ellipticlabs

INNER BEAUTY®

ANNUAL REPORT 2018

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Director’s report

Highlights and product development
Elliptic Labs is the leader in virtual smart sensors for the smartphone and “Internet of Things” (IoT) market. Our technology combines Artificial Intelligence (AI) with input from existing device sensors, which are augmented using our proprietary signal processing algorithms. The results are robust, software-only sensors that achieve levels of functionality and performance no ordinary hardware sensor can. Our virtual smart sensor platform has the potential to deprecate the need for billions of hardware sensors, while providing even more features than the original, such as enabling bezel-less design, intuitive 3D touchless gesture recognition, and full-room presence sensing.

2018 was an enthusing year for Elliptic Labs, characterized by a high level of activity and strong interest for its products. The bezel-less trend, where manufacturers trim the edges around a smartphone, continues and has a broader market adoption. This trend follows a general smartphone technology adoption trend, in which a new technology is initially adopted on high-end smartphones (above USD 400) during year 1 (2017), then on mid-end smartphones (USD 200-400) during years 2 (2018) and 3 (2019), and finally on low-end smartphones (below USD 200) during years 4 (2020) to 6 (2022). During 2018, Xiaomi expanded its usage of INNER BEAUTY, enabled by Elliptic Labs, not just for its high-end product but also for one of their mid-end products. Smartisan, a Chinese smartphone manufacturer, launched on a mid-end phone with INNER BEAUTY. The adoption of our technology on these mid-end devices generated interest from a broader market, so much that at the end 2018 Elliptic Labs signed its first paid evaluation contract with one of the top three phone manufacturers in the world.

We see that, due to decline in smartphone shipments during 2018, the only way for smartphone manufacturers to expand their market share is to capture it from their competition. This increases pressure on smartphone manufacturers to innovate while reducing costs. Due to its expansion into the larger-volume mid-end phone segment, Elliptic Labs, provides a significant cost-reduction case to OEMs. This, combined with the ability to deliver innovation, are foundations for solid growth going forward. The global gesture recognition market size is likely to reach USD 30.6 billion by 2025. It is poised to post a CAGR of 22.2% from 2018 to 2025.

In addition to the company’s focus in China, it increased its sales and customer support activities in Japan, US, and South Korea. Samsung (South Korea) and Apple (California, USA) have a combined market share of over 35% in smartphone shipments for 2018, and both have a significant IoT product portfolio. In 2019 and 2020, Elliptic Labs looks to expand its product deliveries into one of the top three leading companies, while expanding into IoT products.

Compared to smartphones, the IoT market is much more fragmented. To gain a foothold in this market, Elliptic Labs will focus on areas where current and new customers have their own IoT products and where they are expecting to see future growth, such as smart speakers, vacuum cleaners and appliances. To support a fragmented market, the company will continue to improve its virtual smart sensor platform by automating and optimizing its machine learning development process. The primary benefit of the process is to minimize the need for engineering support during software delivery. In 2018, Elliptic Labs was awarded a 20M NOK SME2 Horizon 2020 grant to enhance its machine learning platform, for the purpose of opening up fragmented markets and allowing delivery of custom virtual sensors with minimal direct involvement from the engineering staff.

3D interaction possibilities and opportunities for detecting movements around IoT and robot devices are expected to eventually lead to significant growth opportunities for Elliptic Labs, in parallel with the mobile phone market. The touchless sensing market is expected to be worth about USD 15.3 billion by 2022, growing at a CAGR of about 17.4% between 2017 and 2022. It is important to note that it is the same Elliptic Labs software that contributes to both mega markets.

In 2018, Elliptic Labs announced partnerships with industry leaders, such as AAC Technologies and Solomon Systech.

Elliptic Labs has continued to submit new patent applications for inventions and applications of the technology. The business has been run from the headquarter in Oslo, through a wholly owned subsidiary, Elliptic Laboratories Inc. in San Francisco, USA, and an office located in Shanghai in China, which also covers the company’s activities in Shenzhen and Beijing. Elliptic Labs also has a customer support and sales presence in Suwon, South Korea and Shiba, Japan.

Financial summary for the Group

Comparable amounts for 2017 are presented in brackets.

Operating revenue

Consolidated operating revenue for 2018 totalled NOK 43 612 thousand (NOK 13 649 thousand).

Operating costs

Operating costs totalled NOK 76 186 thousand (NOK 56 559 thousand). Personnel expenses accounted for NOK 46 965 thousand (NOK 39 904 thousand).

Operating profit/loss

The Group generated an operating loss of NOK 32 573 thousand in 2018 (NOK 42 910 thousand).

Financial items

Net financial expenses amounted to NOK 663 thousand (NOK 570 thousand).

Profit/loss

The loss before tax was NOK 33 236 thousand (NOK 43 480 thousand). Income tax expense was NOK -5 116 thousand (NOK -9 231 thousand), resulting in a loss of NOK 28 121 thousand (NOK 34 249 thousand). The annual deficit was fully covered by transfer to other equity.

Cash flow

The cash flow from operating activities was NOK -35 158 thousand (NOK -38 869 thousand). Cash flow from investments were NOK -8 739 thousand (NOK -1 370 thousand), and cash flow from financing was NOK 23 239 thousand (NOK 46 938 thousand). Cash and cash equivalents at year end 2018 were NOK 16 624 thousand (NOK 37 340 thousand).

Financing and debt

The Group's equity was NOK 47 398 thousand at the end of 2018 (NOK 71 858 thousand). The Group had total loans of NOK 18 million to Innovation Norway at the end of 2018 (NOK 18 milion).

Elliptic Labs established an overdraft credit facility of NOK 25 million with Pareto Bank in June 2018.

Due to the establishment of the overdraft credit facility, which is classified as a short-term liability, the Group was in breach with the financing covenants of the Innovasjon Norge loan facility as at 31.12.18. As a consequence this loan has also been reclassified from long-term to short-term in the balance sheet and related notes per the same date. Management is in continuous dialogue with Innovasjon Norge and although a covenant waiver is not in place at the date of signing the financial statements, the Group does not expect to have to repay the debt earlier than what has been agreed. If however, Innovasjon Norge were to recall the loan, the Board expects to be able to raise alternative funds through alternative financing or issue of shares within a sufficiently short time frame.

Financial summary for the parent company, Elliptic Laboratories AS

Operating revenues from Elliptic Laboratories AS, the parent company, amounted to NOK 43 612 thousand (NOK 13 649 thousand), and the operating loss was NOK 35 614 thousand (NOK 42 902 thousand**).** The net loss for the year was NOK 30 128 thousand (NOK 34 314 thousand). The equity of the parent company amounted to NOK 46 435 thousand (NOK 72 845 thousand) and the Board proposes to allocate and transfer the loss of NOK 30 128 thousand to retained earnings.

Risk factors

This annual report includes forward-looking statements that reflect the Group's current views with respect to future events and financial and operational performance. The historical financial statements of the Group may differ materially from the actual outcome of such forward-looking statements.

These forward-looking statements are not historical facts. They are not guarantees of any future performance, the Group's actual financial position, or operating results and liquidity. The development of the industry in which the Group operates, may differ materially from those made in, or suggested by, the forward-looking statements.

Financial risk

Most of the financial risk that Elliptic Labs is exposed to relates to currency risk. Both revenues and operating expenses are exposed to foreign exchange rate fluctuations, especially in US dollars as a significant part of revenues are in this currency. The Group did not enter into any contracts or other agreements in 2018 to reduce its currency risk and thus its operational market risk.

Liquidity risk

The Board of Directors considers Elliptic Labs' liquidity to be acceptable.

Credit risk

The risk of losses on receivables is considered low due to highly reputable customers. Nevertheless, if customers were to fail, refuse to pay or delay payment, or if a customer becomes insolvent or goes bankrupt, or if the Group's customers terminate their contracts with the Group, there is a risk that the Group's business, results of operations and financial position and future prospect could be negatively affected.

The Group has accounted for a provision for losses equal to MNOK 9 for 2018. The Group consider this to be a loss.

Competition

Elliptic Labs operates within a highly competitive sector with some of the largest technology companies in the world. Many of these companies have significantly more financial resources and headcount than Elliptic Labs. However, Elliptic Labs will be able to successfully expand its business by innovating faster, execute cross-functional collaboration and being closer to customers than many of its competitors and by focusing on its core strengths, which are to deliver customer-driven innovative solutions based on deep expertise and great technology.

Going concern

In accordance with the Accounting Act § 3-3a, we confirm that the financial statements have been prepared under the assumption of going concern. This assumption is based on profit forecasts for the year 2019 and the Group's long-term strategic forecasts. The Group's economic and financial position is sound.

Health, safety and environment

The working environment has been good in 2018 and it has not been necessary to implement improvement measures.

There have been no injuries or accidents in 2018. Elliptic Labs had 1.2% absence due to sick leave in 2018. There has not been implemented or planned to undertake concrete measures to improve gender equality in Elliptic Labs. The company has approximately 60% male employees, and 40% female employees.

Elliptic Labs provides green solutions. By using ultrasound sensors, Elliptic Labs disrupt traditional approaches and makes intuitive, sustainable and eco-friendy experiences possible.

Future outlook

The Board of Directors remains positive about Elliptic Labs' growth prospects, given its success in three areas. First, the company proved its ability to deliver new functionality on devices without any hardware modification. A key factor to this is the establishment of quality control procedures during manufacturing, which are unique to ultrasound and therefore difficult for others to replicate.

