

Arcedi Biotech ApS

Lysholt Allé 10

7100 Vejle

CVR no. 25 57 79 22

Annual Report 2018

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 28/03 2019



Hans-Henrik Eriksen
Chairman

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Statement by management on the annual report

The supervisory and executive boards have today discussed and approved the annual report of Arcedi Biotech ApS for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Vejle, 28 March 2019

Executive board


Palle Schelde Jensen
CEO


John Riis Mortensen

Supervisory board


Claus Bagger-Sørensen
chairman


Steen Bagger-Sørensen


Hans-Henrik Eriksen

Independent auditor's report

To the shareholders of Arcedi Biotech ApS

Opinion

We have audited the financial statements of Arcedi Biotech ApS for the financial year 1 January - 31 December 2018, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

Aarhus, 28 March 2019

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Jes Lauritzen
State Authorised Public Accountant
MNE no. mne10121



Tom B. Lassen
State Authorised Public Accountant
MNE no. mne24820

Company details

The company

Arcedi Biotech ApS
Lysholt Allé 10
7100 Vejle

Telephone: 49288888

CVR no.: 25 57 79 22

Reporting period: 1 January - 31 December 2018

Incorporated: 16. December 2013

Financial year: 5th financial year

Domicile: Vejle

Supervisory board

Claus Bagger-Sørensen, chairman
Steen Bagger-Sørensen
Hans-Henrik Eriksen

Executive board

Palle Schelde Jensen, CEO
John Riis Mortensen

Auditors

Ernst & Young
Godkendt Revisionspartnerselskab
Værkmestergade 25
8000 Aarhus C

Management's review

Business activities

The purpose of the Company is to develop diagnostic tests on the basis of cells isolated from a blood test as well as any other business which, in the opinion of the Board of Directors, relates thereto. The primary activity of the Company is to develop and commercialise a non-invasive prenatal diagnostics test.

Business review

The company's income statement for the year ended 31 December shows a loss of TDKK 5.787, and the balance sheet at 31 December 2018 shows negative equity of TDKK 15.729.

The Company is financed by its owners, who also provide the liquidity required for the continued operations and realisation of the planned activities. Management expects that equity will be re-established by means of own earnings.

Significant events occurring after end of reporting period

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Accounting policies

The annual report of Arcedi Biotech ApS for 2018 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 provisions as regards larger entities.

The accounting policies applied are consistent with those of last year.

Income statement

Gross profit

The Company applies section 32 of the Danish Financial Statements Act according to which, the Company does not disclose its revenue.

Revenue, work performed on own account and risk and recognised as assets, changes in inventories of finished goods and work in progress as well as other operating income less costs of raw materials and consumables and other external expenses are aggregated into the item Gross loss.

Other external expenses

Other external expenses comprise costs for distribution, sale, advertising, administration, premises, bad debt losses, operating leases, etc.

Other external expenses also comprise research and development costs that do not qualify for capitalisation.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance and pensions, and other social security costs, etc., for the Company's employees. Any subsidies received from public authorities are deducted from staff costs.

Amortisation, depreciation and impairment losses

Depreciation, amortisation and impairment losses comprise depreciation for the year on plant and equipment, amortisation of intangible assets and impairment losses.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts attributable to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

Tax for the year comprises current income tax for the year and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Intangible assets

Development projects, patents and licences

Development costs comprise expenses, salaries and amortisation charges directly attributable to the Company's development activities. Development projects that are clearly defined and identifiable and where feasibility, sufficient resources and a potential future market or development potential are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Once the development project is complete, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period, and licences are amortised over the licence term, however not exceeding 20 years.

Accounting policies

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Tangible assets

Items of plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

| | | |
|---------------------|---|-------|
| Plant and machinery | 5 | years |
|---------------------|---|-------|

The useful life and residual value of the company's plant and equipment is reassessed annually.

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses, respectively.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is tested annually for evidence of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or group of assets and the expected net cash flows from the disposal of the asset or group of assets after the end of the useful life.

Accounting policies

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs incurred after 1 January 2016. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognised development costs are amortised or if they are no more part of the Company's operations by a transfer directly to distributable reserves under equity.

Income tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are measured at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Accounting policies

Liabilities

Financial liabilities, which include trade receivables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to the nominal value.

