

CEMBRANE A/S

Nøglegårdsvej 10
3540 Lyngø

Annual report
1 April 2019 - 31 March 2020

**The annual report has been presented and
approved on the company's general meeting the**

14/08/2020

Lasse Andreassen
Chairman of general meeting

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Company information

Reporting company CEMBRANE A/S
Nøglegårdsvej 10
3540 Lyngø

CVR-nr: 36422289
Reporting period: 01/04/2019 - 31/03/2020

Auditor Dupont Revision
Blokken 13, 1
3460 Birkerød
DK Denmark
CVR-nr: 26563976
P-number: 1009056722

Statement by Management

Management has today considered and approved the annual report for the financial year 01. April 2019 - 31. March 2020 for CEMBRANE A/S.

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

Management believes that the financial statements give a true and fair view of the company's assets, liabilities and financial position and of the result.

The annual report is submitted for approval by the General Assembly.

Lynge, the 17/07/2020

Management

Lasse Andreassen

Sebastian Andreassen

Niklas Tolstrup Andreassen

Board of directors

Parviz Almassi Gouran

Sebastian Andreassen

Marc Barbeau

The independent auditor's report on financial statements

To the shareholders of CEMBRANE A/S

Opinion

We have audited the Financial Statements of Cembrane A/S for the financial year 1 April 2019 - 31 March 2020, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies, for the Company. 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 Company's financial position at 31 March 2020 and of the results of the Company's operations for the financial year 1 April 2019 - 31 March 2020 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management 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 responsibility

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 of accounting information taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management's review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of Management's Review.

Birkerød, 17/07/2020

Pernille Dupont , mne2627

Registreret revisor, medlem af FSR – danske revisorer

Dupont Revision

CVR: 26563976

Management's Review

Major Activities

Cembrane manufactures, develops, and markets proprietary Flat Sheet Membranes made of Silicon Carbide (SiC) and the module housings they are installed in. The focus are applications for drinking- and wastewater treatment worldwide to the OEM market.

Developments in activities and financial highlights:

Market activities

Having supplied our membranes for more than 250 installations, Cembrane is becoming an established membrane provider. Now several installations are running successfully for up to 4 years and counting. Our membrane technology has proven to be competitive in a wide range of fields, being used in more than 15 different applications divided in the following sectors:

- Industrial wastewater 40%
- Municipal wastewater 35%
- Drinking- & intake water 25%

Further diversified in the following geographical regions:

- Europe: 32% (Most of these plants end up in Asia)
- North America: 18%
- Asia: 32%
- Middle East: 17%

Total exports: >99%

On top of that, Cembrane has become the world's largest producer of Silicon Carbide membranes, measured in membrane area output.

Market drivers

Asia & North America continues to be the biggest markets for Cembrane. Demand is to a large degree driven by water reuse from regions with water scarcity. North America is reusing three times as much wastewater as Europe in absolute terms, whilst Asia are reusing many orders of magnitude more wastewater than Europe. Main driver for our end-users is a cost-effective and reliable technology for water treatment.

Competition

In the drinking water market, our primary competitors are sand filters and pressurized polymer membranes. While on the MBR market it is polymer flat sheet membranes. Generally, the market is dominated by polymeric membranes, which historically have been cheaper than ceramic membranes. Nonetheless, the use of ceramic membranes is growing worldwide, and many new players have entered the market primarily in China. We have seen several Chinese companies make attempts to copy our technology, so far without success.

The experience from the market is that our proprietary Silicon Carbide membranes require less maintenance and demonstrate a higher durability than competing technologies.

Our module concept has become a standard within ceramic flat sheet membranes and earlier versions are being adopted by Chinese and Danish competitors.

The proportion of ceramic membranes continues to grow relatively more than the market, the market share of ceramic membranes is perceived as growing.

Despite being the world's largest producer of Silicon Carbide membranes, we estimate we have captured 0,1% of the global MF/UF membrane market.

Result

The result for the financial year was a revenue of DKK 46,8 Mio., a growth of approx. 30% compared to last financial year.

The year's profit before tax was DKK 3,7 Mio, in line with last year's result and as expected.

The Equity has increased to DKK 45,8 Mio. with the profit. Cash in bank end of fiscal year was DKK 9,2 Mio. Investments in machinery was DKK 10 Mio. which was covered by cash flow from operation in the period.

Financial year development

DKK 10 Mio. was invested in furnaces, extrusion line and coat line. Investment in 2 new state of the art high temperature furnaces was initiated during the fiscal year. Both installations will be commissioned this summer. As of now the first furnace has been operating for 2 months without interference.

The gross margin (ex-labor) was improved from previous year 44% to 46%

Expectations for coming financial year

Cembrane expects to continue growth the coming year by 30%. First quarter in the new fiscal year the revenue increased with approx. 20% compared to same quarter previous fiscal year.

