Drugrecure ApS

Slotsmarken 17 - 2.TV

2970 Hørsholm

CVR nr. 29 15 44 06

Annual Report

1. January - 31. December 2015

The Annual Accounts has been presented and approved at the generally assembly 26/5 2016

Signature

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Company Information

The Company	Drugrecure ApS Slotsmarken 17, 2nd floor DK-2970 Hørsholm Denmark
CVR/VAT	29 15 44 06
Initiatet	1 November 2005
Location	Hørsholm
Fiscal Year	1 January - 31 December
Managing Director	Kim Arvid Nielsen
Auditor	Grant Thornton Stockholmsgade 45 2100 København Ø
Bank	Danske Bank Hovedgaden 107 2630 Taastrup
Parent Company	Serendex Pharmaceuticals A/S CVR/VAT 30532228

Management Statement

The Executive Management have reviewed and approved the annual report of Drugrecure ApS for the financial year 1 January to 31 December 2015. The financial statements have been prepared in accordance with the Danish Financial Statement Act. We consider the accounting policies to be appropriate and the overall presentation in the annual report to be adequate. Therefore, in our opinion the annual report gives a true and fair view of Drugrecure's assets and liabilities and financial position as at 31 December 2015 and of the results of operations for the period 1 January to 31 December 2015. We recommend the annual report for adoption at the annual general meeting.

DRUGRECURE APS,
Hørsholm 26 May 2016

Executive Management

Kim Arvid Nielsen
(CEO)

To the Shareholders of Drugrecure ApS

Report on the annual accounts

We have audited the annual accounts of Drugrecure ApS for the financial year 2015, which comprise profit and loss account, balance sheet and notes including accounting policies used. The annual accounts are prepared in accordance with the Danish Financial Statements Act.

The management's responsibility for the annual accounts

The management is responsible for the preparation of annual accounts that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as the management determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of annual accounts 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 the management, as well as the overall presentation of the annual accounts. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The audit has not resulted in any qualification.

Opinion

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2015 and of the results of the company's operations for the financial year 2015 in accordance with the Danish Financial Statements Act.

Emphasis of Matter regarding information in the financial statements

Without qualifying our opinion, we draw the attention to the fact that the completion of all the company's planned development activities requires additional capital funding during 2016. We refer in this respect to note 1 to the consolidated financial statements which describes the planned fund raising possibilities and that the company management if needed will reduce the planned development activities.

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 annual accounts. On this basis, it is our opinion that the information provided in the management's review is consistent with the annual accounts.

Copenhagen, 26 May 2015

GRANT THORNTON

Statsautoriseret Revisionspartnerselskab

Ulrik Bloch-Sørensen

State Authorized Public Accountant

Management Review

2015 was a financially challenging year. Throughout the year, we worked to establish long term financing for Serendex A/S, parent to Drugrecure ApS. The feedback we received from potential investors and partners was overall positive, but it also became clear that we needed to be a private company without debt in order to be sufficiently attractive in the investment field.

The board decided to perform a share issue in December 2015 in order to gain short term financing, convert our debt into shares and to increase possibilities for the long term financing.

Based on the outcome of the emission the board decided to apply for delisting from the Oslo Stock Exchange. Our application was approved and last market day was 4 May 2016. By taking this important step, we firmly believe that our chances of securing sustainable funding significantly increase.

In 2015 we started a strategic approach in Japan and in May 2016, Serendex signed a license agreement with Nobelpharma Co. ltd - a Japanese company, for the treatment of PAP with Molgradex® in Japan. Financially, the agreement represents a value of 10.5 mill USD in milestones over the next 3 years as well as a substantial royalty income from future sales of Molgradex® in Japan.

Given the financial situation in 2015, we decided to put the development programme of GM-CSF for bronchiectasis (BE) and cystic fibrosis (CF) on hold. We concluded, that it would serve the company and its shareholders best to focus on the development of GM-CSF for PAP and ARDS. In this respect, 2015 was a very satisfactory year. We finalized the toxicology programme for GM-CSF, we received positive results from phase I clinical trial, we initiated our first phase IIb clinical trial for GM-CSF for ARDS and we are now ready to roll out a pivotal phase II/III clinical trial for GM-CSF for PAP in 11 countries. It is a great accomplishment and it is due to the hard work and dedication of the staff throughout the organization.

