ANNUAL REPORT

For the Period 1 January 2019 to 31 March 2020

Veloxis Pharmaceuticals A/S
c/o Bech-Bruun
Langelinie Allé 35
DK-2100 Copenhagen
CVR No.: 26 52 77 67

The Annual Report was presented and approved at the Annual General Meeting on 21 August 2020

Chairman of the Meeting

Table of Contents

Management Review

Executive Management and Board of Directors' Statement and Auditor's Report

Financial Statements

Veloxis Business Strategy

Veloxis Pharmaceuticals is a biopharmaceutical company committed to improving the lives of transplant patients by identifying, developing, and commercializing products in transplantation. Utilizing our proprietary drug delivery technology (MeltDose®), Veloxis has developed and obtained U.S. Food and Drug Administration (FDA) and European Medicines Agency (EMA) approval for our product, Envarsus (tacrolimus extended-release tablets), to aid in the prophylaxis of organ rejection in transplant recipients. Our strategy is to continue to commercialize Envarsus in the US with a direct sales force and to license rights to Envarsus to proven commercial partners in other territories around the world. In addition to expanding use of Envarsus, Veloxis is actively seeking business development and licensing targets within the areas of transplantation and adjacent specialties.

In the US, our direct sales force is supplemented by field-based reimbursement, medical affairs personnel, and in-house marketing and operations personnel. Our commercial strategy is to reach the organ transplant market by promoting within transplant centers, which are typically located in the large hospital setting. A secondary focus is to reach transplant patients in need of Envarsus through promotion to large specialty practices which refer patients to transplant centers for organ transplantation. Direct sales efforts are complemented by specialty pharmaceutical marketing practices to ensure broad reach of brand awareness and core message delivery. In order to increase patient access to Envarsus, Veloxis has established specialty distribution and patient services to optimize the experience for patients and providers.

Envarsus® (tacrolimus extended-release tablet) is a novel formulation of tacrolimus designed using advanced technology which allows for increased bioavailability and a controlled, smooth delivery, resulting in:

•Once daily dosing

•A lower total daily dose requirement

•Lower peak concentrations and less fluctuation

In addition to the prophylaxis of organ rejection in kidney transplant patients converted from tacrolimus, Envarsus is now FDA-approved for use in de novo kidney transplant patients as of December 2018. That means more patients, including hard-to-treat patients such as rapid metabolizers, can benefit from once-daily controlled-release Envarsus.

Outlook

Veloxis Pharmaceuticals anticipates an increase in revenue for the twelve months ending 31 March 2021 compared to the fifteen months ended 31 March 2020 due to the Company's continued effort to maximize the growth of Envarsus. The Company also anticipates an increase in operating result and net income for the twelve months ending 31 March 2021 compared to the fifteen months ended 31 March 2020 due to the anticipated increase in revenue as well as a decrease in expenses related to the sale of the business as disclosed in Note 19, which impacted the operating result for the fifteen months ended 31 March 2020.

As a result of the COVID-19 pandemic, non-essential surgeries have been postponed, as well as non-essential studies such as investigator trials. In addition, travel-related costs initially anticipated have been impacted due to travel restrictions. However, we do not currently anticipate a significant impact to our overall outlook for the twelve months ending 31 March 2021 due to COVID-19.

Financial Review

(in thousands USD, except share data)

Acquisition by Asahi Kasei Pharma Denmark A/S

On 25 November 2019, Asahi Kasei Pharma Denmark A/S, a Danish limited liability company, announced its decision to make a recommended conditional voluntary public takeover offer for all shares and warrants in Veloxis Pharmaceuticals A/S.

Asahi Kasei Pharma Denmark A/S is directly and wholly owned and controlled by Asahi Kasei Corporation, a Japanese company, incorporated under the laws of Japan and whose shares are listed on the Tokyo Stock Exchange.

In connection with the close of the acquisition on 23 January 2020, Veloxis Pharmaceuticals, Inc. (the "Borrower") received a USD 160 million intercompany loan (the "Loan") from Asahi Kasei Holdings US, Inc. (the "Lender"). The Loan was used to pay the outstanding principal and related prepayment premium and exit fee for the Athyrium loan disclosed in Note 13, as well as acquiree-related costs for the transaction with Asahi Kasei Pharma Denmark A/S as disclosed in Note 19.

Refer to Notes 13 and 19 for further details regarding the acquisition and new financing.

Change in Accounting Year

It has been decided to change the accounting year to follow the accounting year of the new parent companies following the acquisition disclosed in Note 19. Thus, the accounting year is changed from the calendar year to the period 1 April to 31 March with the transition period of 1 January 2019 to 31 March 2020 (15 months). Comparative figures consist of the period 1 January 2018 to 31 December 2018 (12 months).

Revenue

During 2019/20, Veloxis recognized revenue of USD 109,440 compared to USD 39,494 in 2018. The increase is driven by growth in commercial sales of Envarsus in the US, which increased by 185% from USD 33,667 in 2018 to USD 96,000 in 2019/20, and sales to Chiesi Farmaceutici S.p.A ("Chiesi") in Europe increased from USD 5,813 in 2018 to USD 13,052 in 2019/20. There was USD 388 in rest of world ("RoW") revenue in 2019/20 compared to USD 14 in 2018.

Selling, General and Administrative Costs

Selling, general and administrative costs increased from USD 35,611 in 2018 to USD 162,084 in 2019/20. This increase reflects acquiree-related costs recognized in conjunction with the acquisition disclosed in Note 19, as well as additional spends in promotion to healthcare providers treating transplant patients including society partnerships, medical education and advertising. In our continued effort to maximize growth of Envarsus, Veloxis continues to expand its investment in patient support programs which include patient education and financial assistance.

On an overall basis, selling, general and administrative costs accounted for 99% of total cost of operations in 2019/20. The comparable figure for 2018 was 95%.

Research & Development Cost

Research and development costs decreased from USD 1,801 in 2018 to USD 1,761 in 2019/20. The decrease is due to timing of costs associated with a new production facility and production optimization, which will continue in the coming year.

On an overall basis, research and development costs account for 1% of total cost of operations. The comparable figure for 2018 was 5%.

Share-Based Compensation Cost

We recognized USD 8,748 of share-based compensation in 2019/20 compared to USD 3,830 in 2018. The increase is due to the increase in market value of granted shares, as well as accelerated share-based compensation expense recognized in conjunction with the acquisition disclosed in Note 19.

Operating Result

During 2019/20, Veloxis recognized USD 74,013 in operating loss compared with a USD 5,836 operating loss in 2018. The increased loss in 2019/20 is due to acquiree-related transaction costs recognized in conjunction with the acquisition disclosed in Note 19.

The operating result is not in line with Management's expectation as reported on 12 November 2019 in connection with the third quarter interim report, which provided a 2019 outlook of operating income before accounting for stock compensation to be in the range of USD 15 – 22 million. Management's previous expectations as reported in November 2019 did not contemplate the sale of the business, acquiree-related transaction costs, or the 15-month transition period.

Financial Items

Net financial items increased by USD 4,239, from a loss of USD 6,016 in 2018 to a loss of USD 10,255 in 2019/20. The loss in 2018 and 2019/20 is primarily attributable to interest charges on the loan with Athyrium Capital Management, LP executed in February 2018. Additional interest expense on the Athyrium loan was also paid in January 2020 as a result of the early pay-off immediately following the acquisition.

Tax for the Year

Tax for the period was a benefit of USD 19,801 compared to a benefit of USD 6,567 in 2018. In 2019/20 Veloxis recognized a tax benefit from revaluation of deferred tax assets of USD 23,004 and a tax expense of USD 3,202 due to taxes payable in Denmark.

At 31 March 2020, the deferred tax asset was USD 50,205 compared to USD 27,201 at the end of 2018.

Net Result

During 2019/20, Veloxis recognized a net loss of USD 64,467 compared with a net loss of USD 5,285 in 2018.

Cash Flow

As of 31 March 2020, the balance sheet reflects cash and cash equivalents of USD 52,257 compared with USD 30,520 as of 31 December 2018, with the increase primarily related to growth in commercial sales of

Envarsus in the US discussed above, coupled with net proceeds from the new intercompany loan and warrant exercises immediately following the acquisition.

Balance Sheet

As of 31 March 2020, total assets were USD 152,939 compared with USD 77,117 at the end of 2018.

As of 31 March 2020, the net debt (excluding the Intercompany Loan Payable disclosed in Note 13) was USD zero compared to USD 59,905 as of 31 December 2018, with the change related to the payoff of the Athyrium loan as disclosed in Note 13.

Shareholders' deficit equaled USD 32,062 as of 31 March 2020, compared with shareholders' equity of USD 4,614 as of 31 December 2018. Management expects that the consolidated equity will be positive during 2020/21 due to increase in revenue and being profitable for 2020/21 as disclosed in the Outlook.

Financial Highlights - Consolidated

USD'000	15 Months 2019/20	2018	2017	2016	2015
Income Statement					
Revenue	109,440	39,494	30,167	9,194	2,103
Production costs	(19,608)	(7,918)	(5,202)	(3,019)	(2,250)
Gross profit	89,832	31,576	24,965	6,175	(147)
Selling, general and administrative costs	(162,084)	(35,611)	(32,458)	(34,407)	(17,808)
Research and development costs	(1,761)	(1,801)	(866)	(636)	(11,345)
Other operating income	-	-	-	100	-
Operating result	(74,013)	(5,836)	(8,359)	(28,768)	(29,300)
Net financial income / (expenses)	(10,255)	(6,016)	(2,090)	(45)	2,168
Result before tax	(84,268)	(11,852)	(10,449)	(28,813)	(27,132)
Tax for the period	19,801	6,567	907	18,678	953
Net result for the period	(64,467)	(5,285)	(9,542)	(10,135)	(26,179)
Statement of Financial Position					
Cash and cash equivalents	52,257	30,520	7,766	3,359	15,763
Total assets	152,939	77,117	41,921	29,884	21,809
Total equity	(32,062)	4,614	5,316	10,195	13,127
Investment in property, plant and equipment	340	251	564	176	48
Cash Flow Statement					
Cash flow from operating activities	(93,299)	(11,265)	(7,710)	(28,057)	(26,392)
Cash flow from investing activities	(340)	(251)	(564)	(176)	(48)
Cash flow from financing activities	115,961	34,371	12,435	15,981	48
Cash and cash equivalents at period end	52,257	30,520	7,766	3,359	15,763
Financial Ratios					
Average number of employees (FTEs)	60	55	51	54	38
Assets/equity	(4.77)	16.71	7.89	2.93	1.66
Average exchange rates DKK/USD	6.6910	6.3521	6.5301	6.6940	6.7269
Period End exchange rate DKK/USD	6.8203	6.5204	6.2019	7.0460	6.8300

People

As of March 31, 2020, Veloxis employed 61 people, all of which are located in the US. The organization is built to support our strategy, and we will continue to strengthen the organization with focus on the commercialization of Envarsus in the US.

