

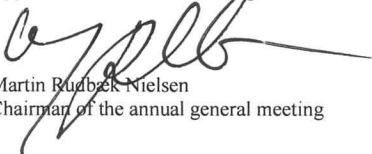
***Forward Pharma A/S***

Østergade 24A, 1  
1100 Copenhagen K  
Denmark  
Annual Report 2015

**CVR-nr. 28865880**

The Annual Report was presented  
and adopted at the Annual General  
Meeting of the Company on  
6 May 2016

Approved at the annual meeting



Martin Rudebek Nielsen  
Chairman of the annual general meeting

# Forward Pharma A/S

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## **Forward Pharma A/S**

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## Managements' statement

The Executive and Supervisory Boards have today discussed and approved the Annual Report of Forward Pharma A/S for the financial year ended December 31, 2015.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and with additional Danish disclosure requirements for annual reports.

It is our opinion that the parent financial statements give a true and fair view of the company's financial position as of December 31, 2015 and of the results of its operations and cash flows for the financial year ended December 31, 2015.

In our opinion, the Management review includes a fair review of the development in the company's operations and financial conditions as well as the results and cash flows of the company's operations and financial position.

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

Copenhagen, 15 April 2016

### Executive Board

Peder Møller Andersen

Joel Sendek

Rupert Sandbrink

### Supervisory Board

Florian Schönharting  
Chairman

John Kevin Buchi

Torsten L. Goesch

Jan G J. van de Winkel

Grant Hellier Lawrence

Jakob Mosegaard Larsen

## Managements' statement

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Forward Pharma A/S for the financial year ended December 31, 2015.

The Annual Report is prepared in accordance with International Financial Reporting Standards as adopted by the EU. Moreover, the Annual Report is prepared in accordance with additional Danish disclosure requirements for annual reports.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Forward Pharma A/S as of December 31, 2015 and the results of its operations and cash flows for the year ended December 31, 2015.

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

Copenhagen, 15 April 2016

### Executive Board

Peder Møller Andersen

### Supervisory Board

Florian Schönhaider  
Chairman

Jan G. J. van de Walle

Joel Sendek

John Kevin Buchi

Grant Miller Lawrence

Rupert Sandbrink

Torsten L. Goesch

Jakob Høsegård Larsen

## **Independent auditors' reports**

### **To the shareholders of Forward Pharma A/S**

We have audited the parent financial statements of Forward Pharma A/S for the financial year 2015, which comprise the statement by the supervisory and executive boards on the annual report, the management's review, statement of financial position, statement of comprehensive loss, statement of changes in equity, statement of cash flows, a summary of significant accounting policies and notes. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements in the Danish Financial Statements Act.

### **Management's responsibility for the annual report**

Management is responsible for the preparation of parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements in the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of parent financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility and basis of opinion**

Our responsibility is to express an opinion on the parent financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements according to Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the parent financial statements are free from material misstatement.

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

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

Our audit has not resulted in any qualification.

### **Opinion**

In our opinion, the parent financial statements give a true and fair view of the parent company's financial position at 31 December 2015 and of the results of its operations and cash flows for the financial year 2015 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements in the Danish Financial Statements Act.

## Independent auditors' reports

### Statement on the management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the parent financial statements. On this basis, it is our opinion that the information in the Management's review is consistent with the parent financial statements.

Copenhagen, 15 April 2016

**Ernst & Young**

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28



Claus Kronbak

State Authorised Public Accountant

## **Management's review**

The overall objective of Forward Pharma A/S is to develop and market pharmaceutical products. The current development is focused on the development of Forward Pharma's innovative product for the treatment of immune related diseases such as multiple sclerosis and psoriasis.

This Annual Report includes only parent company financials. Forward Pharma A/S is referred to herein as the "Company". Forward Pharma A/S and its subsidiaries are collectively referred to herein as the "Group." Amounts reported herein are stated in United States Dollars, or USD, unless otherwise stated. The Company is required to file Group consolidated financial statements with the US Securities and Exchange Commission that are included in the Company's Form 20-F but are not part of this Annual Report.

For each of the years ended December 31, 2015 and 2014 the Company's reported net loss was \$51.1 million and \$13.7 million, respectively.

As many of the development activities are carried out through the wholly owned subsidiary in Leipzig, Germany the investment in this subsidiary is a major part of our business and operations.

As of December 31, 2015 the Company had cash and cash equivalent of \$44.4 million. Available-for-sale financial assets totaled \$124.4 million including amounts classified as non-current assets.

### **Development during the year**

As of December 31, 2015 the Company held cash, cash equivalents and available-for-sale investments of approximately \$168.8 million and accordingly we have the ability to fund our operations beyond the next twelve months. The Company is developing FP187, a proprietary formulation of dimethyl fumarate, or DMF, for the treatment of several inflammatory and neurological indications, including multiple sclerosis, or MS. Since our founding in 2005, we have worked to advance unique formulations and dosing regimens of DMF, an immune modulator, as a therapeutic to improve the health and well-being of patients with immune disorders, including MS. FP187, our clinical candidate, is a DMF formulation in a delayed and slow release oral dose, which we plan to advance for the treatment of relapsing remitting MS, or RRMS, and other immune disorders, such as psoriasis. During 2015 we continued our research and development efforts to commercialize FP187 by conducting numerous preclinical and clinical studies. We also continued our focus to strengthen our intellectual property as several additional patent claims were submitted to support FP187 in the United States and Europe.

### **Subsequent events**

There have been no material events occurring subsequent to December 31, 2015.



**Statement of Financial Position**

**as of December 31, 2015 and 2014**

	Notes	December 31,	
		2015	2014
		USD '000	USD '000
<b>Assets</b>			
Available-for-sale financial assets .....	4.3	82,746	131,899
Investment in subsidiaries .....	4.4	9,146	16,068
Total non-current assets .....		<u>91,892</u>	<u>147,967</u>
Prepayments .....	3.1	612	676
Income tax receivable .....	2.3	158	320
Other receivables .....	3.2	552	653
Intercompany receivables .....		675	415
Available-for-sale financial assets .....	4.3	41,637	46,236
Cash and cash equivalents .....		44,407	44,043
Total current assets .....		<u>88,041</u>	<u>92,343</u>
Total assets .....		<u>179,933</u>	<u>240,310</u>
	Notes	December 31,	
		2015	2014
		USD '000	USD '000
<b>Equity and Liabilities</b>			
Share capital .....	4.1	814	809
Share premium .....		339,828	339,678
Other components of equity:			
Foreign currency translation reserve .....		(35,715)	(11,424)
Fair value adjustment available-for-sale financial assets .....		102	(238)
Accumulated deficit .....		<u>(128,334)</u>	<u>(90,808)</u>
Equity attributable to shareholders .....		<u>176,695</u>	<u>238,017</u>
Total equity .....		<u>176,695</u>	<u>238,017</u>
Trade payables and accrued expenses .....	3.3	3,238	2,293
Current liabilities .....		<u>3,238</u>	<u>2,293</u>
Total liabilities .....		<u>3,238</u>	<u>2,293</u>
Total equity and liabilities .....		<u>179,933</u>	<u>240,310</u>

See accompanying notes to these financial statements

**Statement of Profit or Loss**  
**for the years ended December 31, 2015 and 2014**

	Notes	2015	2014
		USD	USD
Other operating income .....		177	143
Research and development costs .....	2.1, 2.2	(13,983)	(5,820)
General and administrative costs .....	2.1, 2.2, 2.4, 5.1	(9,504)	(4,172)
Operating loss .....		(23,310)	(9,849)
Fair value adjustment to net settlement obligation to shareholder warrants .....	4.4	—	(968)
Fair value adjustment to convertible loans .....	3.4	—	(3,823)
Exchange rate gain (loss), net .....		11,978	5,652
Impairment loss of investment in subsidiaries .....		(40,375)	(4,499)
Interest income .....		438	63
Interest expense .....	3.4, 4.4	—	(426)
Other finance costs .....		(132)	(62)
Net loss before tax .....		(51,401)	(13,912)
Income tax benefit .....	2.3	336	250
Net loss for the year .....		(51,065)	(13,662)
Net loss for the year attributable to:			
Equity holders .....		(51,065)	(13,662)

See accompanying notes to these financial statements

**Statement of Other Comprehensive Loss**  
**for the years ended December 31, 2015 and 2014**

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
		USD '000	USD '000
Net loss for the year .....		<u>(51,065)</u>	<u>(13,662)</u>
Other comprehensive loss			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Change in fair value of available-for-sale financial assets .....	4.3	340	(238)
Exchange differences on translation from functional currency to presentation currency .....		<u>(24,291)</u>	<u>(10,480)</u>
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods .....		<u>(23,951)</u>	<u>(10,718)</u>
Other comprehensive loss .....		<u>(23,291)</u>	<u>(10,718)</u>
Total comprehensive loss .....		<u>(75,016)</u>	<u>(24,380)</u>
Attributable to:			
Equity holders .....		<u>(75,016)</u>	<u>(24,380)</u>

