

MyDefence ApS

Sundsholmen 25, 9400 Nørresundby

CVR no. 35 53 08 43

Annual report 2019

Approved at the Company's annual general meeting on 31 August 2020

Chairman:

.....
Claus Christensen





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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 MyDefence ApS for the financial year 1 January - 31 December 2019.

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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

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.

Nørresundby, 31 August 2020
Executive Board:

.....
Dan Dejgård Sommerlund
Hermansen

Board of Directors:

.....
Claus Christensen
Chairman

.....
Karsten Anderskov Madsen

.....
Rasmus Hans Jensen

.....
Freddy Sørensen

.....
Christian Steinø

Independent auditor's report

To the shareholders of MyDefence ApS

Opinion

We have audited the financial statements of MyDefence ApS for the financial year 1 January - 31 December 2019, 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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 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 wish to draw attention to the material uncertainty that may cast significant doubt to the Company's ability to continue as a going concern. We refer to note 2 to the financial statements, which states that it is uncertain whether cash resources and funding for the financing of the Company's operations and the necessary investments in the coming years can be obtained. However, as Management believes that this will be obtained, the financial statements have been prepared on a going concern basis. 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.

Independent auditor's report

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:

- ▶ 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.

Aalborg, 31 August 2020
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Hans B. Vistisen
State Authorised Public Accountant
mne23254



Management's review

Company details

Name	MyDefence ApS
Address, Postal code, City	Sundsholmen 25, 9400 Nørresundby
CVR no.	35 53 08 43
Established	14 November 2013
Registered office	Aalborg
Financial year	1 January - 31 December
Board of Directors	Claus Christensen, Chairman Karsten Anderskov Madsen Rasmus Hans Jensen Freddy Sørensen Christian Steinø
Executive Board	Dan Dejgård Sommerlund Hermansen
Auditors	EY Godkendt Revisionspartnerselskab Vestre Havnepromenade 1A, 9000 Aalborg, Denmark

Management's review

Business review

The Company's purpose is to research in the field of telecommunication, as well as development, production and sale of electrical equipment.

Financial review

The income statement for 2019 shows a loss of DKK 1,352 thousand against a loss of DKK 2,647 thousand last year, and the balance sheet at 31 December 2019 shows equity of DKK 7,133 thousand.

Completed development projects includes the products Wingman, Watchdog, Wolfpack, Sparrow, Eagle, Dobermann, Pitbull, Locus and Iris. The carrying amount is DKK 31,887 thousand by 31. december 2019 and comprises nine products (three systems). The systems are depreciated over 10 years. Management has high expectations for the future sales of the systems and has not identified an indication of impairment in relation to the carrying amount.

Development projects in progress primarily include development and testing of new products. The relating expenses primarily consist of internal expenses in the form of payroll costs and production overheads, which are recorded through the Company's internal project module. The carrying amount totalled DKK 2,384 thousand at 31 December 2019. The development of the systems is expected to be complete in 2020 and 2021 after which time marketing and selling efforts will be made.

The new systems are expected to result in considerable competitive advantages and, hence, a significant increase in the level of activity and results of operations from 2021.

The development projects are partly financed by grants, amounting to DKK 22,957 thousand as of 31 December 2019, which is presented as deferred income in the financial statement.

The net value of the development projects amounts to DKK 11,314 thousand as of 31 December 2019.

Grants totalling DKK 1,367 thousand has been set of in the development projects as of 31. December 2019.

The share capital has been re-established by a capital raise of DKK 11.6 million by former and new investors in April 2019. MyDefence has complied with the plan of operation set forth in cooperation with new investors and performed a better result than budgeted.

Research & development activities

The year 2019 has been substantial for the company in terms of development goals achieved.

The research project with Danish MoD regarding collaborative jamming was successfully completed with several key findings showing positive effects. By using multiple low power jammers from different locations it is possible to achieve a higher effective range with less transmitted power. This opens opportunities for the range of jammers with reduced size, weight, and power, like body-worn jammers and integrated vehicle solutions.

The EU H2020 phase 2 SME project, KNOX, was completed after 2½ years of work with large scale demonstrations of MyDefence' anti-drone solution tailored for prisons, stadium and critical infrastructure. Together with end users from Denmark, Finland, Israel, and UK the system was successfully demonstrated in controlled environments and used in daily operations.

The Innobooster project with Innovation Fund Denmark has led to several technological advancements in the wearable products program for Wingman and Pitbull that have been directly implemented and secured increased sales in 2019.

Late in the year, MyDefence won an EU grant from the prestigious Marie Curie research program together with a consortium of prominent partners from private and academia. In the project, referred to as "MOTOR5G", MyDefence is researching on advancing its antenna technologies by using metamaterials to reduce size while increasing accuracy and range. The outcome is expected to have a direct usage in the future products.