Secondly, the IoT market is broadening and the need for presence- and gesture-sensing technology is increasing. Devices that already include speakers, such as smart speakers, look to deliver full-room presence sensing, while other devices, such as air conditioning units, look to replace obtrusive and inefficient optical sensors with ultrasound. This interest is felt through co-development initiatives with system integrators in Asia.

Thirdly, Elliptic Labs has proven its ability to launch new products rapidly, thanks to the development of its proprietary state-of-the-art Machine Learning infrastructure. This infrastructure provides Elliptic Labs a substantial lead in the software-only virtual sensor market.

Elliptic Labs´ foundation for growth is further strengthened by the company's patent portfolio, covering these three areas.

Oslo, 21 June 2019
The Board of Directors of Elliptic Laboratories AS

Tore Engebretsen
Chairman

Edvin Austbø
Board Member

Einar J. Greve
Board Member

Svenn-Tore Larsen
Board Member

Laila B. Danielsen
CEO

1 Consolidated financial statements

Consolidated statement of comprehensive income

For the financial period ended 31 December 2018 and 2017.

(Amounts in NOK)	Notes	2018	2017
Revenues		41 580 757	10 694 767
Other operating income		2 031 597	2 954 688
Total revenue	2	**43 612 354**	**13 649 455**
Cost of goods sold		0	-1 299 698
Personnel expenses	11	-46 964 974	-39 904 223
Other operating expenses	4	-27 105 463	-13 420 496
Depreciation, amortisation and impairment	7	-2 115 328	-1 934 756
Total operating costs		**-76 185 766**	**-56 559 172**
Operating profit		**-32 573 412**	**-42 909 717**
Financial income	5	2 180 815	519 835
Total financial income		**2 180 815**	**519 835**
Financial expenses	5	-2 843 832	-1 090 193
Total financial expenses		**-2 843 832**	**-1 090 193**
Profit/(loss) before tax		**-33 236 429**	**-43 480 076**
Income tax expense	6	-5 115 807	-9 231 269
Profit/(loss) for the period		**-28 120 622**	**-34 248 808**
Other comprehensive income:			
Foreign currency changes, may be reclassified to profit or loss		-57 755	-139 019
Other comprehensive income, net of tax		**-57 755**	**-139 019**
Total comprehensive income for the period		**-28 178 376**	**-34 387 827**
Loss for the period is attributable to:			
Equity holders of the parent company		**-28 178 376**	**-34 387 827**
Non-controlling interests		0	0
Profit/(loss) per share		-3.29	-4.06

Consolidated statement of financial position

At 31 December 2018 and 2017, respectively.

(Amounts in NOK)	Notes	31.12.2018	31.12.2017
Non-current assets			
Deferred tax assets	6	52 951 662	46 700 542
Intangible assets	7	9 848 375	3 224 575
Other non-current receivables		2 132 711	1 058 640
Total non-current assets		**64 932 748**	**50 983 758**
Current assets			
Accounts receivable	9	14 770 450	3 124 037
Other current receivables		5 914 235	7 001 077
Cash and cash equivalents	10	16 623 538	37 339 583
Total current assets		**37 308 223**	**47 464 697**
Total assets		**102 240 971**	**98 448 455**
Equity and liabilities			
Share capital	13	856 401	856 401
Other equity		46 541 515	71 001 661
Total equity		**47 397 915**	**71 858 062**
Bank borrowings, long-term	14	0	14 000 000
Total long-term liabilities		**0**	**14 000 000**
Bank borrowings, short-term	14	43 007 165	4 000 000
Trade and other payables		2 527 440	1 099 517
Tax payable		1 079 936	325 071
Accrued public taxes		1 964 709	1 814 250
Other short-term liabilities	17	6 263 806	5 351 555
Total current liabilities		**54 843 056**	**12 590 393**
Total equity and liabilities		**102 240 971**	**98 448 455**

Oslo, 21 June 2019
The Board of Directors of Elliptic Laboratories AS

Tore Engebretsen
Chairman

Edvin Austbø
Board Member

Einar J. Greve
Board Member

Svenn-Tore Larsen
Board Member

Laila B. Danielsen
CEO

Consolidated statement of changes in equity

Attributable to owners of Elliptic Laboratories AS.

2018 *(Amounts in NOK)*	**Share capital and premium**	**Own shares**	**Paid-in equity**	**Other Equity**	**Foreign currency rate differences**	**Total equity**
Shareholders' equity at 01.01.2018	**856 401**	**0**	**2 495 930**	**68 704 773**	**-199 042**	**71 858 062**
Profit (loss) for the period	0	0	0	-28 120 622	0	-28 120 622
Other comprehensive income for the period	0	0	0	0	-57 755	-57 755
Total comprehensive income for the period	**0**	**0**	**0**	**-28 120 622**	**-57 755**	**-28 178 376**
Transactions with owners:						
Share issue	0	0	0	0	0	0
Capital increase through issuance of ordinary shares	0	0	0	0	0	0
Employee share schemes	0	0	3 718 230	0	0	3 718 230
Shareholders' equity at 31.12.2018	**856 401**	**0**	**6 214 160**	**40 584 151**	**-256 797**	**47 397 915**

2017 *(Amounts in NOK)*	**Share capital and premium**	**Own shares**	**Paid-in equity**	**Other Equity**	**Foreign currency rate differences**	**Total Equity**
Shareholders' equity at 01.01.2017	**838 889**	**-7 488**	**320 386**	**52 978 580**	**-60 023**	**54 070 344**
Profit (loss) for the period	0	0	0	-34 248 808	0	-34 248 808
Other comprehensive income for the period	0	0	0	0	-139 019	-139 019
Total comprehensive income for the period	**0**	**0**	**0**	**-34 248 808**	**-139 019**	**-34 387 727**
Transactions with owners:						
Share issue	17 511	7 488	0	49 975 000	0	50 000 000
Capital increase through issuance of ordinary shares	0	0	0	0	0	0
Employee share schemes	0	0	2 175 544	0	0	2 175 544
Shareholders' equity at 31.12.2017	**856 401**	**0**	**2 495 930**	**68 704 733**	**-199 042**	**71 858 062**

Consolidated cash flow statement

For the financial period ended 31 December 2018 and 2017.

(Amounts in NOK)	Notes	2018	2017
Cash flow from operating activities:			
Profit/(loss) before tax		-33 236 429	-43 480 076
Adjustment for:			
Taxed paid in the period		-380 447	0
Depreciation and impairment	7	2 115 328	1 934 756
Option based payments	12	3 718 230	2 175 544
Items classified as financing activities	5	1 768 309	1 061 651
Change in accounts receivable		-10 559 571	-1 827 197
Change in trade payables		1 427 923	-1 276 762
Change in other accruals		-11 361	2 542 596
Net cash flow from operations		**-35 158 019**	**-38 869 489**
Cash flow from investments:			
Purchase of fixed assets	7	-8 739 127	-1 370 373
Net cash flow from investments		**-8 739 127**	**-1 370 373**
Cash flow from financing:			
Repayments bank borrowings		0	-2 000 000
Bank borrowings, short-term	14	25 007 165	0
Paid in capital from owners		0	50 000 000
Purchases of own shares		0	0
Interests bank borrowings	5	-1 768 309	-1 061 651
Net cash flow from financing		**23 238 856**	**46 938 349**
Net Change in Cash and Cash Equivalents		**-20 658 290**	**6 698 487**
Cash and cash equivalents at the beginning of the period		37 339 583	30 780 115
Effect of foreign currency rate changes on cash and cash Equivalents		-57 755	-139 019
Cash and cash equivalents at the end of period		**16 623 538**	**37 339 583**

2 Notes to the consolidated financial accounts

Note 1 – Accounting principles

2.1 General information

Elliptic Laboratories AS and its subsidiaries (together "Elliptic Labs" or the "Group") develop and sell technical solutions, which enable the interaction and information exchanges between individuals and technical devices, based on ultrasound software technology. Such devices are mobile phones, devices within the IoT-market and various other devices that could deploy the Group's software technology to enhance the user experience. Investments in and cooperation with other companies are also part of the Group's purpose.

The domicile of the Group is Oslo, Norway. Group's head office is at Akersgata 32, 0180 Oslo.

2.2 Summary of significant accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) as required for financial years beginning 1 January 2018.

The consolidated financial statements have been prepared under the historical cost convention, as modified by derivatives at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

These consolidated financial statements have been prepared under the assumption of a going concern.

2.2.2 Consolidation

Subsidiaries are all entities over which the Group has control. Control of an entity occurs when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the day on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting principles.

2.2.3 Foreign currency translation

a) Functional and presentation currency

Items included in the financial statements of the individual entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the Group's presentation currency.

b) Transactions and balance sheet items

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in

foreign currencies are recognised in profit or loss.
Currency gains and losses related to loans, cash and cash equivalents are presented (net) as financial income or financial expenses. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss within net (gain)/loss.

c) Group companies

The results and balances of all the Group entities (none of them with hyperinflation) that have functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
2. income and expenses for each income statement are translated at average exchange rate; and
3. all resulting exchange differences are recognised in the consolidated statement of other comprehensive income.

d) Other foreign currency translation

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

2.2.4 Share-based payments

Share-based compensation benefits are provided to employees via the share option plan. Information relating to the options scheme is set out in note 12.

