

*hiddn*

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SAFEGUARDING  
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**Q1 2019**  
FINANCIAL  
REPORT

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## KEY HIGHLIGHTS

Hiddn Solutions ASA (“Hiddn”) reported total revenues of NOK 3.7 million in the first quarter 2019, down from NOK 5.5 million in the corresponding quarter of 2018. The low operating revenue in the first quarter of 2019 is primarily due to longer than expected lead times on critical components, including delays due to Chinese New Year and consequently deferred production start-up of new product line. Loss before tax was NOK 8.9 million compared to a loss before tax of NOK 11.5 million in first quarter of 2018. The company has now met the criteria for capitalization, and development cost has been capitalized with NOK 3.6 million in first quarter of 2019. The negative cash flow used in operating activities was NOK 5.7 million, compared to a negative cash flow of NOK 12.9 million in the corresponding quarter of 2018. The board of directors has initiated a cost reduction program with a potential of reducing costs of NOK 7 million for the rest of 2019.

Key highlights and subsequent events:

### Business combination with Energos

Hiddn entered into a Letter of Intent for a potential business combination with Energos Group AS (Energos) to add new business lines, providing technology and solutions to the global renewable energy production industry. Energos has a strong and profitable business line and an ambitious growth strategy. By combining Hiddn and Energos, Energos will have significant opportunities to continue profitable growth and expansion within renewable energy production, while at the same time leveraging on Hiddn’s position as a leading technology provider to the global encryption market and with the flexibility to enhance organic growth and pursue M&A activities. As of 14 May, the parties continue the process aiming at entering into a Share Purchase Agreement for a business combination. Hiddn expects the SPA process to be concluded shortly.

### Finn Clausen Sikkerhetssystemer

The company has previously announced the engagement of an advisor to conduct a strategic review of the affiliated company Finn Clausen Sikkerhetssystemer AS (FCS), supplying cabinets and physical filing systems to the Norwegian market. The strategic review was followed by an initiative to also explore a possible divestment. Due to the process with Energos and pending the recruitment of a new CEO to FCS, this process was put on hold. The process will now continue, and negotiations will be reinitiated. The new CEO, Christoffer Lundgreen took up his position in FCS with effect from May 1st.

### Corporate developments

As a consequence of deferred production start-up of Hiddn’s newly developed and upgraded product line, the Board of Directors has initiated a cost reduction program for 2019 aiming at reduced costs of up to NOK 7 million, for the rest of 2019. As soon as production and sales normalize, the company will consider company resources and cost level going forward.

### NOK 20 million in private placement

The company raised NOK 20 million in a rights issue. The share issue was registered with Norwegian Register of Business Enterprises on 12 April 2019. A total of 23,845,226 new shares were issued at a subscription price of NOK 0.84 per share. After the completion of the rights issue, the company has 115,587,501 outstanding shares and share capital of NOK 39,299,750.34.

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## THIS IS HIDDEN

Hiddn Solutions ASA is listed on the Oslo Stock Exchange under the ticker HIDDEN. Hiddn offers proprietary hardware-based authentication and encryption products. Hiddn's ability to make products with superior security has made Hiddn a trusted partner to governments authorities, and security-minded clients. Hiddn holds several patents to protect its IP and unique encryption and authentication solutions. Hiddn's patented technology has historically been used by high-end clients such as defense, military and government authorities around the world to secure data of national and international interest and has a long list of reference customers and security approvals going 20 years back for storage and securing data at restricted level and above.

