
NsGene A/S

Baltorpvej 154, DK-2750 Ballerup

Consolidated Financial Statements Annual Report for 2015

CVR No 21 47 91 95

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
31/5 2016

Søren Sylvester Skjærbæk
Chairman



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements	2
Company Information	
Company Information	4
Management's Review	5
Consolidated and Parent Company Financial Statements	
Income Statement 1 January - 31 December	7
Balance Sheet 31 December	8
Cash Flow Statement 1 January - 31 December	10
Notes to the Financial Statements	11
Accounting Policies	16

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of NsGene A/S for the financial year 1 January - 31 December 2015.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2015 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2015.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Ballerup, 31 May 2016

Executive board

Søren Sylvester Skjærbæk
CEO

Lars U. Wahlberg
COO

Board of directors

Gudmund Tyge Korgaard
Chairman

Allan Andersen

Sten Verland

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

To the Shareholders of NsGene A/S

Report on the Financial Statements and the Consolidated Financial Statements

We have audited the Financial Statements and the Consolidated Financial Statements of NsGene A/S for the financial year 1 January - 31 December 2015, which comprise income statement, balance sheet, cash flow statement, notes and summary of significant accounting policies. The Financial Statements and the Consolidated Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Financial Statements and the Consolidated Financial Statements

Management is responsible for the preparation of Financial Statements and the Consolidated Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements and Consolidated 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 the Financial Statements and the Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements and the Consolidated Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements and the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements and the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements and Consolidated Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. 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 and the Consolidated Financial Statements.

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

Our audit has not resulted in any qualification.

Opinion

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

In our opinion, the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position of the Company and the Group at 31 December 2015 and of the results of the Company and the Group operations and of consolidated cash flows for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements and the Consolidated Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements and the Consolidated Financial Statements.

Copenhagen, 31 May 2016

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Gert Fisker Tomczyk
statsautoriseret revisor

Lasse Fuglsang Pedersen
statsautoriseret revisor

Company Information

The Company

NsGene A/S
Baltorpvej 154
DK-2750 Ballerup

CVR No: 21 47 91 95
Financial period: 1 January - 31 December
Municipality of reg. office: Ballerup

Board of Directors

Gudmund Tyge Korgaard, Chairman
Allan Andersen
Sten Verland

Executive Board

Søren Sylvester Skjærbæk
Lars U. Wahlberg

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Consolidated and Parent Company Financial Statements of NsGene A/S for 2015 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The Consolidated and Parent Company Financial Statements have been prepared under the same accounting policies as last year.

Main activity

NsGene is a biotechnology company that develops biological products for the treatment of neurological diseases. The company has structured its research and development (R&D) programs to primarily focus on new biological products encompassing therapeutic proteins that can be delivered to the brain by the Company's proprietary EC Bidelivery™ platform (Encapsulated Cell Bidelivery). Using the EC Bidelivery™ platform, the Company is developing products to treat hearing loss, Alzheimer's disease and Parkinson's disease. In addition, NsGene has discovered novel proteins with therapeutic potential. These proteins are neurotrophic factors that can be developed as novel therapeutic products for neurological diseases with suitable partners. Until July 2015, Biogen was developing one of NsGene's main assets, Neublazin, a protein therapeutic product for the treatment of neuropathic pain. Biogen terminated the collaboration in July 2015. Despite significant efforts, it has not been possible for NsGene to find a new partner for Neublazin.

Development in the year

During 2015, NsGene continued its efforts to remain self-sustainable without the need for raising share capital through new financing rounds.

In 2015, NsGene received a license fee of USD 1.5 million from Biogen. NsGene will receive no more payments from Biogen.

The EC Bidelivery™ platform is being developed for neurological disorders with great medical need and a product for the treatment of Alzheimer's disease (AD) has undergone Phase Ib clinical testing in a total of 10 patients, a product to treat Parkinson's disease (PD) is in late preclinical development, and a pipeline of exploratory products are in research. Results from AD trial show safety, function, and signs of cognitive improvements, warranting additional clinical studies if necessary financing can be found.