Employee options

The fair value of options granted under the share option plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself.

2.2.5 Operating revenues

The group has applied IFRS 15 Revenue from Contracts with Customers, as issued in May 2014, since 2017.
Revenue from providing services is recognised in the accounting period in which the services are rendered.
Revenue from licenses which give a right to use is recognised at point in time and licenses which give a right to access is recognised over time. Royalty based revenue is recognised as sales occur when exceeding the minimum fixed fee.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost.

Some contracts include multiple deliverables, such as the license for the IP and subsequent royalties for units sold. It is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Elliptic Laboratories exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes a royalty for mobil devices sold, revenue is recognised in the amount to which Elliptic Laboratories has a right to invoice.

2.2.6 Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. When assets are sold or disposed of, the carrying value of the accounts and any gain or loss is recognized.

The cost of fixed assets is the purchase price including taxes and expenses directly attributable to preparing the asset for use. Expenditures incurred after the asset has been put into operation, such as ongoing maintenance, are expensed, while other expenses that are expected to generate future economic benefits are capitalized.

Depreciation is recognized on a straight-line basis to write down the cost less estimated residual value of buildings and equipment.

Material residual value estimates and estimates of useful life are updated as required, but at least annually. Gains or losses arising from the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the income statement within other income or other operating expenses.

2.2.7 Intangible assets

Acquired intangible assets are capitalized on the basis of the costs incurred to acquire and put the asset into use.
Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available
- The expenditure attributable to the software during its development can be reliably measured

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Research and development
Research expenditure and development expenditure that do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Amortisation methods and periods
Refer to note 7 for details about amortisation methods and periods used by the group for intangible assets.

2.2.8 Leases

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. The group has no contracts that meets these criterias.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 15). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss as the payments fall due.

2.2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purposes of assessing an impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

2.2.10 Financial instruments

The Group has adopted IFRS 9 Financial instruments as of 1 January 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. The new standard sets out new requirements for the accounting of financial instruments in the areas of classification, impairment and hedge accounting.

The Group has adopted IFRS 9 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors using the full retrospective approach with no material effect in the Group's consolidated statement of financial position and statement of changes in equity. As is allowed, prior period figures are not restated.

Classification
In accordance with IFRS 9 Financial instruments all financial assets within the scope of IFRS 9 are classified in the following categories based on the cash flow characteristics of the financial asset (SPPI or not SPPI) and the management business model for holding the financial assets (hold to collect or hold to collect or sell). The categories are fair value with changes in value through profit or loss (FVOPL), fair value with changes in value in other comprehensive income (FVOCI) and amortized cost. During 2018 and 2017 the Group did not engage in hedge accounting and all material balances related to financial instruments were recognised at amortised cost.

All financial assets are classified at amortised cost under IFRS 9 as these financial assets meet the criteria for the business model Hold to collect and payments of solely principal and interest (SPPI). In 2018 the Group applies an expected credit loss model (ECL) when calculating impairment losses on accounts receivable and contract assets, using the practical expedient in IFRS 9 of a lifetime ECL approach. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities over 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprises accounts receivables, other current receivables and cash and cash equivalents.

Recognition and Measurement
Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.2.11 Impairment of financial assets

A financial asset is assessed for impairment at each reporting date. A financial asset or a group of financial assets is impaired using the expected credit loss 3-stage model (ECL) or the practical expedient of lifetime ECL for accounts receivable in accordance with IFRS 9.

2.2.12 Accounts receivable

Trade and other receivables are initially measured at fair value when the Group has an unconditional right to receive the consideration and the payment is only dependent on the passage of time. and subsequently measured at amortized cost less any loss allowance. Accounts receivable are managed as held for collection and meet the criteria for SPPI. The loss allowance is based on the lifetime expected credit loss model and adjusted for market and economic conditions based on management judgement.

2.2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three-months or less.

2.2.14 Equity

Financial instruments are classified as liabilities or equity, in accordance with IAS 32 Presentation of financial instruments and based on the underlying economic reality. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax. from the proceeds. Own shares are accounted for as a deduction of equity.

2.2.15 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.2.16 Trade and other payable

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.2.17 Bank borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss over the period the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawn down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.2.18 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

2.2.19 Standards, amendments and interpretations to existing standards that are not applied as of 31 December 2018 and that have not been adopted earlier in the Group

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 16 Leases
In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will be based on the same classification as under IAS17, operating or finance leasing. The definition of a lease is amended.

IFRS 16 is effective for the annual periods after 1 January 2019. The Group has reviewed its lease agreement for 2018 to evaluate the potential effects of IFRS 16 by using the retrospective method. The assessment of lease agreement has identified a potential increase of approximately 8.9 MNOK on the balace sheet.

IFRIC 23 Uncertainty over income tax treatments
The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty,
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored,
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment,
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

IFRIC 23 does not include any new disclosure requirements. The general requirement to provide information about judgements and estimates made in preparing the financial statements is applicable. The Group will adopt IFRIC 23 on 1 January 2019 with no significant implementation effect.

Note 2 – Revenue from contracts with customers

Revenue from contracts with customers consists of the following entries as set forth in the table below.

Amounts in NOK	**2018**	**2017**
Revenues from contracts with customers	41 580 757	10 694 767
Revenue from other sources	2 031 597	2 954 688
Total revenue	**43 612 354**	**13 649 455**

As of 31.12.2018 The Group had two signed contracts, not delivered within 2018, equal to MNOK 2.6.
As of 31.12.2017 all contracts were completed and performance obligations were fully satisfied.
Revenue from other sources consists in total of government grants.

Note 3 – Government grants

The table below sets forth the treatment of government grants.

Amounts in NOK	2018	2017
Recognized as revenue from other sources	2 031 597	2 954 688
Reduction of capitalized patents	447 490	315 405
Recognized as payroll cost reduciton	3 754 664	4 000 890
Recognized as cost of sales reduction	0	324 924
Recognized as other cost reduction	797 847	683 705
Total government grants	**7 031 597**	**8 279 612**

Note 4 – Other operating expenses

Other operating costs consists of the following entries:

Amounts in NOK	2018	2017
Sales and marketing expenses	7 681 427	4 584 764
Rent	2 454 386	2 634 276
Electricity, heating and other property expenses	719 657	228 219
Consultants	3 141 122	0
Auditor	451 098	0
Legal	530 620	0
Provision for losses/Losses	9 314 875	0
Patents	559 549	0
IT/Software	1 571 078	0
Other expenses	681 652	5 973 237
Total other operating expenses	**27 105 463**	**13 420 496**

Note 5 – Financial income and financial expenses

Amounts in NOK	2018	2017
Financial income		
Other interest income	66 980	166 496
Other financial income	23 208	0
Foreign Exchange gains	2 090 627	353 338
Total financial income	**2 180 815**	**519 835**
Financial expenses		
Interest expense on bank loan	1 768 309	1 061 651
Other financial expenses	578 379	70
Foreign Exchange losses	497 144	28 472
Total financial expenses	**2 843 832**	**1 090 193**

Note 6 – Tax

Amounts in NOK	2018	2017
Tax payable	1 135 312	-72 446
Change in deferred tax/tax asset as a result of the changed tax rate	2 379 176	2 030 458
Other items	0	0
Change in deferred tax liabilities	0	0
Change in deferred tax assets	-8 658 014	-11 189 280
Total tax (income)/expense	**-5 143 526**	**-9 231 268**

Amounts in NOK	**2018**	**2017**
Below is a specification of the tax effects of temporary differences and losses carried forward:		
Deferred tax:	**2018**	**2017**
Fixed assets	0	0
Trademark	0	0
Receivables and payables	0	0
Other	0	0
Total deferred tax relating to temporary differences	0	0
Carrying value deferred tax liabilities	**0**	**0**
Deferred tax assets:	**2018**	**2017**
Fixed assets	1 317 721	0
Receivables	2 379 173	77 562
Other	0	0
Losses carried forward	50 299 384	47 370 182
Total deferred tax assets relating to temporary differences and losses carried forward	**53 666 377**	**47 447 744**
Non-recognised deferred tax assets relating to losses and precluded interest deductions carried forward	-714 715	-747 202
Carrying value deferred tax assets	**52 951 662**	**46 700 542**
Explanation of the change in the deferred tax:	**2018**	**2017**
Carrying value deferred tax at 01.01	0	0
Change in deferred tax liability	0	0
Carrying value deferred tax at 31 December	**0**	**0**
Explanation of the change in the deferred tax assets:	**2018**	**2017**
Carrying value deferred tax assets at 01.01	46 700 542	35 977 481
Change in deferred tax assets	6 251 120	10 723 061
Carrying value deferred tax assets at 31 December	**52 951 662**	**46 700 542**
Losses carried forward as of 31.12.2018		
Expiration year	**n.a**	
Unlimited carry forward period	50 299 384	
Total losses carried forward	**50 299 384**	
Reconciliation of tax expense	**2018**	**2017**
Profit before tax	-33 236 429	-43 480 076
Hence 23 % tax in 2018 and 24% in 2017	-7 644 379	-10 435 218
Tax effect of:		
Differences in tax rates	317 124	-20 699
Permanent differences (mainly non-taxable income)	-278 248	-755 851
Change in deferred tax/tax asset due to changes in tax rate	2 375 182	2 030 458
Change in prior year estimates	117 664	
Other/currency	-3 150	-49 958
Calculated tax expense/ (Income)	**-5 115 807**	**-9 231 268**

Significant estimates

The deferred tax assets include an amount of NOK 50 299 384 which relates to carried forward tax losses of Elliptic Laboratories AS. The subsidiary has incurred the losses over the last several years mainly due to development cost relating to immaterial assets which do not meet the capitalisation criteria. An expense of MNOK 19.9 has been recognized in the income statement related to research and development activities in Elliptic Laboratories group in 2018. The group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on signed customer contracts which form the basis for approved business plans and budgets for the subsidiary. The subsidiary is expected to generate taxable income from 2019 onwards, and the carried forward tax loss is expected to be utilized within the next two years. The losses can be carried forward indefinitely and have no expiry date.