The importance of data protection is now being recognized by a wider market and global spending on hardware-based encryption storage solutions are increasing. As a response to market demand and growing interest for encryption and data protection solutions, Hiddn has implemented a strategy of adapting and transferring the proprietary and patented technology, to also address the emerging high-volume markets. In this way, Hiddn can offer new customers, concerned with the growing global security challenges and the arising regulatory requirements, the advantage and benefits of using a proven, state of the art, high-end encryption solutions at a reasonable price. Hiddn's products and solutions are GDPR-compliant and can be used to secure data at rest on laptops, USB storage media such as memory sticks and USB drives and other storage media and ensure that sensitive information stays confidential and unavailable to unauthorized access, even if the device is lost or stolen. For more information, please visit: [www.hiddn.no](http://www.hiddn.no)

## FINANCIAL REVIEW

### KEY FINANCIAL FIGURES

	1.1-31.03 2019	1.1-31.03 2018
<i>(Amounts in NOK thousands, except EPS)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Revenue	3 665	5 496
Gross profit	1 414	2 267
Gross margin	39 %	41 %
Loss for the period	(8 850)	(11 541)
Basic and diluted earnings per share (EPS)	(0,10)	(0,15)

*Gross profit and gross margin are alternative performance measures. Gross profit is calculated by deducting cost of goods sold from revenue. Gross margin is calculated by dividing gross profit by revenue. EBIT is equal to operating loss in the financial statements.*

The following table shows adjusted figures per 31.3.2019:

	Pr. 31.03 2019	Pr. 31.12 2018
<i>(Amounts in NOK thousands)</i>	<i>Unaudited</i>	<i>Audited</i>
Cash balance*	11 106	1 310
Total assets*	50 169	25 474
Total equity*	14 291	2 838

*\*The Board of Directors resolved to carry out a private placement 22 March 2019. The share capital increase was registered with the Norwegian Register of Business Enterprises on 12 April 2019. On the same date the proceeds from the private placement was made available to the company. The figures have been adjusted as if the private placement was completed at 31 March 2019.*

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## CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 MARCH 2019 (UNAUDITED)

Hiddn Solutions ASA is a public limited company headquartered in Oslo, Norway and listed on the Oslo Stock Exchange under the ticker HIDDN. The company's operating activities are reported through the subsidiaries Hiddn Security AS, Hiddn Solutions AS and Finn Clausen Sikkerhetssystemer AS (together named "Hiddn", "Group" or "Company"). The Board of Directors approved the report on 14 May 2019.

### PROFIT OR LOSS STATEMENT

#### Revenues

Hiddn recorded operating revenues of NOK 3.7 million in the first quarter of 2019, down from NOK 5.5 million in the corresponding quarter of 2018.

The operating revenues in the first quarter of 2019 for Hiddn's encryption products were NOK 0.9 million compared to NOK 1.4 million in the corresponding quarter last year. The low operating revenue in the first quarter of 2019 is primarily due to longer lead times on critical components than expected, including delays due to Chinese New Year and consequently deferred production start-up. The operating revenues in the first quarter of 2019 for FCS's archive, storage and security products were NOK 2.7 million compared to NOK 4.1 million in the corresponding quarter last year.

The gross profit was NOK 1.4 million in the first quarter of 2019 compared to NOK 2.3 million during the same period of 2017. The gross profit was 39 % in the first quarter 2019 compared to 41 % in the corresponding quarter last year.

#### Cost of goods sold

Hiddn recorded cost of goods sold of NOK 2.3 million in the first quarter of 2019 compared to cost of goods sold of NOK 3.2 million in the corresponding quarter of 2018.

#### Payroll expenses

Payroll expenses were NOK 3.6 million in the first quarter of 2019 compared to NOK 8.1 million in the corresponding quarter of 2018. The figures for the first quarter of 2019 is net of NOK 3.1 million capitalized as development cost compared to zero in the comparable period in 2018. Included is also a share-based expense of NOK 0.3 million during first quarter of 2019 compared to NOK 0.7 million in the corresponding quarter of 2018.

#### Depreciation and amortization

Depreciation and amortisation expenses amounted to NOK 202 thousand during the first quarter of 2019 compared to NOK 179 thousand in the same period in 2018.

#### Other operating expenses

Other operating expenses were NOK 5.7 million in the first quarter of 2019 compared to NOK 5.1 million in the corresponding quarter of 2018. The figures for first quarter of 2019 is net of NOK 0.5 million capitalized as development cost compared to zero in the comparable period in 2018.