Discussions with potential partners and other financing activities are currently ongoing and will continue during 2016 to seek support for further clinical development and exploitation of the R&D pipeline. With financial support from the Michael J. Fox Foundation (MJFF), NsGene is completing preclinical development of an EC Bidelivery product to treat PD and is expecting to file regulatory applications in 2016 to obtain approval for Phase Ib studies. Discussions to obtain grant support and additional financing to support the clinical development are currently ongoing. To support the research and development of an inner ear EC Bidelivery implant to treat severe hearing loss, NsGene, two academic partners, and an industrial partner have successfully completed a two stage competitive FP7 EU grant that started September 1, 2012. License and collaboration agreements for continued development of the inner ear EC Bidelivery implant are currently being finalized with the industrial partner and continued R&D support for 2016 is expected.

Management's Review

Capital resources

NsGene has settled its debt with Vækstfonden and is now debt free. NsGene is constantly aware of its capital needs and aligns its activities accordingly.

Strategy and objectives

Targets and expectations for the year ahead

With the termination of the Neublazin development, NsGene will focus on its pipeline of products based on the EC Biodelivery platform. The primary goal in 2016 will be to develop the products for PD and the inner ear to make the start of clinical development possible in 2017. NsGene expects that it will enter into one or more partnerships to enable sufficient funding for the development of the company's proprietary product candidates. NsGene is seeking to divest its assets primarily through trade sales. Due to the natural built-in uncertainty as to whether the divestment plans materialize, the 2016 result is uncertain. However, a small positive result is expected.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet.

Income Statement 1 January - 31 December

	Note	Group		Parent Company	
		2015 TDKK	2014 TDKK	2015 TDKK	2014 TDKK
Revenue		11.986	9.150	11.986	9.150
Research and development costs		-16.200	-14.420	-8.379	-5.690
Gross profit/loss		-4.214	-5.270	3.607	3.460
Administrative expenses		-1.595	-1.807	-800	-912
Operating profit/loss		-5.809	-7.077	2.807	2.548
Other operating income	1	17.611	16.070	8.158	7.310
Profit/loss before financial income and expenses		11.802	8.993	10.965	9.858
Financial income		209	122	209	122
Financial expenses		-81	-474	-59	-473
Profit/loss before tax		11.930	8.641	11.115	9.507
Tax on profit/loss for the year	2	-337	-215	-317	-192
Net profit/loss for the year		11.593	8.426	10.798	9.315

Distribution of profit

	Parent Company	
	2015 TDKK	2014 TDKK
Proposed distribution of profit		
Retained earnings	10.798	9.315
	10.798	9.315

Balance Sheet 31 December

Assets

	Note	Group		Parent Company	
		2015 TDKK	2014 TDKK	2015 TDKK	2014 TDKK
Plant and machinery		0	0	0	0
Other fixtures and fittings, tools and equipment		108	82	4	4
Property, plant and equipment	3	108	82	4	4
Investments	4	0	0	0	0
Fixed assets		108	82	4	4
Receivables from group enterprises		0	0	0	604
Other receivables		5.730	9	5.609	0
Receivables		5.730	9	5.609	604
Cash at bank and in hand		8.816	20.863	8.542	20.826
Currents assets		14.546	20.872	14.151	21.430
Assets		14.654	20.954	14.155	21.434

Balance Sheet 31 December

Liabilities and equity

	Note	Group		Parent Company	
		2015 TDKK	2014 TDKK	2015 TDKK	2014 TDKK
Share capital		14.357	14.357	14.357	14.357
Retained earnings		-5.100	-16.361	-4.596	-15.394
Equity	5	9.257	-2.004	9.761	-1.037
Loan Vækstfonden		0	986	0	986
Long-term debt	6	0	986	0	986
Loan Vækstfonden	6	0	6.874	0	6.874
Trade payables		1.234	589	1.234	102
Prepayments received recognised in debt		1.225	13.498	0	13.498
Payables to group enterprises		0	0	902	0
Corporation tax		317	192	317	192
Other payables		2.621	819	1.941	819
Short-term debt		5.397	21.972	4.394	21.485
Debt		5.397	22.958	4.394	22.471
Liabilities and equity		14.654	20.954	14.155	21.434
Contingent assets, liabilities and other financial obligations	7				