Management's review

Sales and business development

The global market potential for anti-drone solutions passed \$1 billion in 2019, the CAGR is expected to be over 40% and expectations have tripled since 2018. North America is still leading the market potential and MyDefence experienced a growth in sales worldwide. In Europe, Middle East and Asia the markets are maturing as the threat from malicious use of drones has grown significantly.

In September 2019 drones were used to attack the state-owned Saudi Aramco oil company. The attack caused large fires at the processing facility which made the facilities shut down for repairs, cutting Saudi Arabia's oil production by about half - representing about 5% of global oil production - and causing some destabilization of global financial markets. This situation further fueled the demand for anti-drone systems worldwide and especially critical infrastructure and fast deployable systems have come into focus.

MyDefence still sees the main business coming from the wearable products, but as the interest for fixed site installations increases, we have seen an increasing demand for networked equipment and command & control systems.

MyDefence now has a strong product portfolio for the anti-drone market, and is well positioned to capture additional market share.

Cash resources etc.

In 2019, the Company realised a loss before tax of DKK 1,710 thousand. According to the budget for 2019, Management expected a loss before tax in that range. Loss for the year thus lives up to Management's expectation at the beginning of 2019. Due to the capital increase in April 2019, the cash resources in 2019 were sufficient to carry out the operations and planned activities in 2019 despite the negative results. Cash at bank and in hand totalled t.DKK 3,994 at 31 December 2019.

According to the Company's budget for 2020, a significant increase in revenue and a positive profit before tax is expected. In March 2020, the Company received a significant order. Management assesses, also when taking the COVID-19 situation into consideration, that there will be sufficient cash resources to carry out activities and operations in accordance with the budget for 2020.

The Company's interim financial statements at 31 July 2020 is in line with the budget.

Realisation of the budget for 2020 depends of course on the realisation of budgeted revenue and contribution margin, which could be postponed among other things due to the time lag in respect of market penetration and the speed of resolution among the Company's potential customers, among others due to COVID-19. Given the level of the current order book, the Company has sufficient cash resources to carry through operations and planned investments up to and including February 2021. The cash resources will then depend on the closing of orders from the salespipeline and/or additional external financing.

MyDefence is negotiating with a strategic investor to invest capital in the company and thereby to achieve a better financial sustainability in 2021 and beyond. At the time of signing the financial statement a due diligence with the potential investor is in process.

Management assesses that it is likely that the existing salespipeline for 2020 and 2021 will materialise into orders to a wide extent. Moreover, the ongoing process with a new external investor will imply additional capital and financing to the Company. Based thereon, the financial statements are prepared on the basis of going concern.

Management's review

Events after the balance sheet date

The global COVID-19 pandemic has had an immediate impact on the market and the ability to act fast. Since March 2020 we have seen numerous budget cuts and postponed investments from our clients.

Except from this no events materially affecting the company's financial position have occurred subsequent to the financial year-end.

Outlook

The short term effects of COVID-19 on the anti-drone market is expected to have a negative impact especially on the aviation segments like airports and planes, but on long term these are expected to come back with new budgets for quick implementations.

The demand is increasing, and the market is showing many maturity signs. In 2020 we have seen numerous large tenders being released from various authorities worldwide, for protection of prisons, borders, and critical infrastructure. Our focus on scalable and modular solutions have proven effective in covering larger areas at lower cost which gives a positive expectation for our position in this market.

The demand for VIP protection and vehicle integration is also increasing, and our compact solutions are very well equipped for these specific segments.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2019	2018
	Gross profit	7,562	5,178
3	Staff costs	-6,406	-6,758
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-2,655	-1,601
	Profit/loss before net financials	-1,499	-3,181
4	Financial income	77	0
	Financial expenses	-299	-242
	Profit/loss before tax	-1,721	-3,423
	Tax for the year	369	776
	Profit/loss for the year	-1,352	-2,647
	Recommended appropriation of profit/loss		
	Other statutory reserves	742	1,464
	Retained earnings/accumulated loss	-2,094	-4,111
		-1,352	-2,647

