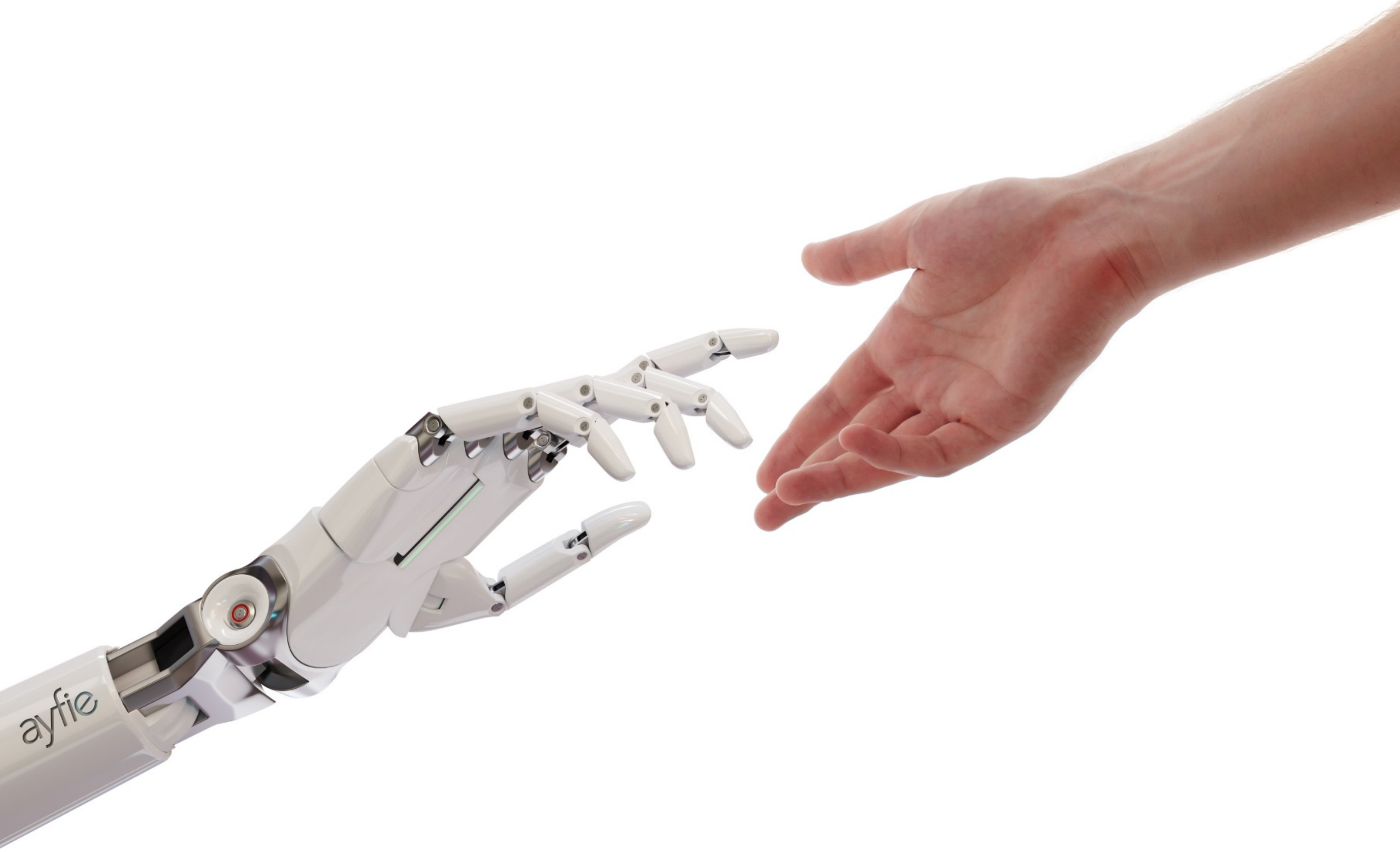
ayfie

2019

Annual Report

Contents



Report from the Board of Directors

2019 was overall a challenging year for ayfie Group. There were positive developments in the Scandinavian business through sales of the new Locator of Knowledge Management product to leading Norwegian law firms. Whereas the US business was halted by integration issues with the Inspector product and a partner dispute related to the Document Analyzer product, delaying the planned 2019 launch of both products.

Locations, business overview and operations

ayfie Group AS ("the Company") is the parent company of the ayfie Group ("the Group" or "ayfie") and is located in Oslo, Norway. The Company owns 100 percent of the shares in ayfie AS in Norway, ayfie AB in Sweden, ayfie GmbH in Germany and ayfie Inc. in the USA ("US").

ayfie is operating in the Norwegian, Swedish and US markets. The Scandinavian companies are providing knowledge management products for law firms and other Scandinavian knowledge businesses. The US company is focusing on the US legal services and financial markets, while the German company is the research and development hub for advanced NLP and machine learning.

ayfie's products are based on Artificial Intelligence ("AI") enhanced solutions built on proprietary linguistics, machine learning, smart search and text analytics. ayfie's technology and solutions are developed by the Group's highly qualified research and development teams - among them computational linguistics experts and computer scientists.

Based on the unique technology, ayfie has developed the following three main products:

- Locator for Knowledge Management that helps customers turn their corporate data into a true knowledge resource by:
    - Leveraging existing knowledge about previous cases and clients by connecting to all available information silos through one single interface
    - Uncovering hidden connections and relations between documents to make it possible to use similar agreements or clauses when drafting new agreements
    - Classifying documents based on existing structures for efficient workflows
    - Identifying qualified experts by searching for enhanced meta-data, e.g. author

- Inspector that helps lawyers and others involved in litigation and investigations to quickly identify the data important for their cases by:
    - Enriching data sets with automatically generated meta data, such as persons, organizations and locations to ensure fast and easy filtering and search
    - Identifying (near) duplicates and email threads to remove redundant data and prioritize review
    - Automatically grouping documents into topic clusters which can be used to cull away irrelevant data

- Document Analyzer that reads huge collections of homogenous documents to extract key information with unmatched speed and precision. Initially developed for the US mortgage industry, with the potential to be relevant for many businesses within the financial sector that deal with form-based documents.

Business developments

The Scandinavian business achieved revenue growth, profits and positive cash flow in 2019, and will continue to build its revenue base and streamline its operations in 2020. The US business experienced revenue decline and increasing losses in 2019 due to delayed launches of new products combined with churn on the existing customer portfolio, and will be refocusing and reorganizing in 2020.

Market

ayfie believes the market for AI, smart search and text analytics will expand as the amount of data continues to increase exponentially - a view supported by current market trends and global surveys. The legal, legal services and financial industries continue to represent a major opportunity as they attempt to handle large amounts of unstructured data such as contracts and loan documents. Other industries are about to face similar challenges as data within their respective industries continue to grow.

ayfie's setback in the US market was the result of internal factors rather that market developments. ayfie therefore still believes the Group has the potential to become a major provider due to the nature of its technology and solutions: Firstly, ayfie offers a text analytics solution capable of rapidly providing semantic understanding of words, phrases and their relations. Contrary to text analytics solutions based solely on machine learning, ayfie's technology performs semantic analysis of phrases and expressions. Thus, on top of providing higher quality analysis, ayfie's solution can analyse smaller amounts of text as there is no need for extensive amounts of data to trace patterns. Secondly, by combining its unique language-based text analytics layer with statistical analysis, machine learning and other advanced algorithms, ayfie provides superior and faster processing solutions than its competitors.

Outlook

Moving forward, ayfie's focus will be on selling existing solutions while reducing the cost base substantially in order to achieve profits and positive cash flow from its operations at Group level.

The Scandinavian business, with its proven products and solid customer base, is well positioned for further expansion in the Norwegian market as well as in other European markets - specifically the Swedish, UK and German markets.

The US business, which includes the German research and development hub, will in 2020 be focusing on revenue creation through the Legal Service Providers it signed with in late 2019. It will also pursue incremental OEM revenue through current channels. Increased focus on off-the-shelf products and current customers/sales channels will allow for a considerable reduction of research, development, business development and sales resources.

Financial summary

(All amounts in brackets are comparative figures for 2018 unless otherwise specifically stated)

The following financial summary is based on the consolidated financial statements of ayfie Group AS and its subsidiaries. The consolidated statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Board of Directors believe the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flow, consolidated statement of changes in equity and the accompanying notes provide satisfactory information about the operations, financial results and position of the Group and the parent company at 31 December 2019.

Consolidated statement of comprehensive income

Full year consolidated revenues amounted to NOK 45.9 million (NOK 48.9 million). Revenues from the Scandinavian business increased by 11 percent compared to the previous year, whereas revenues from the US business fell by 31 percent compared to the previous year.