Cash Flow Statement 1 January - 31 December

	Note	Group	
		2015 TDKK	2014 TDKK
Net profit/loss for the year		11.593	8.426
Adjustments	8	-103	489
Change in working capital	9	-15.545	4.782
Cash flows from operating activities before financial income and expenses		-4.055	13.697
Financial income		209	122
Financial expenses		-80	-471
Cash flows from ordinary activities		-3.926	13.348
Corporation tax paid		-212	-14
Cash flows from operating activities		-4.138	13.334
Depreciation, amortisation and impairment losses, including losses and gains on sales		-21	0
Purchase of property, plant and equipment		-28	-18
Cash flows from investing activities		-49	-18
Repayment of loans from credit institutions		-7.860	0
Cash flows from financing activities		-7.860	0
Change in cash and cash equivalents		-12.047	13.316
Cash and cash equivalents at 1 January		20.863	7.547
Cash and cash equivalents at 31 December		8.816	20.863
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		8.816	20.863
Cash and cash equivalents at 31 December		8.816	20.863

Notes to the Financial Statements

1 Other operating income

Income related to received grants.

	Group		Parent Company	
	2015 TDKK	2014 TDKK	2015 TDKK	2014 TDKK
2 Tax on profit/loss for the year				
Current tax for the year	337	215	317	192
	337	215	317	192

3 Property, plant and equipment

Group

	Plant and machinery TDKK	Other fixtures and fittings, tools and equipment TDKK
Cost at 1 January	6.543	1.510
Additions for the year	0	48
Cost at 31 December	6.543	1.558
Impairment losses and depreciation at 1 January	6.543	1.429
Depreciation for the year	0	21
Impairment losses and depreciation at 31 December	6.543	1.450
Carrying amount at 31 December	0	108

Notes to the Financial Statements

4 Investments

Investments are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
NsGene INC	USA	1	100%	-504	795

5 Equity

Group

	Share capital TDKK	Retained earnings TDKK	Total TDKK
Equity at 1 January	14.357	-16.360	-2.003
Exchange adjustments	0	-333	-333
Net profit/loss for the year	0	11.593	11.593
Equity at 31 December	14.357	-5.100	9.257

Parent Company

	Share capital TDKK	Retained earnings TDKK	Total TDKK
Equity at 1 January	14.357	-15.394	-1.037
Net profit/loss for the year	0	10.798	10.798
Equity at 31 December	14.357	-4.596	9.761

Notes to the Financial Statements

The share capital is broken down as follow:

	<u>Number</u>	<u>Nominal value</u> TDKK
A-shares	1.500	150
B-shares	8.243	824
C-shares	113.374	11.338
D-shares	20.450	<u>2.045</u>
		<u>14.357</u>

There have been no changes in the share capital during the last 5 years.

Notes to the Financial Statements

6 Long-term debt

	Group		Parent Company	
	2015 TDKK	2014 TDKK	2015 TDKK	2014 TDKK
Loan Vækstfonden				
Between 1 and 5 years	0	986	0	986
Long-term part	0	986	0	986
Within 1 year	0	6.874	0	6.874
	0	7.860	0	7.860

7 Contingent assets, liabilities and other financial obligations

Security

The following assets have been placed as security with EU-grants:

In connection with the participation in an EU project, the Company has provided a bank guarantee to EU.

0	86	0	86
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Contingent assets

Negative taxable income and deferred tax-depreciation leaves the Company with a total tax asset of aprox. DKK 52 million. Due to uncertainty as to whether the tax-asset can be utilised, the asset is not recognised as at 31 December 2015.

Contingent liabilities

Possible future conditional return obligations regarding the grants received exist if grant agreement terms are not met.

There are no security and contingent liabilities at 31 December 2015.

