.

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.

Interest and other costs concerning loans for financing the production of intangible and tangible fixed assets and concerning the production period are not recognised in the cost of the fixed asset.

Goverment Grants

Grants received relating to investments in intagible assets are recognised as prepayment, and are subseguently recognised under Other Operation income in line with utilization of the asset.

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).

The balance sheet

Intangible fixed assets

Development projects, patents, and licences

Development costs comprise e.g. salaries, wages, and amortisation which directly and indirectly refer to the development activities.

Accounting policies used

Clearly defined and identifiable development projects are recognised as intangible fixed assets provided that the technical feasibility, sufficient resources, and a potential market or a development opportunity can be demonstrated, and provided that it is the intention to produce, market or utilise the project. It is, however, a condition that the cost can be calculated reliably and that a sufficiently high degree of certainty indicates that future earnings will cover the costs for production, sales, and administration. Other development costs are recognised in the profit and loss account concurrently with their realisation.

Development costs recognised in the balance sheet are measured at cost with deduction of accrued depreciation and writedown.

After completion of the development work, capitalised development costs are amortised on a straight line basis over the estimated financial useful life. Usually, the amortisation period is 5 years and does not exceed 20 years.

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 7 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. Profit or loss is recognised in the profit and loss account under amortisation.

Tangible fixed assets

Tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown. Land is not depreciated.

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.

If the amortisation period or the residual value is changed, the effect on amortisation will in the future be recognised as a change in the accounting estimates.

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

The cost of a total asset is divided into separate components. These components are depreciated separately, the useful lives of each individual components differing.

Accounting policies used

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

Technical plants and machinery	5-10 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.

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or loss is recognised in the profit and loss account under depreciation.

As regards assets of own production, the cost comprises direct and indirect costs for materials, components, deliveries from subsuppliers, payroll costs, and borrowing costs form specific and general borrowing concerning the construction of each individual asset.

Leasing contracts

At the first recognition in the balance sheet, leasing contracts concerning tangible fixed assets by which the company holds all essential risks and advantages attached to the proprietary right (financial leasing) are measured either at fair value or at the present value of the future leasing services, whichever value is lower. When calculating the present value, the internal interest rate of the leasing contract or alternatively the borrowing rate of the enterprise is used as discount rate. Afterwards, financially leased assets are treated in the same way as other similar tangible assets.

The capitalised residual leasing liability is recognised in the balance sheet as a liability, and the interest part of the leasing contract is recognised in the profit and loss account over the term of the contract.

All other 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.

Inventories

Inventories are measured at cost on basis of measured average prices. In case the net realisable value is lower than the cost, writedown takes place at this lower value.

The cost for trade goods, raw materials, and consumables comprises the acquisition cost with the addition of the delivery costs.

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.

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, Cardlab Innovation ApS is proportionally 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

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

Profit and loss account 1 January - 31 December

All amounts in DKK.

Note		2017	2016
	Gross loss	**-2.028.178**	**-3.758.791**
2	Staff costs	-2.191.219	-1.139.574
	Depreciation, amortisation and writedown relating to tangible and intangible fixed assets	-2.054.833	-2.015.064
	Operating profit	**-6.274.230**	**-6.913.429**
	Other financial income	113.500	52.381
3	Other financial costs	-126.256	-245.085
	Results before tax	**-6.286.986**	**-7.106.133**
	Tax on ordinary results	291.757	2.427.211
	Results for the year	**-5.995.229**	**-4.678.922**
	Proposed distribution of the results:		
	Allocated to other statutory reserves	495.893	3.562.369
	Allocated from results brought forward	-6.491.122	-8.241.291
	Distribution in total	**-5.995.229**	**-4.678.922**

Balance sheet 31 December

All amounts in DKK.

Assets

Note		2017	2016
	Fixed assets		
4	Completed development projects	8.129.367	9.800.483
5	Development projects in progress and prepayments for intangible fixed assets	21.368.940	19.062.063
	Intangible fixed assets in total	29.498.307	28.862.546
6	Production plant and machinery	848.673	1.185.916
7	Other plants, operating assets, and fixtures and furniture	105.505	135.832
	Tangible fixed assets in total	954.178	1.321.748
8	Deposits	112.910	125.070
	Financial fixed assets in total	112.910	125.070
	Fixed assets in total	**30.565.395**	**30.309.364**
	Current assets		
	Raw materials and consumables	2.547.805	2.388.463
	Work in progress	267.221	309.934
	Manufactured goods and trade goods	338.369	25.905
	Inventories in total	3.153.395	2.724.302
	Trade debtors	17.875	470.479
	Amounts owed by group enterprises	619.727	0
	Receivable corporate tax	564.835	1.770.179
	Other debtors	160.820	278.636
	Accrued income and deferred expenses	6.380	673.682
	Debtors in total	1.369.637	3.192.976
	Available funds	426.823	2.983.381
	Current assets in total	**4.949.855**	**8.900.659**
	Assets in total	**35.515.250**	**39.210.023**

Balance sheet 31 December

All amounts in DKK.

Note	Equity and liabilities	2017	2016
	Equity		
9	Contributed capital	7.760.000	7.760.000
10	Reserve for development cost	4.058.262	3.562.369
11	Results brought forward	9.750.129	16.241.251
	Equity in total	**21.568.391**	**27.563.620**
	Provisions		
	Provisions for deferred tax	493.371	220.293
	Provisions in total	**493.371**	**220.293**
	Liabilities		
12	Prepayments received	3.851.664	617.395
	Long-term liabilities in total	3.851.664	617.395
	Bank debts	0	116
	Trade creditors	2.016.307	2.207.882
	Debt to group enterprises	7.142.373	8.083.999
	Other debts	443.144	516.718
	Short-term liabilities in total	9.601.824	10.808.715
	Liabilities in total	**13.453.488**	**11.426.110**
	Equity and liabilities in total	**35.515.250**	**39.210.023**

1 Uncertainties concerning recognition and measurement, Cash and capital resources

13 Mortgage and securities

14 Contingencies

Notes

All amounts in DKK.