Attracting and retaining the best talent is crucial to our success and continues to be a company-wide focus.

As of 31 March 2020, 100% of our employees were in selling, general and administration (SG&A).

In order to ensure that the Board of Directors has the appropriate expertise and diversity, the following principles have been set for the composition of the Board of Directors:

1. At least half of the members of the Board of Directors shall be independent in accordance with the Danish Corporate Governance Recommendations;
2. At least half of the shareholder-elected members of the Board of Directors shall have substantial experience in pharmaceuticals; and
3. At least one third of the members of the Board of Directors shall be female by 2022, and at least one third of the member of the Board of Directors shall be male.

In 2019/20, Principles 1 and 2 were met. Principle 3 was not met in 2019/20 as the Board of Directors was comprised of 5 male members and 1 female member. We did not achieve the target during this financial year as the Board of Directors was reelected at the Annual General Meeting. However, the Board of Directors maintained its commitment to gender diversity and re-affirms its intention to comply with Principle 3 by 2022.

Following its acquisition by Asahi Kasei Pharma Denmark A/S as disclosed in Note 19, Veloxis held an EGM on February 17, 2020 whereby a new Board of Directors was elected comprising 3 male members:

- Masaya Etoh (Chairman of the Board)
- Daisuke Matsuo (Member of the Board)
- Matthew Dumont (Member of the Board)

Regarding the principles above, only principle 2 is met by the new Board of Directors. The new Board of Directors will consider the applicability of the above principles going forward and decide on an appropriate course of action to achieve such goals. This fulfills the requirements of section 99b of the Danish Financial Statements Act.

With regard to the diversity of other management levels, Veloxis's parent company has less than fifty (50) employees, as such Veloxis is under no obligation to prepare a policy to increase underrepresented genders on other management levels. However, gender parity has been achieved among the members of Veloxis's Executive Management, as one half of its members are female.

Corporate Governance

Corporate governance at Veloxis concerns the way in which our company is managed and controlled, while creating value for our Company and shareholders.

In 2019/20, the Board of Directors of the Company held 29 meetings. The meetings focused on the Company's overall operations, financial performance and strategic initiatives. The meetings were all held with representatives from the Company's senior management overseeing Finance, Operations, Legal, Commercial, Clinical and Regulatory departments.

Veloxis complies with the Danish Companies Act, Danish Accounting Act and applicable laws in the countries where the Company operates.

Risk Management

Veloxis is exposed to certain risks, some of which may significantly affect the Company's operations and ability to execute its commercial strategy. Close monitoring, systemic risk assessments and the ability to respond to a changing environment are essential for an effective risk management process at Veloxis.

The principal aim of Veloxis's risk management process is to strike the right balance between risk exposure and value creation. Our risk management processes are continually updated and adapted to match internal and external requirements. This gives our Executive Management an accurate and complete overview of the Company's activities and resources, and a clear basis for decision-making on Veloxis's overall risk exposure.

Veloxis assesses the likelihood of an event occurring and its potential impact on the Company in terms of financial loss or reputational damage. Risk identification, evaluation, qualification, recording and reporting are carried out by Executive Management and are continually reviewed throughout the year. The overall risk exposure is then evaluated in consultation with the Board of Directors.

Veloxis is exposed to critical risks within such areas as Market Risks, Financial Risks, Legal Risks, Third-Party Manufacturing Risks and Reputational Risks.

The following examples highlight these key risks and how they are addressed:

Market Risks

In general, the global pharmaceutical market is characterized by a number of risk factors including risks related to market acceptance, effective commercialization and competition, as well as the ability to attract and retain employees and partners.

In recent years, the global pharmaceutical market has been subject to attempts by authorities to cap or reduce increasing healthcare costs. These cost containment measures may be structured in a number of ways, such as price controls or lengthy and resource-consuming market access processes in each country.

We continuously monitor and evaluate the market development of, and the competitive landscape for our products and product candidates to proactively manage applicable market risks.

Additionally, our business strategy provides us with the freedom to seek partners for certain product candidates and develop our own sales and marketing organization for others.

Financial Risks

Veloxis has interest-bearing debt. Our interest rate risk also extends to our cash and cash equivalent balances. In order to mitigate such risk, Veloxis's treasury policy allows the Company to hold excess cash at deposits with major Danish and US banks and in short-term Danish and US government bonds or Danish mortgage bonds with limited duration.

Legal Risks

Biotechnology and pharmaceutical companies are often involved in legal proceedings concerning a variety of issues including product liability claims, regulatory violations and infringement of intellectual property rights. As at 31 March 2020, the Company was not a party to any pending legal proceedings.

Veloxis maintains broad insurance coverage to deal with a number of legal risks. The appropriateness of this insurance coverage, including products liability coverage, is assessed on an annual basis by the Board of Directors.

Third Party Manufacturing Risks

Veloxis contracts with third-party manufacturers and component suppliers to produce Envarsus. Failures or delays may occur at production sites or throughout the supply chain for components. This could be due to equipment breakdowns or quality issues at key suppliers' production facilities. If Veloxis is unable to supply Envarsus to the market, pharmacies and hospitals could face product shortages.

Veloxis mitigates its third-party manufacturing risks in a number of ways. Veloxis performs regular audits of its suppliers and manufacturers to ensure compliance with applicable regulations and quality standards. Additionally, Veloxis maintains an additional safety stock of Envarsus and critical components that are necessary for product manufacture. Lastly, Veloxis is pursuing the qualification of a secondary manufacturer for its product.

Reputational Risks

Strong corporate governance is essential to maintaining Veloxis's reputation. Accordingly, Veloxis has implemented systems and processes to ensure proactive risk management.

Marketing of pharmaceutical products is strictly regulated and Veloxis is committed to complying with these regulations. Our employees and third parties involved in the marketing of our products are trained to comply with all relevant laws and regulations.

Veloxis maintains a Code of Ethics that helps ensure that all employees comply with applicable international laws and regulations. This Code of Ethics is crucial to sustaining Veloxis's culture of compliance. It helps our employees comply with applicable laws and regulations, pharmaceutical industry standards and corporate requirements. We provide regular training and revise our Code of Ethics and related procedures to meet changing regulations, implement best practices and to respond to audit observations.

Veloxis is committed to having an open and honest dialogue about ethical dilemmas. Accordingly, Veloxis has a whistleblower system that all employees may use anonymously if they experience non-compliance with Veloxis's policies and procedures.

Statutory Report on Corporate Social Responsibility

Veloxis is proud of its commitment to the transplant community and our goal of conducting our business in a way that makes a positive and meaningful impact on health, science, and society overall. While Veloxis has no formal, Company-wide policies and reporting relating to corporate social responsibility in terms of employee, health, safety, social or environmental issues, we remain committed to the support and betterment of our communities through corporate giving, and are supportive of our employee's volunteerism efforts, philanthropy, and relationships with non-profits.

Business Model

Please refer to the Veloxis Business Strategy section for a description of the Company's business model.

Veloxis is a company without any laboratories or production facilities. The Company employs 61 people all of which are located in the US and all of which are working in the selling and administration function. While Veloxis as a company is very much aware of our responsibility with respect to all the aspects of Corporate Social Responsibility, Veloxis has not yet experienced risks in the way the Company does business that indicate the need to maintain formalized policies and procedures on how the various aspects are managed daily. The size of the Company's organization allows Veloxis to conduct quite an agile management style, where colleagues in doubt about the approach to a given challenge or situation easily can approach a superior on the management team. However, Veloxis is aware that topics concerning our employees are key to be alert of in order to continuously be able to maintain and attract the right competences. Similarly, Veloxis formalizes our values and management approach in our Code of Ethics as a support for fellow colleagues, but not necessarily driven by material risks to our license to operate.

Environmental impacts and climate change

Veloxis conducts its activities with deep respect for its stakeholders and with a focus on minimizing its environmental impact; however, as a specialty pharmaceutical company without either laboratories or production facilities, the Group's consumption of energy, other natural resources, and its discharges of substances into the air and water are quite limited. With reference to the very limited impacts, Veloxis has not identified any material company risks with respect to environment and climate change, and therefore has decided not to maintain a formal policy in this respect.

Health and safety

Our employees are the backbone of our Company, and their well-being, health, and safety in the workplace are crucial to our success as a business. The objective of our working environment activities is to continually improve upon the safety, health and satisfaction of our employees. However, given our very limited number of employees and given that they are mainly involved in administrative and selling work, Veloxis has not identified risks that require a formalized approach in form of a policy. Our efforts towards employees are driven by our values as a company.

We have in 2019/20 continued to provide employee health and safety training and assessed whether absence is due to the working environment. We have also continued our meetings in our Work Environment and Safety Organization (WESO), and fortunately we have not experienced any workplace safety incidents in 2019/20.