See accompanying notes to these financial statements

## Statement of Changes in Shareholders' Equity

for the years ended December 31, 2015 and 2014

	Notes	Share capital	Share premium	Foreign currency translation reserve	Fair value adjustment available-for-sale financial assets	Accumulated deficit	Total equity
		USD '000	USD '000	USD '000	USD '000	USD '000	USD '000
At January 1, 2014....		305	26,680	(944)	—	(40,363)	(14,322)
Net loss for the year..		—	—	—	—	(13,662)	(13,662)
Other comprehensive loss .....		—	—	(10,480)	(238)	—	(10,718)
Total comprehensive loss .....		—	—	(10,480)	(238)	(13,662)	(24,380)
Issue of share capital for cash.....	4.1	3	2,005	—	—	—	2,008
Cost related to capital increase .....		—	(8)	—	—	—	(8)
Exercise of warrants .	4.1	25	29,483	—	—	—	29,508
Class B Award.....	4.1	3	42,731	—	—	(42,734)	—
Change in nominal value.....	4.1	262	(262)	—	—	—	—
Proceeds from initial public offering (“IPO”).....	4.1	191	235,009	—	—	—	235,200
Cost related to IPO ...	2.4	—	(20,489)	—	—	—	(20,489)
Conversion of interest-bearing convertible loans to share capital ....	3.4	20	24,529	—	—	—	24,549
Share-based payment costs .....	2.2	—	—	—	—	5,951	5,951
Transactions with owners.....		504	312,998	—	—	(36,783)	276,719
At December 31, 2014 .....		809	339,678	(11,424)	(238)	(90,808)	238,017
At January 1, 2015....		809	339,678	(11,424)	(238)	(90,808)	238,017
Net loss for the year..		—	—	—	—	(51,065)	(51,065)
Other comprehensive income (loss).....		—	—	(24,291)	340	—	(23,951)
Total comprehensive income (loss).....		—	—	(24,291)	340	(51,065)	(75,016)
Issuance of deferred shares .....	4.1	2	—	—	—	—	2
Exercise of warrants .	4.1	3	150	—	—	—	153
Share-based payment costs .....	2.2	—	—	—	—	13,539	13,539
Transactions with owners.....		5	150	—	—	13,539	13,694
At December 31, 2015 .....		814	339,828	(35,715)	102	(128,334)	176,695

See accompanying notes to these financial statements

**Statement of Cash Flows**  
**for the years ended December 31, 2015 and 2014**

	Notes	2015 USD '000	2014 USD '000
Operating activities:			
Net loss before tax.....		(51,401)	(13,912)
<i>Adjustments to reconcile loss before tax to net cash flow:</i>			
Fair value adjustment to net settlement obligation shareholder warrants and convertible loans .....	3.4, 4.3	—	4,791
Other finance adjustments including foreign exchange rate gain (loss).....		(12,416)	(1,737)
Share-based payment costs.....	2.2	6,598	1,442
Impairment loss .....		40,375	3,864
Depreciation expense .....		—	2
Cash inflow interest.....		1,452	—
Cash inflow taxes .....		466	—
(Increase) decrease in other receivables and prepayments .....		(379)	(2,152)
Increase in trade payables and accrued expenses .....		1,197	1,647
Net cash flows used in operating activities .....		<u>(14,108)</u>	<u>(6,055)</u>
Investing activities:			
Purchase of available-for-sale financial assets .....	4.3	—	(191,110)
Investment in subsidiary.....	4.4	(28,119)	(5,700)
Proceeds from the maturity of available-for-sale financial assets ...		43,412	—
Net cash flows used in investing activities.....		<u>15,293</u>	<u>(196,810)</u>
Financing activities:			
Proceeds from issuance of interest-bearing convertible loans.....	3.4, 4.3	—	21,284
Shares issued for cash.....	4.1	155	1,982
Transaction costs of capital increase .....		—	(6)
Proceeds from IPO net of underwriters' commission.....	4.1	—	218,736
IPO transaction costs excluding underwriters' commission.....	2.4, 4.1	—	(4,425)
Net cash flows from financing activities .....		<u>155</u>	<u>237,571</u>
Net increase in cash and cash equivalents.....		1,340	34,706
Net foreign exchange differences.....		(976)	6,595
Cash and cash equivalents at January 1.....		44,043	2,742
Cash and cash equivalents at December 31.....		<u>44,407</u>	<u>44,043</u>

See accompanying notes to these financial statements

## Notes to Financial Statements

### Corporate Information

Forward Pharma A/S, (the “Company”), is a limited liability company incorporated and domiciled in Denmark. The registered office is located in Copenhagen, Denmark. The parent financial statements included herein are those of the Company. The Company’s wholly-owned Danish, German and United States of America subsidiaries Forward Pharma FA ApS, Forward Pharma GmbH and Forward Pharma USA, LLC, respectively, are reflected in the accompanying parent company financial statements as an investment carried at cost unless the investment has been impaired. The Company’s Board of Directors authorized the issuance of the parent financial statements included herein on April \_\_\_, 2016.

The Company is a biopharmaceutical company preparing to initiate a Phase 3 clinical trial using FP187, a proprietary formulation of dimethyl fumarate (“DMF”) for the treatment of multiple sclerosis (“MS”) patients. Since the Company’s founding in 2005, it has worked to advance unique formulations of DMF, an immune modulator, as a therapeutic to improve the health and well-being of patients with immune disorders including MS. FP187, the Company’s clinical candidate, is a proprietary formulation of DMF that the Company plans to advance for the treatment of MS and other immune disorders, such as psoriasis.

### Public listing of American Depositary Shares representing Ordinary Shares

During the fourth quarter of 2014 the Company completed the initial public offering (“IPO”) of American Depositary Shares (“ADS”) representing ordinary shares of the Company in the United States and issued 11.2 million ADSs at a price per ADS of \$21.00 to investors. The IPO proceeds totaled approximately \$235 million before deducting the underwriters’ commission (7% of gross proceeds) and other direct and incremental costs associated with the IPO. Each ADS represents one ordinary share with a per share nominal value of 0.10 Danish Kroner or DKK. Each ordinary share is entitled to one vote. Immediately prior to the IPO, Class A shares were issued to the Class B shareholders (“Class B Award”) in consideration for amendments to certain contractual rights held by the Class B shareholders, all of the Company’s outstanding Class A and Class B shares were converted into ordinary shares on a 1 for 1 basis (“Share Conversion”), and additional ordinary shares (“Proportional Shares”) were issued to all shareholders in proportion to their respective ownership. Finally, a share split of 10 for 1 (“Share Split”) was completed immediately prior to the IPO. The Company accounted for the Class B Award as a preferential share issuance that resulted in an increase in the loss attributable to ordinary shareholders of \$42.7 million for the year ended December 31, 2014. All share and per share information included herein has been adjusted to reflect the issuance of the Proportional Shares and the Share Split as if they had occurred as of the beginning of the earliest period presented, unless otherwise stated, since the issuance of the Proportional Shares and the Share Split resulted in no additional consideration received by the Company nor did it change the individual ownership percentages of individual shareholders of the Company. The issuance of the Class B Award and the Share Conversion are reflected herein on the dates such issuances occurred.

### Liquidity

As of December 31, 2015, the Company had \$168.8 million in cash, cash equivalents and available-for-sale financial assets. For the years ended December 31, 2015 and 2014, the Company incurred net losses of \$51.1 million and \$13.7 million respectively. Cash used in operations in each of the years ended December 31, 2015 and 2014 was \$14.1 million and \$6.1 million respectively. The Company currently has no commercial products or revenue and does not expect any for the foreseeable future. Management believes, based on current estimates, that cash, cash equivalents and available-for-sale financial assets held at December 31, 2015 will be adequate to allow the Company to meet its planned operating activities, including increased levels of research and development activities, in the normal course of business beyond the next twelve months. Should the Company experience unforeseen expenses or other usages of cash the effect could negatively impact management’s estimated operating results and financial position. The Company will need to raise funds to complete the development and commercialization of FP187. Such funding could be in the form of either additional equity or debt financing or in exchange for product rights in all or certain geographies. There can be no assurances that the Company will be able to obtain additional financing when needed in the future. The long-term success of the Company will be based on successfully commercializing FP187 and defending its intellectual property. There can be no assurance that the Company will commercialize a product, successfully defend its intellectual property, achieve or sustain positive cash flows from operations or become profitable.

## **Section 1 Basis of Presentation**

### **1.1 Accounting policies**

#### **Basis of preparation**

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted in the European Union (“EU”) and include disclosures required for Danish Class B entities. These parent financial statements are those of the Company and therefore the Company’s subsidiaries are reflected herein as investments net of impairment charges. As the result of the Company’s size, it is exempt from preparing consolidated financial statements under Danish accounting legislation.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments (net settlement obligation to shareholder warrants and certain loans) that have been measured at fair value. The financial statements are presented in U.S. Dollars, or USD, and all values are rounded to the nearest thousand (USD’000), except when otherwise indicated.

#### **Foreign Currencies**

The Company’s financial statements are presented in USD which is not the functional currency of the Company. The Company has elected USD as the presentation currency due to the fact that the Company has listed ADSs on the Nasdaq Global Select Exchange, or NASDAQ, in the United States, under the ticker symbol “FWP.”

In the translation to the presentation currency assets and liabilities are translated to USD using the closing rate as of the date of the statements of financial position while income and expense items for each statement presenting profit or loss and other comprehensive income are translated into USD at the average exchange rates for the year. Exchange differences arising from such translation are recognized directly in other comprehensive loss and presented in a separate reserve in equity.

The Company’s functional currency is the DKK. Transactions in foreign currencies are initially recorded by the Company in DKK using the spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at each reporting date. Differences arising on settlement or translation of monetary items denominated in foreign currency are recognized in the statement of profit or loss within “Exchange rate gain (loss).”

#### **Share-based Compensation**

Employees, board members and consultants (who provide services similar to employees) of the Company receive remuneration in the form of equity settled awards whereby services are rendered as consideration for equity awards (warrants, deferred shares or share options). The fair value of these equity-settled awards is determined at the date of grant resulting in a fixed fair value at grant date that is not adjusted for future changes in the fair value of the equity awards that may occur over the service period. Fair value of warrants and options is determined using the Black Scholes model while fair value of deferred shares is determined as fair value of the underlying shares less present value of expected dividend.

Non-employee consultants of the Company have received equity settled awards in the form of share options as remuneration for services. The fair value of these equity-settled awards are measured at the time services are rendered using the Black Scholes model. Under this method, the fair value is determined each quarter over the service period until the award vests.

The Company has never granted cash settled awards.