		2017	2016
1.	**Uncertainties concerning recognition and measurement, Cash and capital resources**		

Investment in development activities is in nature related with risk, and the assessment of the investments made is therefore related with some uncerntainty. It is Managment's assessment that the value of intangible assets as a minimum have a value corresponding to booked value, and are therefore measured at cost in the financial statements.

The parent company have undertaken to invest capital required in 2018 to ensure execution of planned development activities, whereas customer development project and customer production is expected to secure daily operationel liquidity requirements.

		2017	2016
2.	**Staff costs**		
	Salaries and wages	3.179.177	1.093.533
	Pension costs	156.511	77.456
	Other costs for social security	15.526	15.463
	Other staff costs	-1.159.995	-46.878
		2.191.219	**1.139.574**
	Average number of employees	7	4
3.	**Other financial costs**		
	Financial costs, group enterprises	0	24.106
	Other financial costs	126.256	220.979
		126.256	**245.085**

Notes

All amounts in DKK.

		31/12 2017	31/12 2016
4.	**Completed development projects**		
	Cost 1 January 2017	15.725.113	14.326.805
	Additions during the year	0	1.398.308
	Cost 31 December 2017	**15.725.113**	**15.725.113**
	Amortisation and writedown 1 January 2017	-5.924.630	-4.254.692
	Amortisation for the year	-1.671.116	-1.669.938
	Amortisation and writedown 31 December 2017	**-7.595.746**	**-5.924.630**
	Book value 31 December 2017	**8.129.367**	**9.800.483**

Development costs are capitalized in the balance sheet when they are taken into production or improvement of existing products that provide a real increase in value for the customers. Progress in development projects and sales potential follows the company's expectations.

The company's capitalized development projects are continuously reviewed for indications of impairment. If this is the case, write-downs are made to lower recoverable value. The ongoing measurement of the recoverable amount of the company's development projects is inherently discretionary

		31/12 2017	31/12 2016
5.	**Development projects in progress and prepayments for intangible fixed assets**		
	Cost 1 January 2017	19.062.064	14.223.294
	Additions during the year	2.306.876	4.838.769
	Cost 31 December 2017	**21.368.940**	**19.062.063**
	Book value 31 December 2017	**21.368.940**	**19.062.063**

Notes

All amounts in DKK.

		31/12 2017	31/12 2016
6.	**Production plant and machinery**		
	Cost 1 January 2017	2.399.146	2.290.352
	Additions during the year	363	108.794
	Cost 31 December 2017	**2.399.509**	**2.399.146**
	Depreciation and writedown 1 January 2017	-1.213.231	-889.783
	Depreciation for the year	-337.605	-323.447
	Depreciation and writedown 31 December 2017	**-1.550.836**	**-1.213.230**
	Book value 31 December 2017	**848.673**	**1.185.916**
7.	**Other plants, operating assets, and fixtures and furniture**		
	Cost 1 January 2017	157.511	0
	Additions during the year	1.643.694	157.511
	Disposals during the year	-1.627.909	0
	Cost 31 December 2017	**173.296**	**157.511**
	Depreciation and writedown 1 January 2017	-21.679	0
	Depreciation for the year	-46.112	-21.679
	Depreciation and writedown 31 December 2017	**-67.791**	**-21.679**
	Book value 31 December 2017	**105.505**	**135.832**
8.	**Deposits**		
	Cost 1 January 2017	0	12.160
	Additions during the year	112.910	112.910
	Cost 31 December 2017	**112.910**	**125.070**
	Book value 31 December 2017	**112.910**	**125.070**
9.	**Contributed capital**		
	Contributed capital 1 January 2017	7.760.000	7.760.000
		7.760.000	**7.760.000**

Notes

All amounts in DKK.

	31/12 2017	31/12 2016

10. Reserve for development cost

	31/12 2017	31/12 2016
Reserve for development cost 1 January 2017	3.562.369	0
Provisions of the results for the year	495.893	3.562.369
	4.058.262	**3.562.369**

11. Results brought forward

	31/12 2017	31/12 2016
Results brought forward 1 January 2017	16.241.251	24.482.542
Profit or loss for the period brought forward	-6.491.122	-8.241.291
	9.750.129	**16.241.251**

12. Prepayments received

	31/12 2017	31/12 2016
Paid grants	3.851.664	617.395
	3.851.664	**617.395**

13. Mortgage and securities

For parent company debts to Vækstfonden, DKK 4.800k, the company has provided security in company assets representing a nominal value of DKK 2.400k. This security comprises the below assets, stating the book values:

Inventories	DKK 3.153.000
Receivable from sales and services	DKK 18.000
Intagible fixed assets	DKK 26.650.000
Tangible fixed assets	DKK 981.000

14. Contingencies

Joint taxation

Scandianavian Ecotechnologies A/S, company reg. no 27289819 being the administration company, the company is subject to the Danish scheme of joint taxation and it is proportionally liable for tax claims within the joint taxation scheme.

Notes

All amounts in DKK.

. **Contingencies (continued)**

Joint taxation (continued)

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

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

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