Alkalon A/S

Farverland 6, st., 2600 Glostrup

Company reg. no. 30 27 38 26

Annual report

1 January - 31 December 2019

The annual report was submitted and approved by the general meeting on the 27 August 2020.

Søren Fæster
Chairman of the meeting

Notes:
- To ensure the greatest possible applicability of this document, IAS/IFRS British English terminology has been used.
- Please note that decimal points have not been used in the usual English way. This means that for instance DKK 146.940 means the amount of DKK 146,940, and that 23,5 % means 23.5 %.

Contents

Management's report

The board of directors and the managing director have today presented the annual report of Alkalon A/S for the financial year 1 January to 31 December 2019.

The annual report has been presented in accordance with the Danish Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position at 31 December 2019 and of the company's results of its activities in the financial year 1 January to 31 December 2019.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

We recommend that the annual report be approved by the general meeting.

Glostrup, 13 August 2020

Managing Director

Rolf Eckersberg

Board of directors

Søren Fæster Chairman of the Board	Thor Nels Andersen	Rasmus Forup Helmich
Peter Sølbeck	Rolf Eckersberg	

Independent auditor's report

To the shareholders of Alkalon A/S

Opinion

We have audited the annual accounts of Alkalon A/S for the financial year 1 January to 31 December 2019, which comprise accounting policies, profit and loss account, balance sheet and notes. The annual accounts are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2019 and of the results of the company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the below section “Auditor’s responsibilities for the audit of the annual accounts”. We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainties concerning the enterprise's ability to continue as a going concern

Without affecting our conclusion, we refer to note 1 in the annual accounts that the company's management is aware that the company's liquidity is tight and is dependent on the budget expectations for the rest of 2020 being met and the credit facility from the company's bank are maintained.

The management's responsibilities 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. The management is also responsible 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.

In preparing the annual accounts, the management is responsible for evaluating the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the annual accounts, unless the management either intends to liquidate the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

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

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's preparation of the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the annual accounts, including the disclosures in the notes, and whether the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.

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

Independent auditor's report

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

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

Based on the work we have performed, we believe that the management's review is in accordance with the annual accounts and that it has been prepared in accordance with the requirements of the Danish Financial Statement Acts. We did not find any material misstatement in the management's review.

Copenhagen, 13 August 2020

BUUS JENSEN
State Authorised Public Accountants
Company reg. no. 16 11 90 40

Ulrik Nørskov
State Authorised Public Accountant
mne29456

Benjamin Møller Obel
State Authorised Public Accountant
mne44149

Company information

The company	Alkalon A/S Farverland 6, st. 2600 Glostrup	
	Company reg. no.	30 27 38 26
	Domicile:	Glostrup
	Financial year:	1 January - 31 December
Board of directors	Søren Fæster, Chairman of the Board Thor Nels Andersen Rasmus Forup Helmich Peter Sølbeck Rolf Eckersberg	
Managing Director	Rolf Eckersberg	
Auditors	BUUS JENSEN, Statsautoriserede revisorer	

The principal activities of the company

Alkalon's activities are to develop, register and commercialize new generic NRT products to the pharmaceutical industry and retailers around the world.

Uncertainties as to recognition or measurement

The deferred tax asset has been measured based on the management's expectations to the company’s short time future earnings. Based on the expectations, the management is of the opinion that the measurement is reasonable and justifiable.

Development in activities and financial matters

The gross profit for the year is DKK 778.264 against DKK 6.213.263 last year. The results from ordinary activities after tax are DKK -5.558.410 against 74.697 DKK last year. The management consider the results unsatisfactory.

The financial year 2019 has been negatively impacted with several non recurring incidents. An improvement in the result for the financial year 2020 is expected on the basis of updated operating and liquidity budget for 2020.

As a result, the company's management has shown timely caution so that the company's shareholders in the financial year 2019 have converted loan capital of DKK 4.339.694 to share capital. Furthermore the shareholders have in 2020 provided additional loan capital to the company of DKK 3.000.000 to support the companys liquidity requirements according to the updated operating and liquidity budget for 2020.

Based on the company's operating and liquidity budget for 2020, the company's bank connection has temporarily expanded the company's credit facilities.

On this basis, the management expects that the company is able to maintain sufficient liquidity resources to carry out the operating activities planned for the coming financial year, but at the same time, it acknowledges the necessity of the earnings expectations being realized.

Events subsequent to the financial year

At present, COVID-19 is expected to have only a limited impact on the company's expected revenue and profit for the coming year.

Income statement 1 January - 31 December

All amounts in DKK.