Drugrecure ApS reached a net loss of DKK -7,189 in 2015 (DKK -6,149k in 2014), the total assets reached DKK 58,177k as of 31.12.2015 (DKK 32,634 in 2014), and the Equity was DKK 8,977k by the end of 2015 (DKK 16,166 in 2014).

Looking ahead, the success of this company will be determined by two essential factors. Firstly of course, we need long term funding. A merger partner, an investor – or both. With the credit facility of 25 million DKK granted by our major shareholder we have, in combination with other financial components, sufficient funding for the rest of the year to continue our two clinical trials for GM-CSF as well as our ongoing engagement with potential strategic partners.

The continuation and success of the two trials, however, are utterly dependent on the recruitment of patients. This is the second essential factor. Recruiting patients may be challenging as the diseases are rare and one (ARDS) is seasonal. We are, however, confident that with the collaboration of investigators around the world we will reach our targets.

Financial Review – Drugrecure ApS 2015

The Annual Report 2015 includes the financial statements of Drugrecure ApS.The entire share capital of Drugrecure ApS is held by the parent company Serendex Pharmaceuticals A/S.

INCOME STATEMENT

Revenue

In 2015, Drugrecure's revenue totaled DKK 153k (DKK 786 in 2014).

Costs, net financials, tax and profit

In 2015, costs totaled DKK 9,353k (2014: DKK 7,444k).
Raw materials and consumables amounted to DKK 403k (DKK 687 in 2014). External expenses increased from DKK 6,432 in 2014 to DKK 8,826k in 2015. This increase is driven by the increased business activities. Net financials in 2015 amounted to DKK -6k (DKK -1,440k in 2014). The decrease in financial expenses is due to zero interest payments on debt to parent company for the entire year. In 2014 interest was calculated on a cash credit basis (overdraft facility) with the amount of DKK 1,440. For 2015, a tax income of DKK 2,017k (2014: DKK 1,949k) has been noted in the income statement as a consequence of the net loss of DKK 9,206k before tax and adjustment to deferred tax. In 2015, Drugrecure ApS reached a net loss after tax of DKK 7,189k compared to a net loss of DKK 6,149k in 2014.

Allocation of loss

It is proposed that this year's loss is transferred to retained earnings.

BALANCE SHEET

Development in assets

Drugrecure's total assets as of 31 December 2015 were DKK 58,177k of which the total intangible assets amounted to DKK 56,364k. Total assets have increased by DKK 25,543k compared to 31 December 2014. This is primarily due to a significant increase in development activities of DKK 33,322k offset by an impairment test based write-down of DKK 5,430, in total a net increase of DKK 27,892. The increase in the intangible assets reflects the accelerated activity level related to the drug development of GM-CSF for multiple treatment areas as well as preparation for phase I on GM-CSF. In general, only external development costs directly attributable to the Company's development of new products are capitalized as intangible assets. I.e., only external clinical activities from which the Company expects a future economic benefit, have been classified as investments. All other development costs are recognized as costs in the profit and loss accounts.

Development in Equity and liabilities

As of 31 December, the liabilities amounted to DKK 49,200k and total equity was DKK 8,977k. The majority of liabilities is based on intercompany loans from parent company of DKK 46,793 (2014: DKK 16.113). The significant increase in loans reflects the above mentioned increase in development activities.

Significant events occurred after the end of the financial year

The Rights issue related to the Parent Company initiated in 2015 was fully subscribed when the Subscription Period ended 4 January 2016.

The Parent Company has in 2016 secured an undrawn committed credit facility provided by the major shareholder that supports a satisfactory cash situation for Serendex for 2016.

Oslo Stock Exchange has in 2016 approved the delisting of Serendex A/S from Oslo Axess. This means that Serendex A/S as of 4 May 2016 no longer is a listed company.

No other significant events have occurred subsequent to the balance sheet date that are considered to have a material influence in the evaluation of the 2015 report.