The cost of share-based payments for awards granted to Company employees, board members and consultants is recognized as an expense together with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled. In the event that equity instruments are granted conditionally upon an equal number of equity instruments granted in prior periods not being exercised, they are treated as a new grant for the current period and a modification of the equity instruments granted in the prior period. For equity instruments that are modified or replaced, in addition to recognizing any unamortized prior costs, the incremental value, if any, that results

from the modification is recognized as an expense over the period in which performance and/or service conditions are fulfilled or immediately if there are no performance and/or service conditions to be fulfilled.

The fair value of equity-settled awards is reported as compensation expense pro rata over the service period to the extent such awards are estimated to vest. No cost is recognized for awards that do not ultimately vest.

The cost of share-based compensation for employees and consultants of the German and US subsidiaries are recognized as an increase in the carrying value of the Company's investment in subsidiary with a corresponding increase in equity.

### **Employee benefits**

Employee benefits are primarily made up of salaries and share-based payments. These cost are recognized as expenses as services are delivered.

### **Classification of Operating Expenses in the Statement of Profit or Loss**

#### *Research and development expense*

Research and development costs primarily comprise salary and related expenses, including share based payment expense, license, patent and other intellectual property-related costs incurred in connection with patent claims and other intellectual property rights conducted by patent registry offices (for example the United States Patent and Trademark Office ("USPTO"), the European Patent Office ("EPO")) or other country-specific patent registry offices, manufacturing costs of pre-commercial product used in research, clinical costs, and depreciation of equipment, to the extent that such costs are related to the Company's research and development activities.

If expenses are incurred associated with the Company's intellectual property-related activities carried out in the courts to protect, defend and enforce granted patent rights against third parties (excluding activities and proceedings conducted within the USPTO, EPO or other country-specific patent registry offices) ("Court Expenses") they are classified within general and administrative expenses. The Company has filed a lawsuit against Biogen Idec GmbH, Biogen Idec International GmbH and Biogen Idec Ltd. (collectively "Biogen") in the Regional Court in Dusseldorf, Germany, asserting infringement by Biogen's marketing of Tecfidera® in Germany. The Company is seeking damages for Biogen's sales of Tecfidera® in Germany. The outcome of the Biogen litigation is uncertain and no benefit has been recognized in the accompanying financial statements from this litigation. Court Expenses incurred in connection with the Biogen litigation for the year ended December 31, 2015 totaled \$602,000 while Court Expenses incurred prior to January 1, 2015 were not material. If the Company is unsuccessful in the litigation, the Company could be subject to a claim by Biogen for statutory legal fees.

The Company's research and development activities concentrate on the development of unique formulations of DMF for the treatment of immune disorders such as MS and psoriasis, and include all patent office-related activities regarding the Company's patent estate development (i.e., interference proceedings, oppositions and new patent developments). Research and development costs incurred by the Company to date have not been eligible for capitalization, and consequently have been expensed in the period incurred.

#### *General and administrative expenses*

General and administrative costs relate to the administration of the Company, and comprise salaries and related expenses, including share-based payment expense, costs associated with our public listing of ordinary shares in the United States and depreciation of equipment, to the extent such expenses are related to the Company's administrative functions as well as Court Expenses.

### **Income Taxes**

#### *Current income tax*

Tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities within one year from the date of the statement of financial position. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation or "uncertainty" and establishes provisions where appropriate. To date, there have been no provisions established for uncertain tax positions.



#### *Deferred tax*

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside the profit or loss are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities of the same tax jurisdiction are offset if a legally enforceable right exists to set off.

Since January 2013, the Company has been subject to a joint taxation scheme with Tech Growth Invest ApS (see Note 2.3) and entities under Tech Growth Invest ApS' control (collectively "Tech Growth"). Under this scheme, the Company receives a refund equal to the tax benefit realized by Tech Growth from Tech Growth's utilization of the Company's tax losses at the applicable corporate tax rate to the extent that the tax losses reduce the taxable income of the joint taxation group. An entity that was part of Tech Growth experienced a change in ownership on December 31, 2015. As a result of the change in ownership, the year ended December 31, 2015 will be the final year where the Company will receive a refund equal to the tax benefit realized by Tech Growth from Tech Growth's utilization of the Company's tax losses. The joint taxation with Tech Growth ceased on January 1, 2016.

### **Equipment**

Equipment includes computers, office equipment and furniture and is stated at cost, net of accumulated depreciation. There have been no impairment losses of equipment recognized by the Company in the years ended December 31, 2015 and 2014. Depreciation is calculated on a straight-line basis over the expected useful lives of the underlying assets of 3 years. The residual values of equipment are not material. The useful life of and method of depreciation of equipment are reviewed by management at least each year end or more often based on changes in facts or circumstances that may result and are adjusted prospectively as changes in accounting estimates. For all periods reflected herein, there have been no changes in accounting estimates for equipment. As of December 31, 2015 and 2014, equipment was not material.

### **Investment in subsidiaries**

Investments in subsidiaries are carried at cost less impairment. Impairment testing is performed if there is an indication that the Company's investment in a subsidiary is not recoverable such as situations where the subsidiary is experiencing recurring losses and profitability is not anticipated or the Company's investment exceeds the net book value of assets in the subsidiary. If an investment in a subsidiary is deemed to be impaired, the carrying value of the investment in the subsidiary is written down to the estimated recoverable amount. See Note 4.4.

### **Financial Assets.**

#### *Initial recognition and measurement*

Financial assets that meet certain criteria are classified at initial recognition as either financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity investments or receivables. The Company's financial assets include cash, cash equivalents, other receivables and available-for-sale financial assets. The Company does not hold assets that have been classified at fair value through profit or loss or held to maturity. Generally the Company's financial assets are available to support current operations; however, amounts expected to be realized

within the next twelve months are classified within the statement of financial position as current assets. Certain available-for-sale financial assets have been classified within the statement of financial position as non-current assets as management currently has no intention or business reason to dispose of these financial assets within the next twelve months. The Company has no derivative financial assets nor has there been a change in classification of a financial asset after initial recognition and measurements as discussed herein.

The Company's financial assets are recognized initially at fair value plus, in the case of financial assets not carried at fair value through profit and loss, transaction costs that are attributable to the acquisition of the financial asset, if any.

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method. Historically the Company's receivables are due within a short period of time and therefore the impact of using the effective interest rate method on the Company's financial statements has been immaterial. The Company has no loans. This category also applies to cash and cash equivalents that comprise cash at banks available on demand.

Available-for-sale financial assets include government issued debt instruments. After initial recognition they are carried at fair value with changes in fair value from period to period recognized in other comprehensive income. Interest earned from available-for-sale financial assets is reported as interest income using the effective interest rate method with foreign exchange gains or losses recognized in the statement of profit and loss within foreign exchange rate gain (loss).

#### *Financial asset impairment*

The Company assesses at the end of each reporting period whether there has been objective evidence that a financial asset or group of financial assets may be impaired. Impairment losses are incurred if there is objective evidence of impairment and the evidence indicates that estimated future cash flows will be negatively impacted. For financial assets held at amortized costs, the amount of loss to be recognized in the financial statements is measured as the difference between the carrying value of the financial asset and the present value of the expected cash flows of the financial asset using the original effective interest rate. For each of the years ended December 31, 2015 and 2014, the Company did not experience an impairment of a financial asset. For impaired available-for-sale financial assets, the amount of loss to be recognized is measured as the difference between the acquisition cost, adjusted for any amortization of discount or premium, of the available-for-sale financial asset and its fair value.

### **Financial Liabilities**

The Company's financial liabilities historically have included trade payables, convertible loans and the net settlement obligation of shareholder warrants. The Company's convertible loans and net settlement obligation of shareholder warrants were converted to ordinary shares or exercised prior to December 31, 2014. As discussed further below, generally if a financial instrument is issued that allows for settlement in ordinary shares of the Company and contains provisions whereby settlement can be on a net basis in cash or ordinary shares, for a variable number of ordinary shares or a variable amount of cash, then the financial instrument will be accounted for at fair value through profit and loss.

#### *Trade payables*

Trade payables relate to the Company's purchase of products and services from various vendors in the normal course of business with payment terms generally not exceeding 30 days. Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method in the event a vendor has provided extended payment terms to the Company. Historically none of the Company's vendors have provided extended payment terms and therefore the effective interest method has not been used.

#### *Convertible loans*

The Company in the past has issued convertible loans that meet certain technical requirements, including (but not limited to) settlement of the conversion option for a fixed number of the Company's ordinary shares, that are initially recognized at fair value, net of transaction costs incurred. Subsequently these convertible loans are measured at amortized cost and accounted for using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss within other finance costs when the convertible loans are derecognized as well as through the effective interest rate amortization process. Amortized cost is calculated by taking into account any discount or premium from the face value of the convertible loan plus direct and incremental transaction costs incurred in connection with issuance of the convertible loan. See Note 4.3

Convertible loans that do not settle for a fixed number of the Company's ordinary shares are initially and subsequently recognized at fair value. Direct and incremental transactions costs incurred in connection with the issuance of convertible loans that contain such provisions are recognized in profit or loss as incurred. Gains and losses resulting from changes in fair value from period to period are recognized in profit or loss as non-operating gains or losses. See Note 3.4.

#### *Net settlement obligation shareholder warrants*

Shareholder warrants were issued by the Company containing terms that allow the holder of the warrant to settle for a variable number of the Company's ordinary shares. Accordingly, this term required that the shareholder warrants be accounted for as financial liability at fair value through profit and loss. Gains and losses resulting from changes in fair value from period to period are recognized in profit or loss as financial gains or losses. See Note 4.3.

### **Other Receivables**

Other receivables primarily comprise value added tax ("VAT") receivables and accrued interest income on available-for-sale financial assets. Other receivables that are not financial assets are recognized and measured at cost less impairment losses, if any. There have been no impairment losses in the financial periods presented. For more information on other receivables see Note 3.2.

