

HIDDEN SOLUTIONS ASA

Q2 2019

HALF – YEAR FINANCIAL REPORT

FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2019

Important events in the second quarter of 2019 and year to date:

Significant changes in the Group's operations

Since 31 December 2018, significant changes have taken place as Hiddn Security AS, the 100 per cent owned subsidiary of Hiddn Solutions ASA, entered a petition for bankruptcy proceeding on 21 May 2019. Hiddn Security AS was the main operating activity of the Group.

During 2018, Hiddn Security AS delivered on the strategy and broadened the product portfolio and established new partnerships and distribution channels. Thus, going into 2019, Hiddn Security was aiming at increased sales taking advantage of expanding markets following a sharpened market focus on keeping information secure. Hence, the Group expected a significant increase in revenue for 2019 with full effect from the second quarter of 2019 and onwards.

At the end of first quarter of 2019, Hiddn Security AS reported lower operating revenue than budgeted and continued loss making. This negative trend increased in second quarter of 2019. Hence, the Board of Directors immediately announced a cost reduction program for the rest of 2019. Following the announcement, the Board of Directors and management worked to get the cost reduction program in place. A new assessment of future sales and probabilities to find bases for a profit-making business was also performed. The conclusion from the assessment was that this would involve unacceptable risk and call for additional future funding. Hence, Hiddn Solutions ASA informed the board of directors in Hiddn Security AS, that they could not contribute with further funding. Following this, the board of directors in Hiddn Security AS made an evaluation of the situation and then made a resolution to enter a petition for bankruptcy proceedings with Oslo enforcement, bankruptcy and probate Court. The petition was filed 21 May 2019.

Changes in management

On 15 July 2019, the Company announced that Carl Espen Wollebekk resigned from his position as CEO. Chairman of the Board Mr. Øystein Tvenge acted as CEO on a temporary basis until Jørgen Waaler was appointed as CEO for the Company through a part-time management for hire agreement effective from 1 August 2019. Mr. Waaler has an MBA from University of Wyoming and held the CEO position in the listed company StrongPoint ASA in 16 years until 1 August 2018. During the last year he has taken on board of director assignments and other management for hire assignments through his company Waaler AS.

On 1 May 2019, Christoffer Lundgreen took up the position as managing director of Finn Clausen Sikkerhetssystemer AS, the 100 per cent owned subsidiary of Hiddn Solutions ASA. In his position he will have a special focus on sales and marketing activities as well as pursuing several partners – and product sourcing opportunities in order to reach profitability.

Recapitalization efforts– secured commitment in a private placement

On 3 July 2019, the Company announced that it was insolvent and operated at a loss. Notwithstanding the situation, the Board of Directors considered that there were grounds to continue a process, safeguarding creditor interests, whereby exploring possibilities for the Company, which could also be in the shareholders' interests. The Oslo Stock Exchange moved HIDDEN to a special observation until further clarification of the situation was made.

On 17 July 2019, the Company announced that it had received commitments in a contemplated private placement towards certain existing shareholders and new investors. The aggregate subscription amount committed in the private placement was NOK 8,550,000, including issuance of shares in a debt conversion of NOK 1,652,700 directed

towards one of the Company's main creditors. The private placement is subject to approval from a shareholder meeting in the Company to take place on 4 September 2019.

Strategic initiatives and growth opportunities

During first half of 2019, the Company has worked with various strategic alternatives, including a possible business combination with Tactilis Pte Ltd, Energos Group and Ayfie Group respectively. As announced by the Company on 24 June 2019 and on 5 July 2019, these initiatives were terminated due to the financial situation in the Company.

The guaranteed private placement to be approved by the shareholder meeting on 4 September 2019, has, however, secured the Company with sufficient funds to cover all outstanding debt as well as working capital to pursue strategic opportunities to add new business to the Group and with the possibility to create interesting opportunities for growth and value creation.

CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2019 (UNAUDITED)

Hiddn Solutions ASA is a public limited company headquartered in Oslo, Norway and listed on the Oslo Stock Exchange under the ticker HIDDN.