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	ASSETS		
	Fixed assets		
5	Intangible assets		
	Completed development projects	31,887	15,996
	Acquired intangible assets	15	40
	Development projects in progress	2,384	11,799
		<u>34,286</u>	<u>27,835</u>
	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	42	165
		<u>42</u>	<u>165</u>
	Investments		
	Investments in group entities, net asset value	54	54
	Other receivables	87	113
		<u>141</u>	<u>167</u>
	Total fixed assets	<u>34,469</u>	<u>28,167</u>
	Non-fixed assets		
	Inventories		
	Raw materials and consumables	1,245	1,157
	Prepayments for goods	189	0
		<u>1,434</u>	<u>1,157</u>
	Receivables		
	Trade receivables	3,747	160
	Receivables from group entities	6,746	1,762
	Receivables from associates	166	0
	Income taxes receivable	598	903
	Other receivables	0	34
	Deferred income	104	125
		<u>11,361</u>	<u>2,984</u>
	Cash	<u>4,008</u>	<u>158</u>
	Total non-fixed assets	<u>16,803</u>	<u>4,299</u>
	TOTAL ASSETS	<u><u>51,272</u></u>	<u><u>32,466</u></u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2019	2018
	EQUITY AND LIABILITIES		
	Equity		
6	Share capital	167	84
	Reserve for development costs	8,026	7,284
	Retained earnings	-1,060	-10,483
	Total equity	7,133	-3,115
	Provisions		
	Deferred tax	2,334	2,105
	Total provisions	2,334	2,105
	Liabilities other than provisions		
7	Non-current liabilities other than provisions		
	Bank debt	1,733	1,800
	Other credit institutions	11,076	9,266
	Other payables	322	0
		13,131	11,066
	Current liabilities other than provisions		
7	Current portion of long-term liabilities	0	230
	Bank debt	2,847	159
	Prepayments received from customers	717	0
	Trade payables	290	469
	Other payables	1,863	4,350
	Deferred income	22,957	17,202
		28,674	22,410
	Total liabilities other than provisions	41,805	33,476
	TOTAL EQUITY AND LIABILITIES	51,272	32,466

- 1 Accounting policies
- 2 Cash resources and funding
- 8 Contractual obligations and contingencies, etc.
- 9 Collateral

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	84	7,284	-10,483	-3,115
Capital increase	83	0	11,517	11,600
Transfer through appropriation of loss	0	742	-2,094	-1,352
Equity at 31 December 2019	167	8,026	-1,060	7,133

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of MyDefence ApS for 2019 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.

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

On initial recognition, 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 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 rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Income from the sale of goods for resale and finished goods is recognised in revenue when the most significant rewards and risks have been transferred to the buyer and provided the income can be measured reliably and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Income from the rendering of services is recognised as revenue as the services are rendered. Accordingly, revenue corresponds to the market value of the services rendered during the year (percentage-of-completion method).

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross profit

The items revenue, cost of sales, other operating income and external expenses have been aggregated into one item in the income statement called gross margin 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 or losses on the sale of fixed assets and amortisation of grants.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to sale, advertising, administration, premises, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

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

The cost net of the expected residual value for completed development projects and acquired IP rights is amortised over the expected useful life which is set to 10 years for completed development projects and 3 year for acquired IP rights. Acquired IP rights include patents, rights and licences.

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:

Other fixtures and fittings, tools and equipment	2-5 years
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Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

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

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights and development projects.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are identifiable 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.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 10 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining term of the patent, and licences are amortised over the term of the licence, however not exceeding 3 years.

Gains and losses on the sale of intangible assets are recognised in the income statement under "Other operating income" or "Other operating expenses", respectively. Gains and losses are calculated as the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

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

Investments in subsidiaries

Investments in subsidiaries and associates are measured at cost. Dividends received that exceed the accumulated earnings in the subsidiary or the associate during the period of ownership are treated as a reduction in the cost of acquisition.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

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.

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 the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable is impaired.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

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

Equity

Reserve for 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.

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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. Deferred tax assets are recognised at the expected value of their utilisation; 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. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Prepayments received from customers

Prepayments received from customers comprises payments received from customers prior to the time of delivery of the goods.

Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years, primarily grants to projects.

Financial statements 1 January - 31 December

Notes to the financial statements

2 Cash resources and funding

In 2019, the Company realised a loss before tax of DKK 1,710 thousand. According to the budget for 2019, Management expected a loss before tax in that range. Loss for the year thus lives up to Management's expectation at the beginning of 2019. Due to the capital increase in April 2019, the cash resources in 2019 were sufficient to carry out the operations and planned activities in 2019 despite the negative results. Cash at bank and in hand totalled t.DKK 3,994 at 31 December 2019.

According to the Company's budget for 2020, a significant increase in revenue and a positive profit before tax is expected. In March 2020, the Company received a significant order. Management assesses, also when taking the COVID-19 situation into consideration, that there will be sufficient cash resources to carry out activities and operations in accordance with the budget for 2020.

The Company's interim financial statements at 31 July 2020 is in line with the budget.