Social and staff matters

Due the size of the Company and our limited number of employees, our management approach allows each colleague to stay in close contact with their direct manager in case of questions, and consequently, we do not need a formalized policy for social and staff matters. While the Company does not have a formal policy for social and staff matters, the Company is committed to securing and maintaining a safe working environment that ensures our employees feel safe, motivated and productive. Our employees' well-being in the workplace is of paramount importance to us, and driven by our company values, and also in 2019/20 we solicited feedback from our employees on the working environment and other social and staff matters through the annual review process. In an effort to facilitate ideal social and staff matters, the Company has established a committee that meets regularly to organize quarterly team-building events. In 2019/20, Veloxis and sponsors organized different activities to show appreciation for our employee's efforts and dedication. The Company also has a dedicated, in-office area for employee recreation during the workday.

Human rights

Veloxis values diversity and provides equal opportunities to all in the recruitment and promotion process without regard to race, color, religion, sex (including pregnancy and gender identity), national origin, age, disability, genetic information, veteran status, and other protected classes. Veloxis does not tolerate harassment or discrimination in any circumstances and accordingly has adopted formal policies in this regard. Our policies are mitigating the risks of being assessed as a company without focus on diversity and inclusion and the risk of employees experiencing discrimination and harassment.

Also, in 2019/20 employees acknowledged the policies and affirmed their adherence to comply with the provisions contained therein. Additionally, all employees attended mandatory training on sexual harassment, discrimination, and retaliation. Such training is a key element of the Company's onboarding program. We did not experience any violations regarding human rights in 2019/20.

Anti-bribery and corruption

Governments around the world play a key role in Veloxis's industry either as regulators, purchasers or payors. Additionally, Veloxis retains the services of scientists and doctors for consulting and research activities, many of whom are government employees or employees of public institutions. Most countries in which Veloxis does business have laws that forbid making, offering or promising payments or anything of value to a government employee when such payment is intended to influence an official act or decision to obtain or retain business or secure an unfair business advantage.

Veloxis's Code of Ethics specifically requires that all employees comply with all federal, state and local laws relating to anti-bribery and corruption. Simply put, bribery of any kind is illegal worldwide, is inconsistent with Veloxis's values and is strictly prohibited by the Company.

In 2019/20, Veloxis reviewed its Code of Ethics and updated it as necessary to reflect changes in applicable law and industry practice. All employees received the most recently updated Code of Ethics, acknowledged their understanding of the Code of Ethics, and reaffirmed their adherence to the provisions contained therein. Veloxis did not experience any cases of bribery or corruption in 2019/20.

Business partners

The relationships with our business partners are of key importance to our company.

Our policy for business partners is incorporated into our quality assurance system. When entering into agreements with external business partners, Veloxis ensures that it has adequate rights to inspect our external business partners and ensure that our standards are met.

During 2019/20 Veloxis performed 5 audits of our approved vendors (4 visits and audits of our important partners and suppliers in 2018) in the US, Asia and Europe, to ensure that all of our quality requirements were adhered to. The visits did not result in any material findings.

Executive Management and Board of Directors' Statement on the Annual Report

The Executive Management and the Board of Directors have today considered and adopted the Annual Report of Veloxis Pharmaceuticals A/S for the financial year 1 January 2019 to 31 March 2020.

The Annual Report is prepared in accordance with International Financial Reporting standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 March 2020 of the Group and the Parent Company and of the results of the Group and the Parent Company operations and cash flows for the period from 1 January 2019 to 31 March 2020.

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

Copenhagen, 21 August 2020

Executive Management

Craig A. Collard

Craig A. Collard
President & CEO

Ira Duarte
CFO

Board of Directors

Masaya Etoh
Chairman

Daisuke Matsuo

Daisuke Matsuo
Member

Matthew Dumont

Matthew Ryan Dumont
Member

Independent Auditor's Report

To the shareholders of Veloxis Pharmaceuticals A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 March 2020 and of the results of the Group's and the Parent Company's operations and cash flows for the financial period 1 January 2019 to 31 March 2020 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Veloxis Pharmaceuticals A/S for the financial period 1 January 2019 to 31 March 2020, which comprise the income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("financial statements").

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 Group 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.

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, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Copenhagen, 21 August 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Søren Ørjan Jensen
State Authorised Public Accountant
Mne33226

Henrik Ødegaard
State Authorised Public Accountant
Mne31489

Financial Statements

Income Statement

(USD'000)	Note	Consolidated 15 Months 2019/20	Consolidated 2018	Parent 15 Months 2019/20	Parent 2018
Revenue	3	109,440	39,494	45,964	16,587
Production costs		(19,608)	(7,918)	-	-
Gross profit		**89,832**	**31,576**	**45,964**	**16,587**
Selling, general and administrative costs	4, 5	(162,084)	(35,611)	(30,291)	(3,134)
Research and development costs	4, 5	(1,761)	(1,801)	-	-
Operating result		**(74,013)**	**(5,836)**	**15,673**	**13,453**
Financial income	6	467	347	(30)	2
Financial expenses	7	(10,722)	(6,363)	(245)	(517)
Result before tax		**(84,268)**	**(11,852)**	**15,398**	**12,938**
Tax for the period	8	19,801	6,567	19,801	6,567
Net result for the period		**(64,467)**	**(5,285)**	**35,199**	**19,505**

The Board of Directors proposes the net result for the year to be carried forward to next year.

Statement of Comprehensive Income

(USD'000)	Consolidated 15 Months 2019/20	Consolidated 2018	Parent 15 Months 2019/20	Parent 2018
Net result for the period	**(64,467)**	**(5,285)**	**35,199**	**19,505**
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	**(64,467)**	**(5,285)**	**35,199**	**19,505**

Balance Sheet

Assets

		Consolidated		Parent	
(USD'000)	**Note**	**31 Mar. 2020**	**31 Dec. 2018**	**31 Mar. 2020**	**31 Dec. 2018**
Patent rights and software	9	17	48	17	26
Intangible assets		**17**	**48**	**17**	**26**
Property, plant and equipment	9	1,514	965	62	127
Tangible fixed assets		**1,514**	**965**	**62**	**127**
Equity interest in subsidiary	10	-	-	73,412	46,609
Deferred tax asset	8	50,205	27,201	50,205	27,201
Financial assets		**50,205**	**27,201**	**123,617**	**73,810**
Non-current assets		**51,736**	**28,214**	**123,696**	**73,963**
Inventories	11	**26,677**	**8,375**	**-**	**-**
Trade receivables		17,596	6,903	-	-
Other receivables		312	59	308	54
Prepayments		4,361	3,046	368	134
Receivables		**22,269**	**10,008**	**676**	**188**
Cash		52,257	30,520	14,750	1,650
Cash and cash equivalents		**52,257**	**30,520**	**14,750**	**1,650**
Current assets		**101,203**	**48,903**	**15,426**	**1,838**
Assets		**152,939**	**77,117**	**139,122**	**75,801**

Balance Sheet

Equity and Liabilities

		Consolidated		Parent	
(USD'000)	Note	31 Mar. 2020	31 Dec. 2018	31 Mar. 2020	31 Dec. 2018
Share capital	12	26,257	24,399	26,257	24,399
Translation reserves		(4,052)	(4,052)	(4,297)	(4,297)
Retained earnings/loss		(54,267)	(15,733)	115,736	54,604
(Deficit)/Equity		**(32,062)**	**4,614**	**137,696**	**74,706**
Loan	13	-	59,905	-	-
Other non-current liabilities	16	273	-	-	-
Non-current liabilities		**273**	**59,905**	**-**	**-**
Trade payables		3	1,996	3	43
Intercompany loan payable	13	160,000	-	-	-
Tax payable		1,199	600	1,199	600
Other payables		23,526	10,002	224	452
Current liabilities		**184,728**	**12,598**	**1,426**	**1,095**
Liabilities		**185,001**	**72,503**	**1,426**	**1,095**
Equity and liabilities		**152,939**	**77,117**	**139,122**	**75,801**

Summary of significant accounting policies	1
Significant accounting estimates and judgments	2
Financial risks	14
Warrants	15
Related parties	17
Changes to working capital	18
Fees to auditors	20

Cash Flow Statement

(USD'000)	Note	Consolidated 15 Months 2019/20	Consolidated 2018	Parent 15 Months 2019/20	Parent 2018
Operating result		**(74,013)**	**(5,836)**	**15,673**	**13,453**
Share-based payment	5	8,748	3,830	598	407
Depreciation and amortization	4	639	193	74	82
Changes in working capital	18	(19,449)	(1,927)	(19,099)	(107)
Cash flow from operating activities before interest		**(84,075)**	**(3,740)**	**(2,754)**	**13,835**
Interest paid		(6,620)	(7,516)	-	(1,877)
Corporate tax paid		(2,604)	(9)	(2,604)	(9)
Cash flow from operating activities		**(93,299)**	**(11,265)**	**(5,358)**	**11,949**
Purchase of property, plant and equipment		(340)	(251)	-	-
Payable to / (receivable) from subsidiary		-	-	-	8,910
Cash flow from investing activities		**(340)**	**(251)**	**-**	**8,910**
Proceeds from borrowings		160,000	60,000	-	-
Repayment of principal		(60,000)	(26,000)	-	(26,000)
Loan prepayment premium and exit fee		(2,772)	(382)	-	-
Principal elements of lease payments		(310)	-	-	-
Proceeds from issuance of shares		19,043	753	19,043	753
Cash flow from financing activities		**115,961**	**34,371**	**19,043**	**(25,247)**
Increase/(decrease) in cash		**22,322**	**22,855**	**13,685**	**(4,388)**
Cash at beginning of period		30,520	7,766	1,650	6,139
Exchange gains/(losses) on cash		(585)	(101)	(585)	(101)
Cash at end of period		**52,257**	**30,520**	**14,750**	**1,650**

Parent contributed USD 26,803 as a non-cash contribution through investment in sub in 2019/20 (USD 42,539 in 2018).