The Company's operating business has during the last few years, mainly been through the subsidiary, Hiddn Security AS, a company offering hardware-based encrypted products. On 21 May 2019, Hiddn Security AS filed a petition for bankruptcy and bankruptcy proceedings have commenced. Hence, in these financial statements the results of Hiddn Security AS have been classified as result from discontinued operations and with corresponding reclassification in comparable periods.

The Board of Directors approved the report on 29 August 2019.

PROFIT OR LOSS STATEMENT

Revenues

The Group, through Finn Clausen Sikkerhetssystemer AS ("FCS"), recorded operating revenues of NOK 2.3 million in the second quarter of 2019, down from NOK 3.3 million in the corresponding quarter of 2018. Revenues for the six-month period ended 30 June 2019 was NOK 5.0 million compared to NOK 7.3 million in the corresponding period in 2018. The reduction is primarily due to organizational restructuring and hence lack of focused sales and marketing efforts in FCS. Measures have been implemented and FCS has now dedicated and focused sales and marketing resources in place.

Cost of goods sold

The Group recorded cost of goods sold of NOK 1.3 million in the second quarter of 2019 compared to cost of goods sold of NOK 2.0 million in the corresponding quarter of 2018. Cost of goods sold for the six-month period ended 30 June 2019 was NOK 2.7 million compared to NOK 4.3 million in the comparable period in 2018.

Payroll expenses

Payroll expenses were NOK 1.9 million in the second quarter of 2019 compared to NOK 2.8 million in the corresponding quarter of 2018. Payroll expenses were NOK 3.8 million in the six-month period ended 30 June

2019 compared to NOK 5 million in the same period in 2018. The reduced payroll expenses are primarily due to share options being cancelled during the first six months of 2019.

Depreciation and amortization

Depreciation and amortization expenses amounted to NOK 185 thousand during the second quarter of 2019 compared to NOK 184 thousand in the same period in 2018. Depreciation and amortization expenses amounted to NOK 370 thousand during the six-month ended 30 June 2019 compared to NOK 319 thousand in the same period in 2018.

Impairment of goodwill and intangible assets

On 16 May 2017, the Company acquired 100% of the outstanding shares of FCS at a purchase price of NOK 12.5 million. Due to continuing declining revenue and earnings, the Group recognized an impairment loss of NOK 11.2 million in second quarter of 2019 related to goodwill and intangible assets recognized as part of the purchase price allocation at the acquisition date of FCS.

In second quarter of 2019, the Group wrote down NOK 7.8 million of goodwill and NOK 3.4 million of intangible assets related to the customer base.

Other operating expenses

Other operating expenses were NOK 4.3 million in the second quarter of 2019 compared to NOK 2.7 million in the corresponding quarter of 2018. Other operating expenses for the six-month period ended 30 June 2019 amounted to NOK 8.5 million compared to NOK 5.5 million in the six-month period ended 30 June 2018. The increase is primarily related to legal expenses in connection with the initiated strategic initiatives during first and second quarter of 2019.

Net financial items

Net financial items were minus NOK 140 thousand in the second quarter of 2019 compared to minus NOK 114 thousand in the comparable period in 2018. Net financial items were minus NOK 601 thousand in the six-month period ended 30 June 2019 compared to minus NOK 181 thousand in the comparable period in 2018.

Result from discontinued operations

Hiddn Security declared bankruptcy proceedings in second quarter of 2019 and the result of Hiddn Security AS has been classified as a result of discontinued operations and with corresponding reclassification in comparable periods. The Group recorded result from discontinued operations of NOK 1.3 million in the second quarter of 2019 compared to a loss of NOK 6.2 million in the corresponding quarter of 2018. Loss from discontinued operations for the six-month period ended 30 June 2019 was NOK 1.9 million compared to a loss of NOK 14.3 million in the comparable period in 2018.

Net loss

Loss for the second quarter of 2019 was NOK 15.3 million compared to a loss of NOK 10.8 million in the corresponding quarter of 2018. Loss for the six-month period ended 30 June 2019 was NOK 24.2 million compared to a loss of NOK 22.3 million in the same period of 2018.