Cembrane expects changes in demand in the different markets due to difficult times, some markets are facing challenges and others are behaving as before. Cembrane is prepared to adjust and adapt to new market demands.

Accounting Policies

The annual report has been prepared in accordance with the regulation applying to Reporting class B.

The annual account has been prepared according to the same accounting practices as the previous year's account.

Conversion of foreign currencies:

Transactions in foreign currencies are converted on the transaction date. Exchange rate differences that occur in the period between the exchange rate on the transaction date and the exchange rate on the payment date are included in the profit and loss accounts as a financial entry.

Accounts receivable, debts and other monetary items in foreign currency that are not settled on the balance sheet date, are converted at the exchange rate on the balance sheet date. The difference between the closing rate and the exchange rate on the date the receivable or debt arose is recognized in the income statement under financial income and costs.

Profit and loss account

Net turnover

Income from the sale of services and goods has been included in the calculation of the profit and loss account once delivery and passing of risk to the purchaser have taken place and if the income can be calculated reliably and is expected to be received.

Net turnover is calculated at the current value of the agreed payment, excl. VAT and duty. All discounts provided are deducted from the net turnover.

Other operating income

Other operating income includes items of a secondary nature with respect to the company's activities, including profits arising from the sale of intangible and tangible fixed assets.

Other operating costs

Other operating costs include items of a secondary nature with respect to the company's activities, including losses arising from the sale of intangible and tangible fixed assets.

Personnel costs

Personnel costs include salaries and pay, including holiday pay and pensions, and other expenses for social security etc. for the company's employees. Remuneration received from public authorities is deducted from personnel costs.

Tax on the net result for the year

The part of the tax for the year that can be attributed to the year's net result, consisting of the year's current tax and displacement of deferred taxes, is included in the profit and loss account, while the part that can be attributed to items posted directly to own capital is directly included in own capital.

BALANCE

Intangible fixed assets

Patents and licences are calculated at cost price, minus accumulated depreciation and write-downs. Patents are written off linearly over 5-7 years.

Profit or loss from the sale of intangible fixed assets is calculated as the difference between the sale price, minus sales costs, and the accounting value at the time of the sale. Profit or loss is included in the profit and loss account under operating income or other operating costs.

Tangible fixed assets

Property, production facilities and machines, together with other facilities, operating equipment and inventory, are calculated at cost price, minus accumulated depreciation and write-downs.

The basis for depreciation is the cost price minus expected residual value after completion of useful life. The cost price includes the purchase price and costs directly linked to the purchase until the date the asset is ready for use.

The cost price of a total asset is divided into separate elements, which are written off individually if the useful life of each individual element varies.

Linear depreciation is carried out on the basis of the following evaluation of the assets' expected useful life and residual value:

Production facilities and machines 10 years
 Other facilities, operating equipment and inventory 5 years
 Furnishings 5 years
 Buildings 25 years

Land are not subdued to depreciations.

Profit or loss for the sale of tangible fixed assets is included in the profit and loss account under other operating income or other operating costs.

Financial fixed assets

Rent deposits are measured at cost price.

Inventory

Inventory is calculated at cost price according to the FIFO method. If the net realisable value is lower than the cost price, this will be written down to the lower value.

The cost price for stock in trade, together with raw materials and consumables, includes the purchase price plus stocking costs.

The cost price of manufactured goods and goods in the process of being manufactured includes the cost price of raw materials, consumables, direct salaries and direct production costs.

The net realisable value of inventory is calculated as the sales price minus completion costs and costs incurred to effect the sale. The value is determined taking into account the marketability of the inventory, its obsolescence and the expected development of the sales price.

Receivables

Accounts receivable are measured at amortised cost price, which usually equals the nominal value. Value is reduced by provisions to meet expected losses.

Contract work in progress

Work in progress are measured at the selling price of the work performed. The stage of completion is calculated based on the direct and indirect expenses incurred in relation to the expected total expenses. The value of the individual items of work in progress minus invoicing on account is classified as receivables where the amounts are positive and as payables where the amounts are negative.

Accruals and deferred income

Accruals included under assets, comprise paid expenses relating to the following financial year.

Equity

Dividend

The proposed dividend is included as a liability at the date of adoption at the Annual General Meeting (date of declaration). The dividend that is expected to be paid for the year is entered as a separate item under own capital.

Corporation tax and deferred tax

Current tax liabilities and outstanding current tax are included in the balance sheet as tax calculated on the year's taxable income, adjusted for tax on preceding years' taxable income and for tax paid on account.

Deferred tax is calculated according to the balance sheet liability method based on the difference between the accounting value and the tax value of assets and liabilities. In the event that the calculation of the tax value can be carried out according to other tax regulations, deferred tax will be calculated on the basis of the planned use of the asset or the settlement of the liability.