Cash includes USD 315 of restricted cash in Consolidated numbers as of 31 March 2020 and 31 December 2018.

Statement of Changes in Equity

Consolidated

USD	Number of Shares	Share Capital USD'000	Special Reserves USD'000	Translation Reserves USD'000	Retained Eamings USD'000	Total USD'000
Equity as of 1 Jan. 2018	**1,712,438,531**	**24,311**	**57,804**	**(4,052)**	**(72,747)**	**5,316**
Net result for the year					(5,285)	(5,285)
Total comprehensive income		-	-	-	(5,285)	(5,285)
Warrant exercises	5,756,817	88			665	753
Share-based payment					3,830	3,830
Transfer to retained earnings			(57,804)		57,804	-
Other transactions	5,756,817	88	(57,804)	-	62,299	4,583
Equity as of 31 Dec. 2018	**1,718,195,348**	**24,399**	**-**	**(4,052)**	**(15,733)**	**4,614**
Net result for the period					(64,467)	(64,467)
Total comprehensive income				-	(64,467)	(64,467)
Warrant exercises	125,046,242	1,858			17,185	19,043
Share-based payment					8,748	8,748
Other transactions	125,046,242	1,858	-	-	25,933	27,791
Equity as of 31 Mar. 2020	**1,843,241,590**	**26,257**	**-**	**(4,052)**	**(54,267)**	**(32,062)**

The overall difference between consolidated total equity and parent total equity is primarily attributable to the subsidiary's net loss.

Statement of Changes in Equity

Parent

USD	Number of Shares	Share Capital USD'000	Special Reserves USD'000	Translation Reserves USD'000	Retained Earnings USD'000	Total USD'000
Equity as of 1 Jan. 2018	**1,712,438,531**	**24,311**	**57,804**	**(4,297)**	**(27,200)**	**50,618**
Net result for the year					19,505	19,505
Total comprehensive income		-	-	-	19,505	19,505
Warrant exercises	5,756,817	88			665	753
Share-based payment					3,830	3,830
Transfer to retained earnings			(57,804)		57,804	-
Other transactions	5,756,817	88	(57,804)	-	62,299	4,583
Equity as of 31 Dec. 2018	**1,718,195,348**	**24,399**	**-**	**(4,297)**	**54,604**	**74,706**
Net result for the period					35,199	35,199
Total comprehensive income				-	35,199	35,199
Warrant exercises	125,046,242	1,858			17,185	19,043
Share-based payment					8,748	8,748
Other transactions	125,046,242	1,858	-	-	25,933	27,791
Equity as of 31 Mar. 2020	**1,843,241,590**	**26,257**	**-**	**(4,297)**	**115,736**	**137,696**

Notes

NOTE 1 Summary of Significant Accounting Policies

General

The Annual Report of Veloxis Pharmaceuticals A/S (the Parent Company) for the 15 months ended 31 March 2020, comprising the financial statements of the Parent Company and the Consolidated Financial Statements (Financial Statements) has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

The Consolidated Financial Statements include Veloxis Pharmaceuticals A/S and subsidiaries in which the Parent Company directly or indirectly exercises a controlling interest through shareholding or otherwise. Accordingly, the Consolidated Financial Statements include Veloxis Pharmaceuticals A/S and Veloxis Pharmaceuticals, Inc. (collectively referred to as the "Group").

The financial statements are presented on a historical cost basis. Otherwise, the accounting policies are as described in the following.

Change in Accounting Year

It has been decided to change the accounting year to follow the accounting year of the new parent companies following the acquisition disclosed in Note 19. Thus, the accounting year is changed from the calendar year to the period 1 April to 31 March with the transition period of 1 January 2019 to 31 March 2020 (15 months). Comparative figures consist of the period 1 January 2018 to 31 December 2018 (12 months).

Accounting Policy Changes

Adoption of new or amended IFRS's

Veloxis has adopted the following new or amended standards and interpretations effective 1 January 2019:

Veloxis has adopted IFRS 16 *Leases* (the Standard) retrospectively from 1 January 2019 but has not restated comparative reporting periods as permitted under the specific transition provisions in the standard. In accordance with the transition provisions in IFRS 16, the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on 1 January 2019.

On adoption of IFRS 16, Veloxis recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019 of 10.79%.

The difference between operating lease commitments disclosed applying IAS 17 as of 31 December 2018 and the lease liabilities recognized in the statement of financial position at 1 January 2019 is reconciled as follows:

	(USD'000)
Operating lease commitments disclosed as of 31 December 2018	**1,122**
(Less): Discount taken for long-term leases at incremental borrowing rate	(156)
(Less): Short-term leases recognized on a straight-line basis as expense	(107)
Lease liability recognized as of 1 January 2019	**859**

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of accrued lease payments relating to the leases recognized in the balance sheet as at 31 December 2018. On 1 January 2019, property, plant and equipment increased by USD 817 (representing the right-of-use assets), lease liabilities (including both long- and short-term portions) increased by USD 859, and other payables decreased by USD 42 (representing elimination of the previous deferred rent balance). The net impact on retained earnings on 1 January 2019 was zero.

In applying IFRS 16 for the first time, Veloxis used the following practical expedients permitted by the Standard:

• the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

• the accounting for operating leases with a remaining lease term of less than 12 months as of 1 January 2019 as short-term leases

• the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and

• the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

There have been no other changes in accounting policies compared to the accounting policies used in the preparation of Veloxis Pharmaceuticals' Annual Report for 2018.

Besides the adopted standard described above, no new or amended or revised accounting standards and interpretations issued by the International Accounting Standards Board (IASB) and IFRS endorsed by the European Union have a material effect on the Consolidated Financial Statements for 2019/20.

New Financial Standards Adopted

In addition to the above, the IASB has issued a number of new or amended and revised accounting standards and interpretations that have not yet come into effect. New or amended and revised standards are implemented when taking effect. None of the changed standards or interpretations are expected to have any significant monetary effect on the statements of the Group's results, assets and liabilities or the equity.

Consolidated Financial Statements

The Group's Consolidated Financial Statements have been prepared on the basis of the financial statements of the Parent Company and the subsidiary – prepared under the Group's accounting policies – by combining similar accounting items on a line-by-line basis. In consolidation, intercompany income and expenses, intercompany receivables and payables, and unrealized gains and losses on transactions between the consolidated companies are eliminated.

The recorded value of the equity interests in the consolidated subsidiary is eliminated with the proportionate share of the subsidiary's equity. The subsidiary is consolidated from the date when control was transferred to the Group.

Foreign Currency

The financial statements are presented in USD, which is also the functional currency of the companies within the group.

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 as financial income/expenses. Settlement gains and losses are recognized only for monetary items, not for non-monetary items such as prepayments.

Lease Commitments

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases under IAS 17 *Leases*. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease as research and development costs or as selling, general and administrative expenses, depending on the use of the asset.

As explained in the Accounting Policy Changes note above, the group has changed its accounting policy for leases where the group is the lessee under IFRS 16 *Leases*, effective 1 January 2019. Refer to that section above for a description of the new policy and the impact of the change on the financial statements upon transition.

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments
- variable rent payments (which escalate to reflect changes in market rental rates)
- the exercise price of a purchase option if the group is reasonably certain to exercise that option
- lease payments to be made under reasonably certain extension options, and

- payments of penalties for terminating the lease, if it is reasonably certain that the Group will exercise that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group used recent third-party financing received, adjusted to reflect changes in financing conditions since the third-party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Short-term leases are comprised of IT-related items as described above.

Refer to Note 16 for further information.

Comprehensive Income

Veloxis presents comprehensive income in two statements: an income statement and a statement of total comprehensive income which includes results for the year and income recognized in other comprehensive income.

Income Statement

Revenues

Revenues are comprised of invoiced sales for the year less any applicable discounts. Moreover, revenues include milestone payments, royalties and services rendered from research and development and commercialization agreements. Revenue is recognized when it is probable that future economic benefits will flow to the Company and these benefits can be measured reliably. Further, revenue recognition requires that all significant risks and rewards of ownership of the goods or services included in the transaction have been transferred to the buyer, and that Veloxis retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods or services sold. Performance obligations are satisfied at one point in time, typically on delivery.

Sales are measured at the fair value of consideration received or receivable. When sales are recognized, the Company also records estimates for a variety of sales deductions, including product returns, chargebacks, as well as rebates and discounts to government agencies, wholesalers, managed healthcare organizations and retail customers. Sales deductions are recognized as a reduction of gross sales to arrive at net sales.

Production Costs

Production costs comprise raw materials, shipping costs and other costs incurred directly attributable to the production of Envarsus. Also included are expenses for quality assurance of products and any write-down to net realizable value of unsaleable and slow-moving items.

Selling, General and Administrative Costs

Selling costs are expensed as incurred and include costs incurred for sales campaigns, training and administration of the sales force, and marketing and promotion. Also included are salaries and other costs for the sales, supply chain and marketing functions.

General and administrative expenses comprise expenses incurred for the management and administration of the Group and include salaries and other expenses relating to various functions within the Group.

In addition, amortization/depreciation and other direct costs are included in this line item.

Research and Development Costs

Research and development costs comprise costs by activity and include product and manufacturing development as well as direct preclinical and clinical programs. Research and development costs include personnel, manufacturing and quality operations, pharmaceutical and device development, research, clinical, regulatory, other preclinical and clinical activities, medical affairs and other costs including cost of premises, depreciation and amortization related to research and development activities.

Research costs are recognized in the income statement in the period to which they relate. Development costs are recognized in the income statement when incurred if the criteria for capitalization have not been met.

A development project involves a single product candidate undergoing a high number of tests to illustrate its safety profile and effect on human beings prior to obtaining the necessary approval from the appropriate authorities. Considering the general risk related to the development of pharmaceutical products, Management has concluded that the future economic benefits associated with the individual development projects cannot be estimated with sufficient certainty until the project has been finalized and the necessary market approval of the final product has been obtained. As a consequence, all development costs are recognized in the income statement in the period to which they relate.