### **Intercompany Receivables**

Intercompany receivables are measured at amortized cost less any impairment losses.

### **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at banks available on demand.

### **Statement of Cash Flow**

The statement of cash flows is presented using the indirect method. The statement of cash flows shows cash flows used in operating activities, cash flows used in investing activities, cash flows from financing activities, and the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows used in operating activities primarily comprise the net loss for the year adjusted for non-cash items, such as share based payment expense, fair value revaluations of derivatives, foreign exchange gains and losses, impairment charges, depreciation and changes in working capital.

Cash flows used in investing activities are comprised primarily of payments relating to equipment purchases and the investment in or maturity of available-for-sale financial assets.

Cash flows from financing activities are comprised of proceeds from borrowings and proceeds from share issuances net of transaction costs including the proceeds from the IPO.

For the year ended December 31, 2015 the Company's cash inflows for interest income totaled \$1.4 million. For the year ended December 31, 2014 the Company's cash inflows for interest income was not material.

For the year ended December 31, 2014 the Company's cash outflows for interest expense totaled \$196,000. For the year ended December 31, 2015 the Company had no cash outflow for interest expense.

### **Other Operating Income**

Other operating income consists of management fees from the German subsidiary. Management fees are recognized on an accrual basis. There are no management fees due from the Company's US or Danish subsidiaries.

## **1.2 Significant Accounting Judgements, Estimates and Assumptions**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, as well as the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

*Judgments made in applying accounting policies*

In the process of applying the Company's accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements. Refer to the Note for more details:

Research and development costs not eligible for capitalization Note 1.1

*Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are listed below. The Company based its assumptions and estimates on information available when the financial statements were prepared.

Management has determined that the following items are subject to a high degree of estimation uncertainty and are significant to the financial statements:

Valuation of share-based payment ..... Note 2.2  
Deferred tax assets ..... Note 2.3

### **1.3 Standards Issued But Not Yet Effective**

*Standards effective in 2015:*

New standards and amendments to standards and interpretations were issued by the IASB that became effective during 2015. None of these new or amended standards had an effect on the Company's financial statements.

*Standards issued but not yet effective:*

A number of new standards and amendments to standards and interpretations were issued by the IASB that become effective on or after January 1, 2016. The future adoption of these new or amended standards are currently not expected to have an effect on the Company's financial statements except for IFRS 9 Financial Instruments ("IFRS 9"), IFRS 15 Revenue from Contracts with Customers ("IFRS 15") and IFRS 16 Leases ("IFRS 16"), which are discussed below.

**IFRS 9:** This standard addresses the accounting for financial assets and liabilities including their classification and measurement, impairment and hedge accounting. The Company does not anticipate adopting IFRS 9 before the mandatory effective date of January 1, 2018. The impact on the Company's financial statements of the future adoption of IFRS 9 will be determined based on facts and circumstances that exist at the time of adoption that cannot be predicted currently. The only financial instruments held by the Company at December 31, 2015 that will be affected by IFRS 9 are the available-for-sale financial assets that are currently measured each reporting period at fair value through other comprehensive income. Management's preliminary position is that the available-for-sale financial assets held at December 31, 2015 would meet the definition under IFRS 9 to be accounted for under the amortized cost category. In reaching this preliminary position, management considered the Company's historic investment activity, current investment policies and intent to not sell the available-for-sale financial assets prior to maturity and believes that the appropriate business model assessment would result in the conclusion that the Company's financial assets are held to collect contractual cash flows. The effect of using amortized cost to account for the Company's available-for-sale financial assets at December 31, 2015 would eliminate the need to carry such assets at fair value resulting in a reversal of cumulative fair value beneficial adjustment of the available-for-sale assets with a corresponding reduction in other components of equity of \$102,000. In addition, the benefit reflected in the statement of comprehensive loss for the year ended December 31, 2015 from the change in fair value of the available-for-sale financial assets would be eliminated. The future adoption of IFRS 9 is not expected to have an effect on the Company's reported net loss or cash flows.

**IFRS 15:** This standard addresses the accounting and disclosure requirements for revenue contracts with customers. The effective date is January 1, 2018. The impact on the Company's financial statements of the future adoption of IFRS 15 cannot currently be estimated as the Company currently does not have revenue from customers and the impact can only be determined based on facts and circumstances that exist at the time of adoption.

**IFRS 16:** This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability

representing its obligation to make lease payments. IFRS 16 has an effective date of January 1, 2019. Management is in the process of evaluating the effect the adoption of IFRS 16 will have on the Company's financial statements and therefore until the evaluation is complete an estimate of the effect the adoption of IFRS 16 will have on the Company's financial statements cannot be made.

## Section 2 Results for the Year

### 2.1 Staff Costs

The Company's staff costs, that are expensed as incurred, for each of the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
	USD '000	USD '000
Wages and salaries.....	670	173
Social taxes and benefits.....	1	1
Share-based payment (Note 2.2).....	6,598	1,442
Total.....	<u>7,269</u>	<u>1,616</u>
Staff costs are included in the statement of profit or loss as follows:		
Research and development costs .....	4,272	1,113
General and administrative costs .....	2,997	503
Total.....	<u>7,269</u>	<u>1,616</u>

Key management consists of the Company's Chief Executive Officer and Chief Financial Officer ("CFO"). The Company's CFO is compensated by Forward Pharma USA, LLC. Although the CFO is not directly compensated by the Company, and therefore excluded from the above table, the table below includes the compensation of the CFO.

	<u>2015</u>	<u>2014</u>
	USD '000	USD '000
Compensation to the Group's key management		
Short-term employee benefits.....	718	532
Share-based compensation (Note 2.2) .....	5,500	3,828
Total compensation paid to key management personnel .....	<u>6,218</u>	<u>4,360</u>

### 2.2 Share-based Compensation

The Company has entered into various share-based payment arrangements through the granting of equity awards in the form of warrants, options or deferred shares (collectively "equity awards") to employees, consultants (who provide services similar to employees), non-employee consultants and members of the board of directors of the Company and its wholly owned subsidiaries. Equity awards have been granted under either the Company's 2014 Omnibus Equity Incentive Compensation Plan (the "Equity Plan") or outside the Equity Plan. Outstanding warrants and options have exercise prices stated in DKK or USD. Options and warrants that have exercise prices in DKK have been converted to USD.

The terms of the Equity Plan provide for the board of directors, or a committee appointed by the board of directors, to grant equity awards (as defined below) to employees, consultants and directors of the Company and its wholly owned subsidiaries. At the inception of the Equity Plan there were approximately 3.1 million ordinary shares available for grant under the Equity Plan. Awards can be in the form of ordinary shares, deferred shares, restricted shares or share options with terms and vesting conditions determined by the board of directors. The Equity Plan contains anti-dilution provisions in the event of a stock split or similar corporate transaction. As of December 31, 2015, 1.3 million shares were available for future grant under the Equity Plan.

During the year ended December 31, 2015, the Company's board of directors approved the granting of 706,000 stock options to certain employees, board members and consultants (who provide services similar to employees) and 500,000 to non-employee consultants. The options granted to the non-employee consultants are discussed in more detail below. The option exercise prices per share, excluding the 500,000 options awarded to the non-employee consultants, range from \$20.90 to \$36.85. Vesting terms are pro rata over either a three or four year term, however, each award contains a provision whereby the option holder cannot exercise prior to a defined date. Vesting and exercise periods are accelerated in the event there is a change in control, as defined in the option award agreements. Stock option expiration dates vary with the latest expiration date being six years from the date of grant. At the date of grant, the aggregate fair value of options granted in 2015, excluding the fair value of the options granted to the non-employee consultants, totaled \$10.2 million.

As discussed above, during the year ended December 31, 2015 a total of 500,000 options were granted to non-employee consultants of the Company ("Consultant Options"). 250,000 Consultant Options have an exercise price of \$28.26 and the balance have an exercise price of \$141.30. The Consultant Options expire on May 15, 2020 and vesting is over five years; however, the Consultant Options only can be exercised during the period from April 2, 2020 to May 15, 2020. Vesting and exercise are accelerated in the event there is a change in control as defined in the option award agreements. The Company's board of directors holds a unilateral right to terminate the Consultant Options for any reason at any time prior to vesting. The fair value of the Consultant Options is measured using the Black Scholes model with inputs consistent with those discussed below. The fair value of the Consultant Options is determined as services are rendered. As of December 31, 2015 none of the Consultant Options have vested. The fair value of the Consultant Options was computed using the Black Scholes method and not based on the value of the services received. In reaching the decision to use the value of the Consultant Options and not the value of the services, management considered the variability in the nature, timing and extent of services to be provided by the non-employee consultants that will be significantly affected by actions taken by parties who are not under the control of the Company. Accordingly the value and timing of the services to be received over the service period cannot be estimated reliably and therefore the value of the Consultant Options was deemed to be a more accurate measure of the consideration paid to the non-employee consultants for services rendered. The weighted average fair value per Consultant Option applied for recognition of an expense during the year ended December 31, 2015 was \$11.88 and the total expense recognized was \$2.0 million. There were no Consultant Options outstanding prior to 2015.

