

Dandrit Biotech A/S

Fruebjergvej 3
2100 København Ø

CVR no. 26 02 73 22

Annual report for 2016

(16th Financial year)

Adopted at the annual general meeting
on 31 May 2017

Anders Kaasgaard
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 Dandrit Biotech A/S for the financial year 1 January - 31 December 2016.

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 2016 and of the results of the company's operations for the financial year 1 January - 31 December 2016. The company's former management has in two quarters in 2016 failed to report VAT in due time.

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 at the annual general meeting.

Copenhagen, 30 May 2017

Executive board

Aldo Petersen
Acting director

Eric Jean Marie Leire
Left as director 30 March 2017

Supervisory board

N. E. Nielsen
chairman

Aldo Petersen

Independent auditor's report

To the shareholders of Dandrit Biotech A/S

Opinion

We have audited the financial statements of Dandrit Biotech A/S for the financial year 1 January - 31 December 2016, which comprise a summary of significant accounting policies, income statement, balance sheet 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 2016 and of the results of the company's operations for the financial year 1 January - 31 December 2016 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.

Other matter

Violation of VAT legislation

The company has violated the VAT act, by not properly reported two of the VAT returns in due time.

Both VAT returns are reported subsequently and both VAT returns resulted in a receivable VAT for the company. Management can be hold liable for this violation.

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 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.

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.

Independent auditor's report

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.

Hellerup, 30 May 2017

CVR no. 33 25 68 76

 Crowe Horwath.

Søren Jonassen
Statsautoriseret revisor

Company details

The company

Dandrit Biotech A/S
Fruebjergvej 3
2100 København Ø
E-mail: info@dandrit.com
Website: www.dandrit.com

CVR no.: 26 02 73 22
Reporting period: 1 January - 31 December
Incorporated: 1. April 2001
Domicile: Copenhagen

Supervisory board

N. E. Nielsen, chairman
Aldo Petersen

Executive board

Aldo Petersen, acting director
Eric Jean Marie Leire, left as director 30 march 2017

Auditors

Crowe Horwath
Statsautoriseret Revisionsinteressentskab
Rygårds Allé 104
2900 Hellerup

Management's review

Business activities

The company's purpose is to conduct clinical research, trading, manufacturing and related activities, primarily for the pharmaceutical industry.

Business review

The Company's income statement for the year ended 31 December shows a loss of DKK 10.661.607, and the balance sheet at 31 December 2016 shows negative equity of DKK 51.965.491.

On May 15, 2017 the parent Company completed a private placement offering of units, with each unit consisting of one share of the parent Company's common stock and two warrants to purchase one share of common stock at a strike price of USD 1,30 per share (each, a "Unit"), for USD 1,30 per Unit. In total, the parent Company issued and sold 2.700.000 shares of common stock and warrants to acquire 5.400.000 shares of common stock for total proceeds to the parent Company of USD 3.510.000. Immediately prior to the closing of the private placement, the parent Company had 9.733.290 shares of common stock issued and outstanding (including 185.053 shares of common stock reserved for issuance but deemed issued and outstanding for accounting purposes), and after the issuance of 2.700.000 shares of common stock in the private placement, or 27,74 % of the total common stock issued and outstanding immediately prior to the closing of the private placement, the parent Company has 12.433.290 shares issued and outstanding as of the date of this Report.

The parent company will support Dandrit Biotech A/S as going concern.

The former director Eric Jean Marie Leire left the company as director 30 March 2017.

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. However the parent company has make a capital increase in May 2017 at USD 3.510.000 and the parent company will support Dandrit Biotech A/S as going concern.

Accounting policies

The annual report of Dandrit Biotech A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act concerning reporting class B entities.

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

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company's 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 from the company's and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report are presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit

In pursuance of section 32 of the Danish Financial Statements Act, the company does not disclose its revenue.

Gross profit reflects an aggregation of revenue, changes in inventories of finished goods and other operating income less raw materials and consumables and other external expenses.

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Accounting policies

Financial income and expenses

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

Tax on profit/loss for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects, patents and licences

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 term of the licence, however not more than 20 years.

Tangible assets

Items of 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.

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

Other fixtures and fittings, tools and equipment 4-6 years

Assets costing less than DKK 12.900 are expensed in the year of acquisition.

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.

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 is impaired, an impairment loss for that individual asset is recognised.

Accounting policies

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, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Dividend

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss allowed for carry forward are measured at the value to which the asset is expected to be realised, either by elimination in tax on future income or by offsetting against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Liabilities

Liabilities are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement
1 January 2016 - 31 December 2016

	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> TDKK
Gross profit		-4.965.331	-17.425
Staff costs	1	<u>-2.874.517</u>	<u>-2.849</u>
Earnings Before Interest Taxes Depreciation and Amortization		-7.839.848	-20.274
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-99.407	-107
Other operating costs		<u>0</u>	<u>-81</u>
Profit/loss before financial income and expenses		-7.939.255	-20.462
Financial costs	2	<u>-3.733.852</u>	<u>-4.851</u>
Profit/loss before tax		-11.673.107	-25.313
Tax on profit/loss for the year	3	<u>1.011.500</u>	<u>4.960</u>
Net profit/loss for the year		<u><u>-10.661.607</u></u>	<u><u>-20.353</u></u>
 Proposed distribution of profit			
Retained earnings		<u>-10.661.607</u>	<u>-20.353</u>
		<u><u>-10.661.607</u></u>	<u><u>-20.353</u></u>

