

ANNUAL
REPORT

2013



POWERED BY VALUES

 **eSmart**
SYSTEMS

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THIS IS ESMART - PIONEERING THE SMART GRID REVOLUTION

EVOLUTION OF ESMART – SUPPLIER OF **NEXT GENERATION SMART GRID SOLUTIONS**

eSmart Systems is stacked with deep market knowledge experts with a long, strong history of developing and delivering pioneering IT-system solutions on a world-class scale to world-leading energy players. With decades of experience in energy trading, risk management, systems operation, customer information systems and smart grid software solutions, eSmart's team boasts an average 15 years international experience at delivering IT solutions to physical and financial power exchanges in Europe, North America, Asia and Australia.

As a part of the institute for Energy Technology, eSmart represents the core achievers from the development and delivery of the world's

first power exchange to Nord Pool, the Nordic Power Exchange, in 1991. IFE spun-off these activities in 1996 forming Hand-El Skandinavia, which focused its resources and brain power on building enterprise system solutions for power exchanges. These systems were delivered to energy exchanges like EEX in Germany, PowerNext in France, California Power Exchange and many more. Seeing the tremendous upside in a solution that optimizes the profitability of commodity traders and producers, Hand-El Skandinavia was merged with OMX Group and subsequently acquired by NASDAQ.

As a consequence of the deregulation processes during the '90's, fundamental changes in

SCADA/EMS systems, decision support systems and physical market systems were required. Due to these new requirements, Hand-El delivered several new solutions and products related to TSO/ISO (Transmission System Operator/Independent System Operator) operational centers. These solutions empowered users to monitor and control the grid and the market according to the new market rules.

When the opportunity presented itself in 2003, the executive team bought out the ETRM (Energy Trading and Risk Management Systems) and Physical power exchanges business and renamed it Navita. Navita developed and delivered its portfolio solutions, Pomax, to prominent energy companies globally, such as EDF, E.ON, Fortum, Mercuria, SEMO (Ireland's IMO- Independent Market Operator), IMO in Perth Australia, Koch Industries in US, Bruce Power in Canada and many more.

The eSmart management team was also the initiator and key team members behind the development of customer Information systems, which were acquired by Tieto and renamed CAB. The CAB system has been delivered to a number of energy sales and grid companies, and is today a clear market leader in the Nordics with more than 3,5 million end-users handled by the system.

These activities represent the ability to process huge data flows, accommodate massive changes due to market dynamics and the need for high quality systems supporting business-critical functions. We are persuaded that this experience is vital to developing the next generation smart grid software that will empower the industry to bridge the transition to an optimal energy system with optimal response capability and demand flexibility. Our history tells a lot about our future.

"Utilities will face a number of difficulties in upcoming years that will disrupt business processes and create new opportunities, as well as challenge incumbent technology providers and their solutions."

- Gartner 2013



CEO COMMENTS

POWERING SMART, GREEN GRIDS

THE REALITY: INNOVATIVE, DISRUPTIVE TECHNOLOGY

The utility industry is undergoing a paradigm-shattering transformation triggered by the relentless onslaught from every side of new technologies such as distributed renewables, smart electronics, demand response solutions and information and communication technologies.

The impact of these disruptions, already being felt in the massive erosion of wholesale prices in European markets, will eventually threaten governing utility business models as forward-thinking players embrace new opportunities made possible by new technological realities. Other players, however, either unable or unwilling to adapt, will likely “wither and die”, as RWE, one of Europe’s largest utilities, summarizes industry prospects.

In particular, the introduction of smart technology to energy production, distribution and consumption is producing a tsunami of raw, real-time data completely overwhelming to existing utility IT and OT infrastructures. Buried in this data deluge is an untapped treasure of actionable insights energy market participants can utilize to optimize investments, reduce carbon footprint, and reap green profits

through faster, better, safer energy decisions. Capitalizing on current capabilities however requires vast new system solutions, which do not yet exist. In the face of these new technologies and trends, and in the absence of extreme data handling tools, questions arise concerning the industry’s stability and survivability.

THE OPPORTUNITY: BIG DATA, REAL TIME, ADAPTABLE, INTELLIGENT ANALYTICS

Investment in utility analytics is already growing exponentially and forecasted by GTM Analytics to reach \$20.6 bn by 2020. Harnessing the power of extreme data handling to extract such insights has huge demands however: lightning-fast analytics and massive computing power. It requires pioneering new IT systems capable of drilling through vast data volumes and performing deep, real-time analysis and producing clear, actionable information.

The answer to this IT challenge, lies in the convergence of social, mobile, cloud and big data technologies, which are revolutionizing old business models and creating new opportunities. Gartner calls these technologies the “Nexus of Forces” and declares it the technology

platform of the future. The Nexus of Forces have conspired to create a formidable new IT platform with enormous capacity to exploit never-before energy market capabilities.

POSITIONED TO LEAD

Timing is always a critical success factor. The IT revolution has only just begun. As the world awakens to today's new utility realities, the rush to develop a highly effective operational intelligence system and bridge the transition to an optimal energy system is a new "race to the Pole".

With decades of deep energy industry insight and IT solution development experience, eSmart's founders recognized early both the impact and opportunities of disruptive technologies to utilities as well as the frontier opportunity of uniting the Nexus of Forces into an intelligent energy management system (iEMS).

In this "race to the Pole", eSmart has already secured pole position. It's a race we intend to win and win prime-mover advantages. Our goal is not to participate in shaping the future of the utility industry. Our goal is to lead it:

Our clear aim is to deliver disruptive technology based on the Nexus of IT forces to the energy industry and to be the number one challenger to traditional vendors.