#### Net financial items

Net financial items were minus NOK 0.7 million in the first quarter of 2019 compared to minus NOK 0.4 million in the comparable period in 2018.

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### Net loss

Net loss in the first quarter of 2019 was NOK 8.9 million compared to a net loss of NOK 11.5 million in the corresponding quarter of 2018. Included in the figures for first quarter of 2019 is a capitalization of development cost of NOK 3.6 million.

### BALANCE SHEET

Cash and cash equivalents amounted to NOK 2.1 million as per 31 March 2019 compared to NOK 1.3 million at 31 December 2018. The private placement (NOK 20 million) resolved by the Board of Directors in March 2019 was not made available to the Company until the share capital increase was registered with the Norwegian Register of Business Enterprises on 12 April 2019 and thus not included in the cash and cash equivalents at 31 March 2019.

As per 31 March 2019, the total assets were NOK 43.3 million compared to NOK 25.5 million at 31 December 2018. Total equity was negative and amounted to NOK 5.7 million at 31 March 2019. This is due to the private placement of NOK 20 million first being recorded as equity upon registration of the share capital increase with the Norwegian Register of Business Enterprises on 12 April 2019. The total equity was NOK 2.8 million at 31 December 2018.

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## BUSINESS OUTLOOK

The Board of Directors believes that Hiddn is still well positioned to benefit from the increased demand for reliable and secure storage solutions. Based on Hiddn's position in the high-end encryption market and the wider products and service range recently launched, Hiddn is aiming at taking advantage of the growing global security challenges and the arising regulatory requirements.

Hiddn has established a product offering that addresses all market segments from the high-end security clients to the retail market. Hiddn has also established partnerships with important sales and distribution partners in Europe and has entered into a distribution agreement targeting the high-end business market in North America. Going forward, Hiddn will focus on sales and marketing efforts as well as optimizing its set-up for volume production. As volumes increase, the Company will work to reduce its sourcing and production cost to create future profitability. As a consequence of deferred production start-up and lower sales, the Board of Directors has, pending increased sales, initiated a cost reduction program aiming at reducing cost of NOK 7 million for the rest of 2019.

Hiddn has announced initiatives aiming at diversifying the business into new segments and has entered into a Letter of Intent for a combination with Energos Group AS to add new business lines providing technology and solutions to the global renewable energy production industry. The Board of Directors expects this possible expansion initiative to create interesting opportunities for international growth and value creation and expects to conclude on the SPA process shortly.