Income Statement for the period 1 January 2015 - 31 December 2015 (DKK thousand)

	Notes	2015 DKK	2014 DKK
Net revenue		153	786
Other operating income		0	0
Cost of goods sold		-125	-325
Gross profit		28	461
Staff expenses		0	0
Raw materials and consumables used		-403	-687
External expenses		-8.826	-6.432
Operating profit/loss (-)		-9.200	-6.658
Net financials	3	-6	-1.440
Profit/loss (-) before tax		-9.206	-8.098
Tax expenses	4	2.017	1.949
Net profit/loss (-)		**-7.189**	**-6.149**

Balance Sheet at 31 December 2015 (DKK thousand)

Assets

	Notes	2015 DKK	2014 DKK
Non-current assets			
Intangible assets			
Development projects	5	56.364	28.472
Total non-current assets		56.364	28.472
Current assets			
Inventories		1.244	1.249
Receivables			
Trade receivables		0	619
Tax receivables	6	531	1.958
Other receivables		38	207
Total receivables		569	2.784
Cash and cash equivalents		0	129
Total current assets		1.812	4.162
Total assets		**58.177**	**32.634**

Balance Sheet at 31 December 2015 (DKK thousand)

Equity and liabilities

	Notes	2015 DKK	2014 DKK
Equity			
Share capital		162	162
Retained earnings		8.815	16.004
Total equity		8.977	16.166
Current liabilities			
Trade payables		2.408	355
Intercompany balance (loan)		46.793	16.113
Total current liabilities		49.200	16.468
Total liabilities		49.200	16.468
Total equity and liabilities		**58.177**	**32.634**

Changes in equity (DKK thousand)

DKK	Share capital	Retained earnings	Total
Balance at 1 January 2014	**162**	**2.153**	**2.315**
Profit/loss (-)	0	-6.149	-6.149
Investment from parent	0	20.000	20.000
Balance at 31 December 2014	**162**	**16.004**	**16.166**
Balance at 1 January 2015	**162**	**16.004**	**16.166**
Profit/loss (-)	0	-7.189	-7.189
Balance at 31 December 2015	**162**	**8.815**	**8.977**

Notes

1 Capital ressources

Drugrecure intends to license its products to pharmaceutical companies and thereby derive income from a combination of fixed payments and ongoing royalty income. Until Drugrecure has established such a license agreement, Drugrecure will be a capital-consuming company due to investments in drug development and in further strengthening of the pipeline. Therefore, it is vital that the company always has sufficient financial resources.

Drugrecure has a satisfactory cash situation for 2016 to finalize the pre-clinical development program for GM-CSF and initiate the phase II/III on PAP (pulmonary alveolar proteinosis). Hence, the annual report for 2015 has been prepared for on-going business. In order to pursue the development strategy as outlaid in the Management Report, Drugrecure is dependent on acquiring additional capital in 2016.

In case the capital increase does not develop as planned, Drugrecure will seek alternative financing opportunities, e.g. through early-stage partnerships. Additionally, Drugrecure can decrease the development costs appropriately and secure sufficient capital resources to complete the full operation for 2016.
As of 1 May 2016, parent company Serendex has established an undrawn committed credit facility in the amount of DKK 25 million provided by Sorana A/S, which provides Serendex Pharmaceuticals A/S, Drugrecure ApS and Pharmaorigin ApS with a satisfactory cash position for 2016.

2 Accounting Policies

Accounting policies applied in the preparation of the financial statements are set out below. The accounting policies are unchanged compared to 2014.

Basis of preparation

The Annual Report has been prepared in accordance with the Danish Financial Statements Act for Class B companies.
The annual report for 2015 has been prepared for on-going business.
The financial statements are presented in DKK, reflecting the company's functional currency.

Recognition and measurement in general

The net revenue is recognized in the profit and loss account if delivery and risk transfer to the buyer have taken place before the end of the year, and if the income can be determined reliably and is expected to be received. The net revenue is recognized exclusive of VAT and taxes and with the deduction of any discounts granted in connection with the sale.
Recognition of value adjustments of assets and liabilities are recognized in the profit and loss account upon financial assessment.
All costs – including depreciation, amortization, write-down, provisions, and reversals, which are due to changes in estimated amounts previously recognized in the profit and loss account – are recognized in the profit and loss account.
Assets are recognized in the balance sheet when the company is liable to achieve future, financial benefits and the value of the asset can be measured reliably.
Liabilities are recognized in the balance sheet when the company is liable to lose future, financial benefits and the value of the liability can be measured reliably.