Note 7 – Intangible assets

Amounts in NOK	**Patents**	**Trademark**	**Capitalized R&D**	**Total intangible assets**
Cost at 01.01.2018	10 684 372	0	0	10 684 372
Effect of changes in foreign exchange	0	0	0	0
Additions	1 811 656	23 505	6 903 966	8 739 127
Disposals	0	0	0	0
Cost at 31.12.2018	**12 496 028**	**23 505**	6 903 966	**19 423 499**
Accumulated amortisation and impairment charges 01.01.2016	7 459 796	0	0	7 459 796
Amortisation charges	2 114 360	968	0	2 115 328
Impairment charges	0	0	0	0
Accumulated amortisation and impairment charges 31.12.2018	**9 574 157**	**968**	0	**9 575 124**
Net booked value as at 31.12.2018	**2 921 871**	**22 538**	**6 903 966**	**9 848 375**
Cost at 01.01.2017	9 313 999	0	0	9 313 999
Effect of changes in foreign exchange	0	0	0	0
Additions	1 370 373	0	0	1 370 373
Disposals	0	0	0	0
Cost at 31.12.2017	**10 684 372**	**0**	**0**	**10 684 372**
Accumulated amortisation and impairment charges 01.01.2017	5 525 040	0	0	5 525 040
Amortisation charges	1 934 756	0	0	1 934 756
Impairment charges	0	0	0	0
Accumulated amortisation and impairment charges 31.12.2017	**7 459 796**	**0**	**0**	**7 459 796**
Net booked value as at 31.12.2017	**3 224 575**	**0**	**0**	**3 224 575**
Useful life:	5	**5**	**5**	
Amortization method:	Straight-line	Straight-line	Straight-line	

The Group has significant development cost relating to immaterial assets which do not meet the capitalisation criteria. An expense of MNOK 19.9 has been recognized in the income statement related to research and development activities in Elliptic Laboratories group in 2018.

Note 8 – Investments in subsidiaries and associated companies

Subsidiaries	**Country**	**Business office**	**Voting percentage**		**Ownership percentage**	
			2018	**2017**	**2018**	**2017**
Healthy Pointers AS	Norway	Oslo	100 %	100 %	100 %	100 %
Elliptic Laboratories Inc	USA	San Francisco	100 %	100 %	100 %	100 %

Note 9 – Trade receivables and other current receivables

Amounts in NOK	**2018**	**2017**
Ageing of trade receivable:		
Up to 3 months	14 770 450	3 124 037
More than 3 months	9 314 875	337 225
Total trade receivable	**24 085 325**	**3 461 262**
Nominal value of trade receivables	24 085 325	3 461 262
Impairment of trade receivables	-9 314 875	-337 225
Total trade receivable	**14 770 450**	**3 124 037**
Other current receivables:		
Prepaid costs	293 395	559 533
Other current receivables	5 620 840	6 441 544
Total other current receivables	**5 914 235**	**7 001 077**

On 1 January 2018 the Group adopted IFRS 9, and now measures the loss allowance for trade receivables at an amount equal to lifetime expected credit losses. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the probability of a customer's bankruptcy to be the most relevant factor and accordingly adjusts the historical loss rates appropriately.

IFRS 9 does not require a restatement of comparative figures. Therefore, the loss allowance for 2017 is not restated. Adoption of IFRS 9 did not give a material difference in the loss allowance ending balances or estimated credit losses for the year.

Note 10 – Cash and cash equivalents

Amounts in NOK	**2018**	**2017**
Cash and cash equivalents	16 623 538	37 339 583
Of which are restricted cash:		
Restricted bank deposits for employee tax withholdings	1 045 918	997 542
Guarantee account	1 506 322	1 509 436
Not restricted	**14 071 298**	**34 832 605**

Note 11 – Personnel expenses

Employee benefit expenses are set forth in the table below.

Amounts in NOK	**2018**	**2017**
Salary expenses	47 405 134	35 436 860
Social security cost	4 189 116	3 557 390
Pension costs	530 520	591 184
Option costs	3 718 230	2 175 544
Other costs	1 780 603	2 144 135
Government grants	-3 754 664	-4 000 890
Capitalized R&D personnel cost	-6 903 966	0
Total personnel expenses	**46 964 974**	**39 904 223**
Average number of employees	51	33

Pensions to Norwegian employees

Norwegian companies are required to have occupational pension schemes according to the law on compulsory occupational pension. The Norwegian companies' pension schemes meet the requirements of this act. Total compensation expensed during the year for the CEO and other executives is set forth in the table below.

Remuneration to executive personnel

2018 *(Amounts in NOK)*	**Salary**	**Bonus**	**Pension**	**Other Benefits** [1)]	**Total**
Laila Danielsen, Group CEO and General Manager	2 463 577	471 134	0	103 671	3 038 381
Randi Fagervik, Chief Financial Officer	1 741 994	0	21 314	0	1 763 308
Espen Klovning, VP Engineering	1 336 110	0	21 314	0	1 357 424
Guenael Strutt, VP Product Development	1 873 284	0	0	97 123	1 970 407
Brian Daly, VP Sales & Business Development[2)]	1 036 575	0	0	75 361	1 111 936

2017 *(Amounts in NOK)*	**Salary**	**Bonus**	**Pension**	**Other Benefits**	**Total**
Laila Danielsen, Group CEO and General Manager	2 322 708	426 832	0	106 456	**2 855 996**
Randi Fagervik, Chief Financial Officer [3)]	375 000	0	5 151	0	**380 151**
Scott Deutsch, Chief Operating Officer [4)]	442 900	0	0	23 734	**466 634**
Holger Hussman, Sr. VP Technology	1 389 900	100 000	20 524	0	**1 510 424**
Espen Klovning, VP Engineering	1 173 069		20 524	0	**1 193 593**
Guenael Strutt, VP Product Development	1 661 720	262 077	0	99 151	**2 022 947**

1) Other benefits for US employees comprise insurance services.

2) Remuneration and benefits apply from April 2018, the time of employment.

3) Remuneration and benefits apply from October 2017, the time of employment.

4) Remuneration and benefits apply from October 2017, the time of employment.

The average Dollar exchange rates were 8.13 and 8.27 for 2018 and 2017, respectively.

The salary of the Group CEO is determined by the Board. The salary of the Chief Financial Officer is determined by the Group CEO in consultation with the Chairman of the Board. Bonus is based on performance targets in Elliptic Laboratories Group. The maximum size of bonus payment to the Group CEO is determined by the Board. The size of the bonus pay out to the Chief Financial Officer is determined by the Group CEO in consultation with the Chairman of the Board. Any bonuses to the other members of the executive management is determined by the Group CEO.

The Group CEO has 3 months of paid termination notice if the company terminates the employment relationship. The Chief Financial Officer has 6 months of paid termination notice if the company terminates the employment relationship.

No loans or pledges have been given to the Group CEO, Chairman of the Board or other related parties. No share-based remuneration has been given to the Board of directors in 2018, 2017, 2016 or 2015. The share-based remuneration to executive personnel is set forth in note 12.

Compensation to the Board of Directors

2018 *(Amounts in NOK)*		**Board remuneration**	**Other benefits**	**Total**
Tore Engebretsen	Chairman	250 000	0	250 000
Einar Jørgen Greve	Board member	150 000	0	150 000
Karsten Thomas Michael Rönner	Board member	150 000	0	150 000
Edvin Austbø	Board member	150 000	0	150 000
Svenn-Tore Larsen	Board member	150 000	0	150 000

2017 *(Amounts in NOK)*		**Board remuneration**	**Other benefits**	**Total**
Tore Engebretsen	Chairman	150 000	0	150 000
Einar Jørgen Greve	Board member	100 000	0	100 000
Karsten Thomas Michael Rönner	Board member	100 000	0	100 000
Edvin Austbø	Board member	100 000	0	100 000
Svenn-Tore Larsen	Board member	100 000	0	100 000

Remuneration to the auditor		
Amounts in NOK	**2018**	**2017**
Statutory audit (including technical assistance - annual accounts)	140 000	75 000
Other attestation services	10 000	0
Tax advice (including technical assistance corporate tax papers)	214 113	5 000
Other assistance	365 924	0
Total expensed auditor fees, ex. VAT	**730 037**	**80 000**

Note 12 – Share option program

The Group has an option program that includes key management as well as non-executive employees in parent and subsidiary companies. As of 31.12.2018, there are 51 employees in the group option program. The employees must work in the Group to be entitled to exercise the options at the time of vesting. The options are settled in shares at the time of vesting. The purpose of the establishment of the options program is to attract and retain key personnel. The group has the following option programs as of 31.12. The fair value of the options is calculated at the grant date, based on the Black-Scholes model, and expensed over the vesting period of 4 years.