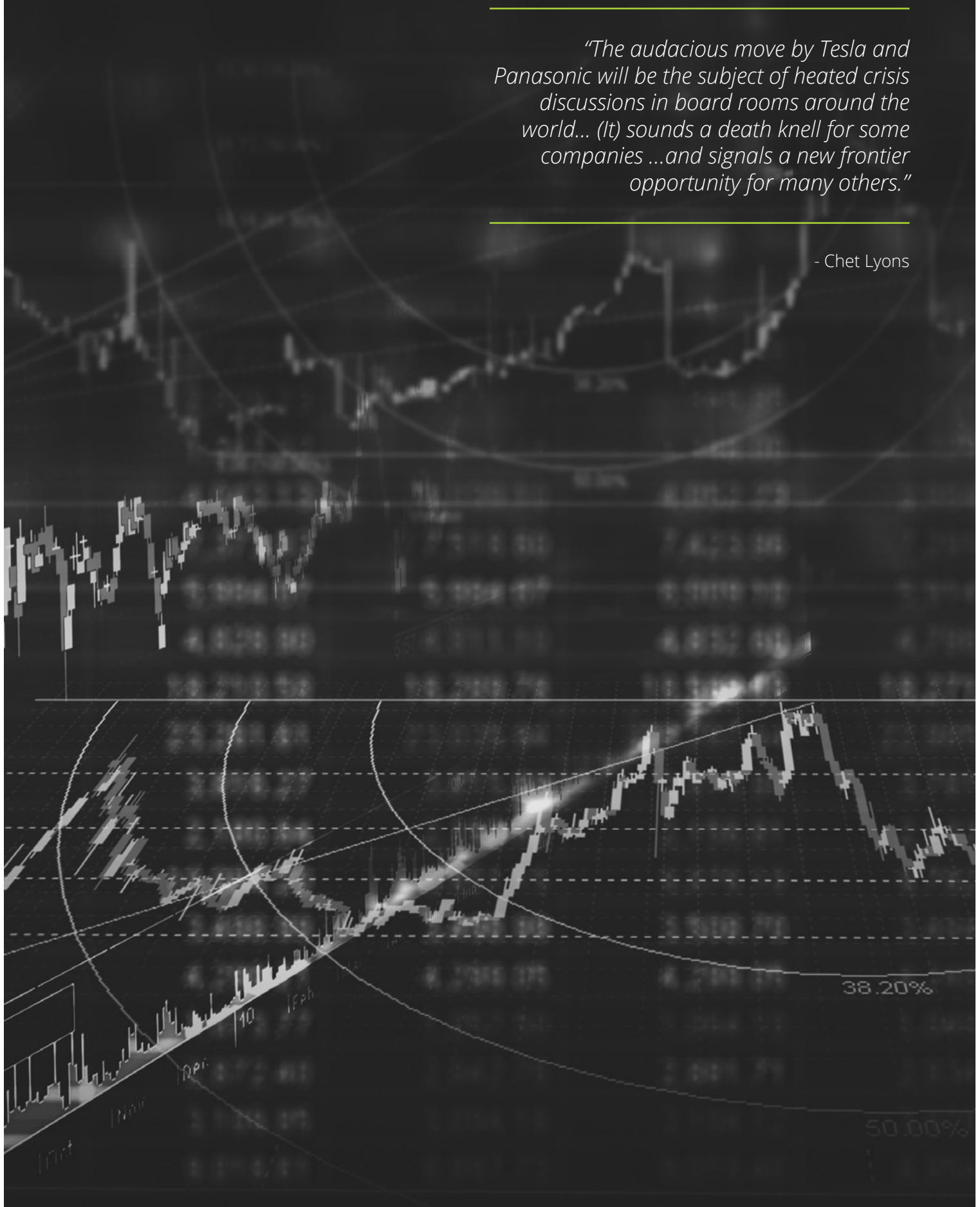
THE DRIVING FORCE: ESMART SOLUTIONS

Pooling the powers of these formidable forces, eSmart is developing an operational intelligence solution to uniquely exploit extreme data volumes, generate real-time analytics, and uncover buried actionable insights – insights with the power to reduce energy consumption, reduce energy investment and reduce carbon footprints.

eSmart's iEMS will optimize the entire energy eco-system enabling grid companies, large energy consumers, prosumers and retailers to enhance their response capabilities and demand flexibility; reduce their energy consumption, minimize capital investments, and climate emissions; and maximize profits by trading their available flexibility.

"The audacious move by Tesla and Panasonic will be the subject of heated crisis discussions in board rooms around the world... (It) sounds a death knell for some companies ...and signals a new frontier opportunity for many others."

- Chet Lyons



THE POWER OF VALUES

Leading an industry requires more than just having a sense of what you are and who you want to be. It requires a clearly and consciously defined persona embedded in our collective personality, in every single business process, and consistently lived out. At the heart of this are an organization's values. We believe that organizational values drive organizational performance. At eSmart, values-driven processes position our customers at the center of all we do and critically contribute to our competitive advantage in the global marketplace. This is the real power of values and why we value integrity, teamwork, excellence and innovation above all else.

Integrity: We conduct ourselves ethically, openly, honestly, and respectfully to build strong and successful relations with all our stakeholders based on mutual trust and care.

Teamwork: We trust and support each other to bring out and build on the best from our combined talents, experiences, knowledge and cultures. We believe that only by sharing ideas, technologies and talents can we achieve and sustain profitable growth for all our stakeholders.

Excellence: We take pride in our work, continuously improve our skills and abilities, and bring every resource in our arsenal to bear to meet or exceed our customers' expectations.

Innovation: We strive to embrace change, encourage and support new ideas, methods, and remain committed to continuous improvement as we seek out the most creative solutions to solving our customers' challenges, enabling them to seize new, more profitable opportunities.

AN IMPRESSIVE FIRST YEAR

2013 was our start-up year and it was a very good year as this report details. In our first year, we assembled and built an impressive team of professionals, we grew our partner base, locked-up partnership agreements, initiated marketing activities, laid plans for our commercial foundation and acquired our first customers. To cap off the year, we posted a financial profit in our very first year of operation. It was a year of solid progress on every front.

With the launch of our first release in the months just ahead, we look forward to commencing and leading a new era in energy and smart grid solutions. Our first marketing activities are already underway. We look forward to a hectic year in which sales and customer acquisition will be a major activity in addition to advancing the great product development work already completed.

I would like to thank the eSmart team for your dedication, hard work and long hours in 2013. I also thank Innovation Norway, NCE (Norwegian Center of Expertise) – Smart Energy Markets, our new partners and customers for your partnership and support in making 2013 a great first year for eSmart.

Halden, March 5, 2014
Knut Johansen, CEO



2013 IN BRIEF

FROM PRODUCT DEVELOPMENT TO COMMERCIAL OFFERING

eSmart Systems commenced operations on the 1st of February 2013, which was a highly successful start-up year for eSmart. Our first focus for the year was to build a team of experienced and leading professionals, which we rapidly did growing from six to more than 20 by year's end. We have already gained significant status and become a sought-out employer in a high-tech environment populated by many interesting and leading tech companies.

Rapid growth is a challenge in itself. We value the need to ensure both the quality of our operations and to restrain growth within the limits of our cash flow. We rely on years of experience, lessons learned and support provided by our market-leading partners to safely navigate clear of common pitfalls during early phases. I am very proud of our fresh but long experienced and highly skilled team, as well as their impressive product development progress, which is on target to complete our much-anticipated first release in Q2 2014.

In addition to building team in 2013, we relocated the company to brand new offices and became the proud owners of a groundbreaking Tesla Model S as our company car and exciting symbol of what disruptive capabilities can produce.

Another of eSmart's major objectives for 2013 was to find the right technology partners. eSmart was launched on the insight that the Smart Grid revolution, coupled with IT-technology sector changes over the past decade, will require new IT-systems built from scratch.

New systems must harness massive data volumes, harvest data value and seamlessly pair with required Smart Grid intelligence at the same time as they empower businesses to take advantage of the IT-revolution.

As a startup, however, we cannot accomplish this alone. Innovation Norway was a great supporter in 2013 helping us to find the right Silicon Valley technology partners and, in concert with the Crown Prince and Princess delegation to the US, to strengthen contact between US companies in Houston and the Valley and Norway.

Perhaps most importantly, Innovation Norway awarded us funding for an IRD-project (Industrial Research and Development Project) to build our platform and our first commercial products. The project is a collaboration between eSmart Systems, Innovation Norway, Fredrikstad Energi, Sogn og Fjordane Energi and TrueSmart Energy in Texas. It is evident that working closely with our partners is very important, and the success of our products is closely linked to the success of this collaboration. During this first year, we held workshops, innovation workouts and weekly meetings to ensure the quality of both product specifications and product deliveries.

We also established a partnership with Lucid, a Bay Area company that delivers operating systems for buildings. We bundled Lucid's software with eSmart's new intelligent Energy Management Systems and started delivering the integrated solution to customers in Europe.



MARKET OUTLOOK AND STRATEGY

THE YEAR AHEAD

We are excited about releasing our first system development product, which is slated for May 2014. Our plan is to have the release in operational production on customer sites in second half of 2014. Although system development is planned to continue until

H1 2016, marketing activities are already underway and commercial sales are expected to give revenue effect in H2 2014.

During 2014, the following offerings will be introduced to the market:

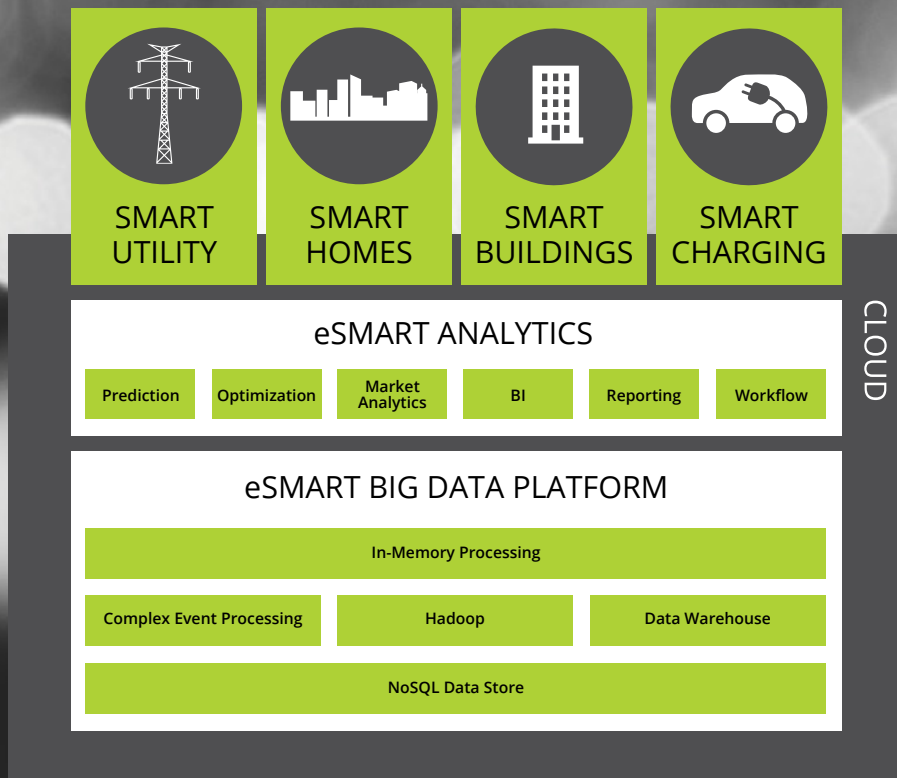


FIGURE 1:
Products and offerings

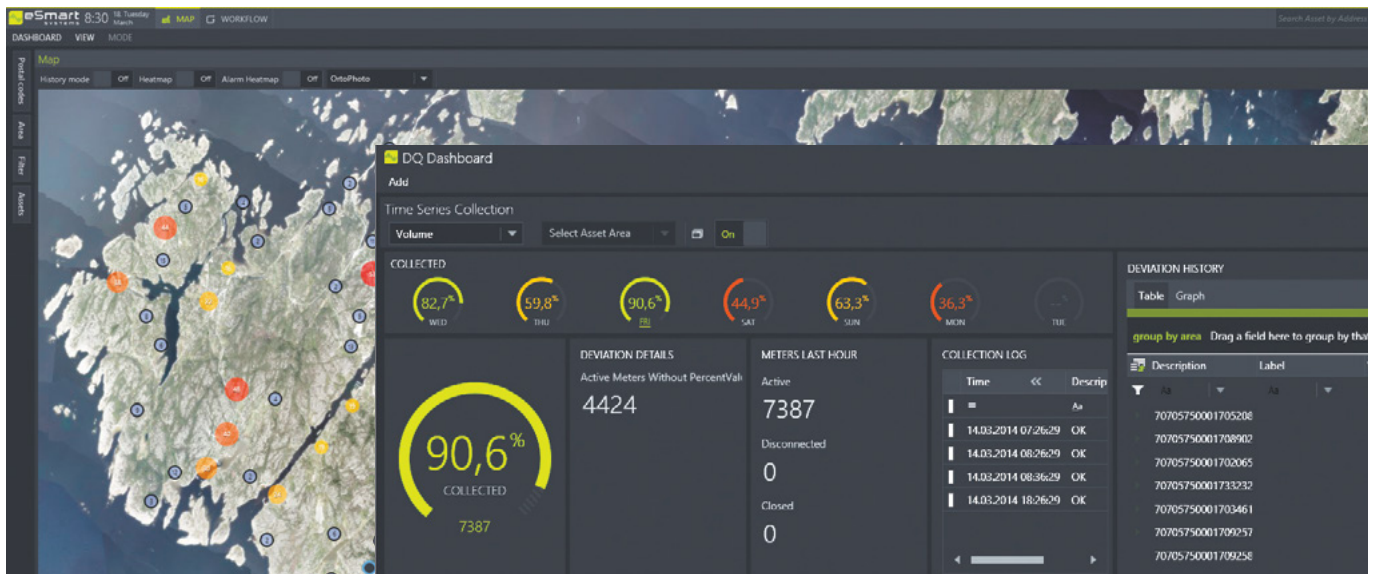


FIGURE 2: Dashboard for meter data management

SMART UTILITY

This is the next generation energy management system for grid operators, energy retailers and aggregators. The key system design has focused on exploiting the new technical infrastructure introduced by Smart Grid to build a solution that efficiently utilizes this new infrastructure potential by automating and improving energy utilities' processes for meter data management (MDM), distribution management (DM) and demand side management (DSM).

A key factor of success is the new cloud based architecture in Microsoft Azure. The advantages of this platform are many including seamless scaling and excellent communication features, which allow us to handle large amounts of data and combine information from various sources efficiently. Collected information is used to automatically handle distributed generation, buildings, homes and electric vehicles as active resources on the grid, and to utilize the transformation from a centralized to a decentralized energy system with smart grid technology as the main contributor.

Examples of solution features:

- Data collection from head end devices and sensors
- Command management (such as remote connect/disconnect)
- Validating, editing and estimating (VEE) meter reads
- Estimating invalid or missing reads
- Aggregating meter reads
- Exception, event and alarm management
- Meter and customer inventory
- Providing data to downstream systems, such as customer information systems (CISs), Elhub
- Providing information directly to end users

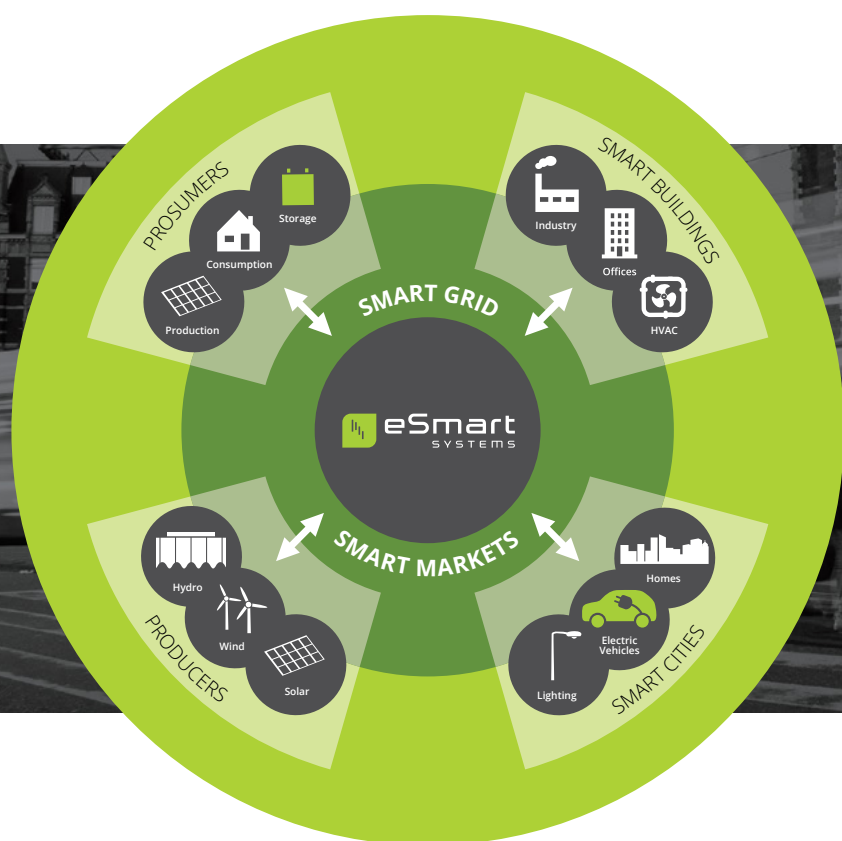


FIGURE 3:
Putting the Smart Grid to work

SMART BUILDINGS AND SMART HOMES

Since more than 40% of the world's energy consumption comes from buildings, involving residential homes, corporate buildings and industrial facilities is of particular interest to eSmart. Integrating the flexibility from smarter buildings and homes with distribution systems and the energy market (ref. fig. 3), gives building operators and homeowners financial and environmental incentives to invest in smarter buildings and homes that can both consume, store and produce energy at optimal times of the day.

eSmart develops solutions for building operators, energy retailers and energy service companies that monitor, predict and control buildings, homes and city infrastructure in close interaction with grid companies and market prices.

SMART CHARGING

One of the most exciting revolutions taking place right now is the development of an EV market. Not only has Tesla showed that electric cars can be both fast, luxurious and high range, but the combination of the newly released models with great incentives from the Norwegian government has caused the electric car market in Norway to explode. Currently, 12% of all new cars sold in Norway are electric, with the Nissan Leaf topping sales charts for months.