In order to provide employees, including the Chief Executive Officer, consultants and a board member of the Company and its wholly subsidiaries with the ability to forgo exercising warrants or share options that were set to expire on or before January 1, 2016 ("Expiring Awards"), (i) the board of directors, during the year ended December 31, 2015, approved the granting of 1,365,000 share options or warrants ("Replacement Awards") to replace 1,405,000 Expiring Awards (1,316,000 Expiring Awards expired prior to December 31, 2015 and the balance expire on January 1, 2016) and (ii) the Company's shareholders, at the ordinary general meeting in April 2015, approved the extension of the period during which holders may exercise 334,000 Expiring Awards ("Extended Awards"). Further, in order to incentivize holders of Expiring Awards to remain engaged with the Company, the board of directors, during the year ended December 31, 2015, approved the granting of additional share options or warrants to holders of Expiring Awards to subscribe for an aggregate of 362,000 ordinary shares ("Additional Awards"). The Replacement Awards have substantially similar terms as the Expiring Awards, except the expiration dates were extended to various dates the latest being March 2021. The expiration date for 167,000 of the Extended Awards was extended to June 2018, while the expiration date for the balance of the Extended Awards was extended to November 2018. If individual holders exercise their Expiring Awards, then the Replacement Awards and the Additional Awards held by such holders provide for immediate expiration and cancellation of such Replacement Awards and the Additional Awards for no compensation. Replacement Awards have the same exercise price as Expiring Awards ranging from \$0.57 to \$1.23 per share. Replacement Awards are fully vested on the date of grant while Additional Awards vest over a period of three years. Replacement Awards and Additional Awards (except for 85,000 Replacement Awards) cannot be exercised prior to March 2018; however, Replacement Awards and Additional Awards vest and can be exercised immediately in the event there is a change in control, as defined in the award agreements. The aggregate fair value of Replacement Awards and Additional Awards at the date of grant totaled \$6.8 million. The financial statement impact of the Extended Awards was not material.

A total of 55,000 deferred shares were granted during 2015 to an employee and two consultants (who provide services similar to employees). The employee's deferred shares vest in July 2016 and the consultants' deferred shares vest over a four year period. Deferred shares vest and will be issued immediately in the event there is a change in control, as defined in the award agreements. At the date of grant, the aggregate fair value of the deferred shares granted in 2015 totaled \$1.4 million.

During the year ended December 31, 2015, 216,000 warrants were exercised yielding proceeds to the Company of \$153,000. The weighted average fair value of an ordinary share of the Company on the dates of exercise was \$33.79.

For the year ended December 31, 2014 the Committee awarded 569,000 deferred shares (“Deferred Shares”) to the Company’s Chief Financial Officer. The Deferred Shares give the holder no rights as a shareholder until the Deferred Shares vest except for certain dividend rights. In addition, 471,000 share options (“Share Options”) were awarded to employees, including 379,000 awarded to the Company’s Chief Financial Officer, that allow the holder to purchase an equal number of ordinary shares at an exercise price per ordinary share of \$21.00. In addition, 177,000 warrants were granted during the year ended December 31, 2014 including 89,000 that were granted to a director, at an exercise price of \$11.02 per share, and the balance were granted to a consultant at an exercise price of \$0.67 per share. The Deferred Shares, the Share Options and the warrants issued to the director vest incrementally over four years with accelerated vesting under certain situations including a change in control as defined. Approximately 53,000 of the warrants granted to the consultant vested immediately and the remaining balance vest over 18 months with accelerated vesting under certain situations including a change in control as defined. The aggregate fair value of the Deferred Shares, the Share Options and the warrants on the date of award totaled \$9.2 million, \$6.0 million and \$1.2 million respectively. During April 2015 142,000 Deferred Shares vested and were issued.

During the year ended December 31, 2014, 1.6 million warrants were modified to extend the expiration date or similar by two, six or seven months that have a weighted average exercise price of \$1.21. The financial statement impact of the modification was not material.

In July 2014, 135,000 warrants, after the Share Split and the Proportional Share adjustments, were exercised yielding gross proceeds to the Company of \$92,000. The estimated fair value per share of an ordinary share of the Company on the date of exercise was \$11.00.

Share-based compensation for each of the years ended December 31, 2015 and 2014 is included in the following accounts:

	2015	2014
	USD '000	USD '000
Research and development costs.....	3,990	1,088
General and administrative costs .....	2,608	354
Investment in subsidiaries.....	6,942	4,509
Total.....	<u>13,540</u>	<u>5,951</u>

The table below summarizes the activity for each of the years ended December 31, 2015 and 2014 for equity awards in the form of options and warrants and the weighted average exercise price (“WAEP”):

	Share Options and Warrants:				
	Key Management Personnel	Employees and Consultants	Non- Employee Consultants	Total Awards	WAEP
	No. '000	No. '000	No. '000	No. '000	
Outstanding at December 31, 2013 .....	590	1,860	—	2,450	\$1.46
Granted .....	468	180	—	648	\$16.84
Exercised .....	—	(135)	—	(135)	\$0.67
Expired .....	—	(109)	—	(109)	\$0.67
Outstanding at December 31, 2014 .....	1,058	1,796	—	2,854	\$5.03
Granted .....	178	528	500	1,206	\$51.62
Expiring Awards.....	(333)	(983)	—	(1,316)	\$0.98
Replacement Awards.....	423	942	—	1,365	\$0.96
Additional Awards.....	147	215	—	362	\$30.13
Exercised .....	—	(216)	—	(216)	\$0.70
Outstanding at December 31, 2015 .....	<u>1,473</u>	<u>2,282</u>	<u>500</u>	<u>4,255</u>	<u>\$20.39</u>
Exercisable at December 31, 2015 .....	<u>872</u>	<u>1,539</u>	<u>—</u>	<u>2,411</u>	

The weighted average remaining contractual life of equity awards in the form of options and warrants outstanding as of December 31, 2015 and 2014 was 4.9 years and 2.6 years respectively.

The table below summarizes the range of exercise prices, after converting where applicable exercise prices that are stated in DKK to USD, for outstanding equity awards in the form of options and warrants as of December 31, 2015 and 2014. Exercise prices disclosed below have changed from amounts previously reported as the result of a change in the DKK to the USD exchange rate.

Range of exercise prices (per share)	2015	2014
	No. '000	No. '000
\$0.57 to \$1.23 .....	2,007	2,169
\$7.54 to \$9.48 .....	214	214
\$20.90 to \$28.26 .....	1,104	471
\$30.54 to \$36.85 .....	680	—
\$141.30 .....	250	—
Total.....	4,255	2,854

The tables below summarize the inputs to the model used to value equity awards in the form of options and warrants as well as the average fair value per option or warrant awarded for each of the years ended December 31, 2015 and 2014:

**Year ended December 31, 2015**

Dividend yield (%).....	0
Expected volatility (%) .....	69 – 76
Risk-free interest rate (%).....	(0.1) to 1.7
Expected life of the equity award (years) .....	3.5 to 5.0
Share price (\$).....	18.10 USD to 39.00 USD
Model used.....	Black Scholes
Basis for determination of share price .....	Quote on NASDAQ
Average fair value per option or warrant granted (\$).....	13.05 USD

**Year ended December 31, 2014**

Dividend yield (%).....	0
Expected volatility (%) .....	84 - 110
Risk-free interest rate (%).....	0.0 to 0.4
Expected life of the equity award (years) .....	1.5 to 5
Share price (\$).....	11.89 USD or 21.00 USD
Model used.....	Black Scholes
Basis for determination of share price (a) (b) .....	DCF-model or IPO price
Average fair value per option or warrant granted (\$).....	12.28 USD

(a) Discounted cash flow or "DCF."

(b) The IPO price per share was used to value equity awards granted immediately prior to the IPO.



The table below summarizes the deferred share activity for each of the years ended December 31, 2015 and 2014:

	Deferred Shares:		
	Key Management Personnel	Employees and Consultants	Total Awards
	No. '000	No. '000	No. '000
Outstanding at January 1, 2014 .....	—	—	—
Granted .....	569	—	569
Outstanding at December 31, 2014 .....	569	—	569
Granted .....	—	55	55
Vested and issued .....	(142)	—	(142)
Outstanding at December 31, 2015 .....	427	55	482

Subsequent to the IPO, the expected life of an equity award is based on the assumption that the holder will not exercise until after the equity award is fully vested and all restrictions on the holders' ability to dispose of the underlying ordinary shares expire. Actual exercise patterns may differ from the assumption used herein. The expected volatility is based on peer group data and reflects the assumption that the historical volatility over a period similar to the life of the equity awards is indicative of future trends, which may not necessarily be the actual outcome. The peer group consists of listed companies that management believes are similar to the Company in respect to industry and stage of development.

***Significant estimation uncertainty regarding share based payments***

Prior to the Company's IPO, determining the initial fair value and subsequent accounting for equity awards granted to the employees, consultants and directors required management to use many subjective assumptions including estimating the fair value of the Company's ordinary shares. The subjective nature of the assumptions required management to use significant judgment, and small changes in any individual assumption or in combination with other assumptions could have yielded significantly different results. The most significant assumptions included the following: estimated long-term cash flows of the Company discounted for the risk and uncertainty of successfully developing and commercializing FP187; the expected period an equity award would be outstanding and the peer group we used to determine volatility. Before the Company's ADSs were quoted on an active market, the underlying share price applied was determined by applying a discounted cash flow (DCF) model. The expected future cash flows were based on strategic plans up until product launch and projections for the following years.

Subsequent to the Company's IPO, determining the initial fair value and subsequent accounting for equity awards will continue to require significant judgment regarding expected life and volatility of an equity award; however, as a public listed company there is objective evidence of the fair value of an ordinary share on the date an equity award is granted and therefore DCF valuations are no longer used. As a public listed entity, in the future after there has been an extended period of historical trading activity of the Company's ordinary shares, the Company will determine the fair value of an equity award using an option valuation model that incorporates the historical trading attributes of the Company's ordinary shares including the volatility and the expected life of an equity award.