Amounts in NOK	**2018**	**2017**
Outstanding at the beginning of the period	**442 290**	**138 050**
Excercised	-50	0
Terminated	-208 170	-50 909
Granted	92 311	355 149
Outstanding at the end of the period	**326 381**	**442 290**
Average exercise price (NOK)	150	159
Option program expensed for the year	**3 718 230**	**2 175 544**

Amounts in NOK	**Grant date**	**Number of options**	**Terminated**	**Outstanding**	**Strike**	**Price**	**Fair value**	**Total fair value**
Program 1: Guenael Strutt	01.03.2015	47 400	0	47 400	38	4 years	12.45	590 124
Program 2: Holger Hussmann	15.12.2016	41 944	-41 944	0	100	4 years	32.08	1 604
Program 3: Non-executive	15.12.2016	48 706	-38 706	10 000	38	4 years	65.67	656 669
Program 4: Espen Klovning	28.04.2017	30 000	0	30 000	100	4 years	32.03	961 014
Program 5: Espen Klovning	28.04.2017	11 049	0	11 049	38	4 years	65.59	724 715
Program 6: Randi Fagervik	01.10.2017	64 230	0	64 230	200	4 years	63.19	4 058 419
Program 7: Non-executive employees	29.09.2017	100 000	-21 161	78 839	200	4 years	63.69	5 016 980
Program 8: Non-executive employees	11.01.2017	2 619	0	2 619	200	4 years	64.11	167 912
Program 9: Non-executive employees	11.07.2017	818	0	818	200	4 years	63.69	52 099
Program 10: Non-executive employees	25.09.2017	1 637	0	1 637	200	4 years	63.58	104 079
Program 11: Non-executive employees	09.11.2017	409	0	409	200	4 years	63.64	26 027
Program 12: Non-executive employees	05.01.2018	3 170	0	3 170	200	4 years	63.65	201 773
Program 13: Non-executive employees	15.01.2018	3 239	0	3 239	200	4 years	63.86	206 844
Program 14: Non-executive employees	28.01.2018	2 455	0	2 455	200	4 years	64.30	157 847
Program 15: Non-executive employees	05.02.2018	2 343	0	2 343	200	4 years	64.38	150 839
Program 16: Non-executive employees	15.02.2018	2 573	0	2 573	200	4 years	65.27	167 939
Program 17: Non-executive employees	06.04.2018	1 364	0	1 364	200	4 years	65.95	89 958
Program 18: Brian Daly	16.04.2018	30 000	-	30 000	200	4 years	65,69	1 970 782

Program 19: Non-executive employees	02.05.2018	1 500	-1 500	-	200	4 years	66,22	99 325
Program 20: Non-executive employees	03.05.2018	1 705	-	1 705	200	4 years	66,15	112 787
Program 21: Non-executive employees	01.08.2018	2 527	-	2 527	200	4 years	66,44	167 901
Program 22: Non-executive employees	31.08.2019	15 000	-	15 000	38	4 years	164,31	2 464 616
Program 23: Non-executive employees	01.09.2018	1 228	-	1 228	200	4 years	66,65	81 847
Program 24: Non-executive employees	03.09.2019	2 527	-	2 527	200	4 years	66,61	168 333
Program 25: Non-executive employees	01.11.2018	4 411	-	4 411	200	4 years	67,45	297 530
Program 26: Non-executive employees	15.11.2018	2 068	-	2 068	200	4 years	67,83	140 281
Program 27: Non-executive employees	26.11.2018	2 228	-	2 228	200	4 years	67,67	150 769
Program 28: Non-executive employees	01.12.2018	2 941	-	2 941	200	4 years	67,66	198 987
Program 29: Non-executive employees	03.12.2018	4 572	-	4 572	200	4 years	67,57	308 936
Program 30: Non-executive employees	17.12.2018	977	-	977	200	4 years	67,98	66 420

Note 13 – Share capital and shareholder information

As of 31.12.2018, the share capital amounts to NOK 856 401, consisting of 8 564 008 shares at a face value of NOK 0.1 per share. Overview of the largest shareholders as of 31 December 2018:

Shareholder name	Ordinary shares	Ownership
Passesta AS (Chairman of the Board Tore Engebretsen)	1 112 750	13.0 %
MP Pensjon PK	794 000	9.3 %
Alden AS (Board member Edvin Austbø)	682 000	8.0 %
Nunatak AS	636 000	7.4 %
Robert Horne (GBR)	589 000	6.9 %
Laila Danielsen (USA) (CEO)	529 680	6.2 %
Other shareholders (less that 5% ownership)	4 220 578	49.3 %
Total	**8 564 008**	**100.0 %**

Shares as of 31.12	2018	2017
Number of issued shares	8 564 008	8 564 008
Adjustment for own shares	0	0
Number of shares outstanding	**8 564 008**	**8 564 008**

2018	Number of shares	Average number of shares	Number of days
Outstanding shares at 01.01	8 564 008	8 564 008	365
Capital increase	0	0	365
Sale of own shares	0	0	365
Outstanding shares at 31.12	**8 564 008**	**8 564 008**	

2017	Number of shares	Average number of shares	Number of days
Outstanding shares at 01.01	7 768 886	7 768 886	365
Capital increase	600 000	317 351	230
Sale of own shares	-54 878	-29 018	230
Outstanding shares at 31.12	**8 564 008**	**8 471 542**	

(Amounts in NOK)	2018	2017
Profit & loss for the year due to holders of ordinary shares	-28 178 376	-34 387 827
Average number of shares - basic	8 564 008	8 471 542
EPS – Basic, NOK per share	**-3.29**	**-4.06**

Shares held by the Board of Directors:

Shareholder name	Title	Ordinary shares	Ownership
Tore Engebretsen (Passesta AS)	Chairman of the Board	1 112 750	13.0 %
Edvin Austbø (Alden AS)	Board member	682 000	8.0 %
Einar Greve (Cipriano AS)	Board member	138 500	1.6 %
Karsten Rönner	Board member	8 000	0.1 %

Shares held by the executive management:

Shareholder name	Title	Ordinary shares	Ownership
Laila B. Danielsen	CEO & President	529 680	6.2 %
Guenael Strutt	VP Product Development	47 500	0.6 %
Espen Klovning	VP Engineering	21 951	0.3 %
Randi Fagervik	CFO & Investor Relation	2 000	0.02 %

Note 14 – Interest-bearing liabilities

Amounts in NOK	2018	2017
Long-term liabilities due > 1 year		
Bank borrowings, long-term	0	14 000 000
Loan costs	0	1 971 200
Bank borrowings, long-term net of loan costs	0	15 971 200
Total	**0**	**15 971 200**
Long-term liabilities due < 1 year		
Bank borrowings	18 000 000	4 000 000
Loan costs	909 000	1 108 800
Bank borrowings, short-term net of loan costs	18 909 000	5 108 800
Total	**18 909 000**	**5 108 800**
Short-term liability due < 1 Year		
Overdraft credit facility	25 007 165	0
Loan costs	412 607	0
Total	**25 419 773**	**0**

Loan facility 31.12.2018 *(Amount in NOK)*	**Loan origination date**	**Principle in local currency**	**Fixed interest loan**	**Termination date**	**Carrying value**
Innovasjon Norge	27.03.2015	NOK	5.05% effective interest	27.03.2022	18 000 000
Pareto Bank	31.05.2018	NOK	5% effective interest 0.25% commission rate 1% establishment rate	31.06.2019	25 007 165
Loan facility 31.12.2017 *(Amount in NOK)*	**Loan origination date**	**Principle in local currency**	**Fixed interest loan**	**Termination date**	**Carrying value**
Innovasjon Norge	27.03.2015	NOK	6,16% effective interest	27.03.2022	18 000 000

The following table shows the undiscounted payment profile of the Group's debt, based on the remaining loan period at the balance sheet date. Payment profile on debts to credit institutions per 31.12.2018:

Amounts in NOK	**2019**	**2020**	**2021**	**2022**	**After 2022**	**Total**
Innovasjon Norge	18 000 000	0	0	0	0	18 000 000
Interests	1 321 607	0	0	0	0	1 231 607
Trade payables and other short term liabilities	35 763 120	0	0	0	0	35 763 120
Total installment	**55 084 727**	**0**	**0**	**0**	**0**	**55 084 727**

Due to the establishment of the overdraft credit facility, which is classified as a short-term liability, the Group was in breach with the financing covenants of the Innovasjon Norge loan facility as at 31.12.18. As a consequence this loan has also been reclassified from long-term to short-term in the balance sheet and related notes per the same date. Management is in continuous dialogue with Innovasjon Norge and although a covenant waiver is not in place at the date of signing the financial statements, the Group does not expect to have to repay the debt earlier than what has been agreed. If however, Innovasjon Norge were to recall the loan, the Board expects to be able to raise alternative funds through alternative financing or issue of shares within a sufficiently short time frame.