Deferred tax assets, including the tax value of deferrable tax losses, is calculated at the value at which the asset is expected to be realisable, either by equalisation of tax rates for future earnings or by setting off deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are calculated at their net realisable value.

Deferred tax is calculated on the basis of the tax regulations and tax rates which, pursuant to the balance sheet date provisions, will apply when the deferred tax is expected to become current tax. Changes to deferred tax as a result of changes to tax rates will be included in the profit and loss account.

Debt

Debt is measured at amortised cost price, which usually equals the nominal value.

Income statement 1 Apr 2019 - 31 Mar 2020

	Disclosure	2019/20 kr.	2018/19 kr.
Revenue		46,818,315	35,991,396
Cost of sales		-29,050,217	-19,447,873
Change in inventories of finished goods, work in progress and goods for resale		1,761,991	659,903
External expenses		-902,764	-940,808
Property costs		-704,021	-835,622
Administrative expenses		-695,324	-821,856
Gross Result		17,227,980	13,285,334
Employee expense	1	-9,884,684	-7,251,546
Depreciation, amortisation expense and impairment losses of property, plant and equipment and intangible assets		-3,438,456	-2,575,187
Profit (loss) from ordinary operating activities		3,904,840	3,458,601
Other finance income		0	305,015
Other finance expenses		-208,681	-86,823
Profit (loss) from ordinary activities before tax		3,696,159	3,676,793
Profit (loss)		3,696,159	3,676,793
Proposed distribution of results			
Retained earnings		3,696,159	3,676,793
Proposed distribution of profit (loss)		3,696,159	3,676,793

Balance sheet 31 March 2020

Assets

	Disclosure	2019/20 kr.	2018/19 kr.
Patents originating from development projects		1,384,116	1,671,345
Intangible assets		1,384,116	1,671,345
Land and buildings		9,262,559	9,390,957
Plant and machinery		28,603,009	21,404,506
Fixtures, fittings, tools and equipment		491,688	561,179
Property, plant and equipment		38,357,256	31,356,642
Total non-current assets		39,741,372	33,027,987
Raw materials and consumables		4,896,098	3,134,107
Inventories		4,896,098	3,134,107
Trade receivables		5,035,671	9,486,269
Contract work in progress		0	1,023,122
Other receivables		2,745,953	1,640,957
Deferred income assets		26,427	48,636
Receivables		7,808,051	12,198,984
Cash and cash equivalents		9,368,461	9,238,280
Current assets		22,072,610	24,571,371
Total assets		61,813,982	57,599,358

Balance sheet 31 March 2020

Liabilities and equity

	Disclosure	2019/20 kr.	2018/19 kr.
Contributed capital		21,320,288	21,320,288
Share premium		19,096,371	19,096,371
Retained earnings		5,398,540	1,804,441
Total equity		45,815,199	42,221,100
Other provisions	2	2,988,295	2,193,810
Provisions, gross		2,988,295	2,193,810
Mortgage debt		5,030,679	5,319,448
Long-term liabilities other than provisions, gross	3	5,030,679	5,319,448
Mortgage debt		286,402	289,347
Prepayments received from customers		3,546,144	3,675,585
Trade payables		3,578,391	2,474,536
Payables to associates		0	1,000,000
Other payables, including tax payables, liabilities other than provisions		568,872	398,657
Deposits		0	26,875
Short-term liabilities other than provisions, gross		7,979,809	7,865,000
Liabilities other than provisions, gross		13,010,488	13,184,448
Liabilities and equity, gross		61,813,982	57,599,358

Statement of changes in equity 1 Apr 2019 - 31 Mar 2020

	Contributed capital	Share premium	Retained earnings	Total
	kr.	kr.	kr.	kr.
Equity, beginning balance	21,320,288	19,096,371	1,804,441	42,221,100
Purchase of treasury shares	0	0	-102,060	-102,060
Profit (Loss)	0	0	3,696,159	3,696,159
Equity, ending balance	21,320,288	19,096,371	5,398,540	45,815,199

Disclosures

1. Employee expense

	2019/20 kr.	2018/19 kr.
Wages and salaries	9,266,691	6,858,386
Post employment benefit expense	427,390	267,410
Social security contributions	190,603	125,750
	9,884,684	7,251,546

2. Other provisions

An amount of DKK 2 million has been allocated in connection with a licence agreement that expires on 31/12/2024, according to which the other party to the agreement has the option to cancel the agreement and instead receive goods of a value corresponding to a maximum of DKK 2 million.

3. Long-term liabilities other than provisions, gross

	Total debt, end of year kr.	Repayments, next year kr.	Longterm share kr.	Outstanding debt after 5 years kr.
Mortgage debt	5,317,081	286,402	5,030,679	3,882,362

4. Information on average number of employees

	2019/20
Average number of employees	26