BALANCE SHEET

Cash and short-term deposits amounted to NOK 1.2 million as per 30 June 2019 compared to NOK 1.3 million at 31 December 2018. Additionally, at 31 December 2018 overdraft facilities was NOK 2.6 million.

As per 30 June 2019, the total assets were NOK 7.1 million compared to NOK 25.5 million at 31 December 2018. Total equity was negative and amounted to NOK 2.2 million at 30 June 2019. Total equity at 31 December 2018 was NOK 2.8 million.

On 17 July 2019, the Company received commitments in a contemplated private placement towards existing shareholders and new investors. The aggregate subscription amount committed in the Private Placement was NOK 8.6 million. The private placement is subject to approval from an extraordinary general meeting in the Company to take place on 4 September 2019.

BUSINESS OUTLOOK

The Board of Directors will continue evaluating and exploring strategic opportunities to add new business to the Group in order to create interesting opportunities for growth and value creation. The Company has already been contacted by several unlisted companies for a possible combination with their businesses and the Company will evaluate and continue these discussions to the benefit of the Company and its shareholders. Depending on the outcome of these discussions, this could also include a strategic review of FCS. The company has reduced costs significantly and staff is down to three colleagues – all in sales & marketing. The company is pursuing several partners – and product sourcing opportunities in order to reach profitability.

Oslo, 29 August 2019

Øystein Tvenge
chairman

Jan Christian Opsahl

Jeanette Dyhre Kvisvik

Jørgen Waaler
CEO

DECLARATION FROM THE BOARD OF DIRECTORS

We confirm, to the best of our knowledge, that the unaudited, condensed half-year financial statements for the period 1 January to 30 June 2019 have been prepared in conformity with IAS 34 Interim Reporting and that the information in the financial statements provides a fair view of the Group's assets, liabilities, financial position and overall results, and that the half-year report provides a fair overview of the information specified in section 5-6, fourth paragraph, of the Norwegian Securities Trading Act.