Translation of Foreign Currency

Operational transactions in foreign currency are translated by using the exchange rate at cost basis upon bank transaction. Differences in the rate of exchange arising between the rate at the date of transaction and the rate at the date of payment are recognized in the profit and loss account as an item under net financials.
Debtors, creditors, and other monetary items in foreign currency – not settled at the date of the balance sheet – are translated by using the period closing rate held by The Danish Central Bank. The difference between the closing rate and the rate at the time of establishment of the receivable or the payable is recognized in the profit and loss account under financial income and financial costs.
Fixed assets and other non-monetary assets acquired in foreign currency and which are not considered to be investment assets purchased in foreign currencies are measured at the exchange rate on the transaction date.

2 Accounting Policies - continued

INCOME STATEMENT

Net revenue

Revenue represents amounts receivable for products or services delivered in the normal course of business of the company. Revenue is reduced for estimated customer returns and other similar allowances whenever applicable based on historical data and expectations of future sales. Revenue is recognized upon invoiced sale and when risks and rewards of ownership is transferred to the customer. The risks and rewards of ownership are generally transferred at the time the product is shipped and delivered to the customer. Revenue is recognized in the profit and loss account when management has established that all aforementioned conditions for revenue recognition have been met.

Other operating income and costs comprise accounting items of secondary nature in proportion to the principal activities of the enterprise.

Up-front payments that are attributable to subsequent research and development activities are recognized as deferred revenue and will subsequently be recognized as revenue over the expected contract period. Non-refundable up-front payments and milestone payments that are not attributable to subsequent research and/or development activities or other delivery obligations are recognized as revenue when the contracts are signed or when the milestone criteria are met respectively.

Costs of goods sold

The cost of goods sold comprises costs paid for manufacturing in order to generate net revenue for the year including depreciation, amortization and write-downs of inventory.

Raw materials and consumables used

Raw materials and consumables used comprise handling charges, distributions costs and costs paid for manufacturing samples and references.

External expenses

External expenses compromise all external costs including development costs, which are not directly attributable to the Company's development of new products (capitalized costs). External expenses includes depreciation and write-downs.

The classification of costs (income statement vs. equity), associated with the initial public offering (IPO) is in accordance with IAS32. I.e. costs directly attributable to issuing new shares are deducted from equity and costs related to the stock market listing, or otherwise not incremental and directly attributable to issuing new shares, are recognized as an external expense in the income statement.

Net financials

Net financials include interest income, interest expenses on loans, and realized and unrealized exchange rate gains and losses. Net financials are recognized in the profit and loss account with the amounts concerning the financial year.

Tax

The tax for the year comprises the current tax for the year and the changes in deferred tax, and it is recognised in the profit and loss account with the share referring to the results for the year and directly in the equity with the share referring to entries directly on the equity.

2 Accounting Policies - continued

BALANCE SHEET ITEMS

Intangible assets

Intangible fixed assets comprise development projects, patents, and licenses. Development costs comprise costs directly and indirectly attributable to development of new products from which the Company expects a future economic benefit.

All other development costs are recognized as costs in the profit and loss accounts.

Capitalized development costs are measured at cost with deduction of accrued amortizations or at the recoverable value, if this is lower.
The carrying amounts of intangible assets carried at cost or amortized cost are tested annually to determine whether there are indications of any impairment in excess of that expressed in normal amortization. If that is the case, the asset is written down to the recoverable amount, which is the higher value of the net sales price and the capitalized value. Impairment losses on intangible assets are recognized under the same line item as amortization of the assets.
For development projects in progress, the recoverable amount is assessed annually, regardless of whether any indications of impairment have been found.
After completion of the development work, capitalized development costs are amortized on a straight line basis over the estimated financial useful life.

Profit and loss from the realization of development projects, patents, and licenses are measured as the difference between the sales price with deduction of sales costs and the book value at the time of the sale.

Writedown of assets

The book values of intangible as well as tangible fixed assets are subject to annual write-down assessment in order to disclose any indications of impairment beyond those expressed by amortization and depreciation respectively.
If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets respectively. Write-down takes place to the recoverable amount, if this value is lower than the book value.
The recoverable value is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net income deriving from the use of the asset or the group of assets. Any loss based on the write-down test is recognized in the profit and loss account under depreciation.