This creates an important opening for Norwegian companies to use the first market with a high penetration of EV's to test new business models, technology and create global winners.

For eSmart, the EV is a superb source of user flexibility, providing connected cars and chargers, high flexibility for demand response and local

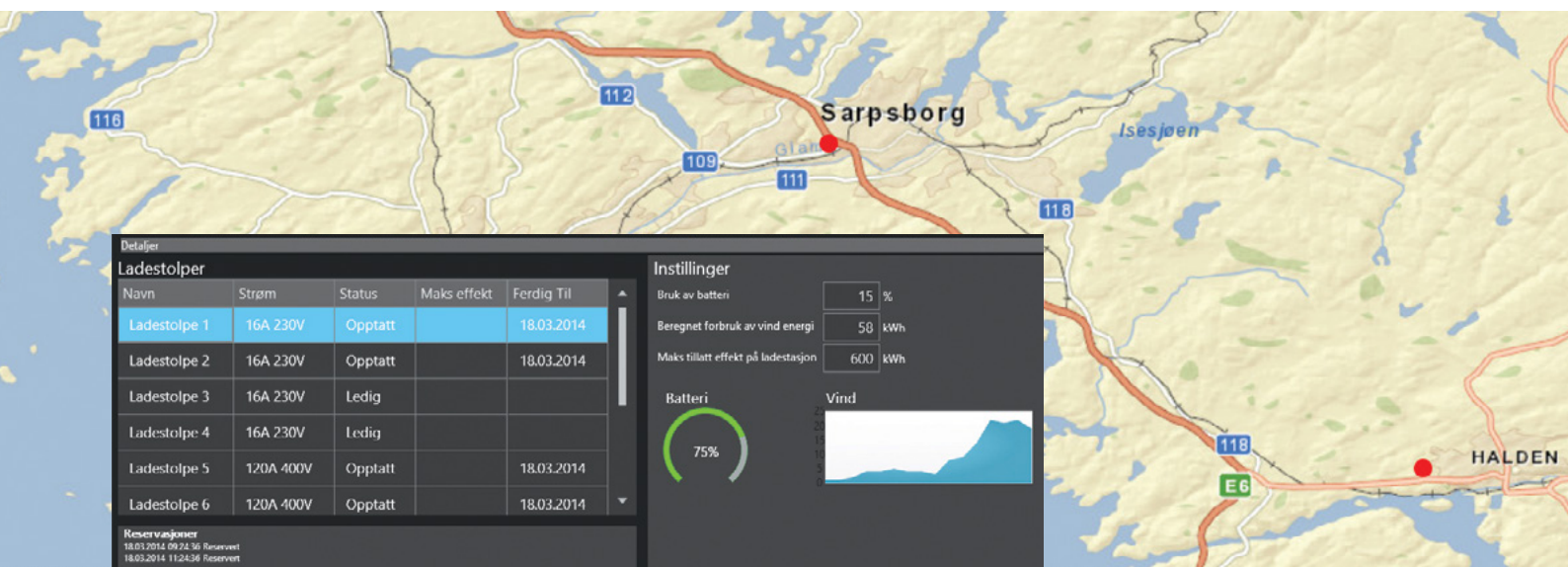


FIGURE 4:
EV charge station overview

storage. We believe in a fundamental principle: that there cannot be a tradeoff between being part of the smart energy revolution and the ease of use for EV owners. Our vision is a system in which the needs of all players, ranging from TSO, DSO, EV-charge provider and EV-users, are met with the use of ingenious design. No one has yet provided a complete solution to this problem, and this is where we are going to win.

CONSULTING

eSmart Systems has some of the best experts in the industry, many of whom have more than 15 years of international experience delivering IT-systems to the energy companies and exchanges. We are well equipped to assist customers in their daily or future operations with advisory, system development and other energy related consulting services.

When it comes to big data analytics, technology requirements are substantially different than traditional analytics, business intelligence and familiar reporting applications. There are vastly more data, and vastly more data sources. Speed and agility matter greatly. The resulting storage and computational requirements dwarf familiar database and data warehousing approaches, and demand a scale-out approach.

Through our US partners, eSmart has built up extensive knowledge of this specific topic and is able to deliver well-qualified assistance to customers that operate or want to operate in this Area.

Data analytic consulting services range from 1-3 day workshops to pilot projects with a duration of weeks to months.

RESEARCH & DEVELOPEMENT

The Energy industry has never before faced the fundamental changes it does today. As a result of these new and disruptive realities, R&D is vital to establishing new solutions, business models and competitive advantages. eSmart has strong focus on R&D and is an active partner in the following EU and Norway R&D projects:

IMPROSUME – THE IMPACT OF PROSUMERS IN A SMART GRID BASED ENERGY MARKET

This project focuses on prosumers and their role and influence on the future energy market, and the impact of their role on established structures is highlighted. The project uses input from existing research in adjacent fields related to the issues addressed above. The research includes long-term and more transient scenarios where VPPs and micro-units emerge. The studies span contingencies for consumer acceptance and adoption of the prosumer role as well as cause-effect scenarios at multiple levels including the high, medium and low voltage markets.

The IMPROSUME project team consists of people from Inkubator Halden, Navita Systems, University of Life Sciences, Østfold University College, Narvik University College,

the Department of Marketing and Statistics at Aarhus School of Business - University of Aarhus, University of St. Gallen and Bacher Energy.


DeVID

DeVID is the largest Smart Grid R&D project in Norway with more than 30 project partners and includes some of the largest grid companies as key members: Statkraft, Haflund Nett and Lyse Elnett among others.

The intent of the project is to provide a knowledge basis for decision makers who will purchase, deploy and/or develop smart grid technologies. In addition, the project seeks to develop and demonstrate new smart grid technologies and decision support methods. DeVID is being carried out in close co-operation with two demonstration sites in Norway: Smart Grid Hvaler and Demo Steinkjer.

SMART ENERGI HVALER

Smart Energi Hvaler is a test area for smart grid systems. Almost 8 000 smart meters have been installed, enabling smart grid functions to be tested using real customers. The project also



aims to test local power generation, for example using solar cell installations, which feed energy into the supply grid.

Fredrikstad Energi AS, the NCE Smart Energy Markets research centre, and Hvaler Municipality are partners together with eSmart. Project results will be very valuable when Norway's 2.5 million meters are replaced with AMS meters in 2017. The new meters will be able to provide customers with hourly electricity consumption updates. Customers can then be invoiced for their exact consumption. With new, modern meters it will also be easier to supply locally-produced, renewable energy such as solar and wind-generated energy, to the electricity grid.

MANAGE SMART IN SMART GRID

Project Manage Smart in Smart Grid focuses on end-user behavior as the basis for the development of technology and new services. The most important specific long-term effect is related to demonstrating how the smart grid concept can be practically applied to energy management efficiency gains in homes and commercial buildings and to consistently ensure lower per inhabitant energy consumption in Norway based on user defined criteria. The project helps to establish new types of energy systems and energy management to meet the requirements of the next generation of climate and energy agreements.

The members of the project consortium are Morecom, NCE smart Energy Markets, Institute for Energy Technology, Østfoldforskning, Tieto and eSmart.

OUR PARTNERS

Building, from the ground up, state-of-the-art IT-systems which harness today's massive data volumes, extract buried data value and unleash trapped Smart Grid capabilities requires proven, pioneering, powerhouse partners.

In 2013 we sought out and secured agreements with numerous technology and distribution partners. We partnered with Lucid, Sintef, GeoData, Prediktor, Microsoft and Esri in the field of real-time analytics and visualization. We also initiated processes with Cloudera and Hortonworks for platform and data management solutions and with Microsoft for cloud based infrastructure and storage services.

In addition, we secured sales, marketing and distribution partners in Norway, Germany and the US. Our partners in Norway include FEAS, SFE and Rejlers. Our partner in Germany is CK Consulting. In the US, we are now cooperating with Alliance Risk Group, the National Energy Marketers Association, Big Data Energy Services and Lucid Design Group from Berkeley.

eSmart Systems recognizes that to become number one, you must team up with the best. eSmart Systems has established partnerships with several reputable companies, all leaders in their field.