Notes to the Financial Statements

	Group	
	2015	2014
	TDKK	TDKK
8 Cash flow statement - adjustments		
Financial income	-209	-122
Financial expenses	81	474
Depreciation, amortisation and impairment losses, including losses and gains on sales	21	0
Tax on profit/loss for the year	337	215
Other adjustments	-333	-78
	-103	489
9 Cash flow statement - change in working capital		
Change in receivables	-5.720	15
Change in other provisions	675	0
Change in trade payables, etc	-10.500	4.804
Fair value adjustments of hedging instruments	0	-37
	-15.545	4.782

Accounting Policies

Basis of Preparation

Consolidated and Parent Company Financial statements of NsGene A/S for 2015 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

Consolidated and Parent Company Financial Statements for 2015 are presented in TDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, NsGene A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Accounting Policies

Business combinations

Acquisitions

On acquisition of subsidiaries, the difference between cost and net asset value of the enterprise acquired is determined at the date of acquisition after the individual assets and liabilities having been adjusted to fair value (the purchase method). Cost comprises the fair value of the consideration paid as well as expenses for consultants etc directly related to the acquisition. Any remaining positive differences are recognised in intangible assets in the balance sheet as goodwill, which is amortised in the income statement on a straightline basis over its estimated useful life. Any remaining negative differences are recognised in deferred income in the balance sheet as negative goodwill. Amounts attributable to expected losses or expenses are recognised as income in the income statement as the affairs and conditions to which the amounts relate materialise. Negative goodwill not related to expected losses or expenses is recognised at an amount equal to the fair value of non-monetary assets in the income statement over the average useful life of the non-monetary assets.

Positive and negative differences from enterprises acquired may, due to changes to the recognition and measurement of net assets, be adjusted until the end of the financial year following the year of acquisition. These adjustments are also reflected in the value of goodwill or negative goodwill, including in amortisation already made.

Amortisation of goodwill is allocated in the Consolidated Financial Statements to the operations to which goodwill is related.

Amortisation of goodwill is recognised in "Amortisation, depreciation and impairment losses".

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Assets and liabilities in foreign currencies are translated at the exchange rate applicable on the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the Income Statement under financial items.

Income Statement

Revenue

Non-refundable up-front payments from research and development contracts is recognized when entering the contract, if the payment are not attributable to subsequent research and/or development. Other income is recognized in the income statement when they are earned

Accounting Policies

Research and development costs

Research costs include salaries, other costs, including patent costs, and depreciation attributable to the Company's research activities. Research costs are expensed in the Income Statement in the year in which they are incurred.

Development costs are capitalised if it is sufficiently certain that the future earnings from the product can cover not only production, selling and administrative costs, but also the de-velopment costs themselves. However, the Company has assessed that, in view of the general risk related to the development of pharmaceutical products, such sufficient certainty cannot be obtained at the present time, and all development costs are therefore expensed in the year they are incurred. The future financial benefits relating to the product development cannot be estimated with sufficient certainty until the development has been completed and the necessary regulatory approvals have been obtained.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Group, including grants.

Public grants are recognised at the time when final and firm right to the grant has been obtained. Public grants are recognised as other operating income. Possible future conditional return obligations regarding grants received are disclosed in the note for contingent liability.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax on the taxable income and any adjustment of previous years' taxes shall be included in the Income Statement. Deferred tax shall be included by the liability method of all temporary disparity between the accounting value and the tax value.

Deferred tax as a result of taxable temporary disparities shall be included in the balance sheet as a deferred tax provision. Deferred tax as a result of deductible temporary disparities (tax asset) shall be measured at the values at which the asset is expected to be realised.

Balance Sheet

Property, plant and equipment

Plant and machinery and other plant and equipment and IT equipment are measured at the lower of purchase price less accumulated depreciation and write-down or the recoverable amount. Tangible fixed assets are depreciated on a straight-line basis over the useful economic lives of the assets to the expected residual values. The depreciation is based on an estimate of the useful economic lives for uniform categories of assets.

Accounting Policies

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Plant and machinery	3-5 years
Other fixtures and fittings, tools and equipment	3-5 years

Depreciation as well as income and loss in connection with the current replacement of property plant and equipment are expensed as research and development costs or general and administrative costs, respectively.

Assets costing less than DKK 12,800 are expensed in the year of acquisition.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Receivables

Receivables are measured at nominal value and are written down for anticipated losses on the basis of an individual evaluation of the loss risk.

Financial debts

Liabilities, which comprise trade creditors, associated companies and other debt, are measured at amortised cost, substantially corresponding to nominal value.

Cash Flow Statement

The cash flow statement shows the Group's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

No cash flow statement has been prepared for the Parent Company as the Parent Company cash flows are included in the Consolidated Cash Flow Statement.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Accounting Policies

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

The cash flow statement cannot be immediately derived from the published financial records.