Payment profile on debts to credit institutions per 31.12.2017:

Amounts in NOK	**2018**	**2019**	**2020**	**2021**	**After 2021**	**Total**
Innovasjon Norge	4 000 000	4 000 000	4 000 000	4 000 000	2 000 000	18 000 000
Interests	1 108 800	862 400	616 000	369 600	123 200	3 080 000
Trade payables and other short term liabilities	7 022 377	0	0	0	0	7 022 377
Total installment	**12 131 177**	**4 862 400**	**4 616 000**	**4 369 600**	**2 123 200**	**28 102 377**

Note 15 – Leasing

Leases are considered operational following an assessment of the individual agreement and in accordance with the content of the agreement, for more information, please refer to the Group's principle note. The operational leasing contracts in the group relate mainly to rent office spaces. There are also some contracts related to machinery and equipment.

Amounts in NOK	**2018**	**2017**
Less than one year	4 204 866	3 519 408
Between one and five years	10 993 146	12 956 368
More than five years	0	0
Total commitments relating to operational leases	**15 198 012**	**16 475 776**
Net lease payments recognised in profit and loss	**2 719 979**	**2 213 119**

Note 16 – Financial risk factors

Overview

Through its activities, the group will be exposed to different types of financial risks: market risk, credit risk and liquidity risk. This note presents information related to the Group's exposure to such risks, the Group's objectives, policies and procedures for risk management and handling, as well as the Group's management of capital. Additional quantitative information is included in these consolidated financial statements.

The Group's overall risk management plan is to ensure the ongoing liquidity in the group, defined as to being able to meet its obligations at any time. This also includes being able to meet the financial covenants related to the Group's borrowings.

Risk management of the group is maintained by a central Finance Function in accordance with the guidelines approved by the Board. The Group's Finance Function identifies, measures, mitigates and reports on financial risks in close cooperation with the various operating units. Risk management policies and procedures are reviewed regularly to take into account changes in the market and the Group's activities.

Capital management

The Group's main goal is to maximize shareholder value while ensuring the Group's ability to continue operations, as well as to make sure that covenant criteria are met (see note 15 interest-bearing liability re. financial covenant requirements). The Group has a target to maintain a capital structure that gives the Group an optimal capital binding given the current market situation. The Group makes the necessary changes to their capital structure based on an ongoing assessment of the business' financial situation and future prospects in the short and medium term.

Financial instruments by category

Financial instruments as of 31 December 2018 *(Amounts in NOK)*	**Loans and receivables**	**Liabilities measured at amortised cost**	**Fair value through profit and loss**	**Total**
Other non-current receivables	5 914 235	0	0	5 914 235
Accounts receivable	14 770 450	0	0	14 770 450
Other current receivables (only derivatives)	0	0	0	-
Cash and cash equivalents	16 623 538	0	0	16 623 538
Total financial assets	**37 308 223**	**0**	**0**	**37 308 223**
Bank borrowings	0	0	0	0
Shareholder loans	0	0	0	0
Financial leasing (excluding lease grant)	0	0	0	0
Trade and other payables	2 527 440	0	0	2 527 440
Other short-term liabilities	43 007 165	0	0	43 007 165
Total financial liabilities	**45 534 605**	**0**	**0**	**45 534 605**

Financial instruments as of 31 December 2017 *(Amounts in NOK)*	**Loans and receivables**	**Liabilities measured at amortised cost**	**Fair value through profit and loss**	**Total**
Other non-current receivables	7 001 077	0	0	7 001 077
Accounts receivable	3 124 037	0	0	3 124 037
Other current receivables (only derivatives)	0	0	0	0
Cash and cash equivalents	37 339 583	0	0	37 339 583
Total financial assets	**47 464 697**	**0**	**0**	**47 464 697**
Bank borrowings	0	14 000 000	0	14 000 000
Shareholder loans	0	0	0	0
Financial leasing (excluding lease grant)	0	0	0	0
Trade and other payables	8 265 322	0	0	8 265 322
Other short-term liabilities	0	0	0	0
Total financial liabilities	**8 265 322**	**14 000 000**	**0**	**22 265 322**

a) Market risk

Market risk can be defined as the risk that the Group's income and expenses, future cash flows or fair value of financial instruments will vary as a result of changes in market prices. The market risk is monitored continuously by the Group.

Foreign exchange risk

The Group operates internationally and is exposed to changes in foreign currency exchange rates. The Group monitors the risk closely and on a monthly basis. For risk management purposes, the Group has identified three types of currency exposures:

- Exposure to the presentation currency: As an international group, Elliptic Laboratories is exposed to the risk associated with converting the currency related to legal entities with a functional currency different from the Group's presentation currency. Such translation exposure does not yield an immediate result on the cash flow. It can still affect the Group's financial position and is therefore closely monitored.
- Exposure to sales of products in different currencies: The Group has all its revenues in foreign currencies, mainly in US dollars.
- Exposure to payroll costs and operating expences in different currencies: The Group's business model is such that the subsidiaries' sales and operating expenses are incurred in local currency, which are mainly US dollars and Chinese yen.

b) Credit risk

Credit risk is managed at the group level. Credit risk is monitored closely.

c) Liquidity risk

The Group's liquidity risk is characterised by a potential risk of not being able to meet obligations to vendors and loan creditors. The ability to service the debt depends on the Group's cash flow from operating activities. The Group regularly monitors the cash flow situation by setting up cash flow forecasts based on the forecasts of the liquidity reserves, including cash equivalents and borrowing facilities.

To be able to maintain a sufficient flexibility in the source of funding, the Group has borrowing facilities of MNOK 43 in 2018 (MNOK 18 in 2017). The Group had cash and cash equivalents of MNOK 16.6 in 2018 (MNOK 37.3 in 2017).

See also note 14 interest-bearing liability information on funding sources and payment profile.

Note 17 – Other short-term liabilities

Other short-term liabilities consist of the following items:

Amounts in NOK	**2018**	**2017**
Accrued vacation pay	4 213 215	3 591 475
Accrued costs	1 008 092	461 902
Other current items	1 042 500	55 233
Contractual obligations	0	1 242 945
Total other short-term liabilities	**6 263 806**	**5 351 555**

Note 18 – Related parties

The following table presents an overview of transaction with related parties. Remuneration of executive staff and Board of Directors, share capital information and shareholder loans, are presented in note 3 and note 13, respectively and are not included in the following overview:

A) Purchase of services

Related party *(Amounts in NOK)*	**Relationship**	**Type of services**	**31.12.2018**	**31.12.2017**
		Administrative services	0	0
		Consultant	0	0
		Rent of buildings and land	0	0

The amounts in the table above (if any) are presented within other operating costs.

B) Purchase of services

Related party *(Amounts in NOK)*	Relationship	Type of services	31.12.2018	31.12.2017
	Shareholder	Administrative services	0	0

The amounts in the table above (if any) are presented within other current liabilities.

Note 19 – Events after the balance sheet date

3 Financial statements of the parent company

Income statement

For the financial period ended 31 December.

Amounts in NOK	Notes	2018	2017
Revenues		41 580 757	10 694 767
Other operating income		2 031 597	2 954 688
Total revenue		**43 612 354**	**13 649 455**
Raw materials and consumables used		0	1 299 698
Employee benefits expence	10	31 269 222	26 235 817
Depreciation and amortisation expenses	1	2 115 328	1 934 756
Other operating expenses		45 841 641	27 080 856
Total operating costs		**79 226 191**	**56 551 127**
Operating profit		**-35 613 837**	**-42 901 672**
Other financial income	11	2 183 556	519 243
Other financial expense	11	-2 948 494	-1 090 193
Total financial expenses		**-764 938**	**-570 950**
Profit/(loss) before tax		**-36 378 775**	**-43 472 622**
Income tax expense	9	-6 251 120	-9 158 822
Net profit/(loss) for the year		**-30 127 655**	**-34 313 800**
Allocation			
Equity allocation		**30 127 655**	**34 313 800**

Balance sheet at 31 December

ASSETS *(Amounts in NOK)*	**Notes**	**31.12.2018**	**31.12.2017**
Concessions, patents, licenses, trademarks and similar rights	1	9 838 375	3 214 575
Deferred tax asset	9	52 951 662	46 700 542
Total intangible assets		**62 790 037**	**49 915 118**
Investments in subsidiaries	2	591	591
Other receivables		2 132 711	1 058 640
Total financial fixed assets		**2 133 302**	**1 059 231**
TOTAL FIXED ASSETS		**64 923 339**	**50 974 349**
Trade receivables	3	14 770 450	3 124 037
Other receivables		5 805 369	6 994 324
Intercompany receivables		0	2 565 914
Total receivables		**20 575 819**	**12 684 276**
Cash and bank deposits	5	**15 184 911**	**34 850 994**
TOTAL CURRENT ASSETS		**35 760 729**	**47 535 270**
TOTAL ASSETS		**100 684 068**	**98 509 619**

Balance sheet at 31 December

EQUITY AND LIABILITIES *(Amounts in NOK)*	**Notes**	**31.12.2018**	**31.12.2017**
Share capital	6,7	856 401	856 401
Total paid-in equity		**856 401**	**856 401**
Other equity		45 579 082	71 988 506
Total retained earnings		**45 579 082**	**71 988 506**
TOTAL EQUITY		**46 435 482**	**72 844 907**
Other long-term liabilities	3	0	18 000 000
Total long-term liabilities		**0**	**18 000 000**
Liabilities to group companies	4	1 865 928	474 200
Trade creditors		2 527 440	1 099 517
Tax payable	9	0	0
Public duties payable		1 964 709	1 814 250
Other short-term liabilities		47 890 509	4 276 744
Total short-term liabilities		**54 248 586**	**7 664 712**
TOTAL LIABILITIES		**54 248 586**	**25 664 712**
TOTAL EQUITY AND LIABILITIES		**100 684 068**	**98 509 619**

Oslo, 21 June 2019
The Board of Directors of Elliptic Laboratories AS

Tore Engebretsen
Chairman

Edvin Austbø
Board Member

Einar J. Greve
Board Member

Svenn-Tore Larsen
Board Member

Laila B. Danielsen
CEO

Notes and accounting principles

The annual accounts have been prepared in compliance with the Accounting Act and accounting principles generally accepted in Norway for small companies.