- Consolidated recurring revenues amounted to NOK 36.3 million (NOK 35.4 million), and consisted of the following revenues:
  - Subscription revenues of NOK 30.5 million (NOK 25.9 million). Subscription revenues experienced a net increase of 18 percent from the previous year mainly through increased revenues from the Scandinavian business
  - Maintenance/support of NOK 2.9 million (NOK 2.5 million)
  - Retainer development service of NOK 2.9 million (NOK 7.1 million). This revenue classification was introduced in 2018 as a response to key USA customers' requests for continuing development of their ayfie products. The revenues fell by 59 percent in 2019 as the US business experienced churn on major customer accounts

- Non-recurring revenues amounted to NOK 9.6 million (NOK 13.5 million) and consisted of the following revenues:
  - Perpetual revenues of NOK 3.6 million (NOK 5.8 million). The decrease of 38 percent from the previous year was due to lower sales through the Scandinavian business entity's main reseller
  - Professional services /consultancy fees of NOK 6.0 million (NOK 7.7 million). The revenues generated by customer specific developments and onboarding of new customers fell by 22 percent from the previous year mainly due to lower sales in the US market

Cost of sales of NOK 4.2 million (NOK 2.3 million) consisted of cost of third-party licences used in some of ayfie's main products.

Total operating expenses amounted to NOK 145.7 million (NOK 101.6 million). Personnel expenses of NOK 77.6 million (NOK 69.7 million). The number of employees increased from 62 on 31 December 2018 to 66 on 31 December 2019, and the number of contracted labours decreased from 21 to 15 during the same period. Other operating expenses amounted to NOK 20.6 million (NOK 31.9 million).

Depreciation and amortization expenses amounted to NOK 47.5 million (NOK 5.5 million), whereof NOK 40.6 million (NOK 0.0 million) was related on an impairment charge of goodwill from the acquisition of Language Tools GmbH (now ayfie GmbH) in March 2016 triggered by the weak performance of the US business.

Financial income of NOK 1.3 million (NOK 0.9 million) was related to foreign exchange gains and interest on bank deposits. Financial costs of NOK 9.0 million (NOK 0.8 million) consisted of costs related to the convertible loan of NOK 6.8 million (NOK 0.0 million), office leases of NOK 1.4 million (NOK 0.0 million) and foreign exchange losses of NOK 0.8 million (0.3 million).

Net loss for the year amounted to NOK 111.4 million (NOK 58.9 million). Total comprehensive income, adjusted for exchange differences on translation of foreign operations of NOK 0.2 million (negative NOK 0.3 million), gave a total comprehensive income of negative NOK 111.3 million (negative NOK 59.3 million).

Consolidated statement of financial position

Total assets amounted to NOK 58.9 million (NOK 67.4 million). The total non-current assets of NOK 28.4 million (NOK 47.5 million) consisted mainly of right-of-use-assets related of office leases after the adoption of IFRS 16 on 1 January 2019 of NOK 14.3 million (NOK 0.0 million) and capitalized technology and product development recorded as intangible assets NOK 13.4 million (NOK 6.2 million). Goodwill was written off entirely by NOK 40.6 million in 2019.

Total current assets of NOK 30.6 million (NOK 19.9 million) consisted of cash NOK 14.0 million (NOK 2.2 million), trade receivables NOK 2.9 million (NOK 11.6 million) and other current assets NOK 13.6 million (NOK 6.0 million). NOK 1.5 million (NOK 7.4 million) of trade receivable were not due per 31 December 2019. Other current assets consisted mainly of prepayments from customers of NOK 8.5 million (NOK 1.9 million) and deposits of NOK 4.9 million (NOK 3.2 million).

Total equity and liabilities amounted to NOK 58.9 million (NOK 67.4 million), where the total equity of negative NOK 107.9 million (negative NOK 3.6 million) as uncovered losses of NOK 279.5 million (NOK 168.6 million) exceeded share capital and share premium totalling NOK 164.2 million (NOK 157.2 million). Equity was strengthened by NOK 52.0 million in Q1 2020 through capital increases.

Non-current liabilities of NOK 119.4 (NOK 18.3 million) consisted of a convertible loan NOK 102.8 million (NOK 0.7 million), non-current lease liabilities NOK 10.0 million (NOK 0.0 million) and non-current liabilities to related parties NOK 6.6 million (NOK 17.3 million). Current liabilities of NOK 47.4 million (NOK 52.7 million) consisted mainly of trade and other payables of NOK 10.5 million (NOK 10.9 million), contracted liabilities of NOK 14.9 million (NOK 12.6 million), current liabilities to related parties of NOK 10.5 million (NOK 7.0 million) and current lease liabilities NOK 4.8 million (NOK 0.0 million).

ayfie had NOK 592.4 million (NOK 602.0 million) of tax losses carried forward. The Group has determined not to recognize deferred tax assets on the tax losses carried forward in the 2019 financial statements. If the Group had recorded all unrecognized deferred tax assets, equity would have increased by approximately NOK 154.1 million. NOK 148.5 million of the tax losses carried forward do not expire, while NOK 443.9 443.9 million related to losses in the US subsidiary, ayfie Inc., begin to expire in 2030.

Consolidated statement of cash flow

Net cash flow from operating activities was negative NOK 61.9 million (negative NOK 52.1 million). Net cash flow from investing activities was negative NOK 9.2 million (negative NOK 6.5 million). Net cash flow from financing activities was NOK 82.9 million (NOK 16.8 million). Cash and cash equivalents was NOK 14.0 million (NOK 2.2 million) at year end.

Equity, shares and shareholders

Equity decreased from negative NOK 3.6 million in 2018 to negative NOK 107.9 million in 2019 due to the 2019 loss of NOK 111.4 million (NOK 58.9 million), issue of share capital NOK 7.0 million (NOK 30.0 million) and other comprehensive income NOK 0.2 million (negative NOK 0.3 million).

At year end 2019, there were approximately 220 shareholders (including estimates for number of shareholders behind nominee accounts). ayfie had no own shares in ayfie Group AS.

Financial risks

ayfie is exposed to financial risk in different areas - mainly currency risk, liquidity risk and credit risk. The Group seeks to minimize potential adverse effects of such risks through sound business practice.

Currency risk

ayfie has a significant portion of its financial liabilities denominated in foreign currencies. There is an inherent risk that the liabilities to the Group may increase as a result of an appreciation of USD, EUR and SEK, while the Group's presentation currency is NOK.

ayfie’s currency risk on operations is related to the Group’s revenue and operating expenses in foreign currency. Employee benefit expenses and other operating expenses are mainly in NOK, USD and EUR, with sales incurring mainly in USD, NOK and SEK. ayfie aims to minimize the risk of changes in the value of net cash flows arising from foreign currencies.

ayfie is also exposed to currency changes related to the carrying amounts of equity in foreign subsidiaries. Changes in the value of equity of foreign subsidiaries are partly offset by financial liabilities in the same currency.

The Group does not hedge foreign currency exposure with derivatives at the current time but monitors the net exposure and may choose to use financial derivatives to limit foreign currency risk in the future.

Liquidity risk

Liquidity risk is the risk that ayfie will be unable to meet its obligations associated with operational and financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

ayfie owns its technology, as well the products and solutions it provides, and has a highly scalable business model. Customers typically pay subscription upfront – yearly or quarterly. The Group, therefore, has the potential to significantly increase cash flow from operations as sales increase.

Future cash flow for the Group is constantly forecasted with owners or other investors being contacted if external financing is deemed necessary. ayfie’s investors have over the years been most supportive and have contributed in financing developments.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its cash deposits with banks. It is the management's opinion that there is no material credit risk connected to the Group's current assets.

Events after 31 December 2019

NOK 54.9 million was raised in Q1 2020 through share issues at NOK 0.1 per share, NOK 50 million in February 2020 in a private placement and NOK 4.9 million in a subsequent offering in March 2020. Net proceeds from the combined capital increases amounted to NOK 52.0 million.

On 19 March 2020 the Board terminated Erik Baklid’s employment as CEO with immediate effect. The Group’s CTO Johannes Stiehler was appointed acting CEO.

On 19 March 2020 the board initiated a reorganization of the Group, and several restructuring measures were implemented to ensure cost reductions and improved cash flows.

The outbreak of the corona-virus disease (COVID-19) has had a global impact on health and economic activities. For the time being, ayfie is essentially operating as normal, although the majority of employees have been working from home since mid-March 2020. However, the lock-down situation is impacting the reorganizational processes as well as sales activities. It is currently too early to assess the mid-term and long-term effects of the COVID-19.

Going concern

In accordance with the Accounting Act § 3-3a, the Board confirms that the financial statements have been prepared under the assumption of going concern and that this assumption is valid. The assumption is based on profit and cash flow forecasts for the year 2020 and ayfie's long-term strategic forecasts.

The book value of the company's equity as of 31 December 2019 is negative by NOK 107.9 million. In the first quarter 2020 the equity was increased by NOK 52.0 million by new subscription of shares for cash contributions to secure sufficient liquidity and a strengthening of the equity position of the company. At the same time several restructuring measures were implemented to ensure cost reductions and improved cash flows. The Board of Directors will be assessing the need for additional actions if required in order to ensure an equity that can be deemed sound, based on the extent of the company's activities and the risk involved.

Employees

ayfie aims to be a workplace with equal opportunities and practices gender equality regarding salary, promotion and recruiting. As the Group is mainly recruiting sales and technology personnel, occupations typically dominated by males, a major portion of the staff is male. At year end 2019 ayfie had 66 employees, of which 8 were female. ayfie had 1 female executive manager, and there were no female board members.

