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Klox Technologies Denmark ApS

Borupvang 5 C, 1.
2750 Ballerup
CVR No. 38401742

Annual report 2019

The Annual General Meeting adopted the annual report on 29.09.2020

Mikkel Tønder Schødt
Chairman of the General Meeting

Contents

Entity details

Entity

Klox Technologies Denmark ApS
Borupvang 5 C, 1.
2750 Ballerup

CVR No.: 38401742
Registered office: Ballerup
Financial year: 01.01.2019 - 31.12.2019

Executive Board

Mikkel Tønder Schødt

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower, Værkmestergade 2
8000 Aarhus C

Statement by Management

The Executive Board have today considered and approved the annual report of Klox Technologies Denmark ApS for the financial year 01.01.2019 - 31.12.2019.

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

In my opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

I believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Aarhus, 29.09.2020

Executive Board

Mikkel Tønder Schødt

Independent auditor's report

To the shareholders of Klox Technologies Denmark ApS

Adverse opinion

We have audited the financial statements of Klox Technologies Denmark ApS for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, due to the significance of the matter discussed in the "Basis for adverse opinion" section, the financial statements do not give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for adverse opinion

The financial statement has been prepared on a going concern basis. As stated in note 1 in the financial statement, it is a prerequisite for the Company's continued operations that new capital is provided and that the Company's current credit facilities can be maintained and expanded in line with the financing need. In our opinion an expansion is not likely. We therefore make an adverse opinion that the preparation of the financial statements have been on assumption of continued operations.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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 Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

As stated in the section "Basis for adverse opinion" our conclusion on the financial statements has been modified as a result of our disagreement with management that the financial statements are presented on the assumption of continued operations. We have concluded that the management report for the same reason contains material misstatement since the management report, in our view, should have reflected this fact.

Aarhus, 29.09.2020

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Lars Andersen
State Authorised Public Accountant
Identification No (MNE) mne34506

Management commentary

Primary activities

The Klox Technologies group of companies were incorporated in 2017 and are focused on development and commercializing products based on its proprietary BioPhotonic technology platform to address skin and soft tissue disorders, specifically with regards to its Dermatology product group. At present, the companies continue to work on commercializing Kleresca ™, a biophotonic platform offering non-invasive treatments for both therapeutic and aesthetic conditions using fluorescent light to simulate the skin's own biological processes and repair mechanisms. Its treatments reduce inflammation, increase the build-up of collagen and normalise cellular activity with high safety and efficacy. In scientific terms, the process is known as photobiomodulation.

The Danish office of Klox Technologies Denmark ApS has two focus areas (1) marketing and promotional services (2) administrative services related to service and order management and facility and HR services. These services are provided to Klox Technologies Europe Limited in Ireland as well as FB Dermatology EU Limited. From here the services are used for customer interaction and activities worldwide.

Development in activities and finances

For the fiscal year 2019, the Kleresca group of companies continued to focus on the commercialization of the Acne, Skin Rejuvenation, Rosacea and Pre/Post treatment. Rosacea and Pre/Post treatment are new products that were introduced in 2018.
In quarter 4 2019, Klox Technologies Inc completed the acquisition of the minority shareholding in Klox Technologies Europe Limited. It was announced that teams would unify and focus the commercial efforts in Dermatology and Wound care with the aim to expand its product offering and geographic presence. As a result of the combination, a small number of redundancies were announced in Klox Technologies Denmark ApS.

Heading in 2020, the main risks facing the company are

- That the commercialization plans do not scale. Given the current stage of the companies, there is uncertainty relating to these items due the products being relatively new in the market and have only been launched in specific jurisdictions.
- That the Dermatology and Wound Healing products does not achieve its expected sales, the Company may be required in the future to reduce or delay operating expenses as deemed appropriate to in order to conserve cash.
- The Company is also dependent upon the support of its parent company to finance its operations. The parent company is currently raising additional financing in order to meet its and its subsidiaries, cash flow requirements for the forthcoming year.

For the financial year ended 31 December 2019, the gross profit for Klox Technologies Denmark ApS was DKK 14,343,211. The Company reported an operating profit of DKK 963,875 and due to an impairment loss on financial assets of DKK 3,727,068, a net loss of DKK 2,965,527 was reported.

At 31 December 2019, non-current assets amounted to DKK 446,840. Current assets amount to DKK 658,692, including DKK 291,834 of cash at bank. Creditors falling due with one-year totaled DKK 2,966,442.

Events after the balance sheet date

The coronavirus disease 2019 (COVID-19) was declared a global pandemic on 11 March 2020.The Company experienced a significant decline in the level of activity and the Company applied for the Wage Compensation Scheme from the Danish Government for most employees for the period March to August 2020.

COVID-19 continues to have an adverse impact on the operations of the Company and its financial situation. As a result, this has led to the possible inability for the Company to continue as a going concern.