Oslo, 14 May 2019

Siw Ødegaard

Øystein Tvenge  
chairman

Jan Christian Opsahl

Jeanette Dyhre Kvisvik

Svein Willassen

Carl Espen Wollebakk  
CEO

## FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

<i>Amounts in NOK thousands</i>	NOTE	1.1-31.03 2019 (unaudited)	1.1-31.03 2018 (unaudited)	1.1-31.12 2018 (audited)
Revenues	2	3 665	5 496	22 464
Other income		-	-	-
<b>Total revenue and other income</b>		<b>3 665</b>	<b>5 496</b>	<b>22 464</b>
Cost of materials and services		(2 251)	(3 229)	(13 570)
Payroll expenses	3,4	(3 641)	(8 083)	(27 804)
Depreciation & amortization		(202)	(179)	(713)
Other operating expenses	4	(5 684)	(5 120)	(21 264)
<b>Operating loss</b>		<b>(8 113)</b>	<b>(11 115)</b>	<b>(40 887)</b>
Interest income		-	1	19
Other financial income		(19)	74	147
Interest expense		(369)	(190)	(960)
Other financial expenses		(349)	(311)	(616)
<b>Net financial items</b>		<b>(737)</b>	<b>(426)</b>	<b>(1 410)</b>
<b>Loss before income tax</b>		<b>(8 850)</b>	<b>(11 541)</b>	<b>(42 297)</b>
Income tax expense		-	-	-
<b>Loss for the period</b>		<b>(8 850)</b>	<b>(11 541)</b>	<b>(42 297)</b>
<b>Profit/(loss) attributable to:</b>				
Equity holders of parent company		(8 850)	(11 541)	(42 297)
Non-controlling interest		-	-	-
Basic and diluted earnings per share		(0,10)	(0,15)	(0,76)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>Amounts in NOK thousands</i>	NOTE	1.1-31.03 2019 (unaudited)	1.1-31.03 2018 (unaudited)	1.1-31.12 2018 (audited)
<b>Net profit/(loss) for the period</b>		<b>(8 850)</b>	<b>(11 541)</b>	<b>(42 297)</b>
<b>Other comprehensive income:</b>				
<i>Items that may be reclassified subsequently through profit or loss:</i>		-		-
<i>Items that will not be reclassified subsequently to profit or loss:</i>		-		-
<b>Other comprehensive income directly against equity</b>		-	-	-
<b>Total comprehensive income for the period</b>		<b>(8 850)</b>	<b>(11 541)</b>	<b>(42 297)</b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of parent company		(8 850)	(11 541)	(42 297)
Non-controlling interest		-	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Pr. 31.03 2019 (unaudited)	Pr. 31.12 2018 (audited)
<i>Amounts in NOK thousands</i>		
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant, and equipment	122	153
Right-of-use assets	176	-
Goodwill	7 771	7 771
Other intangible assets	7 209	3 738
<b>Total non-current assets</b>	<b>15 278</b>	<b>11 662</b>
<b>Current assets</b>		
Inventory	8 670	5 618
Accounts receivable	2 301	4 983
Other receivables	1 839	1 901
Restricted cash in escrow	13 101	-
Cash and short-term deposits	2 081	1 310
<b>Total current assets</b>	<b>27 992</b>	<b>13 812</b>
<b>TOTAL ASSETS</b>	<b>43 270</b>	<b>25 474</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	31 192	31 192
Additional paid-in capital	199 016	199 016
Other paid-in-capital	15 543	15 240
Accumulated losses	(251 460)	(242 610)
<b>Total equity</b>	<b>(5 709)</b>	<b>2 838</b>
<b>Non-current liabilities</b>		
Long-term debt	-	-
Lease liabilities	150	-
<b>Total non-current liabilities</b>	<b>150</b>	<b>-</b>
<b>Current liabilities</b>		
Current portion of long-term debt	6 474	7 056
Debt for paid-in amounts for share issue	13 101	-
Overdraft facilities	13 418	2 644
Trade payables	8 181	5 620
Social security payable, etc.	783	1 140
Other short-term debt	6 872	6 176
<b>Total current liabilities</b>	<b>48 829</b>	<b>22 636</b>
<b>Total liabilities</b>	<b>48 979</b>	<b>22 636</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>43 270</b>	<b>25 474</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