There was hardly any leave of absence due to illness recorded in 2019, and no incidences nor reports of work-related accidents resulting in significant material damage or personal injury.

The working environment is considered to be good and activities to secure a continued positive working environment are carried out on an ongoing basis.

Change in Board of Directors

On 24 February 2020 the extraordinary shareholder meeting elected a new board:

- Lars Boilesen, chairman
- Jostein Devold
- Martin Nes
- Lars Nilsen
- Jan Chr. Opsahl
- Øystein Stray Spetalen

Allocation of net loss for the year

The Board of Directors has proposed the net loss of ayfie Group AS of NOK 111.4 million to be charged to uncovered losses.

The Board of Directors does not propose any dividend payments for 2019.

Oslo, 25 May 2020
The Board and CEO of ayfie Group AS

Sign. Lars Boilesen Chairman	Sign. Jostein Devold Board member
Sign. Martin Nes Board member	Sign. Lars Nilsen Board member
Sign. Jan Opsahl Board member	Sign. Øystein Stray Spetalen Board member
Sign. Johannes Stiehler Acting chief executive officer	

Consolidated Financial Statements

Consolidated statement of comprehensive income

For the years ended 31 December

Amounts in NOK 1000	**Notes**	**2019**	**2018**
Revenue and other operating income			
Revenue	2.1	45 891	48 944
Total revenue and other operating income		**45 891**	**48 944**
Cost of sales			
Cost of sales		4 151	2 265
Gross profits		**41 740**	**46 679**
Operating expenses			
Personnel expenses	2.2	77 587	69 736
Other operating expenses	2.3	20 645	31 864
Depreciation and amortization	3.3	47 495	5 469
Total operating expenses		**145 727**	**-107 069**
Operating profit or loss		**-103 987**	**-60 390**
Finance income and costs			
Finance income	4.4	1 348	872
Finance costs	4.4	9 044	807
Profit or loss before tax		**- 111 683**	**-60 325**
Income tax expense	5.1	233	1 398
Net loss for the year		**-111 450**	**-58 927**
Other comprehensive income			
Items that subsequently may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		181	-337
Total items that subsequently may be reclassified to profit or loss		181	-337
Other comprehensive income for the period		**181**	**-337**
Total comprehensive income for the period		**-111 269**	**-59 264**

Consolidated statement of financial position

Amounts in NOK 1000	Notes	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	701	1 006
Right-of-use assets	6.2	14 323	
Intangible assets	3.2	13 392	6 221
Goodwill	3.3		40 247
Total non-current assets		**28 416**	**47 474**
Current assets			
Trade receivables	2.4	2 929	11 610
Other current assets	2.5	13 621	6 041
Cash and cash equivalents	4.3	13 970	2 236
Total current assets		**30 520**	**19 888**
TOTAL ASSETS		**58 936**	**67 362**
EQUITY AND LIABILITIES			
Equity			
Issued share capital	4.6	3 035	2 981
Share premium		161 220	154 257
Other capital reserves		1 490	1 490
Currency revaluation reserve		6 674	6 260
Uncovered losses		-280 469	-168 614
Total equity		**-107 878**	**-3 626**
Non-current liabilities			
Deferred tax liabilities	5.1		343
Non-current liabilities to related parties	6.3	6 543	17 298
Other non-current provisions and liabilities	6.1	102 803	658
Non-current leases liabilities	6.2	10 043	
Total non-current liabilities		**119 389**	**18 299**
Current liabilities			
Trade and other payables	2.6	10 502	10 936
Current liabilities to related parties	6.3	10 495	7 017
Current lease liabilities	6.2	4 816	
Contracted liabilities	6.1	14 861	12 562
Other current liabilities	6.1	6 751	22 174
Total current liabilities		**47 425**	**52 689**
Total liabilities		**166 814**	**70 988**
TOTAL EQUITY AND LIABILITIES		**58 936**	**67 362**

Oslo, 25 May 2020
The Board and CEO of ayfie Group AS

Sign. Lars Boilesen Chairman	Sign. Jostein Devold Board member
Sign. Martin Nes Board member	Sign. Lars Nilsen Board member
Sign. Jan Opsahl Board member	Sign. Øystein Stray Spetalen Board member
Sign. Johannes Stiehler Acting chief executive officer	

Consolidated statement of cash flow

For the years ended 31 December

Amounts in NOK 1000	Notes	2019	2018
Cash flows from operating activities			
Loss before tax		-111 683	-60 325
Adjustments to reconcile profit before tax to net cash flow:			
Depreciation and amortization	3.1,3.2	47 495	5 469
Leases interests	6.2	1 385	
Net finance income and costs included in financing activities	4.4	4 074	65
Net foreign exchange differences		55	268
Share based payments	4.7	- 657	-640
Working capital adjustment:			
Changes in trade receivables	2.4	8 680	-4 298
Changes in other current assets	2.5	-7 580	894
Changes in trade and other payables	2.6	-434	5 610
Changes in provisions and other liabilities	6.1	- 3 155	852
Net cash flows from operating activities		**-61 930**	**-52**
Cash flows from investing activities			
Purchase of property, plant and equipment	3.1	-76	-982
Investment in intangible assets	3.2	-7 960	-5 576
Interests received	4.4	232	
Deferred purchase consideration paid	3.3	-1 440	92
Net cash flow from investing activities		**-9 246**	**-6 466**
Cash flow from financing activities			
Proceeds from issuance of equity			1 477
Proceeds from/(repayment of) loan from shareholders	6.3	-15 588	15 300
Proceeds from new convertible loan	4.2	102 803	
Interests paid	4.4	-4 306	
Net cash flow from financing activities		**82 909**	**16 777**
Net change in cash and cash equivalents		11 734	-41 775
Effect of change in exchange rate			-65
Cash and cash equivalents, beginning of period	4.3	2 236	44 076
Cash and cash equivalents, end of period		**13 970**	**2 236**

Consolidated statement of changes in equity

NOK 1000	Issued share capital	Share premium	Other capital reserves	Cumulative translation differences	Retained Earnings	Total equity
Balance as of 01.01.2018	**2 759**	**124 475**	**1 490**	**6 597**	**-109 687**	**25 634**
Profit (loss) for the year					-58 927	-58 927
Other comprehensive income				-337		-337
Issue of share capital	222	29 782				30 004
Balance as of 31.12.2018	**2 981**	**154 257**	**1 490**	**6 260**	**-168 614**	**-3 626**
Profit (loss) for the year					-111 450	-111 450
Other comprehensive income				181		181
Issue of share capital	54	6 963				7 017
Balance as of 31.12.2019	**3 035**	**161 220**	**1 490**	**6 674**	**-280 297**	**-107 878**

1 March 2019 the equity was increased by NOK 7 017 thousand trough a conversion of debt to equity.

Notes to the consolidated financial statements

Notes 1 – Background Information

Note 1.1 – Corporate information

Corporate Information

The consolidated financial statements of ayfie Group AS and its subsidiaries (collectively, "the Group" or "ayfie") for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors 25 May 2020. ayfie Group AS ("the Company" or "the parent)" is a limited liability company incorporated and domiciled in Norway. The address of its registered office is Karenslyst allé 49, 0279 Oslo.

Basis of preparation

The consolidated financial statements of ayfie Group AS is comprised of consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and related notes. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by The European Union (EU).

The consolidated financial statements have been prepared on a historical cost basis, except when IFRS requires recognition at fair value as further described below.

Presentation currency

The consolidated financial statements are presented in Norwegian kroner (NOK), which is also the functional currency of the parent company. All figures are rounded to the nearest thousand (000), except when otherwise indicated. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currencies

For presentation purposes, balance sheet items are translated from functional currency to presentation currency by using exchange rates at the reporting date. Items within total comprehensive income are translated from functional currency to presentation currency by applying average exchange rates. If currency rates are fluctuating significantly, daily exchange rates are applied for significant transactions.

Going concern

In accordance with the Accounting Act § 3-3a, the Board confirms that the financial statements have been prepared under the assumption of going concern and that this assumption is valid. The assumption is based on profit and cash flow forecasts for the year 2020 and ayfie's long-term strategic forecasts.

The book value of the company's equity as of 31 December 2019 is negative by NOK 107.9 million. In the first quarter 2020 the equity was increased by NOK 52.0 million by new subscription of shares for cash contributions to secure sufficient liquidity and a strengthen the equity position of the company. At the same time several restructuring measures were implemented to ensure cost reductions and improved cash flows. The Board of Directors will be assessing the need for additional actions if required in order to ensure an equity that can be deemed sound, based on the extent of the company's activities and the risk involved.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its return. Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

Generally, ayfie Group's presumption is that a majority of voting rights results in control. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent as the Group currently has no non-controlling interests. Uniform accounting policies are applied to all Group companies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group's interests in subsidiaries are presented below:

Consolidated entities	**Office**	**CUR**	**Shareholding**	**Group's voting ownership share**
ayfie AS	Norway	NOK	100 %	100 %
ayfie Inc.	USA	USD	100 %	100 %
ayfie GmbH	Germany	EUR	100 %	100 %
ayfie AB	Sweden	SEK	100 %	100 %

All subsidiaries are included in the consolidated statement of financial position.