Share-Based Payment

Veloxis has established equity-settled share-based payment plans (warrants). The employee services received in exchange for the grant of the warrants or shares are recognized as an expense and allocated over the vesting period. The amount is determined as the fair value of the equity instruments granted. The total amount recognized over the vesting period corresponds to the fair value of the warrants or shares that actually vest. The fair value is determined at the grant date and is not adjusted subsequently. Accelerated vesting and related recognition of expense may occur in line with the terms outlined in the warrant agreements or as promulgated under IFRS 2 *Share-based payment*.

Veloxis estimates a forfeiture rate for all warrants granted and therefore does not recognize any impact of any cancellations or forfeitures in the income statement once they happen. Forfeiture rates are reassessed annually and adjusted as necessary.

Financial Items

Financial income and expenses include interest, dividends, gains and losses related to transactions denominated in foreign currencies and amortization of financial obligations.

Interest income and expenses are accrued based on the outstanding principal and the nominal interest rate.

Dividends from equity interests in subsidiaries are recognized in the income statement of the Parent Company in financial income, when final right to the dividend has been acquired.

Corporate Tax

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the income for the year and recognized directly in equity by the portion attributable to transactions recognized directly in equity. Current tax payable or receivable is recognized in the balance sheet as tax calculated on the taxable income for the year adjusted for prepaid tax.

Balance Sheet

Non-Current Assets

Intangible Assets

Intangible assets comprise acquired patent rights and software.

Patent rights and software are measured at cost less accumulated amortization and impairment losses. The amortization period is determined based on the expected economic and technical useful life, and amortization is recognized on a straight-line basis over the expected useful life as follows:

Patent rights: 20 years

Software: 3-5 years

Tangible Fixed Assets

Tangible fixed assets comprise process plant and machinery, other fixtures and fittings, hardware and computers, tools and equipment and leasehold improvements. Tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the assets. Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the assets will flow to the Company and the costs of the items can be measured reliably. All repair and maintenance costs are charged to the income statement during the financial periods in which they are incurred.

Depreciation of tangible fixed assets is calculated using the straight-line method to allocate the cost to the residual value of the assets over the expected useful life as follows:

Process plant and machinery:	7 years
Other fixtures and fittings, tools and equipment:	3-5 years
Leasehold improvements:	1-5 years
Hardware and computers:	1-3 years

Depreciation, impairment losses and gains or losses on disposal of tangible fixed assets is recognized in the income statement as part of selling, general and administrative costs.

Depreciation period and residual value are reassessed annually.

Impairment of Long-Lived Assets

The carrying amount of long-lived assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are such indications, an impairment test is performed. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's net selling price and its value in use. Value in use is calculated as the net present value of future cash inflow generated from the asset. For the purposes of assessing impairment, assets are grouped at the lower levels for which there are separately identifiable cash flows (cash-generating units). For corporate assets the assessment is carried out at an entity level. Impairment losses are recognized in the income statement under the same line items as the related depreciation or amortization.

Deferred Tax Assets

Deferred tax is recognized and measured under the liability method on all temporary differences between the carrying amount and tax value of assets and liabilities. The tax value of the assets is calculated based on the planned use of each asset.

Deferred tax is calculated in accordance with the tax regulations and tax rates that are expected to be in effect, considering the laws in force at the balance sheet date, when the deferred tax is estimated to be realized as current tax. Changes in deferred tax resulting from changed tax rates are recognized in the income statement.

Deferred tax assets, including the tax value of tax losses carried forward, are recognized in the balance sheet at their estimated realizable value, either as a set-off against deferred tax liabilities, if such set-off is permitted for tax purposes, or as net tax assets. Deferred tax assets which are not recognized in the balance sheet are disclosed in a note to the financial statements.

Current Assets

Inventories

Inventories are valued at the lower of cost using FIFO and net realizable value.

Cost of goods for sale and raw materials comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The net realizable value of inventory is measured at the selling price less cost related to the execution of sales. Furthermore, net realizable value is determined with regard to marketability, obsolescence and development in expected selling price.

Inventories are regularly evaluated for obsolescence and excess quantities, taking into account factors such as historical and anticipated future sales compared with quantities on hand and the remaining shelf life of products.

Trade Receivables

Trade receivables are measured in the balance sheet at the lower of amortized cost and net realizable value, which corresponds to the nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable. The Company's customers are under normal payment terms, and no significant delays in payment have been noted.

Other Receivables

Other receivables are measured at fair value on initial recognition and subsequently measured at amortized cost according to the effective interest method less provision for impairment. Impairment losses are based on an individual evaluation of each amount collectible.

Prepayments

Prepayments comprise incurred costs related to a future financial period. Prepayments are measured at nominal value.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash and deposits with financial institutions. Cash and cash equivalents are measured at amortized cost.

Shareholders' Equity

The share capital comprises the nominal amount of the Company's ordinary shares, each at a nominal value of DKK 0.1. All shares are fully paid.

Non-Current Liabilities

Loan

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are shown as an offset to the loan facility in the balance sheet. These fees are amortized over the period of the facility to which they relate.

Current Liabilities

Trade Payables

Trade payables are measured at amortized cost, which is considered to be equal to the fair value due to the short-term nature of the liabilities.

Other Liabilities

Other liabilities are measured in the balance sheet at amortized cost, which is considered to be equal to the fair value due to the short-term nature of the liabilities.

Provision for sales rebates and discounts granted to government agencies, wholesalers, hospitals and other customers are recorded at the time the related revenues are recorded or when the incentives are offered. Provisions are calculated based on historical experience and the specific terms in the individual agreements.

Equity Interests in Subsidiaries

In the separate financial statements of the Parent Company, equity interests in subsidiaries are recognized and measured at cost and reflect amounts attributable to the Parent Company pertaining to warrants and other intercompany assets that eliminate in consolidation.

Cash Flow Statement

The cash flow statement is presented using the indirect method with basis in operating result and shows cash flow from operating, investing and financing activities as well as the cash and cash equivalents at the beginning and end of each financial year.

Cash flows from operating activities are calculated as the operating profit/loss adjusted for non-cash operating items such as share-based payment, depreciation, amortization and impairment losses, working capital changes and financial income and expenses received or paid, including interest elements of lease payments.

Cash flows from investing activities comprise cash flows from the purchase and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise cash flows from issuance of shares net of costs, raising and repayment of non-current loans, and principal elements of lease payments.

Cash and cash equivalents comprise cash on hand and deposits with financial institutions.

The cash flow statement cannot be derived solely from the financial statements.

Financial Ratios

Financial ratios have been calculated in accordance with the recommendations of the Association of Danish Financial Analysts.

$$\text{Assets/Equity Ratio} = \frac{\text{Total Assets}}{\text{Equity}}$$

NOTE 2 Significant Accounting Estimates and Judgments

In preparing financial statements under IFRS, certain provisions in the standards require Management's judgments. Such judgments are considered important to understand the accounting policies and Veloxis's compliance with the standards. The following summarizes the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

Deferred Tax Assets

Deferred tax assets, including tax losses carried forward, are recognized at their expected value. The assessment of deferred tax assets regarding loss carry-forwards, which has been capitalized, is based on the expected, future taxable income of the respective company and the due date of their losses. For further details, please refer to Note 8.

Sales Deductions

Sales deductions are estimated and provided for at the time the related sales are recorded. These estimates of unsettled obligations require use of judgment, as all conditions are not known at the time of sale. Accruals for sales deductions range from USD 21 to 3,480, as follows:

(USD'000)	31 Mar. 2020
Product returns	3,480
Medicaid rebates	2,810
Wholesaler DSA and GPO fees	1,226
Medicare Part D	1,182
Co-pay	759
Chargebacks	380
Vouchers	230
Tricare	61
Coverage gap	58
Commercial rebates	21
Total	**10,207**

Chargebacks

Wholesaler chargebacks relate to contractual arrangements between the Company and indirect customers whereby products are sold at contract prices lower than the list price originally charged to wholesalers. A wholesaler chargeback represents the difference between the invoice price to the wholesaler and the indirect customer's contract price. Accruals are calculated for estimated chargebacks using a combination of factors such as historical experience, current wholesaler inventory levels, contract terms and the value of claims received but not yet processed. Wholesaler chargebacks are generally settled within 30 days of the liability being incurred.

Rebates

Medicaid rebates have been calculated using a combination of historical experience, product and population growth, price increases, and the impact of contracting strategies. Further, the calculation involves interpretation of relevant regulations that are subject to changes in interpretative guidance from government authorities. Although provisions are made for Medicaid rebates at the time sales are recorded, the actual rebates related to specific sales will typically be invoiced to the Company 3-6 months later. Due to the time lag, the rebate adjustments to sales in any particular period may incorporate adjustments of provisions from prior periods.

Discounts, Sales Returns and Other Rebates

Other discounts are provided to wholesalers, hospitals, pharmacies, etc. and are usually linked to sales volume or provided as cash discounts or commercial rebates. Accruals are calculated based on historical data and recorded as a reduction in gross sales at the time the related sales are recorded. Sales returns are related to damaged or expired products.

NOTE 3 Revenue

The Group derives the following types of revenue:

	Consolidated		**Parent**	
(USD'000)	**15 months 2019/20**	**2018**	**15 months 2019/20**	**2018**
Sale of goods	109,440	39,494	-	-
Royalty and upfront	-	-	45,964	16,587
Total	**109,440**	**39,494**	**45,964**	**16,587**

Royalty is paid from the subsidiary to the Parent at arm's length and is eliminated in consolidation.