Note		2019	2018
	Gross profit	**778.264**	**6.213.263**
3	Staff costs	-3.914.850	-3.886.798
	Depreciation, amortisation and writedown relating to tangible and intangible fixed assets	-1.229.322	-416.819
	Operating profit	**-4.365.908**	**1.909.646**
	Other financial income	83.611	59.718
4	Other financial costs	-1.276.113	-1.894.667
	Results before tax	**-5.558.410**	**74.697**
	Tax on ordinary results	0	0
	Net profit or loss for the year	**-5.558.410**	**74.697**
	Proposed appropriation of net profit:		
	Allocated to results brought forward	0	74.697
	Allocated from results brought forward	-5.558.410	0
	Total allocations and transfers	**-5.558.410**	**74.697**

Statement of financial position 31 December

All amounts in DKK.

Note	Assets	2019	2018
	Non-current assets		
5	Completed development projects, including patents and similar rights arising from development projects	4.038.102	0
6	Goodwill	471.088	728.044
7	Development projects in progress and prepayments for intangible fixed assets	0	3.882.090
	Total intangible assets	4.509.190	4.610.134
8	Other plants, operating assets, and fixtures and furniture	244.189	348.960
	Total property, plant, and equipment	244.189	348.960
9	Other debtors	1.571.757	1.571.757
	Total investments	1.571.757	1.571.757
	Total non-current assets	**6.325.136**	**6.530.851**
	Current assets		
	Raw materials and consumables	1.344.622	3.119.237
	Work in progress	2.164.788	0
	Manufactured goods and trade goods	4.009.200	4.432.286
	Total inventories	7.518.610	7.551.523
	Trade debtors	6.157.697	5.237.817
	Deferred tax assets	1.672.000	1.672.000
	Prepayments and accrued income	69.264	30.103
	Total receivables	7.898.961	6.939.920
	Available funds	158.038	628.467
	Total current assets	**15.575.609**	**15.119.910**
	Total assets	**21.900.745**	**21.650.761**

Statement of financial position 31 December

All amounts in DKK.

Note	**Equity and liabilities**	2019	2018
	Equity		
10	Contributed capital	2.773.598	1.699.417
11	Reserve for development expenditure	4.038.102	3.882.090
12	Retained earnings	-3.169.829	-720.920
	Total equity	**3.641.871**	**4.860.587**
	Liabilities other than provisions		
	Bank debts	6.853.977	4.804.645
	Trade payables	9.274.388	7.426.340
	Other payables	2.130.509	4.559.189
	Total short term liabilities other than provisions	18.258.874	16.790.174
	Total liabilities other than provisions	**18.258.874**	**16.790.174**
	Total equity and liabilities	**21.900.745**	**21.650.761**

1 Uncertainties concerning the enterprise's ability to continue as a going concern

2 Uncertainties concerning recognition and measurement

13 Charges and security

14 Contingencies

Notes

All amounts in DKK.

	2019	2018

1. Uncertainties concerning the enterprise's ability to continue as a going concern

The financial year 2019 has been negatively impacted with several non recurring incidents. An improvement in the result for the financial year 2020 is expected on the basis of updated operating and liquidity budget for 2020.

As a result, the company's management has shown timely caution so that the company's shareholders in the financial year 2019 have converted loan capital of DKK 4.339.694 to share capital. Furthermore the shareholders have in 2020 provided additional loan capital to the company of DKK 3.000.000 to support the companys liquidity requirements according to the updated operating and liquidity budget for 2020.

Based on the company's operating and liquidity budget for 2020, the company's bank connection has temporarily expanded the company's credit facilities.

On this basis, the management expects that the company is able to maintain sufficient liquidity resources to carry out the operating activities planned for the coming financial year, but at the same time, it acknowledges the necessity of the earnings expectations being realized.

2. Uncertainties concerning recognition and measurement

A deferred tax asset of DKK 1,672,000 has been incorporated into the annual accounts which, in all material respects, concerns unutilized tax losses. The deferred tax asset has been measured based on then management's expectations to the company's short time future earnings. Based on the above, the management is of the opinion that the measurement is reasonable and justifiable. The company has a total deferred tax asset of a value of DKK 9.956.000 of which DKK 1.672.000 have been recognized in the balance.

3. Staff costs

	2019	2018
Salaries and wages	3.559.751	3.531.604
Pension costs	323.525	323.548
Other costs for social security	31.574	31.646
	3.914.850	**3.886.798**
Average number of employees	5	5

All amounts in DKK.