Note 1.2 – Estimates, judgments and assumptions

Significant accounting judgements, estimates and assumptions

In connection with the preparation of the Group’s consolidated financial statements, the management has made assumptions and estimates about future events and applied judgements that affect the reported values of assets, liabilities, revenues, expenses and related disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. The assumptions, estimates and judgements are based on historical experience, current trends and other factors that the Group’s management believes to be relevant at the time the consolidated financial statements are prepared. The estimates and underlying assumptions are reviewed on an ongoing basis.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, are described below:

Useful life of intangible assets

The useful lives of the intangible assets are assessed as either finite or indefinite and may in some cases involve considerable judgements. Intangible assets with indefinite useful lives are initially measured at fair value and subsequently tested for impairment by assessing the recoverable amount of each cash generating unit (CGU) or Group of CGUs to which the intangible assets relate.

Deferred tax

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Reference is made to note 5.1 for information on the Group's recognized and unrecognized deferred tax assets.

Note 1.3 – Significant accounting policies

Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group received recurring revenue from sale of solutions such as subscriptions. The Group considers its performance obligation connected to subscriptions to be satisfied over the lifetime of the subscriptions. Such revenue is thus recognized over time over the contract period on a linear basis. The customers are invoiced on a yearly and quarterly basis, and payment is generally due within 14-30 days from delivery. In addition, the Group receives non-recurring revenue such as consulting services. Such revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group. The Group recognises revenue over time by measuring the progress towards complete satisfaction of the services. Stage of completion is normally measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for the consulting services being provided. The customers are invoiced on a monthly basis, and payment is generally due within 14-30 days from delivery.

There are no significant costs to obtain or fulfil the contracts that are recognized as an asset.

Contract assets: A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables: A receivable represents the Group's right to an amount of consideration that is unconditional.

Contract liabilities: A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as revenue when the Group fulfils the performance obligations under the contract.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Group´s financial assets are: trade receivables, other current assets and cash and cash equivalents.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and,

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Groups financial assets at amortised cost includes trade receivables and other short-term deposit. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Loans, borrowings and payables are recognised at fair value net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Payables are measured at their nominal amount when the effect of discounting is not material.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except: When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except: When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in OCI or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

VAT

Expenses and assets are recognized net of the amount of sales tax, except: When VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. When receivables and payables are stated with the amount of VAT included the net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Research and development

Research costs are expensed as incurred. Development expenditures on an individual project, which represents new applications/technology, are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset and the ability to measure reliably the expenditure during development

Initial capitalization of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. The assessment of when product development is capitalized is highly subjective, as the outcome of these projects may be uncertain. Research and development carried out by the Group's own personnel is not capitalized.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete, and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. Estimating recoverable amounts of assets must in part be based on management's evaluations, including determining appropriate cash-generating units, determining discounting rates, estimates of future performance, revenue generating capacity of the assets and assumptions of the future market conditions. Reference is made to note 3.2 for an overview of capitalized development costs and expensed R&D.

Group as a lessee

Identifying a lease

At the inception of a contract, The Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Separating components in the lease contract

The Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

Recognition of leases and exemptions

At the lease commencement date, the Group recognises a lease liability and corresponding right-of-use asset for all lease agreements in which it is the lessee, except for short-term leases (defined as 12 months or less) and low value assets. For these leases, the Group recognises the lease payments as other operating expenses in the statement of profit or loss when they incur.

Lease liabilities

The lease liability is recognised at the commencement date of the lease. The Group measures the lease liability at the present value of the lease payments for the right to use the underlying asset during the lease term that are not paid at the commencement date. The lease term represents the non-cancellable period of the lease, together with periods covered by an option either to extend or to terminate the lease when the Group is reasonably certain to exercise this option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect adjustments in lease payments due to an adjustment in an index or interest rate.

Right-of-use assets

The Group measures the right-of use asset at cost, less any accumulated depreciation and impairment losses, adjusted for any remeasurement of lease liabilities, hence the cost of the right-of-use asset comprise of the amount of the initial measurement of the lease liability recognized and any lease payments made at or before the commencement date, less any incentives received

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized in the statement of Comprehensive income as Other operating income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Pensions and other post-employment benefits

The Group operates a defined contribution pension plan in Norway, which requires contributions to be made to a separately administered fund. Contributions have been made to the pension plan for full-time. The pension premiums are charged to expenses as they are incurred.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group’s cash management.

Statement of cash flows

The Company presents the statement of cash flow using the indirect method. Cash inflows and cash outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash items. Value added tax and other similar taxes are regarded as collection of tax on behalf of authorities and are reported net.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

Note 1.4 – New standards in 2019

Changes in account principles and disclosure requirements

New and amended accounting standards and interpretations issued by the IASB may affect the Group's future financial reporting. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

In addition to IFRS 16, several amendments to IFRS have been implemented for the first time in 2019. The amendments did not have any material impact for the Group.

Implementation of IFRS 16 – Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 determining whether an arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The Group adopted IFRS 16 by applying the modified retrospective approach with the date of initial application of 1 January 2019.The Group also elected to apply the recognition exemptions for lessees and not recognize leases in the balance sheet that has a lease term of 12 months or less or the underlying value of the lease is of low value.

Upon implementation to IFRS 16, the Group recognised NOK 18.7 million in right-of-use assets and NOK 19.7 million as lease liabilities related of office leases. There was no effect on the opening balance of retained earnings.

The impact on the date of initial application is further presented below:

NOK 1000 **Reconciliation of lease commitments to lease liabilities**	**01.01.2019**
Non-cancellable operating lease commitments at 31 December 2018	21 160
+/- Sublease reclassifications	
+ Extension options reasonably certain to be exercised	
- Termination options reasonably certain to be exercised	
+Practical expedient related to short-term leases	2 172
- Practical expedient related to low-value leases	
- Residual value guarantees	
- Discounting using the incremental borrowing rate	-3 615
Lease liabilities recognised at initial application	**19 717**
The weighted average incremental borrowing rate applied:	7%
Right-of-use assets recognised at initial application	0

1.5 Standards issued but not yet effective

Several amendments to IFRS are issued up to the date of issuance of the consolidated financial statements but are not yet effective. The impact of applying the amendments is not expected to have a material impact on the Company's financial performance and financial position.

Notes 2 - Operating performance

Note 2.1 – Revenues and other operating income

NOK 1000

Revenue from contracts with customers	**2019**	**2018**
Recurring revenue		
Subscription	30 530	25 850
Maintenance/support	2 934	2 521
Retainer Development Service	2 873	7 061
Total recurring revenue	**36 337**	**35 432**
Non-recurring revenue		
Perpetual	3 557	5 841
Professional services/consultancy fees	5 996	7 670
Non-recurring revenue	**9 553**	**13 512**
Total revenue from sales contracts with customers	**45 891**	**48 944**

Recurring revenue

ayfie's business model is based on subscriptions, with contract lengths of typically 3 years. Retainer development agreements of more than 12 months are classified as recurring revenue. Such revenue is recognized over time over the contract period on a linear basis.

Non-recurring revenue

Customer specific development and onboarding of customers is charged at an hourly base and classified as professional services. Revenue from resellers of ayfie solutions is classified as perpetual revenue. Such revenue has maintenance/support elements classified as recurring revenue. The Group recognises revenue over time by measuring the progress towards complete satisfaction of the services.

NOK 1000

Geographic information	**2019**	**2018**
Revenues from customers		
Norway	26 853	23 437
Germany	1 915	2 947
Sweden	5 122	5 368
USA	12 001	17 192
Total revenues	**45 891**	**48 944**

Note 2.2 – Personnel expenses

NOK 1000

Personnel expenses	**2019**	**2018**
Salaries	63 813	57 727
Social security tax	7 245	6 388
Pension costs - defined contribution plans	351	368
Contract labour	4 624	5 308
Cost of share-based payment	-327	-639
Other personnel costs	1 881	583
Total personnel expenses	**77 587**	**69 736**

	2019	**2018**
Full time equivalent employees as of 31.12.	66	62
Contract labor as of 31.12.	15	21
Total	**81**	**83**

Pensions

The Norwegian companies in the Group are obligated to keep an occupational pension scheme pursuant to the Norwegian Mandatory Occupational Pensions Act. The Group's pension scheme satisfies these requirements.

Contributions are paid to pension insurance plans and charged to the income statement in the period to which the contributions relate. Once the contributions have been paid, there are no further payment obligations.

Management and Board remuneration

Management remuneration

The former CEO of the Group was employed by ayfie Inc. in 2019 and was in 2019 entitled to regular employee benefits including health benefits as presented in the table below. There were no severance pay agreement.

NOK 1000

Remuneration to the CEO in 2019	Salary	Pension	Other remuneration	Total remuneration
Erik Baklid – former CEO	2 415	0	297	2 712

Erik Baklid left the Group 19 March 2020.

Executive Management employed by the Norwegian entities are included in the pension scheme described above.