Revenue from sale of goods is generated from the sale of Envarsus to wholesalers, specialty pharmacies and other customers. Revenue can be split into the following geographical segments:

	Consolidated		**Parent**	
(USD'000)	**15 months 2019/20**	**2018**	**15 months 2019/20**	**2018**
Europe	13,052	5,813	-	-
United States	96,000	33,667	45,964	16,587
RoW	388	14	-	-
Total	**109,440**	**39,494**	**45,964**	**16,587**

NOTE 4 Depreciation and Amortization

(USD'000)	Consolidated 15 months 2019/20	Consolidated 2018	Parent 15 months 2019/20	Parent 2018
Patent rights and software	31	32	9	7
Property, plant and equipment	584	144	65	75
Leasehold improvements	24	17	-	-
Total	**639**	**193**	**74**	**82**
Allocated by function:				
Selling, general and administrative expenses	639	193	74	82
Research and development costs	-	-	-	-
Total	**639**	**193**	**74**	**82**

NOTE 5 Staff Costs

(USD'000)	Consolidated 15 months 2019/20	Consolidated 2018	Parent 15 months 2019/20	Parent 2018
Wages and salaries	90,303	12,858	500	435
Pension contributions	586	365	-	-
Other social security costs	4,805	1,544	-	9
Share-based payment	8,748	3,830	598	407
Total	**104,442**	**18,597**	**1,098**	**851**
Allocated by function:				
Selling, general and administrative	104,442	18,597	1,098	851
Research and development costs	-	-	-	-
Total	**104,442**	**18,597**	**1,098**	**851**
Average number of employees (FTEs)	60	55	-	-
Remuneration of board of directors, and executive management:				
Board of directors				
Board fees	500	435	500	435
Share-based payment	598	398	598	398
	1,098	**833**	**1,098**	**833**
Executive management				
Gross salary	1,147	1,013	1,147	1,013
Severance	-	168	-	168
Bonus*	46,652	342	46,652	342
Pension contributions	45	27	45	27
Share-based payment	1,022	1,797	1,022	1,797
	48,866	**3,347**	**48,866**	**3,347**
Total	**49,964**	**4,180**	**49,964**	**4,180**

Members of the Board of Directors, except for the Chairman of the Board of Directors, receive a fixed annual fee of USD 50. The Chairman of the Board of Directors receives a fixed annual fee of USD 100. The Chairman of the Audit Committee, Nominating Committee and the Compensation Committee receives a supplement of USD 20, USD 10 and USD 15, respectively to the fixed annual fee.

Travel and accommodation expenses in connection with Board meetings and expenses associated with any relevant training are paid on submission of receipts to members of the Board of Directors.

In addition to the fixed annual fee, the members of the Board of Directors were annually granted a number of warrants that was to be equivalent to USD 150.

Members of Executive Management are entitled to severance payments totaling 6-12 months of annual salary if they are terminated without cause in the ordinary course of business. In the event that such termination takes place following a change of control, members of executive management are entitled to two times their ordinary severance payments totaling 12-24 months of annual salary.

Veloxis Pharmaceuticals A/S has established a change of control bonus plan for its US affiliate, Veloxis Pharmaceuticals, Inc. Under the program, designated employees of Veloxis Pharmaceuticals Inc. are eligible to receive one-time change of control bonus payments totaling up to 1.96 percent of the aggregate consideration received by the shareholders of Veloxis Pharmaceuticals A/S in connection with such change of control. This program is in addition to the change of control bonus for members of Executive Management of Veloxis Pharmaceuticals A/S described in Section 4 of the Company's Remuneration Guidelines. In January 2020, change of control bonuses commensurate with this plan totaling USD 71,304 were paid in conjunction with the acquisition disclosed in Note 19.

Veloxis's and the Group's pension schemes are defined contribution schemes and Veloxis has no additional payment obligations.

Veloxis has implemented a Company-wide Remuneration Policy with a bonus element including both a cash element and a warrant-based element. Hence, a certain percentage of each employee's remuneration is dependent on the employee and the Company specified goals and objectives agreed upon at the beginning of each year.

Board of Directors and Executive Management's Holdings of Shares and Warrants

All holdings of shares and warrants by the Board of Directors and Executive Management were tendered in conjunction with the acquisition disclosed in Note 19.

NOTE 6 Financial Income

	Consolidated		Parent	
(USD'000)	**15 months 2019/20**	**2018**	**15 months 2019/20**	**2018**
Interest income	467	347	(30)	2
Total	**467**	**347**	**(30)**	**2**

NOTE 7 Financial Expenses

(USD'000)	Consolidated 15 months 2019/20	Consolidated 2018	Parent 15 months 2019/20	Parent 2018
Interest expense	9,717	6,304	-	451
Intercompany interest expense	580	-	-	-
Exchange rate, net	425	59	245	66
Total	**10,722**	**6,363**	**245**	**517**

NOTE 8 Tax and Deferred Tax

(USD'000)	Consolidated 15 months 2019/20	Consolidated 2018	Parent 15 months 2019/20	Parent 2018
Actual Corporate tax	(3,203)	(447)	(3,203)	(447)
Change in deferred tax	23,004	7,014	23,004	7,014
Tax for the year	**19,801**	**6,567**	**19,801**	**6,567**
Tax for the year can be explained as follows:				
Income / (loss) for the year before tax	(84,268)	(11,852)	15,398	12,938
Tax rate	**22.0%**	**22.0%**	**22.0%**	**22.0%**
Computed tax on income / (loss) for the year	18,539	2,608	(3,388)	(2,846)
Deferred tax asset not recognized	(40,616)	(5,681)	-	-
Reversal of writedown in previous years	28,944	9,327	28,944	9,327
Permanent differences	9,393	(5)	(5,755)	86
Deviation in foreign subsidiary tax rate	3,541	318	-	-
Tax for the year	**19,801**	**6,567**	**19,801**	**6,567**
Calculated deferred tax asset, beginning	76,650	76,193	59,336	64,560
Exchange rate adjustment	(2,477)	(3,084)	(2,477)	(3,084)
Change in deferred tax assets	33,962	3,541	(6,654)	(2,140)
Calculated deferred tax asset, ending	**108,135**	**76,650**	**50,205**	**59,336**
Write down to assessed value	(57,930)	(49,449)	-	(32,135)
Carrying amount	**50,205**	**27,201**	**50,205**	**27,201**

The remaining unrecognized tax loss carry-forward and temporary differences amounts to USD 236,516 (2018 USD 216,636) on a consolidated basis, and zero (2018 USD 146,085) for the Parent on a stand-alone basis. The deferred tax asset capitalized relates solely to the Parent.

NOTE 9 Intangible and Tangible Fixed Assets

Consolidated	Patent rights & Software		Property, Plant & Equipment		Leasehold Improvements	
(USD'000)	2019/20	2018	2019/20	2018	2019/20	2018
Cost at 1 January	304	304	6,787	6,536	171	171
Adjustment for change in accounting policy (see Note 1)	-	-	817	-	-	-
Restated cost at 1 January	**304**	**304**	**7,604**	**6,536**	**171**	**171**
Additions	-	-	332	251	8	-
Disposals	-	-	(72)	-	-	-
Cost at 31 March 2020 / 31 December 2018	**304**	**304**	**7,864**	**6,787**	**179**	**171**
Amortization / Depreciation / Impairment loss at 1 January	(256)	(224)	(5,882)	(5,738)	(111)	(94)
Amortization / Depreciation	(31)	(32)	(584)	(144)	(24)	(17)
Write-off of accumulated amortization related to disposals	-	-	72	-	-	-
Amortization / Depreciation / Impairment loss at 31 March 2020 / 31 December 2018	**(287)**	**(256)**	**(6,394)**	**(5,882)**	**(135)**	**(111)**
Net book value at 31 March 2020 / 31 December 2018	**17**	**48**	**1,470**	**905**	**44**	**60**
Including right-of-use assets amounting to	-	-	482	-	-	-

Parent	Patent rights & Software		Property, Plant & Equipment	
(USD'000)	2019/20	2018	2019/20	2018
Cost at 1 January	182	182	5,794	5,794
Additions	-	-	-	-
Cost at 31 March 2020 / 31 December 2018	**182**	**182**	**5,794**	**5,794**
Amortization / Depreciation / Impairment loss at 1 January	(156)	(149)	(5,667)	(5,592)
Amortization / Depreciation	(9)	(7)	(65)	(75)
Amortization / Depreciation / Impairment loss at 31 March 2020 / 31 December 2018	**(165)**	**(156)**	**(5,732)**	**(5,667)**
Net book value at 31 March 2020 / 31 December 2018	**17**	**26**	**62**	**127**

NOTE 10 Investment in Subsidiary

	Parent	
(USD'000)	31 Mar. 2020	31 Dec. 2018
Cost at 1 January	46,609	4,070
Addition	26,803	42,539
Cost at 31 March 2020 / 31 December 2018	**73,412**	**46,609**

Veloxis Pharmaceuticals, Inc., was established as a wholly owned subsidiary as at 2 January 2007. This subsidiary is incorporated in Delaware and is the Group's vehicle for all commercial activities.

NOTE 11 Inventories

	Consolidated		Parent	
(USD'000)	31 Mar. 2020	31 Dec. 2018	31 Mar. 2020	31 Dec. 2018
Raw materials	11,665	3,566	-	-
Work in Process	5,394	992	-	-
Finished goods	9,618	3,817	-	-
Total	**26,677**	**8,375**	-	-

Total production costs for 2019/20 were USD 19,608 (2018: USD 7,918), which primarily consist of consumption of materials of USD 17,617 (2018: USD 7,005).

Production costs also include an inventory write down of USD 479. (2018: USD 231).

NOTE 12 Share Capital

On 31 March 2020 the total number of outstanding shares was 1,843,241,590. Each share has a nominal value of DKK 0.1 and one vote. The shares do not have any restrictions as to their transferability. The Board of Directors is authorized until 03 April 2024 to issue an additional 171,819,535 shares. Any new shares issued shall carry the same rights and other characteristics as the Company's existing shares.