*All amounts presented in this Note have been adjusted to reflect the Proportional Shares and the Share Split as if they had occurred at the beginning of each respective period. Amounts disclosed herein may be different from amounts previously reported as the result of changes in exchange rates.*

## 2.3 Income Taxes

The major components of income tax for the years ended December 31, 2015 and 2014 are as follows:

### Statement of profit and loss

	2015	2014
	USD '000	USD '000
<i>Current income tax:</i>		
Current income tax benefit .....	336	250
Income tax benefit reported in the statement of profit and loss .....	336	250

Included in the current income tax benefit for the years ended December 31, 2015 and 2014 are amounts due to the Company for participating under a joint taxation scheme with Tech Growth of \$158,000 and \$250,000 respectively (see "Joint Taxation" below for additional information regarding Tech Growth). Also included in the tax benefit for the year ended December 31, 2015 is the favorable result from an application made in 2015 with the Danish tax authorities whereby the Danish tax authorities approved a refundable tax credit of \$178,000 related to the Company's research and development efforts after reducing the Company's 2012 tax loss carryforward. The refundable tax credit was received during the year ended December 31, 2015.

The tax benefit recorded for the years ended December 31, 2015 and 2014 is reconciled as follows:

	2015	2014
	USD '000	USD '000
Net loss before tax .....	(51,401)	(13,912)
At the Company's statutory income tax rate (*) .....	(12,079)	(3,408)
<i>Adjustments:</i>		
Non-deductible expenses, including impairment loss, for tax purposes .....	8,569	936
Unrecognized deferred tax assets.....	3,352	2,222
Refundable tax credit.....	(178)	—
At the effective income tax rate of 2% for 2015 and 1% for 2014 ...	(336)	(250)

(\*) The statutory tax rates for 2015 and 2014 were 23.5% and 24.5% respectively.

For the year ended December 31, 2015 the Company's cash inflows for taxes totaled \$466,000 and there were no cash outflows. For each of the years ended December 31, 2014 and 2013 there were no cash inflows or outflows for taxes.

### Deferred tax

The unrecognized deferred tax assets at December 31, 2015 and 2014 are as follows:

	2015	2014
	USD '000	USD '000
Tax effect of tax loss carry forwards.....	5,515	3,447
Share-based payment .....	3,507	3,330
Other deferred taxes, net liability.....	(131)	(147)
Unrecognized deferred tax assets, net.....	8,891	6,630

The table above excludes a tax asset of \$306 million at December 31, 2015 and \$345 million at December 31, 2014 related to an intangible asset and a corresponding contingent tax liability, in the same amount, that may become available for Danish tax purposes in the event the Company generates tax revenues in future periods. The decrease in the amount from 2014 to 2015 is the result of a change in the exchange rate between the DKK and the USD.

The loss carry forwards that total \$25.1 million at December 31, 2015 have no expiry date. The Company's ability to use tax loss carry forwards in any one year is limited to 100% of the first \$1.1 million of taxable income plus 60% of taxable income above \$1.1 million. Other deductible temporary differences are not subject to any restrictions.

#### *Joint Taxation*

As of January 19, 2013, the Company became part of a tax group with Tech Growth Invest ApS and its subsidiaries. Under applicable provisions of the Danish taxation law, the Company will be entitled to obtain refunds at the prevailing tax rate from other entities within the joint taxation scheme who utilize tax losses of the Company. The tax benefit included within the statement of profit and loss for each of the years ended December 31, 2015 and 2014 represents the estimated benefit to be derived from the joint taxation scheme. During the year ended December 31, 2015, the Company received a cash payment from Tech Growth of \$288,000 that represented the actual benefit derived from other entities within the joint taxation scheme who utilized the Company's tax losses for each of the years ended December 31, 2014 and 2013. After adjusting for changes in exchange rates between the DKK and the presentation currency, or USD, the difference between the estimated tax benefit recorded in operating results for each of the years ended December 31, 2014 and 2013 and the actual amount received was not material. A subsidiary of Tech Growth Invest ApS experienced a change in ownership on December 31, 2015. The effect of the change in ownership will result in the year ended December 31, 2015 being the final year where the Company will receive a refund equal to the tax benefit realized by Tech Growth Invest ApS and other entities within the joint taxation scheme who utilized the Company's tax losses. On January 1, 2016, the joint taxation with Tech Growth ceased. The Company is jointly and severally liable with other entities in the joint taxation scheme for the group's Danish tax liabilities.

#### *Significant accounting judgments, estimates and assumptions*

The Company recognizes deferred tax assets, including the tax base of tax loss carry-forwards, if management assesses that these tax assets can be offset against positive taxable income within a foreseeable future. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. This judgment is made on an ongoing basis and is based on budgets and business plans for the coming years, including planned commercial initiatives.

The development of therapeutic products within the biopharmaceutical industry, such as the Company's product candidate FP187, are subject to considerable risks and uncertainties and there is no assurance a therapeutic product will be successfully developed. As the result of this uncertainty and since the Company has reported significant losses since inception, has no commercial products or revenues and does not expected to generate revenues or profits for the foreseeable future, management has concluded that deferred tax assets should not be recognized as of December 31, 2015 or at any other prior date. The tax assets are currently not deemed to meet the criteria for recognition as management is not able to provide convincing positive evidence that taxable profits will be available in the future to utilize the benefit from the tax assets.

## **2.4 IPO Costs**

During the year ended December 31, 2014, the Company incurred direct and incremental costs associated with its IPO that totaled approximately \$4 million (excluding the underwriters' commission of 7% of gross proceeds received from the IPO) that have been accounted for as a reduction of the gross proceeds received from the IPO and recorded through shareholders' equity. In addition, during the year ended December 31, 2014, the Company incurred costs that were directly associated with the IPO but were not incremental and therefore were not eligible to be offset against the gross proceeds and were therefore included in general and administrative expenses. Such amounts totaled approximately \$2 million. No costs were incurred in connection with the IPO in the year ended December 31, 2015.

## Section 3 Operating Assets and Liabilities

### 3.1 Prepaid Expenses

	December 31,	
	2015	2014
	USD '000	USD '000
Insurance.....	544	667
Other.....	68	9
Total.....	612	676

### 3.2 Other Receivables

	December 31,	
	2015	2014
	USD '000	USD '000
VAT receivables.....	311	274
Accrued interest income.....	231	365
Other receivables.....	10	14
Total.....	552	653

### 3.3 Trade Payables and Accrued Expenses

	December 31,	
	2015	2014
	USD '000	USD '000
Trade payables.....	1,454	1,148
Accrued expenses.....	1,784	1,145
Total.....	3,238	2,293

### 3.4 Convertible Loans

During 2014, the Company entered into two convertible note agreements borrowing € 8.35 million and \$10 million respectively.

On May 30, 2014 the Company entered into a convertible loan agreement ("Euro Note") with NB FP Investment II K/S, a related party. The terms of the Euro Note allowed the Company to borrow up to € 8.35 million in installments. Outstanding borrowings accrued interest at an annual rate of 10% payable, with principal, on December 31, 2018. The full € 8.35 million was borrowed during the three months ended September 30, 2014. There was a mandatory conversion provision that was triggered in October 2014 as the result of the Company successfully completing the IPO whereby the Euro Note plus accrued interest converted into 602,000 ordinary shares of the Company. The Euro Note conversion rate represented a 15% discount from the fair value of the ordinary shares issued and was accounted for as discussed below. Accrued interest on the Euro Note at the time of conversion totaled \$177,000.

On August 6, 2014 the Company entered into a convertible loan agreement ("USD Note") with BVF Forward Pharma L.P., a related party. The terms of the USD Note were similar to the Euro Note except that the Company could borrow \$10 million. The full \$10 million was borrowed during the three months ended September 30, 2014. The USD Note plus accrued interest converted into 566,000 ordinary shares of the Company upon the completion of the IPO. The USD Note conversion rate represented a 15% discount from the fair value of the ordinary shares issued and was accounted for as discussed below. Accrued interest on the USD Note at the time of conversion totaled \$118,000.

For financial reporting purposes, the Euro Note and the USD Note (collectively “Notes”) were carried at fair value and the change in fair value from period-to-period reflected as the fair value adjustment to convertible loans in the statement of profit or loss for the year ended December 31, 2014. This accounting treatment is the result of the derivative associated with the conversion feature deemed to be not closely related to the debt host. For the year ended December 31, 2014 there was a loss of \$3.8 million representing the increase in fair value of the Notes from the time the Notes were issued to the time the Notes were converted to ordinary shares. The Notes meet the definition of a Level 2 financial instrument, as defined below, since there was no active market where the Notes were traded. Therefore determining fair value required the Company to use an alternative approach that was based on the automatic conversion feature to ordinary shares at a 15% discount to the per share price of the IPO. The fair value of the Notes on the date of conversion was determined based on the number of ordinary shares issued at the quoted price per ordinary share at the time of the IPO (\$21.00) adjusted for the 15% discount.

## Section 4 Capital Structure, Financial Risks and Related Items

### 4.1 Equity and Capital Management

The following table summarizes the Company’s share activity for each of the years ended December 31, 2015 and 2014:

	Class A ordinary shares	Class B preferred shares	Ordinary shares
	No. '000	No. '000	No. '000
December 31, 2013 .....	28,502	856	—
Capital increase for cash .....	—	157	—
Cashless settlement of interest-bearing convertible loans upon exercise of shareholder warrants .....	2,456	—	—
Exercise of shareholder warrants for cash .....	5	—	—
Exercise of warrants for cash .....	135	—	—
Class B Award (*) .....	2,034	—	—
Share Conversion (*) .....	(33,132)	(1,013)	34,145
Conversion of the Euro Note and USD Note (*) .....	—	—	1,169
IPO including over-allotment (*) .....	—	—	11,200
December 31, 2014 .....	—	—	46,514
Issuance of deferred shares .....	—	—	142
Exercise of warrants for cash .....	—	—	216
December 31, 2015 .....	—	—	46,872

(\*) See Corporate Information and Note 3.4 for additional information.

The Company has never paid a dividend on ordinary shares and does not expect to pay dividends for the foreseeable future.

During the year ended December 31, 2015 142,000 ordinary shares were issued upon the vesting of Deferred Shares, and the receipt of the nominal value of \$2,000, and 216,000 ordinary shares were issued in connection with the exercise of warrants and the receipt of \$153,000. See Note 2.2.