At the end of the financial year, Executive Management held shares in the parent company. Reference is made to note 4.6 for disclosures on shareholdings.

Board remuneration

NOK 1000

Accrued remuneration to Board Members in 2019	Total remuneration
Board of Directors	300

The Board Members are not subject to agreements for severance pay, bonuses or profit-sharing.

At the end of the financial year, Members of the Board held shares in the parent company. Reference is made to note 4.6 for disclosures on shareholdings.

Note 2.3 – Operating expenses

NOK 1000

Other operating expenses	2019	2018
Sales and marketing	2 331	3 575
Professional services	4 620	6 972
Rental and leasing	494	6 403
IT	5 587	7 298
Travel	3 572	3 945
Losses on accounts receivables	1 696	1 640
Other operating expenses	2 346	2 032
Total other operating expenses	**20 645**	**31 864**

Audit fee

Auditor related fees	2019
Fees for audit	690
Fees for tax services in USA	320
Fees for other services*	109
Total remuneration to the auditor	**1 119**

*Incl. services related to debt/equity conversion in January 2019 and convertible loan in April 2019

Note 2.4 – Trade receivables

NOK 1000

Trade receivables	31.12.2019	31.12.2018
Trade receivables at nominal value	3 964	11 610
Expected credit loss	-1 034	-
Total trade receivables	**2 929**	**11 610**

As of 31 December, the ageing analysis of trade receivables is, as follows:

NOK 1000				Past due	
Ageing analysis	**Total**	**Not due**	**< 30 days**	**31-60 days**	**> 90 days**
Trade receivables 31.12.2018	11 610	7 416	1 376	2 783	35
Trade receivables 31.12.2019	2 929	1 461	1 123	270	75

For details regarding the Group's procedures on managing credit risk, reference is made to note 4.5.

Note 2.5 – Other current assets

NOK 1000

Other current assets	31.12.2019	31.12.2018
Pre-payments	8 523	1 852
Deposits	4 860	3 168
Other current assets	238	1 021
Total other current assets	**13 621**	**6 041**

Note 2.6 – Trade and other payables

NOK 1000

Trade and other payables	31.12.2019	31.12.2018
Trade payables	6 300	7 874
VAT payable	1 688	2 414
Withholding payroll taxes and social security	2 514	648
Total trade and other payables	**10 503**	**10 936**

Trade payables are non-interest bearing and are normally settled on 14-30 day terms. For an overview of the term date of trade and other payables, reference is made to note 4.2.

Notes 3 – Asset base

Note 3.1 – Property, plant and equipment

NOK 1000

Property, plant and equipment	**Fixtures and fittings, tools, office machinery etc.**	**Total**
Acquisition cost 01.01.2018	**1 354**	**1 354**
Additions	982	982
Disposals		
Currency translation effects		
Acquisition cost 31.12.2018	**2 336**	**2 336**
Additions	76	76
Disposals		
Currency translation effects		
Acquisition cost 31.12.2019	**2 412**	**2 412**
Accumulated depreciation and impairment 01.01.2018	**1 056**	**1 056**
Depreciation for the year	274	274
Currency translation effects		
Accumulated depreciation and impairment 31.12.2018	**1 330**	**1 330**
Depreciation for the year	381	381
Currency translation effects	-	-
Accumulated depreciation and impairment 31.12.2019	**1 711**	**1 711**
Carrying amount 31.12.2018	**1 006**	**1 006**
Carrying amount 31.12.2019	**701**	**701**

Economic life of 3-5 years
Depreciation plan: Straight line

Note 3.2 – Intangible assets

NOK 1000

Intangible assets	Acquired Technology	Other intangible assets	Total
Acquisition cost 01.01.18	14 111	1 016	15 126
Additions	-	5 576	5 576
Currency translation effects	-		
Acquisition cost 31.12.18	**14 111**	**6 592**	**20 703**
Additions	-	7 960	7 960
Currency translation effects	-	-	
Acquisition cost 31.12.19	**14 111**	**14 552**	**28 663**
Accumulated amortization & impairment 01.01.18	8 623	666	9 289
Amortization for the year	4 704	489	5 193
Currency translation effects	-		
Accumulated depreciation & impairment 31.12.18	**13 327**	**1 155**	**14 482**
Amortization for the year	784	5	789
Currency translation effects	-		-
Accumulated amortization & impairment 31.12.19	**14 111**	**1 160**	**15 271**
Carrying amount 31.12.2018	**784**	**5 437**	**6 221**
Carrying amount 31.12.2019	**-**	**13 392**	**13 392**
Economic life	3 years	3-5 years	
Amortization plan	Straight line	Straight line	

Acquired technology

The Group acquired Language Tools GmbH in March 2016. Management assessed the fair value of technology to NOK 14 256 thousand at the acquisition date. The economic useful life was estimated to 3 years as big data technical solutions are under continuous development.

Other intangible assets - research and development

The Group performs a range of research and development projects related to the Group's technology and solutions. Development work of NOK 7 960 was capitalized in 2019. Research and development expenses that were not capitalized are included in the consolidated statement of comprehensive income as personnel costs and other operating expenses.

Note 3.3 – Goodwill

Goodwill related to the acquisition of Language Tools GmbH in March 2016 was fully written off per 31 December 2019. The amortization was based on impairment testing at year-end 2019 and triggered by the weak performance in the US business.

Notes 4 – Capital, equity and finance

Note 4.1 – Financial instruments

The following tables shows the various financial assets and liabilities, grouped in the different categories of financial instruments according to IFRS 9:

31.12.2019	**Financial instruments at amortised cost**
Assets	
Trade receivables (Note 2.4)	2 929
Other current assets (Note 2.5)	13 621
Cash and cash equivalents (Note 4.3)	13 970
Total financial assets	30 520
Liabilities	
Current liabilities (note 6.1)	47 425
Non-current liabilities (Note 6.1)	119 389
Total financial liabilities	166 814

31.12.2018	**Financial instruments at amortised cost**
Assets	
Trade receivables (Note 2.4)	11 610
Other current assets (Note 2.5)	6 041
Cash and cash equivalents (Note 4.3)	2 236
Total financial assets	19 889
Liabilities	
Current liabilities (note 6.1)	52 689
Non-current liabilities (Note 6.1)	18 299
Total financial liabilities	70 988

Financial assets

Management assessed that the fair values of cash and cash equivalents, trade receivables and other current assets approximate their carrying amounts largely due to the short-term maturities of these instruments.

Financial liabilities

The fair values of the Group’s loans and borrowings are determined by using the DCF method using a discount rate that reflects the borrowing rate as at the end of the reporting period. The fair values of the Group's loans and borrowings are assessed to be in all material aspects similar to carrying amount.

Capital restrictions

The Group may not purpose to distribute dividends from ayfie Inc. until the liability to its previous shareholders is paid, represented in non-current liabilities to related parties. Reference to note 6.3 for additional disclosures.

Note 4.2 – Ageing of financial liabilities

31.12.2019	1 year	3-5 years	Over 5 years	Total
Current liabilities (Note 6.1)	47 425			47 425
Non-Current liabilities (Note 6.1)		117 745	1 644	119 389
Total	**47 425**	**117 745**	**1 644**	**166 814**

NOK 1000

31.12.2018	1 year	3-5 years	Over 5 years	Total
Current liabilities (Note 6.1)	52 689			52 689
Non-Current liabilities (Note 6.1)		16 655	1 644	18 299
Total	**52 689**	**16 655**	**1 644**	**70 988**

Note 4.3 – Cash and cash equivalents

NOK 1000

Cash and cash equivalents	31.12.2019	31.12.2018
Bank deposits, unrestricted	13 185	1 452
Bank deposits, restricted*	785	784
Total cash and cash equivalents	**13 970**	**2 236**

* Restricted bank deposits relate to cash for withholding taxes which may not be used for other purposes. Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Note 4.4 – Financial income and expenses

NOK 1000

Financial income and expenses	2019	2018
Financial income		
Interest income	232	92
Foreign exchange gains	1 115	
Other financial income		780
Total finance income	**1 348**	**872**
Financial expenses		
Foreign exchange losses	887	331
Other financial expenses	8 157	476
Total finance cost	**9 044**	**807**

Note 4.5 – Financial risk

The Group is exposed to various risks affecting its financial performance, mainly foreign exchange risk, liquidity risk and credit risk. The Group seeks to minimize potential adverse effects of such risks through sound business practices.

Foreign currency risk

The Group is exposed to currency risk as of the balance sheet date. Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

Foreign currency risk on financing

The Group has some of its financial liabilities denominated in foreign currency. There is an inherent risk that the liabilities to the Group may increase as a result of an appreciation of USD, while the Group's presentation currency is NOK. The liabilities are to a large extent to related parties and described in note 4.1, 4.2 and 6.3.

Foreign currency risk on operations

The Group's currency risk on operations is related to the Group's revenue and operating expenses in foreign currency. Employee benefit expenses and other operating expenses are mainly in NOK, USD, EUR and SEK, with sales incurring in the same four currencies respectively. ayfie aims to minimize the risk of changes in the value of net cash flows arising from foreign currencies.