Changes in Share Capital from 2015 to 2019/20

The table below sets forth the changes in our issued share capital since 2015:

					Share price in DKK	
Year	Transaction	Share Capital	Share classes after capital increase		pre bonus shares	post bonus shares range
2015	Cash contribution	786,261	1,663,783,575	shares	-	0.35 - 1.23
2016	Cash contribution	39,590,306	1,703,373,881	shares	-	0.35 - 1.05
2017	Cash contribution	9,064,650	1,712,438,531	shares	-	0.35 - 0.95
2018	Cash contribution	5,756,817	1,718,195,348	shares	-	0.35 - 1.01
2019/20	Cash contribution	125,046,242	1,843,241,590	shares	-	0.35 - 2.19

NOTE 13 Non-Current Debt and Intercompany Loan Payable

On February 14, 2018 Veloxis Pharmaceuticals A/S obtained USD 60 million of capital from funds managed by Athyrium Capital Management, LP ("Athyrium"), a leading healthcare-focused investment firm. This financing was in the form of a five-year interest only note with interest at 3-month Libor plus 8% per annum. The funds were structured with USD 60 million available immediately upon closing of the transaction to Veloxis Pharmaceuticals, Inc., and guaranteed by Veloxis Pharmaceuticals A/S. The previous loan with Lundbeckfond Invest A/S and Novo Holdings A/S was paid off in connection with obtaining the new loan from Athyrium. The loan and security agreement carried with it several covenants regarding cash coverage and revenue amounts. Management monitored compliance with these covenants quarterly.

In connection with the close of the acquisition on 23 January 2020 as disclosed in Note 19, Veloxis Pharmaceuticals, Inc. (the "Borrower") received a USD 160 million intercompany loan (the "Loan") from Asahi Kasei Holdings US, Inc. (the "Lender"). The Loan was used to pay the outstanding principal and related prepayment premium of USD 1,572 and exit fee of USD 1,200 for the Athyrium loan discussed above, as well as acquiree-related costs for the transaction with Asahi Kasei Pharma Denmark A/S discussed in Note 19. The total loss on settlement of the Athyrium loan was USD 2,322, representing the prepayment premium of USD 1,572 and unamortized portion of the exit fee of USD 750. The Loan holds a rate of interest of 1.89% with an original maturity date of 23 July 2020. The borrower shall have the option to extend the maturity date of the Loan to the Extended Maturity Date (23 January 2021), which the Borrower may exercise by delivering written notice thereof to Lender no later than 30 days prior to the Original Maturity Date. There are no financial covenants associated with the Loan. However, if any of the following events occurs on the Borrower, the Lender shall be permitted, by written notice to the Borrower, to declare the Obligations in respect of the Loan made hereunder to be due and payable whereupon the same shall become forthwith due and payable without presentment, demand or notice of any kind, all of which are hereby waived by the Borrower:

(1) the Borrower's failure or delay in making any payment to the Lender pursuant to this Agreement;
(2) insolvency, liquidation, dissolution or bankruptcy;
(3) petition for any proceeding under insolvency or bankruptcy law or any law for relief of debtors;
(4) appointment of a trustee, receiver, administrator or liquidator over the assets or property of the Borrower; or
(5) issuance of an order for attachment or the provisional one of the asset or property.

Due to the original maturity date of 23 July 2020, the Loan was classified as current on the balance sheet as of 31 March 2020. In July 2020 management made a USD 30,000 repayment and refinanced the remaining Loan of USD 130,000. The refinancing terms include a repayment in March 2021 of USD 30,000 and various repayments ranging from USD 10,000 to USD 30,000 through March 2023.

Liabilities Arising from Financing Activities

	Consolidated	Parent
(USD'000)	**2019/20**	**2019/20**
Long-term debt at 1 January 2019	**60,000**	-
Cash Flows	(60,000)	-
Long-term borrowings	-	-
Long-term debt at 31 March 2020	-	-
	2019/20	**2019/20**
Intercompany loan payable at 1 January 2019	-	-
Cash Flows	160,000	-
Intercompany loan borrowings	**160,000**	-
Intercompany loan payable at 31 March 2020	**160,000**	-
	2019/20	**2019/20**
Lease liabilities at 1 January 2019	**859**	-
Cash Flows	(310)	-
Lease liabilities at 31 March 2020	**549**	-
Lease liabilities at 31 March 2020	**549**	-

Total Non-Current Debt Payments Fall Due

	Consolidated		Parent	
(USD'000)	**2019/20**	**2018**	**2019/20**	**2018**
Within 1 year	160,000	6,540	-	-
From 1 to 5 years	-	80,168	-	-
After 5 years	-	-	-	-
Total	**160,000**	**86,708**	**-**	**-**

NOTE 14 Financial Risks

Interest Rate Risk

Veloxis has interest-bearing debt. Our interest rate risk also extends to our cash and cash equivalent balances. In order to mitigate such risk, Veloxis's Treasury Policy allows the Company to hold excess cash at deposits with major Danish and US banks and in short-term Danish and US government bonds or Danish mortgage bonds with limited duration.

Cash Management

The Company's Finance function ensures that Veloxis has sufficient and flexible financial resources at its disposal. Veloxis's short-term liquidity is managed with quarterly budget reviews to balance the demand for liquidity needs.

Capital Structure

It is the Company's aim to have an adequate capital structure in relation to the underlying operating results and commercialization activities, so that it is always possible to provide sufficient capital to support operations and its long-term growth targets. The Board of Directors determined that the current capital and share structure is appropriate for the shareholders and the Company.

Credit Risk

The credit terms on the Company's receivables are considered to be at market conditions, and the Company has not encountered any losses as a result of credit risk during the years presented. In regard to cash deposits, the Company's two major banks have credit ratings of A1 and Aa1 according to Moody's. The credit risk attributable to the Company's receivables is considered low as such receivables arise from collaboration agreements with wholesale distributors.

Regarding the intercompany loan disclosed in Note 13, the Company has a verbal commitment from Asahi Kasei and Management is in an active state of re-negotiating the loan with the draft repayment terms discussed above. Management expects to pay USD 60 million within the next 12 months and is in the process of negotiating reasonable payment terms that are in line with our expected results and available cash on hand through March of 2023. Therefore, our credit risk surrounding the USD 160 million classified as current is considered low.

Liquidity Risk

The Company is exposed to liquidity risk arising from short-term payables.

Currency Exposure

Veloxis is subject to currency risk, as the Company incurs income and expenses in a number of different currencies, mainly DKK and EUR. Changes in exchange rates of such foreign currencies towards the Company's functional currency may affect the results and cash position.

The Company's cash balances in foreign currencies is stated below:

	Consolidated		Parent	
	31 Mar. 2020	31 Dec. 2018	31 Mar. 2020	31 Dec. 2018
EUR'000	4,606	1,607	7	555
DKK'000	14,495	974	14,495	974

All net positions are current.

The carrying amount approximately equals the fair value. Changes in currencies may affect future income and expenses in such foreign currencies and may have an impact on the Company's operating results and cash flows. The Company is primarily exposed to such risk from currency fluctuations between USD and EUR. Based on the EURO position as of 31 March 2020, a 10% change in the USD/EUR rate will impact result and equity with approximately USD 428.

NOTE 15 Warrants

Veloxis had established warrant programs for Board members, members of Executive Management and employees. All warrants were issued by the Company's shareholders or by the Board of Directors pursuant to valid authorizations in Veloxis's Articles of Association.

Vesting Conditions

Warrants issued since May 2008 vested in general at 1/36 per month from the date of grant, subject to the employees continued employment. Warrants issued to Executive Management on 7 April 2016 vested 1/3 on 10 December 2016 with the remaining 2/3 vesting in twenty-four (24) equal monthly installments. However, some warrants were not subject to vesting conditions, but instead vested in full at the time of grant.

Warrants granted to employees in affiliates ceased to vest upon termination of the employment relationship regardless of the reason for such termination. Warrants granted to employees employed in the Parent Company ceased to vest from the date of termination in the event that (i) a warrant holder resigns without this being due to the Company's breach of contract, or (ii) if Veloxis terminated the employment relationship where the employee had given the Company good reason to do so. The warrant holder was, however, entitled to exercise vested warrants in the first coming exercise period after termination.

Exercise of warrants issued to Board members were conditional upon the warrant holder being connected to Veloxis on the date of exercise. However, if the warrant holder's position had been terminated without this being attributable to the warrant holder's actions or omissions, the warrant holder was entitled to exercise vested warrants in the pre-determined exercise periods.

Term of Granted Warrants

The maximum term for all granted warrants was 7 years.

Exercise Periods

Vested warrants could generally be exercised during four four-week periods following publication of Veloxis's preliminary Annual Report and Veloxis's quarterly interim reports.

Warrant Activity

The following table specifies the warrant activity:

	Current and Former Employees	Executive management	Board of directors	Total	Weighted average exercise price DKK
Outstanding as of 1 January 2018	**91,543,740**	**74,777,196**	**14,131,554**	**180,452,490**	**1.17**
Granted in the year	35,384,739	-	5,364,356	40,749,095	1.09
Exercised in the year	(5,756,817)	-	-	(5,756,817)	0.86
Cancelled in the year	(24,728,994)	-	-	(24,728,994)	1.32
Expired in the year	(388,466)	-	(50,000)	(438,466)	1.18
Change between categories	(5,000,000)	5,000,000	-	-	-
Outstanding as of 31 December 2018	**91,054,202**	**79,777,196**	**19,445,910**	**190,277,308**	**1.14**
Granted in the year	35,860,000	5,000,000	2,905,338	43,765,338	2.34
Exercised in the year	(25,823,138)	(79,777,196)	(19,445,908)	(125,046,242)	1.10
Cancelled in the year	(15,003,450)	-	-	(15,003,450)	1.04
Expired in the year	(86,087,614)	(5,000,000)	(2,905,340)	(93,992,954)	2.06
Outstanding as of 31 March 2020	-	-	-	-	-
Weighted average exercise price DKK	-	-	-	-	

In conjunction with the acquisition disclosed in Note 19, all shares and warrants owned by current and prior employees, Executive Management, and the Board of Directors were purchased in conjunction with the transaction. Therefore, as of 31 March 2020, a total of zero warrants were outstanding. For comparison, as at 31 December 2018, a total of 190,277,308 warrants were outstanding with a weighted average exercise price of DKK 1.14.