Microsoft is the world's largest software company. eSmart Systems employees have been working with software development using Microsoft tools for more than 15 years. Our experience and Microsoft's commitment to cloud computing and their Azure platform, makes this a perfect match.

eSmart Systems is a Microsoft BizSpark partner. BizSpark is Microsoft's program for startups and provides access to tools and cloud services. eSmart Systems is developing a true cloud based system and, as a result of heavy Azure use, we have been upgraded by Microsoft to a BizSpark Plus partner. eSmart Systems has ongoing contact with technicians at Microsoft Norway and US.



Esri is a world-leader in professional maps, which are widely used around the globe. eSmart Systems is a startup partner at Esri. Esri has granted eSmart use of their leading map solutions, which play a central part in eSmart Systems' developed graphical user interface.



Lucid is the developer of BuildingDashboard and BuildingOS, market-leading of energy consumption visualization for universities and colleges in the US. Their system is a good fit with eSmart Systems' solution and eSmart Systems is the preferred distributor of Lucid in Northern Europe.



Prediktor delivers advanced industrial IT tools and solutions to a wide range of industries. Prediktor's solutions are based on deep process knowledge and operations insights. eSmart Systems has partnered with Prediktor to provide real time optimization and control expertise.



Geodata offers map solutions for the Norwegian market. Many of their solutions have Esri integrated, which makes them a perfect partner for local map solutions.



Rejlers are energy consulting experts for buildings as well as instrumentation and measuring. Rejlers measurement values are important input to our system.



OUR CUSTOMERS

By the end of 2013 eSmart had established relationships with the following companies and subsidiaries:

- Fredrikstad Energi
- Fredrikstad EnergiNett
- Askøy Energi
- Energi1 Follo Røyken
- MAIK
- Askøy Energi Kraftsalg
- Follo Energi
- SFE
- SFE Produksjon
- SFE Nett
- SFE Kraft
- Halden Utvikling
- TruSmart Energy (US)
- EDF Energy (UK)

Of the above mentioned customers, two of them are a part of a three-year partnership. Through an industrial research and development contract, eSmart Systems is developing next generation IT systems for forward-thinking companies to operate on smart power grids. The two companies are Sogn og Fjordane Energi and Fredrikstad Energi.





SOGN AND FJORDANE ENERGI (SFE)

Sogn and Fjordane Energi (SFE), is a leading energy distributor, green energy producer and retailer in Norway. SFE's vision is "Power to influence the future". SFE is at the forefront of technology innovation and actively seeks better processes and business models to remain at the top in the Norwegian energy industry. Visit www.sfe.no.

"New IT solutions will provide a very good platform to meet the challenges and opportunities of the power industry's future offers. On the one hand, we will deal with increasingly unregulated power, and on the other, provide new and better customer experiences. We believe our emerging and future IT solution needs, will be met in a way which is both future-oriented and flexible by cooperating with eSmart Systems."

- Terje Gjengedal, CEO of SFE



FREDRIKSTAD ENERGI AS

Fredrikstad Energi AS, is a leading Norwegian energy company. Fredrikstad Energi operates the Smart Energi Hvaler project, and is at the forefront of adapting to new technology to push the energy Industry's efficiency frontier. Fredrikstad Energi and its subsidiaries are widely known as one of the most efficient energy companies in Norway. Visit www.feas.no.

"The coming energy industry changes from the introduction of smart grids will alter the structure of the industry worldwide. We will see major changes in the next decade to the established business models at play. FEAS Power is keen to participate in shaping the development, and with the introduction of smart meters, using vast data volumes for further efficiency and cost reductions is essential."

- Eilert Henriksen, CEO of FEAS Network

FINANCIAL STATEMENT 2013

INCOME STATEMENT

	Note	2013	2012
OPERATING REVENUES			
Sales	6,24	4 565 410	0
Other operating income	7	2 900 000	0
TOTAL OPERATING REVENUES		7 465 410	0
OPERATING EXPENSES			
Cost of sales		706 057	0
Personnel expenses	18,19,22	2 852 833	12 313
Other operating expenses	20,21,22,24	2 883 935	152 641
TOTAL OPERATING EXPENSES		6 442 825	164 954
EBITDA		1 022 585	-164 954
Depreciation	10	135 803	0
OPERATING PROFIT		886 782	-164 954
FINANCIAL INCOME AND COST			
Interest income		22 181	65
Other financial income		1 121	0
Interest expenses		3 300	0
Other financial expenses		8 837	0
NET FINANCIAL PROFIT		11 165	65
PROFIT BEFORE TAXES		897 947	-164 889
Income tax expense	17	-88 971	0
NET PROFIT		986 918	-164 889
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		0	0
NET OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		986 918	-164 889
ALLOCATIONS			
Allocated to retained earnings		986 918	-164 889
TOTAL ALLOCATIONS		986 918	-164 889


BALANCE SHEET


ASSETS	Note	2013	2012
FIXED ASSETS			
Capitalized development cost	9,12	5 237 155	0
Licences	8	107 800	0
Operating equipment	8,25	1 606 700	48 195
TOTAL FIXED ASSETS		6 951 655	48 195
CURRENT ASSETS			
Trade receivables	13	618 181	0
Other short term receivables	13	2 201 734	0
Cash and cash equivalents	14	4 294 571	100 064
TOTAL CURRENT ASSETS		7 114 486	100 064
TOTAL ASSETS		14 066 141	148 259


BALANCE SHEET

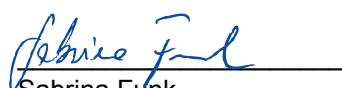
EQUITY AND LIABILITIES	Note	2013	2012
EQUITY			
Subscribed equity			
Share capital	15,23	333 333	100 000
Non registered capital	15	1 999 999	0
Share premium fund	15	7 666 667	0
Total subscribed equity		9 999 999	100 000
Retained equity			
Retained earnings		746 822	-174 889
Total retained equity		746 822	-174 889
TOTAL EQUITY		10 746 821	-74 889
NON CURRENT LIABILITIES			
Deferred income tax liability	17	135 286	0
Borrowings	25	538 239	0
TOTAL NON CURRENT LIABILITIES		673 525	0
CURRENT LIABILITIES			
Trade payables		535 685	67 462
Payable tax	17	0	0
Public duties payable	14	766 117	0
Other current liabilities	16,24	1 343 993	155 686
TOTAL CURRENT LIABILITIES		2 645 795	223 148
TOTAL EQUITY AND LIABILITIES		14 066 141	148 259

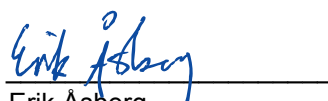
Halden, March 5th 2014



Bjarne Haugen
Chairman of the Board


Terje Gjengedal
Member of the Board


Bjørn Svendsen
Member of the Board


Sabrina Funk
Member of the Board


Erik Åsberg
Member of the Board


Knut Johansen
Member of the Board / CEO

STATEMENT OF CASH FLOW

The statement of cash flow is a systematic overview of how the company has received and used cash and cash equivalents during the year. The statement of cash flow presents the development of operation, investment and financing during the periods.

	2013	2012
Cash flows from operating activities		
Profit before tax	897 947	-164 889
Taxes paid	0	0
Depreciation and write downs	135 803	0
Changes in receivables	-406 509	0
Changes in trade payables	345 984	47 462
Changes in other current assets/debt items	-509 508	165 686
Net cash flow from operating activities	463 717	48 259
Cash flow from investment activities		
Purchase of operating equipment	-1 751 698	-48 195
Purchase of intangible assets	-4 406 574	0
Net cash flow from investment activities	-6 158 272	-48 195
Cash flow from financial activities		
Proceeds from other borrowings	538 239	0
Issue of shares	8 999 999	100 000
Net cash flow from financial activities	9 538 238	100 000
Net changes in cash and cash equivalents	3 843 683	100 064
Cash and cash equivalents 01.01	450 888	0
Cash and cash equivalents 31.12	4 294 571	100 064

STATEMENT OF CHANGES IN EQUITY

	Share Capital	Non registered capital	Share premium fund	Other Equity	Total Equity
Equity 01.01.2012	0	0	0	0	0
Incorporation of the company	100 000	0	0	-10 000	90 000
Total comprehensive income	0	0	0	-164 889	-164 889
Equity 31.12.2012	100 000	0	0	-174 889	-74 889
Equity 01.01.2013	100 000	0	0	-174 889	-74 889
Capital increase	207 017	0	6 792 983	0	7 000 000
Merger	26 316	0	873 684	-65 207	834 793
Capital increase	0	1 999 999	0	0	1 999 999
Total comprehensive income	0	0	0	986 918	986 918
Equity 31.12.2013	333 333	1 999 999	7 666 667	746 822	10 746 821

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

eSmart Systems AS develops and delivers products and services to stakeholders in the energy market where consumer flexibility and efficient use of the energy market are key. The Company also provides consultancy services to the same markets.