The Group is also exposed to currency changes related to the carrying amounts of equity in foreign subsidiaries. Changes in the value of equity of foreign subsidiaries are partly offset by financial liabilities in the same currency.

The Group does not hedge foreign currency exposure with derivatives at the current time but monitors the net exposure and may choose to use financial derivatives to limit foreign currency risk in the future.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations associated with financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The future cash flow for the Group is constantly forecasted and owners or other investors are contacted if external financing is deemed necessary. Reference is made to note 4.2 for an overview of the maturity profile on the Group's financial liabilities

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and to a lesser degree from its cash deposits with banks in Norway, Germany and the US. For an overview of the ageing of trade receivables, reference is made to Note 2.4.

It is the management's opinion that there is no material credit risk connected to the Group's current assets.

Note 4.6 - Capital Management, equity debt and shareholders

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a healthy cash flow to cover ongoing operations and maximize shareholder's value over time.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or acquire debt. Within net debt, the Group includes interest bearing loans and borrowings, less unrestricted cash and cash deposits. Net debt is presented below;

NOK 1000

Net debt	31.12.2019	31.12.2018
Interest bearing loans and borrowings	102 802	15 580
Less: unrestricted cash and short-term deposits	-13 185	-1 452
Net debt	**-89 617**	**-14 128**

Issued capital:

Issued share capital	Number of shares	Nominal Value	Balance Sheet
31.12.2017	**55 182 575**	**2 759**	**2 759**
Issue of share capital 18.07.2018	92 899	2	2
Issue of share capital 20.08.2018	58 441	3	3
Issue of share capital 21.12.2018	4 295 452	215	215
3112.2018	**59 629 367**	**2 981**	**2 981**
Issue of share capital 08.02.2019	1 079 530	54	54
31.12.2019	**60 708 897**	**3 035**	**3 035**

Each share has a nominal value of NOK 0.05. All issued shares have equal voting rights and the right to receive dividend.

Dividend distribution to shareholders

The company has not paid dividends in 2019.

Ownership structure:

Shareholders as of 31 December 2019	Total shares	Ownership	Shareholding/Voting
Citibank, N.A. (nominee accounts)	6 824 672	11 %	11 %
MERTOUN CAPITAL AS	5 231 418	9 %	9 %
STAFF HOLDING AS	4 655 097	8 %	8 %
LANI INVEST AS	2 588 536	4 %	4 %
KARENSLYST ALLE 5 AS	2 380 000	4 %	4 %
LEIJO AS	2 327 440	4 %	4 %
JESSE INVEST AS	2 235 419	4 %	4 %
LAST INVEST AS	1 943 682	3 %	3 %
HÜBERT	1 896 282	3 %	3 %
HØYLANDET BYGGUTLEIE AS	1 527 728	3 %	3 %
TERSUS AS	1 370 433	2 %	2 %
CLEARSTREAM BANKING S.A. (nominee accounts)	1 367 208	2 %	2 %
TRANQUILLE INVESTMENTS LLC	1 232 560	2 %	2 %
WANI INVESTERING AS	1 220 719	2 %	2 %
JSQ AS	1 201 865	2 %	2 %
ARVARIUS AS	1 156 379	2 %	2 %
VESTLAND INVEST AS	1 155 000	2 %	2 %
EKER GROUP AS	1 140 068	2 %	2 %
KNARTEN HOLDING AS	1 000 236	2 %	2 %
LEIF HÜBERT AS	968 863	2 %	2 %
Other shareholders	17 285 291	28 %	28 %
Total	**60 708 896**	**100 %**	**100 %**

Reconciliation of equity is shown in the statement of changes in equity.

At the end of the financial year, members of the Board and executive employees held shares in the parent company, representing the following ownership:

Ownership interests held by Board Members and Executive Management:	Ownership
Board of Directors	10 %
Former CEO	2 %
Total	**12 %**

There were 4 127 469 warrants with a NOK 11.80 strike price and 3 425 333 warrants with a NOK 26.20 strike price 31 that lapsed 31 December 2019.

Note 4.7 – Performance share plan

ayfie Group AS has equity settled share option programs for employees in the Group. The program is an incentive program implemented in September 2017 and includes both Executive Management, Board of Directors and other employees in the Group. On average, the three option tranches vests in approximately 1, 2 and 3 years. Options granted expire approximately four years from the balance sheet date 31 December 2019. No options were called as of 31 December 2019.

The share option program has a strike price of NOK 6.5 per share. The convertible loan issued in April 2019 had initially a conversion price of NOK 3 per shares. In the private placement and subsequent offering in Q1 2020 the share price was set to NOK 0.1 per share. As a consequence of the pricing in the Q1 2020 share issues, the conversion price of the convertible loan was at the same time changed to NOK 0.1 per share. Based on the current pricing of the company that the reflects the company's financial status and performance, it is assumed that it is unlikely that options will be exercised. The company is therefore currently considering a new incentive program.

Notes 5 – Capital, equity and finance

Note 5.1 – Taxes

NOK 1000	**2019**	**2018**
Current income tax expense:		
Tax payable		-
Change deferred tax/deferred tax assets	212	-1 398
Total income tax expense	**212**	**-1 398**
Tax payable	**2019**	**2018**
Profit before taxes	**-111 683**	**-60 325**
Permanent differences*	40 628	57
Change in temporary differences	1 331	4 024
Tax basis	**-69 724**	**-54 245**
Current taxes according to statutory tax rate 22% (23% 2018)	0	0
Deferred tax liabilities/Assets	**31.12.2019**	**31.12.2018**
Property, plant and equipment	22	846
Other current assets	-2 079	-1 943
Other temporary differences	439	457
Losses carried forward (including tax credit)	-665 295	-601 350
Basis for deferred tax liabilities (assets):	**-666 914**	**-601 990**
Calculated deferred tax	-174 474	-129 061
- Deferred tax assets not recognized	174 584	129 404
Deferred tax liability in the balance sheet	**110**	**343**
Deferred tax asset in the balance sheet		

The Group's operations are subject to income tax in various foreign jurisdictions. The statutory income tax rates vary from 21 percent to 30 percent which results in a difference between the statutory income tax rate in Norway and the average tax rate applicable to the Group. The average tax rate for the Group's deferred tax assets are 21.4 percent and 21.4 percent for 2018. A reconciliation of the differences between the theoretical tax expense under the rate applicable in Norway and the actual tax expense is as follows:

Reconciliation of income tax expense	2019	2018
Profit before taxes	-111 683	-60 325
Expected tax expense (Norway tax rate)	-25 687	-13 875
Permanent differences[1]	8 938	12
Effects of foreign tax rates	24 570	942
Effects of changes in tax rate[2]	21 387	1 445
Effect of deferred tax asset not recognized	10 077	10 077
Recognized income tax expense	**19 286**	**-1 398**

[1] Permanent differences are related to Skattefunn, costs related grants and non-deductible costs.

[2] Norway changed the corporate tax rate from 23 percent to 22 percent in 2019 and from 24 percent to 23 percent in 2018.

The Group has NOK 665 295 thousand (NOK 601 350 thousand in 2018) of tax losses carried forward. These losses relate to companies that have a history of losses and may not be used to offset taxable income elsewhere in the Group. Of the tax losses carried forward NOK 183 440 thousand do not expire, while NOK 481 855 thousand related to losses in the US subsidiary begin to expire in 2030. The subsidiaries neither have any taxable temporary difference nor any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets. On this basis, the Group has determined that it cannot recognize deferred tax assets on the tax losses carried forward.

If the Group was able to recognize all unrecognized deferred tax assets as of the balance sheet date, equity would have increased by approximately NOK 174 584 thousand.

Notes 6 - Other disclosures

Note 6.1 – Provisions and other liabilities

NOK 1000

Current liabilities	**Note**	**31.12.2019**	**31.12.2018**
Contracted liabilities	4.1, 4.2	14 861	12 562
Salaries and other personnel related costs	4.1, 4.2	2 471	3 519
Other short-term liabilities	4.1, 4.2	19 598	1 911
Deferred purchase consideration (seller's credit)	4.1	10 495	16 744
Total Current liabilities		**47 425**	**34 736**
Non-Current liabilities		**31.12.2019**	**31.12.2018**
Convertible loan		102 803	
Deferred purchase consideration (seller's credit)[1]	4.1	6 543	7 499
Non-current lease liabilities		10 043	
Total Non-Current liabilities		**119 389**	**7 499**
Non-Current provisions		**31.12.2019**	**31.12.2018**
Share options	4.7		**657**
Total Non-Current provisions			**657**
Non-current provisions and liabilities		**31.12.2019**	**31.12.2018**
Total non-current provisions and liabilities		**119 389**	**657**

[1] Deferred purchase consideration relates to the acquisition of Language Tools GmbH in March 2016

In April 2019 ayfie raised a convertible loan of NOK 87.0 million to strengthen the Group's cash situation, and a short term shareholder loan of NOK 15.8 million was also converted into a convertible loan. The total convertible loan of NOK 102.8 million has 5 years maturity and bear an annual interest of 4.5% + 3 months NIBOR. The conversion price was set to NOK 3 per shares. However, as a consequence of the share increases in Q1 2020, the conversion rate was fixed at NOK 0.1 per share.