		2019	2018
4.	**Other financial costs**		
	Other financial costs	1.276.113	1.894.667
		1.276.113	**1.894.667**
5.	**Completed development projects, including patents and similar rights arising from development projects**		
	Transfers	4.861.839	0
	Cost 31 December 2019	**4.861.839**	**0**
	Amortisation and writedown for the year	-823.737	0
	Amortisation and writedown 31 December 2019	**-823.737**	**0**
	Carrying amount, 31 December 2019	**4.038.102**	**0**

		31/12 2019	31/12 2018
6.	**Goodwill**		
	Cost 1 January 2019	3.158.408	3.158.408
	Cost 31 December 2019	**3.158.408**	**3.158.408**
	Amortisation and writedown 1 January 2019	-2.430.364	-2.173.408
	Amortisation and writedown for the year	-256.956	-256.956
	Amortisation and writedown 31 December 2019	**-2.687.320**	**-2.430.364**
	Book value 31 December 2019	**471.088**	**728.044**

All amounts in DKK.

		31/12 2019	31/12 2018
7.	**Development projects in progress and prepayments for intangible fixed assets**		
	Cost 1 January 2019	3.882.090	3.086.472
	Additions during the year	979.749	795.618
	Transfers	-4.861.839	0
	Cost 31 December 2019	**0**	**3.882.090**
	Amortisation and writedown 1 January 2019	0	0
	Book value 31 December 2019	**0**	**3.882.090**
8.	**Other plants, operating assets, and fixtures and furniture**		
	Cost 1 January 2019	1.459.938	1.315.253
	Additions during the year	43.859	144.685
	Cost 31 December 2019	**1.503.797**	**1.459.938**
	Depreciation and writedown 1 January 2019	-1.110.978	-951.115
	Depreciation and writedown for the year	-148.630	-159.863
	Depreciation and writedown 31 December 2019	**-1.259.608**	**-1.110.978**
	Book value 31 December 2019	**244.189**	**348.960**
9.	**Other debtors**		
	Cost 1 January 2019	1.571.757	1.488.557
	Additions during the year	0	83.200
	Cost 31 December 2019	**1.571.757**	**1.571.757**
	Book value 31 December 2019	**1.571.757**	**1.571.757**
10.	**Contributed capital**		
	Contributed capital 1 January 2019	1.699.417	6.633.650
	Cash capital increase	1.074.181	750.000
	Capital reduction to coverage of deficiency	0	-5.684.233
		2.773.598	**1.699.417**

Notes

All amounts in DKK.

		31/12 2019	31/12 2018
11.	**Reserve for development expenditure**		
	Reserve for development expenditure 1 January 2019	3.882.090	3.086.472
	Transferred from results brought forward	156.012	795.618
		4.038.102	**3.882.090**
12.	**Retained earnings**		
	Retained earnings 1 January 2019	-720.920	-5.684.232
	Profit or loss for the year brought forward	-5.558.410	74.697
	Transfer to development expenditure	-156.012	-795.618
	Transaction to coverage of deficiency	0	5.684.233
	Transaction debt conversion	3.265.513	0
		-3.169.829	**-720.920**

Notes

All amounts in DKK.

13. Charges and security

For bank debts, DKK 6,853,977, the company has provided security in company assets representing a nominal value of DKK 9,500,000.

14. Contingencies

Contingent liabilities

	DKK in thousands
Contingent liabilities in total	683

Accounting policies

The annual report for Alkalon A/S has been presented in accordance with the Danish Financial Statements Act regulations concerning reporting class B enterprises. Furthermore, the company has decided to comply with certain rules applying to reporting class C enterprises.

The accounting policies are unchanged from last year, and the annual report is presented in DKK.

Recognition and measurement in general

Income is recognised in the profit and loss account concurrently with its realisation, including the recognition of value adjustments of financial assets and liabilities. Likewise, all costs, these including depreciation, amortisation, writedown, provisions, and reversals which are due to changes in estimated amounts previously recognised in the profit and loss account are recognised in the profit and loss account.

Assets are recognised 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 recognised in the balance sheet when the company is liable to lose future, financial benefits and the value of the liability can be measured reliably.

At the first recognition, assets and liabilities are measured at cost. Later, assets and liabilities are measured as described below for each individual accounting item.

Certain fixed asset investments and liabilities are measured at amortised cost, by which method a fixed, effective interest is recognised during the useful life of the asset or the liability. Amortised cost is recognised as the original cost with deduction of any payments and additions/deductions of the accrued amortisation of the difference between cost and nominal amount. In this way capital losses and capital profits are spread over the useful life.

At recognition and measurement, such predictable losses and risks are taken into consideration, which may appear before the annual report is presented, and which concerns matters existing on the balance sheet date.

Translation of foreign currency

Transactions in foreign currency are translated by using the exchange rate prevailing at the date of the 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 recognised in the profit and loss account as an item under net financials.