The Company's products and service portfolio is based on the active use of advanced measuring and control systems (AMS) through integrated IT solutions, in which demand response options are automatically analyzed and optimized towards the energy markets. Deliveries are primarily to the Norwegian, Nordic and US markets.

eSmart Systems AS is a Norwegian company headquartered in Halden. The company does not have any subsidiaries or shares in other companies.

These financial statements have been approved for issue by the Board of Directors on March 5th 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of eSmart Systems AS have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations.

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 Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

2.2 Segment reporting

The Company is organized as one operational segment. Since the company is still in a product development phase, there is no sales split based on product groups or geography. Therefore, segment reporting based on sales in accordance to IAS 14 Segment reporting has not been prepared.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in NOK, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 recognized in the income statement.

2.4 Operating equipment

All machinery and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on all assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.5 Intangible assets

Computer software

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognized as intangible assets when the following criteria are met:

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

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

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed three years.

2.6 Impairment of non-financial assets

Operating equipment and intangible assets with definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.8 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank deposits with a maximum of three months duration.

2.9 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.10 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

2.11 Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates 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 recognized 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. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and deferred tax are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.12 Employee benefits

(a) Pension obligations

The company has a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. The company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Profit-sharing and bonus plans

The company recognizes a liability and an expense where it is contractually obliged or where there is a past practice that has created a constructive obligation. There are no such provisions in the accounts of 2013 or 2012.

2.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts. Sales of goods are recognized when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

Consultancy services are recognized as revenue incrementally as the service is performed or on a straight-line basis during the period in which the service is performed.

2.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

There are no financial leases in the company.

2.15 Provisions

Provisions are recognized when the company has an obligation as a result of past events, and when it is probable that there will be a financial settlement as a result of this obligation and the amount can be measured reliably. Generally speaking, provisions are based on historical data and a weighting of possible outcomes against the probability they will occur. If the time value is significant, the provision will be the net present value of the amount expected to be required to meet the obligation.

NOTE 3 - FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance. Risk management is carried out under policies approved by the board of directors.

Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products and services are made to customers with an appropriate credit history.

Interest rate risk

As the Company has no significant interest-bearing assets or interest-bearing liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

Liquidity risk

The Company is in a development phase, and it is expected to take some time before the Company shows a positive cash flow. The Board monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and planned investments while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 26).

NOTE 4 - CHANGES IN THE COMPANY'S STRUCTURE

In 2013 the company merged with Smart Energy AS. 2012 figures have not been revised to show comparable figures.

NOTE 5 - ESTIMATION UNCERTAINTY

In the process of applying the Company's accounting policies in according to IFRS, management has made several judgements and estimates. All estimates are assessed to the most probable outcome based on the managements best knowledge. Changes in key assumptions may have significant effect and may cause material adjustments to the carrying amounts of assets and liabilities, equity and the net result.

The Company's most important accounting estimates are the following items:

- Write-down/reversal of other intangible fixed assets and of tangible fixed assets

In accordance with IAS 36, the Company annually tests intangible assets for impairment, as well as any reversal of previous write-downs. The impairment tests are shown in note 12.

NOTE 6 - OPERATING REVENUE

	2013	2012
Sales of products	2 624 000	0
Consultancy services	1 641 410	0
Total operating revenue	4 265 410	0

NOTE 7 - OTHER OPERATING INCOME

Other operating income includes public funding related to development projects from Inovasjon Norge. The funding amounts to NOK 2.900.000 in 2013 (NOK 0 in 2012).

NOTE 8 - OPERATING EQUIPMENT

	Licences	Operating equipment
Cost 1.1.2013	0	48 195
Additions from merger	0	50 410
Additions	129 225	1 622 473
Disposals	0	0
Cost 31.12.2013	129 225	1 721 078
Accumulated depreciation 1.1.2013	0	0
Accumulated depreciation from merger	0	0
Depreciation charge	21 425	114 378
Accumulated depreciation 31.12.2010	21 425	114 378
Net book amount 31.12.2013	107 800	1 606 700

Financial lifetime	5 years	3-5 years
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NOTE 9 - CAPITALIZED DEVELOPMENT COST

	Capitalized dev. cost
Cost 1.1.2013	0
Additions	5 237 155
Disposals	0
Cost 31.12.2013	5 237 155
Accumulated depreciation 1.1.2013	0
Depreciation charge	0
Accumulated depreciation 31.12.2010	0
Net book amount 31.12.2013	5 237 155

Financial lifetime	3-10 years
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Capitalized development cost is depreciated over the period the products are expected to generate earnings. Expected earnings from active development and residual values are tested each balance sheet date and reduced if necessary. See note 12.

The entire amount of NOK 5,237,155 recorded as capitalized development at 31.12.2013, applies to products that were not commercialized as of 31/12/2013. The first products are expected to be ready by the end of 2014.

NOTE 10 - DEPRECIATION

	2013	2012
Operating equipment (see note 8)	135 803	0
Capitalized development cost (see note 9)	0	0
Total	135 803	0

NOTE 11 - WRITE OFF

	2013	2012
Operating equipment (see note 8)	0	0
Capitalized development cost (see note 9)	0	0
Total	0	0

NOTE 12 - IMPAIRMENT TEST OF INTANGIBLE ASSETS

Recognized capitalized development cost in the company as of 31.12.2013 amounts to MNOK 5,2 (MNOK 0 in 2012). This relates mainly to development of products for the energy market where flexibility of use and efficient use of the energy market are key factors.

The Company as a whole is considered to be the only cash generating unit (CGU) since there is no possibility to isolate and measure the cash flow for any of the units or the products alone.

Impairment reviews are carried out by the Company's finance department. The assessments were made in December 2013. The recoverable amount is determined based on an assessment of the value in use. Value in use is calculated by discounting the expected future cash flows before tax, discounted at an appropriate discount rate before tax that takes into account the terms and risks. Expected cash flows are based on budgets approved by management of the Company. Cash flows are determined on the basis of the budget for 2014 and forecasts for the period 2015 - 2017.

The following assumptions are used in the impairment tests:

- * Expected growth in Company's revenue.
- * Expected increase in Company's operating expenses.
- * The discount rate used for calculating the net present value of cash flow is 45%, which based on a risk free rate of 5% and a risk premium of 40%. The risk premium is based on uncertainty associated with development objectives.
- * Terminal value calculations have not been included.

Sensitivity to changes in assumptions

As of 31.12.2013 the value in use of capitalized development cost amounted to MNOK 10,0, compared with a total book value of MNOK 5,2.

A sensitivity analysis based on possible changes in key assumptions in revenues and margins show the following reductions in value in use (in million) with subsequent accumulated impairment of goodwill and capitalized development (amounts in MNOK):

Reduced revenue	Increased op. exp.	Value in use	Impairment
5%	0%	6,6	0,0
5%	5%	4,2	1,0
10%	0%	3,2	2,0
10%	5%	0,9	4,3
15%	0%	0,0	5,2
15%	5%	0,0	5,2

NOTE 13 - TRADE RECEIVABLES AND OTHER SHORT TERM RECEIVABLES

Trade receivables

The Company had no provisions for bad debt as of 31.12.2013 or 31.12.2012.

Trade receivables as of 31.12.2013 and 31.12.2012 are stated at nominal value less impairment, respectively NOK 618.181 and NOK 0.

Booked losses on trade receivables was NOK 0 in 2013 and NOK 0 in 2012.