<i>Amounts in NOK thousands</i>	Share capital	Share premium	Other-paid-in capital	Non-registered share issue	Accumulated losses	Total equity controlling interest
<b>Equity 1 January 2018</b>	<b>25 364</b>	<b>178 245</b>	<b>13 243</b>	-	<b>(200 313)</b>	<b>16 539</b>
Loss for period	-	-	-	-	(11 541)	(11 541)
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>(11 541)</b>	<b>(11 541)</b>
Share-based compensation	-	-	731	-	-	731
<b>Equity 31 March 2018</b>	<b>25 364</b>	<b>178 245</b>	<b>13 974</b>	-	<b>(211 854)</b>	<b>5 729</b>
<b>Equity 1 January 2019</b>	<b>31 192</b>	<b>199 016</b>	<b>15 240</b>	-	<b>(242 610)</b>	<b>2 838</b>
Loss for period	-	-	-	-	(8 850)	(8 850)
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	-	-	<b>(8 850)</b>	<b>(8 850)</b>
Share-based compensation	-	-	303	-	-	303
Transaction costs	-	-	-	-	-	-
<b>Equity 31 March 2019</b>	<b>31 192</b>	<b>199 016</b>	<b>15 543</b>	-	<b>(251 460)</b>	<b>(5 709)</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>Amounts in NOK thousands</i>	NOTE	1.1-31.03 2019 (unaudited)	1.1-31.03 2018 (audited)
<b>Net cash used in operating activities</b>		<b>(5,731)</b>	<b>(12,913)</b>
<b><i>Cash flow from investing activities:</i></b>			
Investment in intangible assets		(3,617)	-
<b>Net cash from investing activities</b>		<b>(3,617)</b>	<b>-</b>
<b><i>Cash flow from financing activities:</i></b>			
Proceeds from short-term loans		-	10,000
Repayment of current debt		(631)	(286)
Repayment of lease liabilities		(24)	-
<b>Net cash from financing activities</b>		<b>(655)</b>	<b>9,714</b>
Net change in cash and cash equivalents		(10,003)	(3,199)
Cash, cash equivalents and overdraft at beginning of period		(1,334)	12,005
<b>Cash, cash equivalents and overdraft-end of period</b>		<b>(11,337)</b>	<b>8,806</b>
Cash and cash equivalents		2,081	8,806
Overdraft		(13,418)	-
<b>Net cash at end of period</b>		<b>(11,337)</b>	<b>8,806</b>
<b>Non-cash:</b>			
Restricted cash		13,101	-
Debt for paid-in amounts for share issue		(13,101)	-

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## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 – Corporate information & accounting policies

#### Corporate information

Hiddn Solutions ASA (the “Company”) is a public limited company, listed on the Oslo Stock Exchange under the ticker HIDDN. The Company’s operating activities are reported through the subsidiaries Hiddn Security AS, Hiddn Solutions AS and Finn Clausen Sikkerhetssystemer AS (together named “Hiddn” or the “Group”). The Company is headquartered in Nedre Vollgate 4, 0158 Oslo. The Board of Directors approved the report on 14 May 2019.

Hiddn is offering impenetrable proprietary hardware-based authentication and encryption products with a superior level of security, as well as a wider product suite addressing all market segments looking for solutions to ensure that sensitive information stays confidential and unavailable to unauthorized access. The Group is also supplying secure cabinets and physical filing systems through Finn Clausen Sikkerhetssystemer AS (“FCS”).

As of 31 March 2019, the Group had 23 employees.

#### Basis of preparation

These condensed consolidated interim financial statements have been prepared based on the principles of International Financial Reporting Standard (IFRS) IAS 34 Interim Financial Reporting as approved by EU. They do not include all the information required for full annual financial statements and should be read in conjunction with financial statements of the Group for the year ended 31 December 2018. These condensed consolidated interim financial statements are unaudited. The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2018. The Group has implemented IFRS 16.

#### IFRS 16:

The Group adopted IFRS 16 Leases for reporting periods beginning on and after 1 January 2019. IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and replaces IAS 17 and other previous guidance on lease accounting within IFRS.

IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For each contract that meets this definition, IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability in the balance sheet with certain exemptions for short term and low value leases. Lease payments are to be reflected as interest expense and a reduction of lease liabilities, while the right-of-use assets are to be depreciated over the shorter of the lease term and the assets’ useful life. The portion of lease payments representing payments of lease liabilities shall be classified as cash flows used in financing activities in the statement of cash flows.

#### Implementation options:

The Group used the modified retrospective method on implementation, which involves adjusting opening equity 1 January 2019 with the cumulative implementation effect (“the modified retrospective method”). The Group used some of the implementation expediciencies of IFRS 16. Lease liabilities are measured at the present value of remaining lease payments, discounted using the incremental borrowing rate 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted for prepaid lease payments.

On recognition of IFRS 16, 1 January 2019, the Group recognized right-of-use assets of NOK 535 thousand and lease liabilities of 496 NOK thousand. The difference related to prepaid lease amounts so there was no impact on opening equity upon implementation.