Income statement for 2019

	Notes	2019 DKK	2018 DKK
Gross profit/loss		**14,343,211**	**16,639,052**
Staff costs	2	(13,175,444)	(15,388,033)
Depreciation, amortisation and impairment losses		(203,892)	(178,066)
Operating profit/loss		**963,875**	**1,072,953**
Impairment losses on financial assets		(3,727,068)	0
Other financial expenses		(4,768)	(2,734)
Profit/loss before tax		**(2,767,961)**	**1,070,219**
Tax on profit/loss for the year		(197,566)	(235,291)
Profit/loss for the year		**(2,965,527)**	**834,928**
Proposed distribution of profit and loss			
Retained earnings		(2,965,527)	834,928
Proposed distribution of profit and loss		**(2,965,527)**	**834,928**

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK	2018 DKK
Other fixtures and fittings, tools and equipment		446,840	717,232
Property, plant and equipment	3	**446,840**	**717,232**
Fixed assets		**446,840**	**717,232**
Receivables from group enterprises		0	1,651,900
Other receivables		60,047	360,037
Prepayments		306,811	426,356
Receivables		**366,858**	**2,438,293**
Cash		**291,834**	**1,083,298**
Current assets		**658,692**	**3,521,591**
Assets		**1,105,532**	**4,238,823**

Equity and liabilities

	Notes	2019 DKK	2018 DKK
Contributed capital		50,000	50,000
Retained earnings		(1,910,910)	1,054,617
Equity		**(1,860,910)**	**1,104,617**
Deferred tax		0	30,000
Provisions		**0**	**30,000**
Other payables		395,387	0
Non-current liabilities other than provisions		**395,387**	**0**
Trade payables		724,191	1,154,903
Payables to group enterprises		0	2,510
Income tax payable		15,355	7,291
Other payables		1,831,509	1,939,502
Current liabilities other than provisions		**2,571,055**	**3,104,206**
Liabilities other than provisions		**2,966,442**	**3,104,206**
Equity and liabilities		**1,105,532**	**4,238,823**
Going concern	1		
Unrecognised rental and lease commitments	4		

Statement of changes in equity for 2019

	Contributed capital DKK	Retained earnings DKK	Total DKK
Equity beginning of year	50,000	1,054,617	1,104,617
Profit/loss for the year	0	(2,965,527)	(2,965,527)
Equity end of year	**50,000**	**(1,910,910)**	**(1,860,910)**

Notes

1 Going concern

In 2017, the Company was established in order to develop and commercialize the Company's fluorescence biomodulation technology in dermatology, including Kleresca® for acne and Kleresca® for skin rejuvenation. At establishment, the Company had secured financing in order to be able to fund its initial operations. In 2018 and 2019, cost-cutting measures were put in place in order to reduce expenses and to extend the cash runway to the end of 2019.

In 2019, the Company reported an operating profit of DKK 963,875 and due to an impairment loss on financial assets of DKK 3,727,068, a net loss of DKK 2,965,527 was reported. The Company had net current liabilities of DKK 2,571,055, net current assets of DKK 658,692.

The attainment of profitable operations is dependent upon future events, including generating revenues from the sale of its products that support its cost structure. The Company is also dependent upon the support of its parent company to finance its operations.

In the event that sales of Dermatology products does not achieve budgeted levels, the Company may be required to reduce or delay operating expenses as deemed appropriate to in order to conserve cash in order to continue the production and commercialization of its products.

The Company is also dependent upon the support of its parent company to finance its operations. The parent company is currently raising additional financing in order to meet its and its subsidiaries, cash flow requirements.

COVID-19 significantly impacted the Company's ability to generate sales from its Dermatology products subsequent to year-end. Furthermore, whereas the parent company has been successful in the past in raising funds, to-date, they have not been able to conclude a financing significant enough which would be required to ensure financial stability for the Company. As a result, there is a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

2 Staff costs

	2019 DKK	2018 DKK
Wages and salaries	11,755,091	13,903,009
Pension costs	1,283,755	1,485,024
Other social security costs	136,598	0
	13,175,444	**15,388,033**
Average number of full-time employees	**17**	**21**

3 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK
Cost beginning of year	975,785
Disposals	(142,730)
Cost end of year	**833,055**
Depreciation and impairment losses beginning of year	(258,553)
Depreciation for the year	(171,359)
Reversal regarding disposals	43,697
Depreciation and impairment losses end of year	**(386,215)**
Carrying amount end of year	**446,840**

4 Unrecognised rental and lease commitments

	2019 DKK	2018 DKK
Liabilities under rental or lease agreements until maturity in total	**2,142,836**	**2,825,848**

The Company has signed a rental contract, which is interminable until 30.04.2022. The annual rental amounts to DKK 728k. The residual commitment is included in the above.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue and external expenses.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Other external expenses

Other external expenses include expenses relating to the Entity’s ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs
Staff costs comprise salaries and wages, and social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses
Depreciation, amortisation and impairment losses relating to equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Impairment losses on financial assets
Impairment losses on financial assets comprise impairment losses on financial assets which are not measured at fair value on a current basis.

Other financial expenses
Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities, and tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment
Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	5 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash
Cash comprises bank deposits.

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

Income tax receivable or payable
Current tax receivable or payable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.