Balance sheet at 31 December 2016

	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> TDKK
Assets			
Acquired patents		859.628	960
Intangible assets	4	859.628	960
Other fixtures and fittings, tools and equipment		0	0
Tangible assets		0	0
Deposits		17.485	17
Fixed asset investments		17.485	17
Fixed assets total		877.113	977
Trade receivables		0	97
Receivables from parent company		2.495.786	0
Other receivables		80.486	65
Corporation tax		1.011.500	3.908
Prepayments		0	166
Receivables		3.587.772	4.236
Cash at bank and in hand		789.386	3.628
Current assets total		4.377.158	7.864
Assets total		5.254.271	8.841

Balance sheet at 31 December 2016

	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> TDKK
Liabilities and equity			
Share capital		4.003.089	4.003
Retained earnings		-55.968.580	-45.307
Equity	6	<u>-51.965.491</u>	<u>-41.304</u>
Payables to parent company		49.114.406	44.744
Long-term debt	7	<u>49.114.406</u>	<u>44.744</u>
Trade payables		6.340.875	4.144
Other payables		1.764.481	1.257
Short-term debt		<u>8.105.356</u>	<u>5.401</u>
Debt total		<u>57.219.762</u>	<u>50.145</u>
Liabilities and equity total		<u>5.254.271</u>	<u>8.841</u>
Subsequent events	8		
Contingent assets, liabilities and other financial obligations	9		

Notes

	<u>2016</u> DKK	<u>2015</u> TDKK
1 Staff costs		
Wages and salaries	2.638.593	2.576
Pensions	228.000	265
Other social security costs	<u>7.924</u>	<u>8</u>
	<u>2.874.517</u>	<u>2.849</u>
Average number of employees	<u>2</u>	<u>2</u>
2 Financial costs		
Interest paid to subsidiaries	2.074.670	1.616
Other financial costs	<u>1.659.182</u>	<u>3.235</u>
	<u>3.733.852</u>	<u>4.851</u>
3 Tax on profit/loss for the year		
Current tax for the year	-1.011.500	-3.908
Adjustment of tax concerning previous years	<u>0</u>	<u>-1.052</u>
	<u>-1.011.500</u>	<u>-4.960</u>
4 Intangible assets		<u>Acquired patents</u>
Cost at 1 January 2016		<u>1.984.066</u>
Cost at 31 December 2016		<u>1.984.066</u>
Impairment losses and amortisation at 1 January 2016		1.025.031
Depreciation for the year		<u>99.407</u>
Impairment losses and amortisation at 31 December 2016		<u>1.124.438</u>
Carrying amount at 31 December 2016		<u>859.628</u>

Notes

5 Tangible assets

	Other fixtures and fittings, tools and equipment
Cost at 1 January 2016	<u>1.474.961</u>
Cost at 31 December 2016	<u>1.474.961</u>
Impairment losses and depreciation at 1 January 2016	<u>1.474.961</u>
Impairment losses and depreciation at 31 December 2016	<u>1.474.961</u>
Carrying amount at 31 December 2016	<u><u>0</u></u>

6 Equity

	Share capital	Retained earnings	Total
Equity at 1 January 2016	4.003.089	-45.306.973	-41.303.884
Net profit/loss for the year	<u>0</u>	<u>-10.661.607</u>	<u>-10.661.607</u>
Equity at 31 December 2016	<u><u>4.003.089</u></u>	<u><u>-55.968.580</u></u>	<u><u>-51.965.491</u></u>

The share capital consists of 4.003.089 shares of a nominal value of kr. 1. No shares carry any special rights.

The share capital has developed as follows:

	2016	2015	2014	2013	2012
	DKK	DKK	DKK	DKK	DKK
Share capital at 1 January 2016	4.003.089	4.003.089	4.003.089	3.548.172	3.548.172
Additions for the year	<u>0</u>	<u>0</u>	<u>0</u>	<u>454.917</u>	<u>0</u>
Share capital	<u><u>4.003.089</u></u>	<u><u>4.003.089</u></u>	<u><u>4.003.089</u></u>	<u><u>4.003.089</u></u>	<u><u>3.548.172</u></u>

Notes

7 Long term debt

	Debt at 1 January 2016	Debt at 31 December 2016	Payment within 1 year	Debt after 5 years
Payables to parent company	44.743.479	49.114.406	0	0
	<u>44.743.479</u>	<u>49.114.406</u>	<u>0</u>	<u>0</u>

8 Subsequent events

On May 15, 2017 the parent Company completed a private placement offering of units, with each unit consisting of one share of the parent Company's common stock and two warrants to purchase one share of common stock at a strike price of USD 1,30 per share (each, a "Unit"), for USD 1,30 per Unit. In total, the parent Company issued and sold 2.700.000 shares of common stock and warrants to acquire 5.400.000 shares of common stock for total proceeds to the parent Company of USD 3.510.000. Immediately prior to the closing of the private placement, the parent Company had 9.733.290 shares of common stock issued and outstanding (including 185.053 shares of common stock reserved for issuance but deemed issued and outstanding for accounting purposes), and after the issuance of 2.700.000 shares of common stock in the private placement, or 27,74 % of the total common stock issued and outstanding immediately prior to the closing of the private placement, the parent Company has 12.433.290 shares issued and outstanding as of the date of this Report.

The parent company will support Dandrit Biotech A/S as going concern.

9 Contingent assets, liabilities and other financial obligations

The company has entered into rent agreements at the following amounts:

Remaining term of 1-3 months with totalling payment of DKK 22 thousand.

The company's former director has raised a claim of approximately DKK 5 million against the company. The company is working to conclude a settlement. The company has raised a counterclaim against the former director.