Debtors, creditors, and other monetary items in foreign currency are translated by using the closing rate. The difference between the closing rate and the rate at the time of the occurrence or the recognition in the latest annual accounts of the amount owed or the liability is recognised in the profit and loss account under financial income and expenses.

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.

Income statement

Gross profit

Gross profit comprises the revenue, changes in inventories of finished goods, and work in progress, work performed for own account and capitalised, other operating income, and external costs.

Revenue is recognised in the income statement if delivery and passing of risk to the buyer have taken place before the end of the year and if the income can be determined reliably and inflow is anticipated. Recognition of revenue is exclusive of VAT and taxes and less any discounts relating directly to sales.

Costs of sales includes costs for the purchase of raw materials and consumables less discounts and changes in inventories.

Other external costs comprise costs for distribution, sales, advertisement, administration, premises, loss on debtors, and operational leasing costs.

Staff costs

Staff costs include salaries and wages including holiday allowances, pensions and other costs for social security etc. for staff members. Staff costs are less public reimbursements.

Depreciation, amortisation and writedown

Depreciation, amortisation and writedown comprise depreciation on, amortisation of and writedown relating to intangible and tangible fixed assets respectively.

Net financials

Net financials comprise interest, realised and unrealised capital gains and losses concerning financial assets and liabilities, amortisation of financial assets and liabilities, additions and reimbursements under the Danish tax prepayment scheme, etc. Financial income and expenses are recognised in the profit and loss account with the amounts that concerns the financial year.

Tax of the results for the year

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.

The balance sheet

Intangible fixed assets

Development projects, patents, and licences

Development costs comprise e.g. salaries, wages, and amortisation which directly refer to the development activities.

Clearly defined and identifiable development projects are recognised as intangible fixed assets provided that the technical feasibility, sufficient resources, and a potential market or a development opportunity can be demonstrated, and provided that it is the intention to produce, market or utilise the project. It is, however, a condition that the cost can be calculated reliably and that a sufficiently high degree of certainty indicates that future earnings will cover the costs for production, sales, and administration. Other development costs are recognised in the profit and loss account concurrently with their realisation.

Development costs recognised in the balance sheet are measured at cost with deduction of accrued depreciation and writedown.

After completion of the development work, capitalised development costs are amortised on a straight line basis over the estimated financial useful life. Usually, the amortisation period is 5 years.

Gain and loss from the sale 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. Gain or loss are recognised in the profit and loss account as other operating income or other operating expenses respectively.

Goodwill

Goodwill is amortised over its estimated useful life, which is determined on the basis of the management's experience with the individual business areas. Goodwill is amortised on a straight-line basis over the amortisation period, which is 5 years. The amortisation period is determined on the basis of an expected payback period, being the longer for strategical acquirees with a strong market position and an expected long-term earnings profile.

Tangible fixed assets

Tangible fixed assets are measured at cost with deduction of accrued depreciation and writedown.

The basis of depreciation is cost with deduction of any expected residual value after the end of the useful life of the asset. The amortisation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the book value, the amortisation discontinues.

The cost comprises the acquisition cost and costs directly attached to the acquisition until the time when the asset is ready for use.

Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life:

	Useful life
Other plants, operating assets, fixtures and furniture	*3-5 years*

Minor assets with an expected useful life of less than 1 year are recognised as costs in the profit and loss account in the year of acquisition.

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or losses are recognised in the profit and loss account as other operating income or other operating expenses.

Inventories

Inventories are measured at cost on basis of the FIFO method. In case the net realisable value of the inventories is lower than the cost, writedown takes place to this lower value.

The cost for trade goods, raw materials, and consumables comprises the acquisition cost with the addition of the delivery costs.

The net realisable value for inventories is recognised as the market price with deduction of completion costs and selling costs. The net realisable value is determined taking into consideration the negotiability, obsolescence, and development of the expected market price.

Receivables

Receivables are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, they are written down for impairment to the net realisable value.

Accrued income and deferred expenses

Accrued income and deferred expenses recognised under assets comprise incurred costs concerning the next financial year.

Available funds

Available funds comprise cash at bank and in hand.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs less related deferred tax liabilities. The reserve cannot be used as dividends or for covering losses. The reserve is reduced or dissolved if the recognised development costs are amortised or abandoned. This is done by direct transfer to the distributable reserves of the equity.

Corporate tax and deferred tax

Current tax receivable and tax liabilities are recognised 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.

Liabilities

Financial liabilities related to borrowings are recognised at the received proceeds with the deduction of transaction costs incurred. In following periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value by use of the effective interest. The difference between the proceeds and the nominal value is recognised in the profit and loss account during the term of the loan.

Other liabilities are measured at amortised cost which usually corresponds to the nominal value.