3.1 General information

The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company's accounting principles also require management to apply assessments. Areas which to a great extent contain such assessments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

3.1.1 Revenues

Income from sale of services are recognised at fair value of the consideration, net after deduction of VAT and reductions. Provisions for expected guarantee work are recognised as expenses and provisions for liabilities. Services are recognised in proportion to the work performed.

3.1.2 Classification of balance sheet items

Assets intended for long term ownership or use have been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Other receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long-term receivables are, however, not classified as short-term liabilities and current assets.

3.1.3 Purchase costs

The purchase cost of assets includes the cost price for the asset, adjusted for bonuses, discounts and other rebates received, and purchase costs (freight, customs fees, public fees which are non-refundable and any other direct purchase costs). Purchases in foreign currencies are reflected in the balance sheet at the exchange rate at the transaction date.

For fixed assets and intangible assets purchase cost also includes direct expenses to prepare the asset for use, such as expenses for testing of the asset.

3.1.4 Intangible assets

"Acquired intangible assets are capitalized on the basis of the costs incurred to acquire and put the asset into use. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Expenses for other intangible assets are reflected in the balance sheet providing a future financial benefit relating to the development of an identifiable intangible asset can be identified and the expenses can be reliably measured. Otherwise such expenses are expensed as and when incurred. R&D expenses in the balance sheet are depreciated on a straight-line basis over the asset's expected useful life."

3.1.5 Fixed assets

Fixed assets are reflected in the balance sheet and depreciated to residual value over the asset's expected useful life on a straight-line basis. If changes in the depreciation plan occur the effect is distributed over the remaining depreciation period.

Direct maintenance of an asset is expensed under operating expenses as and when it is incurred. Additions or improvements are added to the asset's cost price and depreciated together with the asset. The split between maintenance and additions/improvements is calculated in proportion to the asset's condition at the acquisition date. Leased assets are reflected in the balances sheet as assets if the leasing contract is considered a financial lease

3.1.6 Investments in other companies

Except for short term investments in listed shares, the cost method is applied to investments in other companies. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken to income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in purchase cost. Dividend/group contributions from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount. Dividends from other companies are reflected as financial income when it has been approved.

3.1.7 Asset impairments

Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cashflows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost to sell and the recoverable amount.

Previous impairment charges, except write down of goodwill, are reversed in later periods if the conditions causing the write-down are no longer present.

3.1.8 Long term contracts

Work in progress on long term fixed-price contracts is valued according to the percentage of completion method. The degree of completion is calculated as expenses incurred as a percentage of estimated total expense. Total expenses are reviewed on a regular basis. If projects are expected to result in losses, the total estimated loss is recognised immediately.

3.1.9 Debtors

Trade debtors are recognised in the balance sheet after provision for bad debts. The bad debts provision is made on basis of an individual assessment of each debtor to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Other debtors, both current and long term, are recognised at the lower of nominal and net realisable value. Net realisable value is the present value of estimated future payments. When the effect of a write down is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

3.1.10 Foreign currencies

Receivables and liabilities in foreign currencies are taken to income at the exchange rate on the balance sheet date.

3.1.11 Liabilities

Liabilities, except for certain liability provisions, are recognised in the balance sheet at nominal amount.

3.1.12 Pensions

The company has various pension schemes. The pension schemes are financed through payments to insurance companies, except for the early retirement pension scheme (AFP). The company has a defined contribution plan.

3.1.13 Defined contribution plan

With a defined contribution plan the company pays contributions to an insurance company. After the contribution has been made the company has no further commitment to pay. The contribution is recognised as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

The early retirement pension scheme (AFP) is an unsecured defined benefit multi-enterprise scheme. Such a scheme is de facto a defined benefit plan, but is for accounting purposes treated as a defined contribution plan as the result of the administrator of the scheme not providing sufficient information to calculate the liability in a reliable manner.

3.1.14 Taxes

The tax charge in the income statement includes both payable taxes for the period and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carryforward losses for tax purposes at the year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. The disclosure of deferred tax benefits on net tax reducing differences which have not been eliminated, and carryforward losses, is based on estimated future earnings. Deferred tax and tax benefits which may be shown in the balance sheet are presented net.

Deferred tax is reflected at nominal value.

Note 1 – Intangible assets

Amounts in NOK	**Patents**	**Trademark**	**Capitalized R&D**	**Total**
Purchase cost pr. 01.01.	10 674 372	0	0	10 674 372
Additions	1 811 656	23 505	6 903 966	8 739 127
Disposal	0	0	0	0
Purchase cost pr. 31.12.	12 486 028	23 505	6 903 966	19 413 499
Accumulated depreciation 31.12.	9 574 157	968	0	9 575 124
Net book value per. 31.12.	**2 911 871**	**22 538**	**6 903 966**	**9 838 375**
Depreciation in the year	2 144 360	968	0	2 115 328
Estimated useful life:	5	5	5	
Amorization method:	Straight-line	Straight-line	Straight-line	

Research and development expenses totaling MNOK 19.9 have been expensed in the year. Activities relates to development of new mobile applications and software. Accumulated total earnings from ongoing development projects are expected to correspond to total expenses incurred.

Note 2 – Fixed assets (subsidiaries, associated companies and joint ventures)

Investments in subsidiaries are booked according to the cost method.

Subsidiaries	**Location**	**Ownership /voting rights**	**Equity last year (100%)**	**Result last year (100%)**	**Balance sheet Value**
Healthy Pointer	Oslo, Norway	100%	484 201	0	0
Elliptic Labs Inc	San Francisco, USA	100%	478 823	2 035 929	591
Balance sheet value 31.12.					**591**

Note 3 – Debtors and liabilities

Amounts in NOK	2018	2017
Debtors which fall due within one year	43 007 165	4 000 000
Debtors which fall due later than one year	0	14 000 000
Debtors which fall due later than five years	0	0
Total	**43 007 165**	**18 000 000**

	2018	2017
Liabilities secured by assets	**18 000 000**	**18 000 000**

Balance sheet value of assets placed as securities	2018	2017
Accounts receivable	14 770 450	3 124 037
Total	**14 770 450**	**3 124 037**

Note 4 – Balance with group companies etc.

	Trade debtors		Other debtors	
	2018	**2017**	**2018**	**2017**
Elliptic Laboratories Inc	0	0	0	2 565 914
Total	**0**	**0**	**0**	**2 565 914**

	Trade creditors		Other long-term liabilities	
	2018	**2017**	**2018**	**2017**
Elliptic Laboratories INC	1 391 728	0	0	0
Healthy Pointers AS	0	0	474 200	474 200
Total	**1 391 728**	**0**	**474 200**	**474 200**

Note 5 – Restricted cash

	2018	2017
Restricted bank deposits for employee tax withholdings	1 045 918	997 542
Guarantee account	1 506 322	1 509 436
Total	**2 552 240**	**2 506 978**

Note 6 – Share capital and shareholder information

As of 31.12.2018, share capital amounts to NOK 856 401, consisting of 8 564 008 shares at a face value NOK 0,1 per share. All shares have the same rights. An overview of the largest shareholders as of 31 Dec 2018 is set forth in the table below:

Shareholder name	Ordinary shares	Ownership
Passesta AS (Chairman of the Board Tore Engebretsen)	1 112 750	13.0 %
MP Pensjon PK	794 000	9.3 %
Alden AS (Board member Edvin Austbø)	682 000	8.0 %
Robert Horne (GRB)	589 000	6.9 %
Laila Danielsen (USA) (CEO)	529 680	6.2 %
Other shareholders (less than 5% ownership)	4 220 578	49.3 %
Total	**8 564 008**	**100 %**

Shares held by the Board of Directors as of 31 Dec 2018:

Shareholder name	Title	Ordinary shares	Ownership
Tore Engebretsen	Chairman of the Board	1 112 750	13.0 %
Edvin Austbø	Board member	682 000	8.0 %
Einar Greve	Board member	138 505	1.6 %
Karsten Rönner	Board member	8 000	0.1 %

Shares held by the executive management as of 31 Dec 2018:

Shareholder name	Title	Ordinary shares	Ownership
Laila B. Danielsen	CEO & President	529 680	6.2 %
Guenael Strutt	VP Product Development	47 500	0.6 %
Espen Klovning	VP Engineering	21 951	0.3 %
Randi Fagervik	CFO & Investor Relation	2 000	0.02 %

Share based payment plans

The Group has an option program that includes employees in selected senior positions in parent and subsidiary companies. As of 31.12.2018, there are 51 employees in the group option programs. The employees must work in the Group to be entitled to exercise the options at the time of vesting. The options are settled in shares at the time of vesting.