Other short term receivables	2013	2012
Skattefunn*	1 100 000	0
Innovasjon Norge	470 000	0
Accrued income	554 000	
Prepayments	56 477	0
VAT	21 257	0
Total	2 201 734	0

* Tax reduction related to enterprises engaged in research and development.

NOTE 14 - CASH AND CASH EQUIVALENTS

As of 31.12.2013, NOK 439.472 of the total cash and cash equivalents were connected to taxes payable (NOK 0 in 2012). Taxes payable as of 31.12.2013 were NOK 438.027 (NOK 0 in 2012).

NOTE 15 - SHARE CAPITAL AND SHAREHOLDERS

Total share capital of the Company as of 31.12.13 was NOK 333.333 divided into 333.333 shares with a nominal value of NOK 1,00.

Late in 2013, a capital increase of NOK 1.999.999 was effected through the issue of 98.530 new shares. The capital increase was not registred in 2013.

Changes in share capital and share premium fund	Numbers of shares	Share capital	Share premium fund
Issued shares as of 31.12.2012	100 000	100 000	0
Capital increase	207 017	207 017	6 792 983
Merger	26 316	26 316	873 684
Issued shares as of 31.12.2013	333 333	333 333	7 666 667

Figures for result per share and fully diluted result per share can be found in note 23.

Shareholders as of 31.12.2013	Numbers of shares	Ownership interest
eCapital AS*	111 493	33,45%
Fredrikstad Energi	50 000	15,00%
Sogn og Fjordane Energi	50 000	15,00%
Energi og IKT Invest AS*	14 787	4,44%
Knut Erik Gustavsen	14 474	4,34%
t-hox AS	11 842	3,55%
Yngvar Seteklev	11 830	3,55%
Forsound AS	11 830	3,55%
Rotskydd AS**	11 830	3,55%
Jo Morten Sletner	11 830	3,55%
Fryden Consulting AS	11 830	3,55%
DataSET AS	5 915	1,77%
Roy Einar Angell	4 436	1,33%
Sven Erik Tønnesen	2 957	0,89%
Stig Ottesen	2 957	0,89%
Ole Jakob Ottestad	886	0,27%
Jostein Andreassen	710	0,21%
Sigurd Seteklev	621	0,19%
Thor Fredrik Paulsson	621	0,19%
Manish Shrestha	621	0,19%
Nikolay Pukhovskly	621	0,19%
Olle Niklasson	621	0,19%
Thor Moen	621	0,19%
Total number of shares	333 333	100,00%

* eCapital AS and Energi og IKT Invest AS are owned by CEO and member of the board Knut Johansen.

** Rotskydd AS is owned by member of the board Erik Åsberg.

NOTE 16 - OTHER CURRENT LIABILITIES

Other current liabilities	2013	2012
Accrued vacation salary	701 242	0
Debt to eCapital AS	176 002	155 686
Accrued salary	101 973	0
Other	14 776	0
Total	993 993	155 686

NOTE 17 - TAXES

Income taxes	2013	2012
Tax payable	0	0
Changes in deferred tax	-88 971	0
Total income taxes	-88 971	0

Reconciliation of effective tax rate	2013	2012
Profit before taxes	897 947	-164 889
Estimated income tax at nominal tax rate (28%)	251 425	-46 169
Tax effect on following items:		
Costs related to capital increase booked against equity	0	-2 800
Changes in non-capitalized deferred tax assets	-54 739	48 969
Skattefunn	-308 000	0
Change in tax rate	3 325	0
Non-deductible expenses	19 018	0
Income tax expense	-88 971	0
Effective tax rate	-9,9 %	-0,0 %

Specification of tax effect of temporarily differences and losses carried forward:

	2013		2012	
	Asset	Liability	Asset	Liability
Operating equipment	0	302 610	0	4 048
Losses carried forward	167 324	0	53 017	0
Total	167 324	302 610	53 017	4 048
Non-capitalized deferred tax assets	0		48 969	
Net deferred income tax assets/liability	0	135 286	0	0

At year end 2013, the Company had tax losses carried forward of NOK 619.717 (NOK 189.348 in 2012).

NOTE 18 - PENSION OBLIGATIONS

The employees in the Company have a defined contribution plan. As of 31.12.2013, 15 employees were included in the pension plan (0 in 2012). The pension plan is administrated by an insurance company. Total pension plan payments in 2013 were NOK 194.007 (NOK 0 in 2012).

NOTE 19 - PAYROLL EXPENSES

	2013	2012
Salaries*	1 558 084	0
Employer contributions	947 741	0
Pension costs, see note 18	194 007	0
Other payroll costs	153 001	12 313
Total	2 852 833	12 313

Average number of FTEs	9	0
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* NOK 5.114.418 of the salaries were capitalized as research and development costs in 2013 (NOK 0 in 2012).

NOTE 20 - OTHER OPERATING EXPENSES

	2013	2012
Rent	330 347	0
Office expenses	219 630	0
IT services	331 480	223
Meetings, training	193 212	0
Accounting, auditing, lawyers	314 014	25 168
Consultants	510 257	0
Travel expenses	700 289	0
Sales and marketing	193 374	127 188
Other expenses	-258 668	62
Total	2 533 935	152 641

NOTE 21 - LEASE COMMITMENTS

The company has lease commitments related to office rental and rental of office equipment. Rent is index regulated each year.

Annual rent expenses in 2013 amounted to NOK 330.347 (NOK 0 in 2012).

Future annual minimum lease commitments:

	2013	2012
Due within one year	741 788	0
Due between one and five years	3 142 687	0
Due later than 5 years	0	0

NOTE 22 - REMUNERATION AND LOANS TO SENIOR EXECUTIVES

Remuneration to key management personnel:	Managing director	Chairman of the board	Board
Salary	1 175 641	0	0
Other benefits	6 128	0	0
Pension costs	35 522	0	0

The managing director is entitled to receive at least one year's salary and other benefits upon resignation.

Loan to managing director, members of the board and shareholders

There were no loans to the managing director, members of the board or shareholders as of 31.12.2013.

Auditor

2013 auditing fees amounted to the following, excluding value-added tax:

Mandatory audits	52 500
Tax consulting	6 000
Other services	34 500
Total fees	93 000

NOTE 23 - EARNINGS PER SHARE

Earnings per share are calculated by dividing net income before any minority interests by the weighted average number of shares in issue during the year.

	2013	2012
Net profit	986 918	-164 889
Average number of shares in issue	153 074	100 000
Earnings per share	6,45	-1,65
Net comprehensive income	986 918	-164 889
Average number of shares in issue	153 074	100 000
Total earnings per share	6,45	-1,65

As the Company had no options or warrants, diluted earnings per share has not been calculated.

NOTE 24 - TRANSACTIONS WITH RELATED PARTIES

All transactions with related parties are based on normal market conditions.

The Company rents offices from a company in which the managing director and member of the board has ownership interests. Paid rent in 2013 amounted to NOK 192.672 (NOK 0 i 2012).

The Company has a short-term inter-company debt related to the managing director and a member of the board totalling NOK 176.002 as of 31.12.2013 (NOK 155.690 i 2012). No interest was calculated on the debt in 2013 or 2012.

In 2013, the Company had income from consultancy services worth NOK 1.103.217 from a company in which the managing director and member of the board has ownership interests (NOK 0 in 2012).

NOTE 25 - BORROWINGS / PLEDGED ASSETS

The Company has a mortgage of NOK 528.239 as of 31.12.2013 (kr 0 i 2012). The loan is a term loan and will be repaid over 8 years. As of 31.12.2013, operating equipment with a book value of NOK 740.700 had been pledged as collateral for the loan (NOK 0 in 2012).

NOTE 26 - LOAN FACILITIES / CONVERTIBLE LOAN

The Company has entered into a loan agreement with two of its shareholders for a credit facility totalling NOK 4.000.000. As of 31.12.2013, none of the facilities had been used. The borrowing facilities apply until 30.06.2016. If the loan facilities are used, an interest charge of 8 % will apply. The lenders have the right to convert the loan into shares at the end of the loan period if the Company has not repaid the loan.