## NOTE 2 – Revenues and segment information

### Segment information

The following segment information is based on the reporting of the subsidiaries as reviewed by management currently based on the encryption products of Hiddn Security AS and the archives, storage, and security products of FCS. The segment result measure is operating profit / (loss). The chief operating decision maker of the Group (CODM) is the management team.

#### 2019:

1.1-31.03.2019 <i>Amounts in NOK thousands</i>	Electronic encryption products	Archive, storage, and security products	Corporate costs, adjustments and eliminations	Consolidated
Operating revenues	928	2 737	-	3 665
Segment result (operating income/(loss))	(6 634)	(290)	(1 189)	(8 113)

#### 2018:

1.1-31.03.2018 <i>Amounts in NOK thousands</i>	Electronic encryption products	Archive, storage, and security products	Corporate costs, adjustments and eliminations	Consolidated
Operating revenues	1 424	4 072	-	5 496
Segment result (operating income/(loss))	(7 796)	348	(3 667)	(11 115)

During first quarter of 2019 a total of NOK 3.6 million was capitalized as development cost related to the electronic encryption segment, see note 4 for further information.

### NOTE 3 - Share based compensation

The Group recognized a share-based expense of NOK 303 thousand in the first quarter of 2019 compared to NOK 731 thousand in the corresponding quarter of 2018.

### NOTE 4 – Intangible assets - R&D related expenses

The Group capitalized NOK 3.6 million in development costs related to the current ongoing projects for new encryption products lined up for release and market introduction during 2019. These have, according to our quality system, reached a maturity level where the risk assessment is completed and with no high-risk items remaining to be resolved which calls for a smooth project development phase and production ramp up in 2019.

### NOTE 5 – Restricted cash and debt for paid in amounts for share issue

At 31 March 2019, the Group had received NOK 13.1 million in a restricted escrow account related to the NOK 20 million share issue that was completed in April 2019 as described in Note 7 – Events after the balance sheet date. The Group recorded an equivalent amount as short-term debt until the full amount of the share issue was paid-in and the share issue could be registered on 12 April 2019.

## NOTE 6 - Interest bearing debt

<i>Amounts in NOK thousands</i>	Interest	Principal	Final Maturity	Carrying amount	
				Pr 31.03 2019	Pr 31.12 2018
Non-secured long-term loan	NIBOR+3%	1 060	March 2019 *	715	1 033
Low interest loan from the Government	4,95 %	6 286	March 2024	5 759	6 023
<b>Total loans</b>				<b>6 474</b>	<b>7 056</b>
Less current portion of debt				6 474	7 056
<b>Non-current liabilities</b>				-	-

### Non secured debt

The final maturity of the non-secured debt is 3 years from payment date; i.e. maturity date from March 2019 – May 2019. The Group paid NOK 345 thousand of the non-secured debt due. An additional NOK 200 thousand was paid in April. The remaining amount will be paid in May.

### Loan from Norwegian entity

The long-term government loan with a carrying amount of NOK 5.8 million (NOK 6.3 million principal) is classified as a current liability since the subsidiary Hiddn Security AS is in breach of the equity covenant. Innovation Norway has been informed of the breach, that originally occurred in 2016. Innovation Norway has not required any remedies as of the date of the financial statements

## NOTE 7 – Events after the balance sheet date

On 22 March 2019, the Company's board of directors resolved to carry out a private placement and resolved issuance of 23,845,226 new shares in the Company, each with a nominal value of NOK 0.34, at a subscription price of NOK 0.84 (the "New Shares"). The share capital increase pertaining to the private placement was registered with the Norwegian Register of Business Enterprises on 12 April 2019. Following this, the Company's new registered share capital is NOK 39,299,750.34, divided into 115,587,501 shares, each with a par value of NOK 0.34. Upon completion of the private placement, the short-term credit facility agreement with Pareto Bank was repaid. Outstanding amount under this credit facility agreement was NOK 10.7 million at 31 March 2019.

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