Income statement 1 January - 31 December

| | <u>Note</u> | <u>2018</u> TDKK | <u>2017</u> TDKK |
|--|-------------|---------------------|---------------------|
| Gross profit | | 1.914 | 595 |
| Staff costs | 1 | -7.633 | -5.887 |
| Depreciation, amortisation and impairment of intangible assets and property, plant and equipment | | -47 | 0 |
| Profit/loss before net financials | | -5.766 | -5.292 |
| Financial income | | 2 | 32 |
| Financial costs | | -1.048 | -727 |
| Profit/loss before tax | | -6.812 | -5.987 |
| Tax on profit/loss for the year | 2 | 1.025 | 1.310 |
| Profit/loss for the year | | -5.787 | -4.677 |
| Recommended appropriation of profit/loss | | | |
| Transferred to other statutory reserves | | 12.662 | 9.692 |
| Retained earnings | | -18.449 | -14.369 |
| | | -5.787 | -4.677 |

Balance sheet 31 December

| | <u>Note</u> | <u>2018</u> TDKK | <u>2017</u> TDKK |
|----------------------------------|-------------|----------------------|----------------------|
| Assets | | | |
| Development projects in progress | | 51.320 | 35.086 |
| Intangible assets | 3 | <u>51.320</u> | <u>35.086</u> |
| Plant and machinery | | 427 | 0 |
| Tangible assets | | <u>427</u> | <u>0</u> |
| Total non-current assets | | <u>51.747</u> | <u>35.086</u> |
| Other receivables | | 1.956 | 912 |
| Corporation tax | | 3.572 | 2.734 |
| Prepayments | | 19 | 5 |
| Receivables | | <u>5.547</u> | <u>3.651</u> |
| Cash at bank and in hand | | <u>972</u> | <u>87</u> |
| Total current assets | | <u>6.519</u> | <u>3.738</u> |
| Total assets | | <u><u>58.266</u></u> | <u><u>38.824</u></u> |

Balance sheet 31 December

| | Note | 2018 TDKK | 2017 TDKK |
|---|------|----------------|---------------|
| Equity and liabilities | | | |
| Share capital | | 80 | 80 |
| Reserve for development expenditure | | 29.225 | 16.562 |
| Retained earnings | | -45.034 | -26.585 |
| Equity | | -15.729 | -9.943 |
| Provision for deferred tax | | 7.402 | 4.855 |
| Total provisions | | 7.402 | 4.855 |
| Short-term part of long-term debt | 4 | 0 | 42.002 |
| Trade payables | | 3.952 | 965 |
| Payables to shareholders and management | | 17.419 | 0 |
| Other payables | | 45.222 | 945 |
| Total current liabilities | | 66.593 | 43.912 |
| Total liabilities | | 66.593 | 43.912 |
| Total equity and liabilities | | 58.266 | 38.824 |
| Contingencies, etc. | 5 | | |

Equity

| | <u>Share capital</u> | <u>Reserve for development expenditure</u> | <u>Retained ear- nings</u> | <u>Total</u> |
|-----------------------------------|----------------------|--|--------------------------------|----------------|
| | TDKK | TDKK | TDKK | TDKK |
| Equity at 1 January 2018 | 80 | 16.562 | -26.585 | -9.943 |
| Net profit/loss for the year | 0 | 12.663 | -18.449 | -5.786 |
| Equity at 31 December 2018 | 80 | 29.225 | -45.034 | -15.729 |

Notes to the Annual Report

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|--|
| | TDKK | TDKK |
| 1 Staff costs | | |
| Wages and salaries | 7.288 | 5.837 |
| Other social security costs | 75 | 50 |
| Other staff costs | <u>270</u> | <u>0</u> |
| | <u>7.633</u> | <u>5.887</u> |
| | | |
| Average number of employees | <u>13</u> | <u>9</u> |
| | | |
| 2 Tax on profit/loss for the year | | |
| Current tax for the year | -3.572 | -2.734 |
| Deferred tax for the year | <u>2.547</u> | <u>1.424</u> |
| | <u>-1.025</u> | <u>-1.310</u> |
| | | |
| 3 Intangible assets | | |
| | | Development projects in progress |
| | | <u>TDKK</u> |
| Cost at 1 January 2018 | | 35.086 |
| Additions for the year | | <u>16.234</u> |
| Cost at 31 December 2018 | | <u>51.320</u> |
| | | |
| Carrying amount at 31 December 2018 | | <u>51.320</u> |

Notes to the Annual Report

3 Intangible assets (continued)

Special assumptions regarding development projects and tax assets

In-process development projects comprise the development of a prenatal foetal diagnostics test. Capitalised development costs primarily include patent costs, internal direct wages and salaries, reagents and external validation costs.

The carrying amount totalled DKK 51.320 thousand at 31 December 2018, and the Company expects subsequently to launch, license to third party or to sell the technology.

Future income from the launch of the test, license fees or from the sale of the technology is expected to exceed the carrying amount of the capitalised in-process development projects.

4 Long term debt

| | Debt at 1 January 2018 | Debt at 31 Decem- ber 2018 | Instalment ne- xt year | Debt outstan- ding after 5 years |
|-----------------------------|------------------------------|----------------------------------|---------------------------|--|
| | TDKK | TDKK | TDKK | TDKK |
| Shareholders and management | 17.074 | 0 | 0 | 0 |
| Other payables | 24.928 | 0 | 0 | 0 |
| | 42.002 | 0 | 0 | 0 |

5 Contingencies, etc.

Discounted bills of exchange

The company has entered into operating leases at the following amounts.

Term to maturity in 3 months with an average payment of DKK 7 thousand, totalling DKK 21 thousand.