The convertible loan notes are tradable.

Note 6.2 – Commitments and contingencies

Lease commitments - Group as lessee

The Group has entered into lease agreements through its operations in Norway, Sweden, Germany and the US. The lease agreements mainly relate to office buildings. The terms of the agreements are between 3 months and 5 years. The Group has the right but not the obligation under some of its lease agreements, to lease the assets for additional terms of one to three years. The Group assesses at lease commencement, and subsequently when facts and circumstances which under the control of the Group require it, whether it is reasonably certain to exercise these options and reflects this in the lease term. The Group has estimated that the potential future lease payments, should it exercise these extension options, would result in an increase in lease liability of NOK 9.1 million. There are no restrictions placed upon the Group as a result of entering into these leases.

The Group has applied the recognition exemption for short term leases (lease term of 12 months and less) and leases of assets with low value.

Right-of-use assets	**Buildings**	**Total**
01.01.2019	18 726	**18 726**
Addition of right-of-use assets	991	**991**
Disposals	0	**0**
Transfers and reclassifications	0	**0**
Currency exchange differences	309	**309**
31.12.2019	**20 026**	**20 026**
Accumulated depreciation and impairment 01.01.2019		**0**
Depreciation	5 704	**5 704**
Accumulated depreciation and impairment 31.12.2019	**5 704**	**5704**
Carrying amount of right-of-use assets 31.12.2019	14 322	14 322

Lease liabilities

Undiscounted lease liabilities and maturity of cash outflows	**Total**
Less than 1 year	4 816
1-2 years	4 724
2-3 years	3 172
3-4 years	2 147
4-5 years	
More than 5 years	
Total undiscounted lease liabilities at 31.12.2019	14 859

Summary of the lease liabilities	**Total**
At initial application 01.01.2019	18 726
New lease liabilities recognised in the year	991
Cash payments for the principal portion of the lease liability	-6 526
Cash payments for the interest portion of the lease liability	
Interest expense on lease liabilities	1 385
Currency exchange differences	2 83
Total lease liabilities at 31.12.2019	**14 859**
Current lease liabilities	4 816
Non-current lease liabilities	10 043
Total cash outflows for leases	4 857

Assets pledged as security and guarantee liabilities

The Group has pledged assets in ayfie Inc. as security for its liabilities related to the seller's credit from the Language Tools GmbH acquisition in March 2016. Reference is made to note 6.3.

Contingent assets and liabilities

The Group has no contingent assets or liabilities that meet the criteria for disclosure.

Note 6.3 – Related party transactions

Related parties are shareholders, Board Members and Executive Management in the parent company and the Group subsidiaries. Note 1.1 provides information about the Group's structure, including details of the subsidiaries and the Parent company. The agreements on remuneration for Executive Management appear in note 2.2.

All transactions within the Group or with other related parties are based on the principle of arm's length.

The following table provides the total amount of transactions that have been entered into with related parties (outside the Group) for the relevant financial year:

NOK 1000

Related party transactions and balances for 2019	**Executive Management**	**Share-holders**	**Board of Directors**	**Total 2019**
Non-current liabilities to related parties 31.12.2019		6 543		**6 543**
Current liabilities to related parties 31.12.2019		10 495		**10 495**

NOK 1000

Related party transactions and balances for 2018	**Executive Management**	**Share-holders**	**Board of Directors**	**Total 2018**
Non-current liabilities to related parties 31.12.2018		17 298		**17 298**
Current liability to relates parties 31.12.2018		7 017		**7 017**

Non-current liabilities to related parties at 31 December 2019 are seller's credit of NOK 4 899 thousand from the acquisition of Language Tools GmbH in March 2016 due in March 2021 and debt in ayfie Inc. of NOK 1 644 thousand to a set of existing or former shareholders dating back to 2014 when ayfie Inc. was the parent company of the Group. The latter loan, that was reduced by NOK 7 017 thousand in 2019 through a debt/equity conversion, will be payable only when the Board of ayfie Inc. decides to pay a dividend. As there is currently no intention to make dividend payments from ayfie Inc., the liability is classified as a non-current liability.

Current liabilities as of 31 December 2019 is seller's credit in from the acquisition of Language Tools GmbH in March 2016, NOK 5 679 thousand due in April 2020 and NOK 4 816 thousand due in November 2020.

Note 6.4 – Events after the reporting period

NOK 54.9 million was raised in Q1 2020 through share issues at NOK 0.1 per share, NOK 50.0 million in February in a private placement and NOK 4.9 million in a subsequent offering in March 2020. Net proceeds from the combined capital amounted to NOK 52.0 million.

On 24 February 2020 an extraordinary shareholder meeting elected a new board:

- Lars Boilesen, chairman
- Jostein Devold
- Martin Nes
- Lars Nilsen
- Jan Chr. Opsahl
- Øystein Stray Spetalen

On 19 March 2020 the board terminated Erik Baklid's employment as CEO with immediate effect. The Group's CTO Johannes Stiehler was appointed acting CEO.

On 19 March 2020 the board initiated a reorganization of the company, and several restructuring measures were implemented to ensure cost reductions and improved cash flows.

The outbreak of the corona-virus disease (COVID-19) has had a global impact on health and economic activities. For the time being, ayfie is essentially operating as normal, although the majority of employees have been working from home since mid-March 2020. However, the lock-down situation is impacting the reorganizational processes as well as sales activities. It is currently too early to assess the mid-term and long-term effects of the COVID-19.

Financial Statements Parent Company

Statement of comprehensive income parent company

For the years ended 31 December

Amounts in NOK 1000	**Notes**	2019	2018
Revenue and other operating income			
Revenue		1 471	
Total revenue and other operating income		**1 471**	
Cost of sales			
Cost of Sales		0	
Gross Profits		**1 471**	
Operating Expenses			
Personnel expenses	3,4	3 810	3 414
Other operating expenses	5.1	5 494	26 143
Depreciation and amortization		100	
Total operating expenses		**9 404**	**29 557**
Operating profit or loss		**-7 933**	**-29 557**
Finance income and costs			
Income on investment in subsidiaries		3 792	1 880
Interest income from Group companies		6 686	2 297
Other finance income	5.2	1 245	3 992
Interest paid to Group companies		464	107
Other finance expenses	5.2	167 718	648
Profit or loss before tax		**-164 392**	**-22 143**
Income tax expense	6		
Net loss for the year		**-164 392**	**-22 143**
Allocated as follows			
Transferred from other equity		**164 392**	**-22 143**

Statement of financial position parent company

Amounts in NOK 1000	Notes	31.12.2019	31.12.2018
ASSETS			
Intangible assets	7		
ayfie technology		13 384	5 423
ERP system		200	299
Total intangible assets		**13 584**	**5 722**
Financial assets			
Investment in subsidiaries	9	8 341	8 341
Loan to Group companies	8	0	98 423
Total financial assets		**8 341**	**106 764**
Total non-current assets		**21 925**	**112 486**
Current assets			
Trade receivables	8		932
Other current assets		5 904	127
Receivables in Subsidiaries	8	6 279	1 880
Cash and cash equivalents	2	2 176	290
Total current assets		**14 360**	**3 229**
TOTAL ASSETS		**36 285**	**116 015**
EQUITY AND LIABILITIES			
Equity			
Issued share capital	11	3 035	2 981
Share premium		161 220	154 257
Other capital reserves		1 490	1 490
Other equity		-256 209	-91 817
Total equity		**-90 464**	**66 911**
Non-current liabilities			
Liabilities to subsidiaries		9 957	5 810
Other non-current provisions and liabilities	12	102 803	0
Total non-current liabilities		**112 760**	**5 810**
Current liabilities			
Trade and other payables		3 307	25 854
Current liabilities to related parties		7 125	254
Other current liabilities	10	3 557	17 187
Total current liabilities		**13 989**	**42 294**
Total liabilities		**126 749**	**49 105**
TOTAL EQUITY AND LIABILITIES		**36 285**	**116 015**

Oslo, 25 May 2020
The Board and CEO of ayfie Group AS

Sign.	Sign.
Lars Boilesen Chairman	Jostein Devold Board member
Sign.	Sign.
Martin Nes Board member	Lars Nilsen Board member
Sign.	Sign.
Jan Opsahl Board member	Øystein Stray Spetalen Board member
Sign.	
Johannes Stiehler Acting chief executive officer	

Notes to the financial statements - Parent company

Note 1 - Accounting Principles

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles for small enterprises.

Subsidiaries

Subsidiaries is valued by the cost method in the company accounts. The investment is valued as cost of acquiring shares in the subsidiary, providing that write down is not required. Write down to fair value will be carried out if the reduction in value is caused by circumstances which may not be regarded as incidental and deemed necessary by generally accepted accounting principles. Write-downs are reversed when the cause of the initial write-downs are no longer present.

Dividends and other distributions are recognized in the same year as appropriated in the subsidiary accounts. If dividends exceed withheld profits after acquisition, the exceeding amount represents reimbursement of invested capital, and the distribution will be subtracted from the value of the acquisition in the balance sheet.