The purpose of the establishment of the options program is to attract and retain key personnel. Elliptic Laboratories AS has not booked any expenses relating to the option programs in accordance with the exception in NRS 8. The fair value of the options is calculated at the grant date, based on the Black-Scholes model, and expensed over the vesting period of 4 years.The group has the following option programs as of 31.12.2018.

Amounts in NOK	Grant date	Number of options	Terminated	Outstanding	Strike	Price	Fair value	Total fair value
Program 1: Guenael Strutt	01.03.2015	47 400	-	47 400	38	4 years	12,45	590 124
Program 2: Holger Hussmann	15.12.2016	41 944	(41 944)	-	100	4 years	32,08	1 604
Program 3: Non-executive	15.12.2016	48 706	(38 706)	10 000	38	4 years	65,67	656 669
Program 4: Espen Klovning	28.04.2017	30 000	-	30 000	100	4 years	32,03	961 014
Program 5: Espen Klovning	28.04.2017	11 049	-	11 049	38	4 years	65,59	724 715
Program 6: Randi Fagervik	01.10.2017	64 230	-	64 230	200	4 years	63,19	4 058 419
Program 7: Non-executive employees	29.09.2017	100 000	(21 161)	78 839	200	4 years	63,69	5 016 980
Program 8: Non-executive employees	11.01.2017	2 619	-	2 619	200	4 years	64,11	167 912
Program 9: Non-executive employees	11.07.2017	818	-	818	200	4 years	63,69	52 099
Program 10: Non-executive employees	25.09.2017	1 637	-	1 637	200	4 years	63,58	104 079
Program 11: Non-executive employees	09.11.2017	409	-	409	200	4 years	63,64	26 027
Program 12: Non-executive employees	05.01.2018	3 170	-	3 170	200	4 years	63,65	201 773
Program 13: Non-executive employees	15.01.2018	3 239	-	3 239	200	4 years	63,86	206 844
Program 14: Non-executive employees	28.01.2018	2 455	-	2 455	200	4 years	64,30	157 847
Program 15: Non-executive employees	05.02.2018	2 343	-	2 343	200	4 years	64,38	150 839
Program 16: Non-executive employees	15.02.2018	2 573	-	2 573	200	4 years	65,27	167 939

Amounts in NOK	Grant date	Number of options	Terminated	Outstanding	Strike	Price	Fair value	Total fair value
Program 17: Non-executive employees	06.04.2018	1 364	-	1 364	200	4 years	65,95	89 958
Program 18: Brian Daly	16.04.2018	30 000	-	30 000	200	4 years	65,69	1 970 782
Program 19: Non-executive employees	02.05.2018	1 500	-1 500	-	200	4 years	66,22	99 325
Program 20: Non-executive employees	03.05.2018	1 705	-	1 705	200	4 years	66,15	112 787
Program 21: Non-executive employees	01.08.2018	2 527	-	2 527	200	4 years	66,44	167 901
Program 22: Non-executive employees	31.08.2019	15 000	-	15 000	38	4 years	164,31	2 464 616
Program 23: Non-executive employees	01.09.2018	1 228	-	1 228	200	4 years	66,65	81 847
Program 24: Non-executive employees	03.09.2019	2 527	-	2 527	200	4 years	66,61	168 333
Program 25: Non-executive employees	01.11.2018	4 411	-	4 411	200	4 years	67,45	297 530
Program 26: Non-executive employees	15.11.2018	2 068	-	2 068	200	4 years	67,83	140 281
Program 27: Non-executive employees	26.11.2018	2 228	-	2 228	200	4 years	67,67	150 769
Program 28: Non-executive employees	01.12.2018	2 941	-	2 941	200	4 years	67,66	198 987
Program 29: Non-executive employees	03.12.2018	4 572	-	4 572	200	4 years	67,57	308 936
Program 30: Non-executive employees	17.12.2018	977	-	977	200	4 years	67,98	66 420

Note 7 – Shareholder's equity

Equity changes in the year	Share capital and premium	Own shares	Other paid in equity	Other equity	Total
Equity at 01.01.	**856 401**	**0**	**2 495 930**	**69 492 577**	**72 844 907**
Profit for the year	0	0	0	-30 127 655	-30 127 655
Employee share schemes – value of employee services	0	0	3 718 230	0	3 718 230
Capital contribution	0	0	0	0	0
Shareholders' equity at 31.12.2018	**856 401**	**0**	**6 214 160**	**39 364 922**	**46 435 482**

Note 8 – Pensions

Norwegian companies are required to have occupational pension schemes according to the law on compulsory occupational pension. The Norwegian companies' pension schemes meet the requirements of this act.

Note 9 – Taxes

Calculation of deferred tax/deferred tax benefit:

Temporary differences	**2018**	**2017**
Intangible assets	5 989 641	
Accounts receivables	9 314 875	337 225
Net temporary differences	15 304 516	337 225
Tax losses carried forward	225 384 858	202 708 610
Basis for deferred tax	**240 689 374**	**203 045 835**

Deferred tax	52 951 662	46 700 542
Deferred tax benefit not shown in the balance sheet	0	0
Deferred tax in the balance sheet	**52 951 662**	**46 700 542**

Components of the income tax expense:		
Amounts in NOK		
Payable tax on this year's result	**0**	**0**
Total payable tax	**0**	**0**
Change in deferred tax based on original tax rate	-8 658 014	-11 189 280
Change in deferred tax due to change in tax rate	2 406 894	2 030 458
Calculated tax expense/(Income)	**-6 251 120**	**- 9 158 822**

Significant estimates
The deferred tax assets include an amount of NOK 49 584 669 which relates to carried forward tax. The losses have been incurred over the last several years mainly due to development cost relating to immaterial assets which do not meet the capitalisation criteria. An expense of MNOK 19.9 has been recognized in the income statement related to research and development activities in 2018. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on signed customer contracts which form the basis for approved business plans and budgets for the company. The company is expected to generate taxable income from 2019 onwards, and the carried forward tax loss is expected to be utilized within the next two years. The losses can be carried forward indefinitely and have no expiry date.

Note 10 – Payroll expenses, number of employees, remunerations, loans to employees etc.

Payroll expenses	**2018**	**2017**
Amounts in NOK		
Salary expenses	33 846 411	22 997 692
Social security cost	3 368 071	2 892 273
Pension costs	396 301	426 589
Option costs	3 718 230	2 175 544
Other costs	598 838	1 744 609
Government grants	-3 754 664	-4 000 890
Capitalized R&D Personnel cost	-6 903 966	0
Total payable tax	**31 269 222**	**26 235 817**

The number of employees in the accounting years have been:	42	25

Remuneration to executives in 2018	**General manager**	**Board**
Amounts in NOK		
Salaries/board fee	2 934 711	850 000
Pension expenses	0	0
Other remuneration	103 671	0

The salary of the Group CEO is determined by the Board. The salary of the CFO and the other members of the executive management is determined by the Group CEO.

Bonus is based on performance targets in Elliptic Laboratories Group. The maximum size of bonus payment to the Group CEO is determined by the Board. Any bonuses to the CFO and the other members of the executive management is determined by the Group CEO.

The Group CEO has 3 months of paid termination notice if the company terminates the employment relationship. The Chief Financial Officer has 6 months of paid termination notice if the company terminates the employment relationship.

No loans or pledges have been given to the Group CEO, Chairman of the Board or other related parties. No share-based remuneration has been given to the Board of Directors in 2018, 2017, 2016 or 2015.

Expensed audit fee	**2018**	**2017**
Amounts in NOK		
Statutory audit (incl. technical assistance with financial statements)	140 000	75 000
Other assurance services	10 000	0
Tax advisory fee (incl. technical assistance with tax return)	214 113	5 000
Other assistance (to be specified)	365 924	0
Total audit fees	**730 037**	**80 000**

Note 11 – Specification of financial income and expenses

Financial income *(Amounts in NOK)*	**2018**	**2017**
Exchange rate gains	2 093 973	353 338
Other financial income	89 583	165 905
Total financial income	**2 183 556**	**519 243**

Financial expenses *(Amounts in NOK)*	**2018**	**2017**
Exchange rate loss	601 806	28 472
Other financial expenses	2 346 688	1 061 721
Total financial income	**2 948 494**	1 090 193

Note 12 – Government grants

The company has applied for and received governmental grants in 2018 and 2017.

Public grants *(Amounts in NOK)*	**2018**	**2017**
Reduction capitalised patents	447 490	315 405
Cost reduction	4 552 510	5 009 514
Recognized as other operating revenue	2 031 597	2 954 688
Total public grants	**7 031 597**	**8 279 607**

Note 13 – Related-party transactions

Remuneration to CEO and board of directors is disclosed in note 10, and balance with group companies is disclosed in note 4.

Related party transactions:

	2018
a) Sales of goods and services	
Sales of goods:	0
Sales of services:	3 727 916
b) Purchases of goods and services	
Purchase of goods:	0
Purchase of services:	20 433 327

4 Auditor's report

To the General Meeting of Elliptic Laboratories AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Elliptic Laboratories AS, which comprise:

- The financial statements of the parent company Elliptic Laboratories AS (the Company), which comprise the balance sheet as at 31 December 2018, the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Elliptic Laboratories AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and 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 accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and 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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

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Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, 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 and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to https://revisorforeningen.no/revisjonsberetninger pwc

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 the proposed 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 26 June 2019
PricewaterhouseCoopers AS

Eivind Nilsen
State Authorised Public Accountant

ellipticlabs

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