Inventories

Inventories are measured at cost on basis of measured average prices. In case the net realizable value is lower than the cost, write-down takes place at this lower value.
The inventory includes:

- Acquisition of pharmaceutical ingredients, including the cost for raw materials and the initial processing
- The cost for manufactured goods and works in progress

The net realizable value for inventories is recognized as the market price with the deduction of completion costs and selling costs, and it is determined by taking negotiability, obsolescence, and the development of the expected market price into consideration. All logistic costs related to the inventories are recognized in the profit and loss account.

Deferred tax

Long-term deferred tax (+12 months) and current tax (less than 12 months) are recognized in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on previous years, taxable income and prepaid taxes. Tax receivable and tax liabilities are set off to the extent that legal right of set-off exists and if the items are expected to be settled net or simultaneously.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus.
Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as current tax. In the period 2014 to 2016, the corporate tax rate will be reduced gradually from 25% to 22%, which will affect the deferred tax liabilities and deferred tax assets. Unless a recognition with a different tax rate than 22% will result in a significant material deviation in the estimated deferred tax liability or tax asset, deferred tax liabilities and assets are recognized by 22%.

Trade receivables

Trade receivables are recognized at amortized cost less potential losses on doubtful debts. Write-downs are based on individual assessments of each debtor.

Other receivables

Accrued expenses recognized under assets comprise incurred costs concerning the next financial year.

Cash and cash equivalents

Cash and cash equivalents includes cash in Danske Bank.

Non-current liabilities

Non-current liabilities comprise long term loans to management and corresponds to the outstanding debt of the loan.

Current liabilities

Current liabilities are measured at amortized costs, which usually corresponds to the nominal value.

Notes (DKK thousand)

3	Financial expenses (net)	2015	2014
	Interest expenses to parent company	0	-1.440
		0	**-1.440**

4	Tax expenses	2015	2014
	Long Term Deferred Tax not recognized in balance sheet	-422	0
	Change in deferred tax	2.439	-1.949
	Total tax expense 2015	**2.017**	**-1.949**

5	Development projects	2015	2014
	Costs at the beginning of the year	29.241	12.600
	Disposals	0	0
	Acquisitions	33.322	16.641
	Costs end of period	62.563	29.241
	Depreciation and writedown at the beginning of the year	769	769
	Depreciation and writedown in period	5.430	0
	Depreciation and writedown end of period	6.199	769
	Book value end of period	**56.364**	**28.472**

6	Tax receivables and Deferred tax	2015	2014
	Deferred tax at the begining of the year.................................	1.958	890
	Tax Reimbursed	-3.444	-881
	Deferred tax net change	2.439	1.949
	Deferred tax asset end of period	**953**	**1.958**
	The deferred tax assets concerns:		
	Intangible assets	-12.370	-6.234
	Loss carried forward	13.323	8.192
		953	**1.958**
	The deferred tax assets is distributed as follows:		
	Deferred Tax end of period	953	1.958
	Long Term Deferred Tax not recognized in balance sheet	-422	0
	Tax Receivable	**531**	**1.958**

Notes (DKK thousand)

7 Significant events occurring after the balance sheet date

The Rights Issue related to the Parent Company initiated in 2015 was fully subscribed when the Subscription Period ended 4 January 2016.

The Parent Company has in 2016 secured an undrawn committed credit facility provided by the major shareholder that supports a satisfactory cash situation for Serendex for 2016.

Oslo Stock Exchange has in 2016 approved the delisting of Serendex A/S from Oslo Axess. This means that Serendex A/S as of 4 May 2016 no longer is a listed company.

No other significant events have occurred subsequent to the balance sheet date that are considered to have a material influence in the evaluation of the 2015 report.

8 Pledged assets and securities

As of 31. December 2015 Drugrecure has no obligations.

9 Consolidated Group Tax

The company is part of the group of companies subject to the Danish scheme of joint taxation and, as from the financial year 2014, unlimited jointly and severally liable with the other jointly taxed companies for the total corporation tax.

As from 1 July 2012, the company is unlimited jointly and severally liable with the other jointly taxed companies for any obligation to withhold tax on interest, royalties and dividends.

The liability relating to obligations in connection with corporation tax represents an estimated maximum of DKK 0 thousand. The liability relating to obligations in connection with withholding taxes represents an estimated maximum of DKK 0 thousand.

Any subsequent adjustments of corporate taxes or withheld taxes etc. may cause changes in the company's liabilities.