Balance sheet classification

Net current assets comprise creditors due within one year, and entries related to goods circulation. Other entries are classified as fixed assets and/or long-term creditors.

Current assets are valued at the lower of acquisition cost and fair value. Short term creditors are recognized at nominal value.

Fixed assets are valued by the cost of acquisition, in the case of non-incidental reduction in value the asset will be written down to the fair value amount. Long term creditors are recognized at nominal value.

Foreign currency translation

Foreign currency transactions are translated using the year end exchange rates.

Pensions

The pension contributions are charged to expenses as they are incurred.

Income tax

Tax expenses in the profit and loss account comprise both tax payable for the accounting period and changes in deferred tax. Deferred tax is calculated at 22 percent on the basis of existing temporary differences between accounting profit and taxable profit together with tax deductible deficits at the year end. Temporary differences, both positive and negative, are balanced out within the same period. Deferred tax assets are recorded in the balance sheet to the extent it is more likely than not that the tax assets will be utilized.

To the extent Group contribution is not registered in the profit and loss, the tax effect of Group contribution is posted directly against the investment in the balance.

Share based payment

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments. This program is measured at fair value at the date of the grant. The estimated cost at the grant date is recorded as a capital investment in its subsidiaries and directly against equity over the vesting period. This estimate is based on the Company's assumptions of when and if the shares vest, adjusted for the effect of non-market based vesting conditions. The fair value share-based program is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

Intangible assets

For assessment of intangible assets, reference is made to note 1.3 in the consolidated financial statements.

Note 2 - Bank deposit

The company have the following restricted cash:

NOK 1000

Restricted cash	2019	2018
Withholding tax account	169	149
Deposit	300	300
Total restricted cash	**469**	**449**

Note 3 - Personnel expenses and auditor fee

NOK 1000

Personnel expenses	2019	2018
Salaries[1]	3 416	2 915
Social security tax	166	403
Pension costs - defined contribution plans	126	92
Other personnel costs	102	4
Total personnel expenses	**3810**	**3 414**
Full time equivalent employees as of 31.12.2019	3	2

[1] Including board compensation. Reference is made to note 2.2 in the consolidated financial statements.

Personnel costs was adjusted for reduced social security costs related to the share option program NOK 331 thousand.

Benefits to the CEO

The CEO of ayfie Group AS was in 2019 employed by ayfie Inc. For specification on remuneration and other benefits, reference is made to note 2.2 in the consolidated financial statements.

Audit Fee

NOK 1000

Auditor related fees	2019
Fees for audit[1]	521
Fees for other services[2]	71
Total remuneration to the auditor	592

[1] Including audit of the subsidiaries ayfie Inc. and ayfie GmbH.
[2] Including services related to debt/equity conversion in January 2019 and convertible loan in April 2019

Note 4 – Pensions

The Company is required to have an occupational pension scheme in accordance with Norwegian legislation ("Lov om Obligatorisk Tjenestepensjon"). The Company's pension arrangements fulfil the requirements of this legislation.

Note 5.1 – Other operating expenses

NOK 1000

Other operating expenses	2019	2018
Professional services	850	2 049
IT expenses	3 084	20 699
Other operating expenses	1 560	3 395
Total other operating expenses	**5 494**	**26 143**

Note 5.2 – Financial income and expenses

NOK 1000

Financial income and expenses	2019	2018
Financial income		
Income on Investment in subsidiaries	3 792	1 880
Interest income from Group companies	6 686	2 297
Interest income	196	6
Foreign exchange gains	1 049	3 986
Total finance income	**11 723**	**8 169**
Financial expenses		
Interest paid to Group companies	464	107
Foreign exchange losses	0	424
Interest	5078	220
Write-down of loan to subsidiaries	161 678	
Other financial expenses	963	4
Total finance cost	**168 183**	**755**

Note 6 – Taxes

NOK 1000

Tax base estimation	2019	2018
Ordinary result before tax	-164 392	-21 143
Permanent differences	157 889	-1 880
Transaction costs posts to equity	-	-
Change in temporary differences	37	-90
Tax base	**-6 466**	**-23 113**

Temporary differences outlines	2019	2018
Fixed assets	37	90
Net losses carried forward	-38 095	-31 592
Total after net losses carried forward	-38 058	-31 503
Differences not included in deferred tax base	-38 058	-31 503
Total	**-**	**-**
Calculated deferred tax	-8 380	-5 423
Deferred tax assets not recognized	8 380	5 423
Deferred tax asset (-) / Liability (+)	**-**	**-**

Note 7 – Intangible assets

NOK 1000

Intangible assets	Acquired Technology	Other intangible assets	Total
Acquisition cost 01.01.18			
Additions	5 423	299	5 576
Acquisition cost 31.12.18	**5 423**	**299**	**5 722**
Additions	7 961		7 961
Acquisition cost 31.12.19	**13 384**	**299**	**13 583**
Accumulated amortization & impairment 01.01.18			
Amortization for the year			
Accumulated depreciation & impairment 31.12.18			
Amortization for the year		100	100
Accumulated amortization & impairment 31.12.19		**100**	**100**
Carrying amount 31.12.2018	**5 722**	**299**	**5 576**
Carrying amount 31.12.2019	**13 384**	**199**	**13 483**
Economic life	3 years	3-5 years	
Amortization plan	Straight line	Straight line	

Intangible assets consist of external research and development costs from the development of ayfie products.

All internal research and development are recorded as costs.

Note 8 – Related party transactions

For information on related party transactions for the Group, reference is made to note 6.3 in the consolidated financial statements.

NOK 1000

Related party transactions and balances	2019	2018
Intercompany loans	0	98 423
Dividend from ayfie AB	3 792	1 880
Other receivables	2 487	932
Total	**6 2796**	**101 235**
Intercompany loans payable		
Total	**9 957**	**5 810**

Note 9 – Investment in subsidiaries

NOK 1000

Company and location	Acquisition date	Ownership share/ Voting rights	Net profit 2019	Equity 31.12.19	Book value 31.12.19
ayfie AS (Norway)	01.03.2017	100 %	2 594	6 137	372
ayfie Inc. (USA)	20.02.2017	100 %	- 87 305	-131 255	935
ayfie AB (Sweden)	08.03.2018	100 %	96	47	7 034
ayfie GmbH (Germany)[1]			-31 199	-45 154	
Total			**-116 828**	**-170 255**	**8 341**

[1] ayfie Inc. owns all shares in ayfie GmbH

Note 10 – Other short-term liabilities

NOK 1000

Other short-term liabilities	2019	2018
Shareholder loan	0	15 588
Other short-term liabilities	3 557	1 599
Total other short-term liabilities	**3 557**	**17 187**

Note 11 - Equity and shareholders

	Issued share capital	Share premium	Other capital reserves	Retained earnings	Total equity
Opening balance 01.01.2018	**2 759**	**124 475**	**1 490**	**-69 675**	**59 049**
Loss for the year				-22 143	-22 143
Issue of shares	222	29 782			30 004
Balance as of 31 December 2018	**2 981**	**154 257**	**1 490**	**-91 817**	**66 911**

	Issued share capital	Share premium	Other capital reserves	Retained earnings	Total equity
Opening balance 01.01.2019	**2 981**	**154 257**	**1 490**	**-91 817**	**66 911**
Loss for the year				-164 392	-164 392
Conversion of shareholder loan	54	6 963			7 017
Balance as of 31 December 2019	**3 035**	**161 220**	**1 490**	**-256 209**	**-90 464**

Reference is made to note 4.6 in the consolidated financial statements for information on the Company's share capital and shareholders including Executive Management and the Board's equity interests.

Note 12 - Convertible loan

Reference is made to note 6.1 in the consolidated financial statements.

Note 13 – Events after the reporting period

NOK 54.9 million was raised in Q1 2020 through share issues at NOK 0.1 per share, NOK 50.0 million in February in a private placement and NOK 4.9 million in a subsequent offering in March 2020. Net proceeds from the combined capital increases ? amounted to NOK 52.0 million.

On 24 February 2020 an extraordinary shareholder meeting elected a new board:

- Lars Boilesen, chairman
- Jostein Devold
- Martin Nes
- Lars Nilsen
- Jan Chr. Opsahl
- Øystein Stray Spetalen

On 19 March 2020 the board terminated Erik Baklid's employment as CEO with immediate effect. The Group's CTO Johannes Stiehler was appointed acting CEO.

Reference is made to note 6.4 in the consolidated financial statements.

Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6A, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of ayfie Group AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of ayfie Group AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2019 and the income statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2019, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2019, and of its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards 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 and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, 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 other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, 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, 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 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 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 in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment 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 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 content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 25 May 2020
ERNST & YOUNG AS

The auditor's report is signed electronically

Tore Sørlie
State Authorised Public Accountant (Norway)

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Tore Sørlie
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Contact

CFO Siw Ødegaard

ayfie Group AS
Karenslyst Allé 49 · 0279 Oslo · Norway

Mobile: +47 95 75 98 48
Mail: siw.odegaard@ayfie.com
Web: www.ayfie.com