In connection with the IPO, including the partial exercise of the underwriters’ over-allotment option, the Company sold approximately 11.2 million ordinary shares at \$21.00 per share yielding gross proceeds of approximately \$235 million. The underwriters’ commission and other direct and increment cost totaled approximately \$16 million and \$4 million respectively resulting in net proceeds to the Company of approximately \$215 million.

Prior to the Share Conversion, Class A ordinary shares and Class B preferred shares had a different nominal value per share than an ordinary share. The adjustment that appears in the Statement of Changes in Shareholders Equity, for the

year ended December 31, 2014, in the amount of \$262,000 represents the effect of the change in Share Capital to conform with the per share nominal value of an ordinary share or 0.10 DKK.

The proceeds received during the year ended December 31, 2014 pursuant to the issuance of approximately 157,000 Class B shares for cash totaled approximately \$1.9 million. The issuance price per Class B share was approximately \$12.11.

During March 2014 a convertible loan that had been accruing interest at a rate of 20% per annum in the amount of \$2.5 million that was held by Nordic Biotech Opportunity Fund K/S, a shareholder and related party, was converted to share capital and share premium in consideration for the exercise of shareholder warrants resulting in the issuance of 2.5 million Class A shares. See Note 4.3.

During the year ended December 31, 2014, the Company issued approximately 5,000 and 135,000 Class A shares at per share prices of approximately \$1.07 and \$0.68 respectively yielding aggregate proceeds of approximately \$5,000 and \$92,000 respectively.

*All amounts presented in this Note have been adjusted to reflect the Proportional Shares and the Share Split adjustments as if they had occurred at the beginning of earliest period presented.*

#### *Capital Management*

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maximize shareholder value. The board of directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and a continuous advancement of the Company's intellectual property, product pipeline and business. Cash, cash equivalents and financial assets are monitored on a regular basis by management and the board of directors in assessing current and long-term capital needs. As of December 31, 2015 the Company held cash, cash equivalents and available-for-sale financial assets totaling \$168.8 million that will be sufficient to fund operations beyond the next twelve months. The Company currently has no significant planned capital expenditures.

## **4.2 Financial Risk Factors**

The Company's activities expose it to a number of financial risks whereby future events, which can be outside the control of the Company, could have a material effect on the Company's financial position and operating results. The known risks include foreign currency, interest and credit risk and there could be other risks currently unknown to management. The Company historically has not hedged its financial risks.

#### *Foreign Currency*

The Company and its subsidiaries conduct operations in Denmark, Germany and the United States that use the DKK, the Euro and the USD as their functional currencies respectively. The Company conducts cross border transactions where the functional currency is not always used, including purchases from major vendors in the in the United States where the USD is used and in the United Kingdom where the British Pound ("GBP") is used. In addition, the Company, whose functional currency is the DKK, has invested in debt instruments issued by the governments of Germany, Great Britain and the United States. Accordingly, future changes in the exchange rates of the DKK, the Euro, the USD and/or the GBP will expose the Company to currency gains or losses that will impact the reported amounts of assets, liabilities, income and expenses and the impact could be material. For each of the years ended December 31, 2015 and 2014, the impact on the Company's statement of profit or loss of possible changes in the USD, GBP and Euro exchange rates against the Company's functional currencies, USD, DKK and EUR, would be as follows.

<u>Currency</u>	<u>Possible change</u>	<u>2015</u>		<u>2014</u>	
		<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>
USD.....	+/-10%	+8,068/-8,068	+10,188/-10,188		
GBP.....	+/-10%	+1,001/-1,001	+921/-921		
EUR.....	+/-2%	+1,424/-1,424	+1,974/-1,974		

### Interest Rate Risk

The Company has invested in debt instruments issued by the governments of Germany, Great Britain and the United States (collectively "Bonds") that pay interest at fixed rates. The effective yield on the Bonds is less than 1%. Should market interest rates rise in the future, it would have a negative effect on the fair value of the Bonds, which could be material, and would result in a realized loss if a Bond was sold before maturity. As of December 31, 2015 and 2014, the impact on the fair value of the Company's Bonds of a possible increase or decrease in the interest rates would be as follows.

<u>Denomination Currency</u>	<u>Possible change</u>	<u>2015</u>	<u>2014</u>
		<u>USD '000</u>	<u>USD '000</u>
EUR.....	+/-1%-point	-862/+862	-1,491/+1,491
GBP.....	+/-1%-point	-68/+68	-119/+119
USD.....	+/-1%-point	-835/+835	-1,319/+1,319

### Credit Risk

The Company's credit risk is associated with cash held in banks and the Bonds. The Company does not trade financial assets for speculative purposes and invests with the objective of preserving capital by investing in a diversified group of highly rated debt instruments.

The Company's cash and cash equivalents are held primarily at one bank in Denmark with a Moody's long-term credit rating of Aa3. The Company's available for sale financial assets are invested in government issued debt instruments that are carried at fair value with maturities not exceeding three years. Moody's credit rating of each of the individual governments is Aa1 or better.

## 4.3 Financial Assets and Liabilities

### Recognized financial instruments

The Company has recognized the following categories of financial assets and liabilities.

#### Financial assets:

##### Other receivables as of December 31, 2015 and 2014

	<u>2015</u>		<u>2014</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>
Other receivables .....	552	552	653	653
Total.....	<u>552</u>	<u>552</u>	<u>653</u>	<u>653</u>

##### Intercompany receivables as of December 31, 2015 and 2014

	<u>2015</u>		<u>2014</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>	<u>USD '000</u>
Intercompany receivables .....	675	675	415	415
Total.....	<u>675</u>	<u>675</u>	<u>415</u>	<u>415</u>

*Available-for-Sale Financial Assets as of December 31, 2015 and 2014*

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Included in current assets (Level 1) .....				
Germany .....	17,223	17,223	19,351	19,351
United Kingdom .....	4,438	4,438	1,915	1,915
United States .....	19,976	19,976	24,970	24,970
Total .....	41,637	41,637	46,236	46,236

At December 31, 2015 the face values of the German, United Kingdom and United States available-for-sale financial assets were 15.6 million Euros, 2.9 million GBP and 20.0 million USD respectively. At December 31, 2014 the face values of the German, United Kingdom and United States available-for-sale financial assets were 15.7 million Euros, 1.2 million GBP and 25.0 million USD respectively.

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Included in non-current assets (Level 1) .....				
Germany .....	43,558	43,558	67,862	67,862
United Kingdom .....	1,855	1,855	6,769	6,769
United States .....	37,333	37,333	57,268	57,268
Total .....	82,746	82,746	131,899	131,899

At December 31, 2015 the face values of the German, United Kingdom and United States available-for-sale financial assets were 39.3 million Euros, 1.2 million GBP and 37.5 million USD respectively. At December 31, 2014 the face values of the German, United Kingdom and United States available-for-sale financial assets were 54.9 million Euros, 4.1 million GBP and 57.5 million USD respectively.

*Financial Liabilities:*

*Financial liabilities at amortized cost as of December 31, 2015 and 2014*

	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Trade payables and accrued expenses .....	3,238	3,238	2,293	2,293
Total .....	3,238	3,238	2,293	2,293

Fair value of trade payables is deemed to be their carrying amount based on payment terms that are generally 30 days.

*Financial instrument valuation hierarchy*

Financial instruments recognized at fair value are allocated to one of the following valuation hierarchy levels:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. The Company's available-for-sale financial assets meet the definition of Level 1.
- Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly. The Company did not have financial instruments allocated to this level as of December 31, 2015 or 2014.



- Level 3: Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data. The Company did not have financial instruments allocated to this level as of December 31, 2015 or 2014.

For all periods presented there were no transfers of financial instruments between Levels 1, 2 or 3.

#### *Interest bearing convertible loan*

As of December 31, 2013, the Company's borrowing consisted of a convertible loan denominated in DKK held by Nordic Biotech Opportunity Fund K/S, a related party. The loan was due on October 31, 2018 and was carried at amortized cost. Interest accrued at an annual rate of 20%. The convertible loan contained various terms and conditions including provisions for mandatory conversion, under certain defined circumstances, as well as optional conversion provisions into Company shares. The lender had a put option that provided for immediate repayment of the convertible loan that was exercisable based on conditions that were not within the control of the Company and therefore the convertible loan was classified as a current liability at December 31, 2013. On March 17, 2014 the convertible loan was cancelled in consideration for exercising shareholder warrants that are discussed below. The carrying value of the convertible loan was \$2.5 million at the time of cancellation and was transferred from liability classification to share premium. Interest expense recognized during each of the year ended December 31, 2014 totaled \$100,000.

#### *Net settlement obligation of shareholder warrants*

On May 31, 2011, Nordic Biotech Opportunity Fund K/S, one of the Company's shareholders, was granted 138,000 shareholder warrants that entitled the holder to acquire an equal number of Class A ordinary shares (or 2.5 million ordinary shares after the Proportional Shares and the Share Split adjustments) at an exercise price of approximately \$1.07 per ordinary share after the Proportional Share and Share Split adjustments. The terms of the shareholder warrants allowed the holder to net settle in shares whereby the holder could exercise all the shareholder warrants and receive fewer Class A shares with a fair value equal to the intrinsic value of the shareholder warrants without remitting the exercise price. The shareholder warrants were classified as a derivative financial instrument due to the fact that the holder could elect net share settlement and were recorded within current liabilities in the statement of financial position. All shareholder warrants were exercised on March 17, 2014 in a single transaction in which 5,000 Class A shares (after the issuance of Proportional Shares and the Share Split adjustments) were issued for cash consideration of \$5,000 and the balance in consideration for the cancellation of a convertible loan discussed above. The fair value of the shareholder warrants as of the exercise date was \$27.0 million and was transferred from liability classification to share premium within shareholders' equity as of that date.