Oslo, 29 August 2019

Øystein Tvenge
chairman

Jan Christian Opsahl

Jeanette Dyhre Kvisvik

Jørgen Waaler
CEO

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

<i>Amounts in NOK thousands</i>	NOTE	1.4-30.6 2019 (unaudited)	1.4-30.06 2018 (unaudited)	1.1-30.06 2019 (unaudited)	1.1-30.06 2018 (unaudited)
Revenues	2	2 271	3 253	5 008	7 325
Other income		-	-	-	-
Total revenue and other income		2 271	3 253	5 008	7 325
Cost of materials and services		(1 257)	(2 013)	(2 735)	(4 316)
Payroll expenses	3,4	(1 856)	(2 817)	(3 826)	(5 011)
Depreciation & amortization		(185)	(184)	(370)	(319)
Impairment of goodwill and intangible assets		(11 217)	-	(11 217)	-
Other operating expenses	4	(4 282)	(2 736)	(8 484)	(5 495)
Operating loss		(16 526)	(4 497)	(21 624)	(7 816)
Interest income		2	4	2	4
Other financial income		1	(5)	7	-
Interest expense		(104)	(32)	(296)	(61)
Other financial expenses		(39)	(81)	(314)	(124)
Net financial items		(140)	(114)	(601)	(181)
Loss from continuing operations		(16 666)	(4 611)	(22 225)	(7 997)
Discontinued operations:					
Result from discontinued operations		1 345	(6 156)	(1 946)	(14 311)
Loss for the period		(15 321)	(10 767)	(24 171)	(22 308)
Profit/(loss) attributable to:					
Equity holders of parent company		(15 321)	(10 767)	(24 171)	(22 308)
Non-controlling interest		-	-	-	-
Basic and diluted earnings per share		(0,14)	(0,12)	(0,24)	(0,27)
Basic and diluted earning per share from continuing operations		(0,15)	(0,05)	(0,22)	(0,10)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>Amounts in NOK thousands</i>	NOTE	1.4-30.6 2019 (unaudited)	1.4-30.06 2018 (unaudited)	1.1-30.06 2019 (unaudited)	1.1-30.06 2018 (unaudited)
Net profit/(loss) for the period		(15 321)	(10 767)	(24 171)	(22 308)
Other comprehensive income:					
<i>Items that may be reclassified subsequently through profit or loss:</i>		-		-	
<i>Items that will not be reclassified subsequently to profit or loss:</i>		-		-	
Other comprehensive income directly against equity		-		-	-
Total comprehensive income for the period		(15 321)	(10 767)	(24 171)	(22 308)
Total comprehensive income attributable to:					
Equity holders of parent company		(15 321)	(10 767)	(24 171)	(22 308)
Non-controlling interest		-	-	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>Amounts in NOK thousands</i>	NOTES	Pr. 30.06 2019 Unaudited	Pr. 31.12 2018 Audited
ASSETS			
Non-current assets			
Property, plant, and equipment		33	153
Right-of-use assets		150	-
Goodwill		-	7 771
Other intangible assets		-	3 738
Total non-current assets		183	11 662
Current assets			
Inventory		2 602	5 618
Accounts receivable		1 262	4 983
Other receivables		1 880	1 901
Cash and short-term deposits		1 182	1 310
Total current assets		6 926	13 812
TOTAL ASSETS		7 109	25 474
EQUITY AND LIABILITIES			
Equity			
Share capital		39 300	31 192
Additional paid-in capital		210 938	199 016
Other paid-in-capital		14 345	15 240
Accumulated losses		(266 781)	(242 610)
Total equity		(2 198)	2 838
Non-current liabilities			
Lease liabilities		126	-
Total non-current liabilities		126	-
Current liabilities			
Current portion of long-term debt		-	7 056
Overdraft facilities		-	2 644
Trade payables		5 434	5 620
Social security payable, etc.		341	1 140
Other short-term debt		3 406	6 176
Total current liabilities		9 181	22 636
Total liabilities		9 307	22 636
TOTAL EQUITY AND LIABILITIES		7 109	25 474

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

<i>Amounts in NOK thousands</i>	Share capital	Share premium	Other-paid-in capital	Accumulated losses	Total equity
Equity 1 January 2018	25 364	178 245	13 243	(200 313)	16 539
Loss for period	-	-	-	(22 308)	(22 308)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(22 308)	(22 308)
Share-based compensation	-	-	1 470	-	1 470
Issue of shares	5 828	24 172	-	-	30 000
Transaction costs	-	(5 201)	-	-	(5 201)
Equity 30 June 2018	31 192	197 216	14 713	(222 621)	20 500
Equity 1 January 2019	31 192	199 016	15 240	(242 610)	2 838
Loss for period	-	-	-	(24 171)	(24 171)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(24 171)	(24 171)
Share-based compensation	-	-	(895)	-	(895)
Issue of shares	8 108	11 922	-	-	20 030
Equity 30 June 2019	39 300	210 938	14 345	(266 781)	(2 198)

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>Amounts in NOK thousands</i>	NOTE	1.1-30.06 2019 (unaudited)	1.1-30.06 2018 (unaudited)
Net cash used in operating activities		(12 968)	(22 860)
<i>Cash flow from investing activities:</i>			
Investment in intangible assets		(3 617)	-
Net cash from investing activities		(3 617)	-
<i>Cash flow from financing activities:</i>			
Share issuance		20 030	30 000
Transaction cost related to share issue		-	(5 201)
Proceeds from short-term loans		-	10 000
Repayment of short-term loans		-	(10 000)
Repayment of current debt		(881)	(571)
Repayment of lease liabilities		(48)	-
Net cash from financing activities		19 101	24 228
Net change in cash and cash equivalents		2 516	1 368
Cash, cash equivalents and overdraft at beginning of period		(1 334)	12 005
Cash, cash equivalents and overdraft-end of period		1 182	13 373
Cash and cash equivalents		1 182	13 373
Overdraft		-	-
Net cash at end of period		1 182	13 373

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Corporate information & accounting policies

Corporate information

Hiddn Solutions ASA (the “Company”) is a public limited company, listed on the Oslo Stock Exchange under the ticker HIDDN. The Company’s operating activities are reported through the subsidiaries Finn Clausen Sikkerhetssystemer AS (“FCS”) - a company supplying secure cabinets and physical filing systems (together named the “Group”). The Company is headquartered in Nedre Vollgate 4, 0158 Oslo. The Board of Directors approved the report on 29 August 2019.