AUDITOR'S REPORT

MYRDAHL OG SVEEN

STATSAUTORISERTE REVISORER

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LIV MOBJÆK SMESTAD

I kontorfellesskap
med registrert revisor:
TORE D. RAASØK - Revisornr. 962 605 435

To the Annual Shareholders' Meeting of eSmart Systems AS

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of eSmart Systems AS showing a profit of NOK 986.918. The financial statements comprise the balance sheet as at 31 December 2013, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of eSmart Systems AS as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 proposal for the allocation of the profit 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.

Strømmen, 5 March 2014
Myrdahl og Sveen AS



Morten Rugtvedt
State Authorised Public Accountant (Norway)

THE BOARD OF DIRECTORS' REPORT 2013

OPERATIONS AND LOCATIONS

eSmart Systems AS is based on more than two decades of successful and extensive international experience at establishing, growing and operating knowledge-based and world-leading companies targeting global markets.

eSmart Systems AS is developing next generation software systems for grid companies, large energy consumers, prosumers and retailers. Its solutions focus on helping customers benefit from energy market price fluctuations to reduce energy consumption and climate emissions.

The company's systems and solutions will also have applications in broader perspectives in rapidly growing areas such as smart buildings and smart cities.

eSmart Systems AS' focus on integrity and teamwork coupled with ambitions of excellence and innovation form our values foundation. Values-driven processes put our customers at the center of all we do and contribute to our competitive advantage in the global marketplace.

The company has its headquarter in Halden, Norway. Over the last two decades, Halden has developed into one of the most competent energy IT environments in Norway.

SOLID PROGRESS IN 2013

In the first half of 2013, the company focused on building its organization and hiring staff, as well as establishing plans and a commercial foundation for developing a new IT platform for future software needs in the energy industry. In the spring, the company signed R&D contracts with two key customers, and applied for and received approval from Innovasjon Norge for government funding of the R&D project. In addition, the company made two share issues, and began system development work. As of end of 2013, development was progressing according to plan. It has been key for the company to focus on both investment in the new iEMS system as well as to establish additional revenue streams. The company executed its development plan and delivered both revenue and net income in accordance with expectations.

COMMENTS RELATED TO THE FINANCIAL STATEMENTS

The company's revenues increased from 0 MNOK in 2012 to 7,5 MNOK in 2013. Net income in 2013 was positive with 1,0 MNOK, compared to a loss in 2012 of 0,2 MNOK. The company delivered satisfactory financial results in 2013 in accordance with the business plan.

During 2013 research and development costs amounted to 7,6 MNOK. Of total R&D costs, product development amounted to 5,2 MNOK, which was activated, and balance sheet disclosure requirements are considered to be met. Research has a long-term perspective, and is considered to be core to the financial development of the company in the coming years.

Total cash flow from operating activities was 0,5 MNOK in 2013 and pre tax operating profit amounted to 0,9 MNOK. The difference mainly concerns changes in accounts receivable (- 0,4 MNOK), changes in accounts payable (0,3 MNOK), changes in other periodicals (- 0,5 MNOK) and depreciations (0,1 MNOK).

The company's liquidity reserve as of 31.12.2013 amounted to 4,3 MNOK. The company's ability to self-finance investments is good.

The company's short-term debt as of 31.12.2013 constituted 79,7 % of the company's total debt, compared to 100,0 % as of 31.12.2012. This decrease is attributable to established new long-term debt. The company's financial position is sound and adequate to settle short-term debt as of 31.12.2013 with the company's most liquid assets.

Total assets at year-end amounted to 14.1 MNOK, compared to 0,1 MNOK last year. The equity ratio was 76,4 % as of 31.12.2013, compared to negative 50,0 % the year before.

FINANCIAL RISK

OVERALL VIEW ON OBJECTIVES AND STRATEGY

The company currently has limited exposure to financial risk in most areas. The company's current strategy does not include the use of financial instruments. Going forward, this will be continuously assessed by the Board of Directors.

MARKET RISK

The company is currently not exposed to exchange rate risk as the majority of the company's revenue is in local currency. The company has not entered into derivative or other agreements to reduce exchange rate risk or market risk.

The company is not currently exposed to changes in interest rates.



FINANCIAL RISK (CONTINUED)

CREDIT RISK

The risk for losses on receivables is considered low. The company has not yet experienced any losses on receivables, and is not anticipating any changes in this trend in the near future. Gross credit risk exposure as of 31.12.2013 was 2,8 MNOK for the company. This is an increase from 2012 when the company's exposure was 0 MNOK.

The company has not made any off-set or other derivative agreements to reduce eSmart Systems AS' credit risk .

LIQUIDITY RISK

The company's liquidity is satisfactory. Credit periods for sales and other offerings will be reviewed in 2014. The company has secured additional liquidity in form of a convertible loan facility from two of the company's shareholders. This loan facility had not been activated as of 31.12.2013.

On average, credit terms from suppliers are 20 days. There are currently no plans to renegotiate terms with any specific suppliers.

GOING CONCERN

In accordance with Section 3-3a of the Accounting Act, the Board of Directors confirms that the company has a basis for continued operations. The going concern assumption has therefore been applied in preparing the financial statements for 2013. This assumption is based on profit forecasts for the year 2014 and the company's long-term strategic forecasts. The company's financial position is sound.

WORKING ENVIRONMENT AND EMPLOYEES

Leave of absence due to illness totaled 76 hours in 2013 (0 hours in 2012), which equals approximately 0,4 % (0 % in 2012) of the total working hours in the company. The company considers this figure to be very low and is satisfied. The company has from its very beginning, focused on a good physical and social working environment, and introduced a gym membership offering to all employees.

No incidents or reporting of work related accidents resulting in significant material damage or personal injury occurred during the year.



The working environment is considered to be good, and improvements efforts are made on an ongoing basis.

EQUAL OPPORTUNITIES

The company aims to be a workplace with equal opportunities and has included in its policies regulations to prevent gender discrimination regarding salary, promotion and recruiting. The company has traditionally recruited from environments dominated by men.

The company has 15 employees, of which 0 are women. The chairperson of the Board is male, and there are no women in leading positions. In summary, female employees are not well represented in the company.

The company plans to conduct a work environment survey once a year. An important objective is to detect gender discrimination concerning salaries, promotion and participation in internal offers of in-service training.

Working time arrangements are determined by the various positions and do not depend on gender.

The company intends to increase initiatives regarding equal opportunities to attract more female employees in the future.

DISCRIMINATION

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination due to ethnicity, national origin, descent, skin color, language, religion or faith. The Company actively works determinedly and systematically to encourage the Act's purpose within its business. Included in its activities are recruiting, salary and working conditions, promotion, development opportunities and protection against harassment.

The company has, towards the end of 2013, moved to new offices, and the whole building is equipped to facilitate a good work environment for employees as well as new applicants with reduced functional ability.

ENVIRONMENTAL REPORT

eSmart System's operations do not pollute the environment beyond what is reasonable and necessary for the operation of the company. As an active contribution to a better environment, all employees use the company's electric car (a Tesla S model) for short and medium distance work-related transportation.

FUTURE PROSPECTS

The Board of Directors clarify that it normally is uncertainty about future conditions in the phase eSmart Systems AS is. The company shall, in accordance with the business plan deliver the first major release of the new systems in May 2014. It is expected that this issue will come into operation with customers in the second half of 2014 with subsequent commercial sale of the systems that will provide new revenue in second half of 2014. The company is on track according to the established schedule.

Furthermore all the significant changes ongoing in the energy markets agrees well with eSmart Systems AS' expectations and with the company's systems and market strategy.

On this basis, the Board of Directors is pleased that the company will develop according to its ambitious business plan.

ALLOCATION OF NET INCOME

The Board of Directors of eSmart Systems AS has proposed the following profit distribution:


Retained Earnings	NOK 986 918
Net income allocated	NOK 986 918

The proposal reflects the owners' desire to strengthen the equity position of the Company.

Halden, March 5th 2014


Bjarne Haugen
Chairman


Terje Gjengedal
Board member


Bjørn Svendsen
Board member


Sabrina Funk
Board member


Erik Åsberg
Board member


Knut Johansen
Board member/CEO





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