The following table summarizes the changes in the carrying value of the net settlement obligation of shareholder warrants for each of the year ended December 31, 2014:

	<u>2014</u>
	<u>USD '000</u>
Carrying amount at January 1, 2014.....	26,124
Fair value adjustment recognized as an expense.....	968
Exchange differences.....	(123)
Exercise .....	<u>(26,969)</u>
Carrying amount at December 31, 2014 .....	<u>—</u>

## **4.4 Investment in Subsidiaries**

The Company's wholly-owned German, United States and Danish subsidiaries Forward Pharma GmbH, Forward Pharma USA, LLC and Forward Pharma FA ApS, respectively, are reflected in the accompanying financial statements as an investment carried at cost unless the investment has been impaired.

The investment account activity for each of the Company's wholly-owned subsidiary for the years ended December 31, 2015 and 2014 is as follows:

	German USD `000	US USD `000	Denmark USD `000	Total USD `000
Balance January 1, 2014	11,788	—	—	11,788
Capital contribution	5,000	700	—	5,700
Share-based compensation	645	3,864	—	4,509
Translation adjustment	(1,365)	(65)	—	(1,430)
Impairment loss	—	(4,499)	—	(4,499)
Balance December 31, 2014	16,068	—	—	16,068
Capital contribution	25,886	2,159	74	28,119
Share-based compensation	2,009	4,933	—	6,942
Translation adjustment	(1,597)	(10)	(1)	(1,608)
Impairment loss	(34,238)	(6,137)	—	(40,375)
Balance December 31, 2015	8,128	945	73	9,146

The Company's subsidiary in Germany experienced a net loss in 2015 that was significantly higher than the net losses it incurred in prior years and management expects this negative trend to continue for the foreseeable future. As a result of these factors, combined with the uncertainty as to whether the German subsidiary will become profitable in the future, management performed an impairment test at December 31, 2015 to determine if the Company's investment in the German subsidiary was recoverable. The result of the impairment test indicated that the full recovery of the Company's investment in the German subsidiary was uncertain and accordingly an impairment loss is reflected within the Company's profit and loss statement for the year ended December 31, 2015 totaling \$34.2 million.

The Company's US subsidiary supports the Company's operations by providing administrative services such as investor relations, accounting and financial reporting services. The US subsidiary has no current revenues and does not expect revenues to be generated in the future. For the years ended December 31, 2015 and 2014, the US subsidiary incurred net losses and expects to incur net losses for the foreseeable future. Accordingly management has determined that its investment in the US subsidiary was impaired and recognized an impairment loss for of \$6.1 million and \$4.5 million in the years ended December 31, 2015 and 2014 respectively.

Forward Pharma GmbH's registered office is Leipzig, Germany. As of December 31, 2015 and 2014, Forward Pharma GmbH had a shareholder's equity of \$8.1 million and \$391,000 respectively. The net loss of Forward Pharma GmbH for the years ended December 31, 2015 and 2014 was \$18.0 million and \$4.7 million respectively.

Forward Pharma USA LLC's registered office is New York, USA. As of December 31, 2015 and 2014, Forward Pharma USA LLC had a shareholder's equity of \$945,000 and \$56,000 respectively. The net loss of Forward Pharma USA LLC for the years ended December 31, 2015 and 2014 was \$1.4 million and \$644,000 respectively. Forward Pharma USA LLC was formed on July 25, 2014.

Forward Pharma FA ApS's registered office is Copenhagen, Denmark. As of December 31, 2015 Forward Pharma FA ApS had a shareholder's equity of \$73,000. Forward Pharma FA ApS has been inactive since its formation on December 31, 2015.

## Section 5 Other Disclosures

### 5.1 Related Party Transactions

The Company is controlled by NB FP Investment K/S and affiliates (collectively "NB"). The ultimate controlling party of the Company is Mr. Florian Schönharting who controls NB.

A Director of the Company, who was elected to the Board of Directors on July 20, 2015, was a partner in the law firm that provided Danish legal services to the Company. As of January 1, 2016 the Director became a partner in another

Danish law firm, which now provides Danish legal services to the Company. The Director serves on the Company's Board of Directors in his individual capacity and not as a representative of any of the law firms.

Beginning in 2013, the Company became part of the Tech Growth tax group. Participants in Tech Growth tax group include the Company, Tech Growth Invest ApS and subsidiaries of Tech Growth Invest ApS. The Company's participation in the Tech Growth tax group ceased on January 1, 2016. Refer to Note 2.3.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant year-end or as of year-end:

	2015	2014
	USD '000	USD '000
Danish legal services rendered while a Director .....	560	—
Amounts owed to related parties .....	271	—
Amounts owed by related parties .....	—	—

The above table excludes the related party transactions disclosed in Notes 3.4, 4.1, 4.4 and 5.2.

#### *Terms and conditions of transactions with related parties*

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are uncollateralized and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2015 and 2014, the Company has not recorded any impairment of receivables relating to amounts owed by related parties.

#### *Transactions with key management*

The Company has not granted any loans, guarantees, or other commitments to or on behalf of any of the members of the board of directors or key management personnel.

Other than the remuneration including share-based payment relating to key management personnel described in Notes 2.1 and 2.2, no other significant transactions have taken place with key management personnel during the period presented herein.

#### *Compensation paid to the members of the board of directors*

Compensation paid to members of the Company's board of directors, excluding share-based compensation, for each of the years ended December 31, 2015 and 2014 totaled \$35,000 and \$8,000 respectively. Share-based compensation paid to members of the Company's board of directors for each of the years ended December 31, 2015 and 2014 totaled \$1.8 million and \$346,000 respectively. See Note 2.2.

#### *Patent transfer agreement between Aditech Pharma AG and the Company*

In 2010, the Company entered into a patent transfer agreement with Aditech Pharma AG, a related party, which is discussed in Note 5.2.

#### *Major Shareholders*

The following shareholders are as of the date of adoption of the financial statements registered as major shareholders:

Nordic Biotech K/S, Copenhagen, Denmark  
 Nordic Biotech Opportunity Fund K/S, Copenhagen, Denmark  
 NB FP Investment K/S, Copenhagen, Denmark  
 Rosetta Capital I, LP, Wilmington, DE, USA  
 The Bank of New York Mellon, New York, NY, USA

## 5.2 Commitments and Contingent Liabilities

### *Leased office space*

Lease contracts, where the lessor retains the significant risks and rewards associated with the ownership of the asset, are classified as operating leases.

The Company leases office space from Nordic Biotech Advisors ApS, a related party, under an agreement that can be cancelled on short notice. Lease payments under the lease agreement are recognized in the statement of profit and loss over the lease term. The Company's remaining non-cancellable operating lease commitment as of December 31, 2015 was not material. Operating lease payments recognized as an expense amounted to \$83,000 and \$64,000 for each of the years ended December 31, 2015 and 2014 respectively.

### *Contingent liabilities*

Contingent liabilities are liabilities that arose from past events but whose existence will only be confirmed by the occurrence or non-occurrence of future events that in some situations are beyond the Company's control.

As of January 19, 2013, the Company became part of the Tech Growth tax group. The tax group exposes the Company to joint and several liability for the tax liabilities arising from the tax group or any entity participating in the tax group. The accompanying financial statements do not include a provision for any loss that may result from this contingency. See Note 2.3.

The Company is party to an agreement with Forward Pharma GmbH whereby the Company will compensate Forward Pharma GmbH for the research and development services performed by Forward Pharma GmbH for the benefit of the Company. The compensation payable to Forward Pharma GmbH will be based on future net sales ("Net Sales") of the Company, as defined in the agreement, that result from or are related to the research and development services provided by Forward Pharma GmbH for the benefit of the Company and will consist of a 2% royalty on the Company's Net Sales. To date there have been no Net Sales. The agreement also provides Forward Pharma GmbH with an exclusive license, limited to the German market, to make, sell, offer for sale or use any product or process that results from or are related to the research and development services provided by Forward Pharma GmbH for the benefit of the Company as defined in the agreement.

Aditech Pharma AG is considered to be a related party of the Company due to control over Aditech Pharma AG by NB. In 2004, a private Swedish company Aditech Pharma AB (together with its successor-in-interest, a Swiss company Aditech Pharma AG, "Aditech"), controlled by NB, began developing and filing patents for, among other things, formulations and dosing regimens of DMF. In 2005, the Company entered into a patent license agreement with Aditech to license this patent family from Aditech. In 2010, the Company acquired this patent family from Aditech pursuant to a patent transfer agreement which replaced the patent license agreement. Under the Company's agreement with Aditech, the Company obtained, among other things, Aditech's patents and associated know-how related to DMF formulations and delivery systems (the "Aditech IP"), subject to both diligence and minimum annual expenditure (€1 million per year) obligations on the part of the Company. Aditech has the option to receive back, for no consideration, all of the Company's DMF related assets (which include patent and other rights related to DMF, including FP187) should the Company fail to satisfy these obligations. The Company is required to pay Aditech a royalty of up to 2% of net sales generated from the Company's DMF products and processes, regardless of whether such net sales are generated by the Company or its affiliates, assignees or licensees. Included in the determination of the Company's payment to Aditech is any cash or non-cash consideration generated from the Company's DMF products and processes and received by the Company or its assignees, affiliates and licensees. Further, the Company's agreement with Aditech gives Aditech a 90-day right of first offer to acquire non-DMF related intellectual property assets that the Company might choose to sell. Our annual expenditures related to our DMF formulations and delivery systems are expensed as incurred. To date, the Company has not incurred the royalty; however, in the future if we were to realize net sales, as defined, from the Aditech IP, the royalty would be expensed in the period when the net sales are recognized in our operating results.

## 5.3 Events after the reporting period

Subsequent to December 31, 2015 there were no events that were required to be reported.