As of 30 June 2019, the Group had 5 employees.

Basis of preparation

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

IFRS 16:

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

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

Implementation options:

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

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

NOTE 2 – Revenues and segment information

Segment information

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

The encryption segment was discontinued in the second quarter of 2019 when the subsidiary Hiddn Security AS declared bankruptcy on 21 May 2019. See note 4 - discontinued operations - for further information.

1.1-30.06.2019 <i>Amounts in NOK thousands</i>	Archive, storage, and security products	Corporate costs, adjustments and eliminations	Consolidated
Operating revenues	5 008	-	5 008
Segment result (operating income/(loss))	(451)	(21 173)	(21 624)

1.1-30.06.2018 <i>Amounts in NOK thousands</i>	Archive, storage, and security products	Corporate costs, adjustments and eliminations	Consolidated
Operating revenues	7 325	-	7 325
Segment result (operating income/(loss))	(9)	(7 807)	(7 816)

NOTE 3 – Impairment of goodwill and intangible assets

On 16 May 2017, the Company acquired 100% of the outstanding shares of FCS for a purchase price of NOK 12.5 million.

Due to continuing declining revenue and earnings, the Group recognized an impairment loss of NOK 11.2 million in second quarter of 2019 related to goodwill and intangible assets recognised as part of the purchase price allocation at the acquisition date of FCS AS.

The Group recognized an impairment loss of NOK 7.8 million of goodwill and NOK 3.4 million of intangible assets related to the customer base.

NOTE 4 – Discontinued operations

On 21 May 2019, Hiddn Security AS declared bankruptcy. Hiddn Security AS was the Group's main operating segment, the encryption product segment.

The table below shows the components of the result from discontinued operations:

DISCONTINUED OPERATIONS:

(amounts in NOK thousands)	1.1-30.6 2019	1.1-30.6 2018
Revenue	961	3 554
Expenses	(7 275)	(17 080)
Operating loss	(6 314)	(13 526)
Net finance items	(367)	(785)
Net gain on abandonment	4 735	-
Total result from discontinued operations	(1 946)	(14 311)

Since Hiddn Security AS had negative equity on the date of bankruptcy a gain was recorded when the net debt was derecognized from the financial statements. Included in the derecognized debt was interest-bearing debt to Innovasjon Norge, with a carrying amount of NOK 5.8 million.

NOTE 5 – Events after the balance sheet date

On 15 July 2019, the Company announced that the CEO, Carl Espen Wollebekk resigned from his position. Following this, Jørgen Waaler was appointed as CEO with effect from 1 August 2019.

On 17 July 2019, the Company announced that it had received commitments in a contemplated private placement towards certain existing shareholders and a new investor of NOK 8,550,000 including issuance of shares in a debt conversion of NOK 1,652,700 directed towards one of the Company's main creditors. The private placement is subject to approval from an extraordinary general meeting in the Company to take place on 4 September 2019, the shares in the private placement and debt conversion will be subscribed at a proposed new nominal value of the Company's shares of NOK 0.05, resulting in issuance of 171,000,000 new shares in the Company at a new nominal value of NOK 0.05.

Completion of a share capital decrease by decrease of the nominal value of the Company's shares and the private placement will be proposed to the extraordinary general meeting on 4 September 2019. Subject to approval, the Company's share capital after the share capital decrease and the private placement (including the debt conversion), will be NOK 14,329,376.00 divided on 286,587,520 shares, each with a nominal value of NOK 0.05. The aforementioned figures take into consideration the resolved, but not registered, issuance of 19 shares at the Company's annual general meeting on 28 June 2019, but not the resolved board authorization to carry out a 20:1 reverse share split resolved at the same general meeting.