Realisation of the budget for 2020 depends of course on the realisation of budgeted revenue and contribution margin, which could be postponed among other things due to the time lag in respect of market penetration and the speed of resolution among the Company's potential customers, among others due to COVID-19. Given the level of the current order book, the Company has sufficient cash resources to carry through operations and planned investments up to and including February 2021. The cash resources will then depend on the closing of orders from the salespipeline and/or additional external financing.

MyDefence is negotiating with a strategic investor to invest capital in the company and thereby to achieve a better financial sustainability in 2021 and beyond. At the time of signing the financial statement a due diligence with the potential investor is in process.

Management assesses that it is likely that the existing salespipeline for 2020 and 2021 will materialise into orders to a wide extent. Moreover, the ongoing process with a new external investor will imply additional capital and financing to the Company. Based thereon, the financial statements are prepared on the basis of going concern.

DKK'000	2019	2018
3 Staff costs		
Wages/salaries	5,447	5,813
Pensions	418	412
Other social security costs	114	175
Other staff costs	427	358
	<u>6,406</u>	<u>6,758</u>
In fiscal year 2019, salaries and staff costs of DKK 5,848 thousand have been capitalised as development projects (2018: DKK 6,903 thousand).		
Average number of full-time employees	<u>19</u>	<u>21</u>
4 Financial income		
Interest receivable, group entities	76	0
Other financial income	1	0
	<u>77</u>	<u>0</u>

Financial statements 1 January - 31 December

Notes to the financial statements

5 Intangible assets

DKK'000	Completed development projects	Acquired intangible assets	Development projects in progress	Total
Cost at 1 January 2019	18,065	321	11,799	30,185
Additions in the year	0	0	8,979	8,979
Transfer from other accounts	18,394	0	-18,394	0
Cost at 31 December 2019	36,459	321	2,384	39,164
Impairment losses and amortisation at 1 January 2019	2,069	281	0	2,350
Amortisation/depreciation in the year	2,503	25	0	2,528
Impairment losses and amortisation at 31 December 2019	4,572	306	0	4,878
Carrying amount at 31 December 2019	31,887	15	2,384	34,286

Completed development projects

Completed development projects include the products Wingman, Watchdog, Wolfpack, Sparrow, Eagle, Dobermann, Pitbull, Locus and Iris. The carrying amount is DKK 31,887 thousand by 31 December 2019 and comprises nine products (three systems). The systems are depreciated over 10 years.

Development projects in progress

Development projects in progress primarily include development and test of new products. The relating expenses primarily consist of internal expenses in the form of payroll costs and production overheads, which are recorded through the Company's internal project module. The carrying amount totalled DKK 2,384 thousand at 31 December 2019. The development of the systems is expected to be complete in 2020 and 2021 after which time marketing and selling efforts will be made.

The new systems are expected to result in considerable competitive advantages and, hence, a significant increase in the level of activity and results of operations from 2021.

Impairment testing

Management has high expectations for the future sales of the systems and has not identified an indication of impairment in relation to the carrying amount.

The development projects are partly financed by grants, amounting to DKK 22,957 thousand as of 31 December 2019, which is presented as deferred income in the financial statement.

The net value of the development projects amounts to DKK 11,314 thousand as of 31 December 2019.

Grants totalling DKK 1,367 thousand has been set of in the development projects as of 31 December 2019.

Financial statements 1 January - 31 December

Notes to the financial statements

6 Share capital

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

DKK'000	2019	2018	2017	2016	2015
Opening balance	84	84	84	84	84
Capital increase	83	0	0	0	0
	<u>167</u>	<u>84</u>	<u>84</u>	<u>84</u>	<u>84</u>

7 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2019	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Bank debt	1,733	0	1,733	432
Other credit institutions	11,076	0	11,076	5,668
Other payables	322	0	322	0
	<u>13,131</u>	<u>0</u>	<u>13,131</u>	<u>6,100</u>

8 Contractual obligations and contingencies, etc.

Other financial obligations

Rent and lease liabilities include a rent obligation totalling DKK 201 thousand in interminable rent agreements with remaining contract terms of 6-24 months. Furthermore, the Company has liabilities under financial leases for cars, totalling DKK 33 thousand, with remaining contract terms of 17 months.

9 Collateral

As security for the Company's debt to banks and other credit institutions the Company has provided security pledge for at total amount of DKK 11,056 thousand.

The Company was jointly taxed with the other companies in the MyDefence Holding ApS Group until 9th of April. The Company has joint and several unlimited liability for Danish corporation taxes and for certain possible withholding taxes such as taxes on dividend, interest and royalties within the joint taxation group until 9th of April. At 31 December 2019, the jointly taxed companies' net liability to SKAT amounted to t.DKK 0. Any subsequent corrections of the taxable income or withholding taxes on dividends, interest and royalties may entail that the company's liability will increase.

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Dan Dejgård Sommerlund Hermansen

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