Warrant Compensation Costs

Warrant compensation costs were calculated at the date of grant by use of the Black-Scholes valuation model with the following assumptions: (i) a volatility of 51% to 52%, determined as the average of the stock price volatility based on Veloxis's historical share prices since its Initial Public Offering in November 2006; (ii) no payment of dividends; (iii) a risk free interest rate equaling the interest rate on a 5-year government bond on the date of grant; and (iv) a life of the warrants determined as the average of the date of becoming exercisable and the date of expiry.

Warrant compensation costs are recognized in the income statement over the vesting period of the warrants granted.

We recognized USD 8,748 of share-based compensation in 2019/20 compared to USD 3,830 in 2018. The increase is due to the increase in market value of granted shares, as well as accelerated share-based compensation expense recognized in conjunction with the acquisition disclosed in Note 19.

The entire warrant compensation cost for 2019/20 was allocated to selling, general and administrative costs.

Value of Granted Warrants

The fair value at the grant date has been calculated under the Black-Scholes option pricing model, adjusted for dilution of share capital, based on the following assumptions:

	Granted 4 April, 2019	Granted 7 May, 2019	Granted 13 August, 2019
Share price at grant (DKK)	2.06	2.46	3.46
Volatility (%)	51	51	52
Exercise price (DKK)	2.06	2.46	3.46
Risk-free interest rate for options (%)	0.22%	0.22%	0.00%
Annual dividend per share (DKK)	-	-	-
Years to expiry	7	7	7
Exercise period	2026	2026	2026
Market value at grant (USD'000)	4,260	286	1,714

NOTE 16 Leases

A maturity analysis of lease commitments for the Group are as follows:

	Consolidated		Parent	
(USD'000)	**31 Mar. 2020**	**31 Dec. 2018**	**31 Mar. 2020**	**31 Dec. 2018**
Lease commitments regarding offices	578	938	-	-
Lease commitments regarding property, plant and equipment	33	184	-	-
Total lease commitments	**611**	**1,122**	**-**	**-**
Total lease payments fall due:				
Within 1 year	320	430	-	-
From 1 to 5 years	291	692	-	-
After 5 years	-	-	-	-
Total	**611**	**1,122**	**-**	**-**
Expensed operating lease payments	107	339	-	10

Veloxis has one lease commitment regarding offices related to its Corporate office in North Carolina. All other lease commitments regarding property, plant and equipment include smaller leases pertaining to copiers, internet, cloud storage, and other IT-related leases. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants on the Group. Rental agreements for the Corporate office are typically executed for a period of 4-7 years. IT-related leases are generally shorter in nature (typically 1-5 years). Extension and termination options exist within the agreements, which are not accounted for until it is determined that the exercise of such options is reasonably certain.

The balance sheet reflects the following amounts relating to leases:

(USD'000)	Consolidated 31 Mar. 2020	Consolidated 31 Dec. 2018	Parent 31 Mar. 2020	Parent 31 Dec. 2018
Right-of-use assets				
Offices	454	749	-	-
Property, plant and equipment	28	68	-	-
Total operating lease commitments	**482**	**817**	**-**	**-**
Lease liabilities				
Current	276	244	-	-
Non-current	273	615	-	-
Total	**549**	**859**	**-**	**-**
Expensed operating lease payments	107	-	-	-

The income statement reflects the following amounts relating to leases:

(USD'000)	Consolidated 15 months 2019/20	Consolidated 2018	Parent 15 months 2019/20	Parent 2018
Depreciation of right-of-use assets				
Offices	296	-	-	-
Property, plant and equipment	39	-	-	-
Total operating lease commitments	**335**	**-**	**-**	**-**
Interest expense (included in financial expenses)	94	-	-	-
Expense relating to short-term leases (included in selling, general and administrative costs)	107	-	-	-

Total cash outflows related to leases for the 15 months ended 31 March 2020 were USD 404, including USD 310 in principal and USD 94 in interest.

NOTE 17 Related Parties

Members of the Executive Management and Board of Directors

The members of the Executive Management and Board of Directors are considered related parties following their positions in the Company.

The Executive Management and the Board of Directors have received remuneration from Veloxis as described in Note 5 and Note 15 to the financial statements.

Veloxis Pharmaceuticals, Inc.

In the separate financial statements of the Parent Company, Veloxis Pharmaceuticals, Inc., is considered a related party, as this company is a wholly owned subsidiary of Veloxis Pharmaceuticals A/S.

During 2019/20, the subsidiary has performed managerial activities on behalf of the Parent Company, which has been remunerated in accordance with the service agreements between the companies. Total services amounted to USD 1,250 in 2019/20 and USD 1,000 in 2018.

Royalty is paid from the subsidiary to the Parent at arm's length and is eliminated in consolidation.

Asahi Kasei Pharma Denmark A/S

As disclosed in Note 19, Veloxis Pharmaceuticals A/S was acquired by Asahi Kasei Pharma Denmark A/S. In connection with the close of the acquisition on 23 January 2020, Veloxis Pharmaceuticals, Inc. (the "Borrower") received a USD 160 million intercompany loan (the "Loan") from Asahi Kasei Holdings US, Inc. (the "Lender"). Refer to Note 13 for further details.

Other Related Parties

Other related parties may exist as the members of Veloxis´s Board of Directors and Executive Management hold positions as Board members in other companies, and as the shareholders of Veloxis may also be shareholders of other companies. Except for the companies listed above, Veloxis has not identified any such parties as related parties and no transactions have been identified as related party transactions as we are not aware of such relationships.

NOTE 18 Changes in Working Capital

(USD'000)	Consolidated 15 months 2019/20	Consolidated 2018	Parent 15 months 2019/20	Parent 2018
Trade receivables	(10,693)	(2,549)	-	-
Other receivables	(253)	(3)	(254)	(6)
Equity investment	-	-	(18,652)	-
Prepayments	(1,315)	(1,222)	(234)	15
Inventories	(18,302)	(1,593)	-	-
Trade payables	(1,993)	(432)	(40)	(64)
Other payables	13,531	3,931	326	14
Exchange gains/(losses)	(424)	(59)	(245)	(66)
Total	**(19,449)**	**(1,927)**	**(19,099)**	**(107)**

NOTE 19 Acquisition by Asahi Kasei Pharma Denmark A/S

On 25 November 2019, Asahi Kasei Pharma Denmark A/S, a Danish limited liability company, announced its decision to make a recommended conditional voluntary public takeover offer for all shares and warrants in Veloxis Pharmaceuticals A/S.

Asahi Kasei Pharma Denmark A/S is directly and wholly owned and controlled by Asahi Kasei Corporation, a Japanese company, incorporated under the laws of Japan and whose shares are listed on the Tokyo Stock Exchange.

The Major Shareholders (Novo Holdings A/S and Lundbeckfond Invest A/S) together with the Group of Directors and Management Group, irrevocably accepted the Offer at the Major Shareholders' and Group of Directors' Share Offer Price, subject to certain customary conditions. In addition, the Management Group and the Group of Directors have irrevocably accepted the Offer in respect of their Warrants at the Management's Warrant Offer Price, subject to customary conditions. The irrevocable undertakings represented jointly approximately 81.2% of the voting rights and share capital in the Company on a fully diluted basis.

On 17 January 2020, Asahi Kasei Pharma Denmark A/S announced the final result of the offer. As of that date, Asahi Kasei Pharma Denmark A/S had received valid acceptances of the recommended conditional voluntary public offer to the shareholders and warrantholders of Veloxis Pharmaceuticals A/S for 1,517,633,506 shares and 197,492,954 warrants. In addition to the tendered shares and warrants, Asahi Kasei Corporation agreed to sell 37,828,149 shares to Asahi Kasei Pharma Denmark A/S, which afterwards owned a total of 1,555,461,655 shares. Asahi Kasei Pharma Denmark thus held 89.41% of the share capital and voting rights after the settlement. After exercise and conversion of 103,500,000 warrants (and expiry of 93,992,954 warrants), Veloxis Pharmaceuticals A/S' number of outstanding shares was 1,843,241,590, of which Asahi Kasei Pharma Denmark A/S held 1,658,961,655 or 90.0024% of the outstanding share capital and voting rights of Veloxis Pharmaceuticals A/S on a fully diluted basis.

By virtue of its holding more than ninety percent (90%) of the total share capital and voting rights of Veloxis, the Offeror announced on 24 January 2020 the initiation of a compulsory acquisition of the shares held by the remaining minority shareholders in Veloxis pursuant to sections 70-72 of the Danish Companies Act. Accordingly, the Offeror requested the remaining minority shareholders of Veloxis to transfer their shares to the Offeror by 12 February 2020. Additionally, Asahi Kasei Pharma Denmark A/S, requested Nasdaq Copenhagen A/S ("Nasdaq Copenhagen") to remove Veloxis' shares from trading and official listing at Nasdaq Copenhagen. Nasdaq Copenhagen accepted the request. Consequently, the last of trading and official listing of the shares in Veloxis (ISIN DK0060048148) on Nasdaq Copenhagen was 24 February 2020.

Acquisition-related costs recorded in selling, general and administrative in 2019/20 consisted of the following:

(USD'000)	15 months 2019/20
Change of Control Bonuses	71,304
Broker	22,747
Accelerated share-based compensation expense	3,304
Legal	2,460
Consulting	328
Total	**100,143**

NOTE 20 Fees to Auditors

	Consolidated		Parent	
(USD'000)	15 months 2019/20	2018	15 months 2019/20	2018
PricewaterhouseCoopers				
Audit	142	94	142	94
Tax Services	53	82	53	82
Other services	91	29	91	29
Total	**286**	**205**	**286**	**205**