Evaxion Biotech A/S

Annual Report 2019

As adopted on the Extraordinary General Meeting on November 4, 2020

Contents

Entity details

Entity
Evaxion Biotech A/S
Bredgade 34 E
1260 København K

Central Business Registration No (CVR): 31762863
Registered in: Copenhagen
Financial year: January 1 - December 31

Board of Directors
Kim Bjørnstrup
Helen Marie Boudreau
Jo Ann Suzich
Steven J. Projan
Roberto Prego Pineda

Executive Board
Lars Aage Staal Wegner
Niels Iversen Møller
Andreas Holm Mattsson

Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Alle 36
Postboks 250
2000 Frederiksberg

EY Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Management's Statement

The Board of Directors and Executive Board have today considered and adopted the Annual Report of Evaxion Biotech A/S for the financial year January 1 – December 31, 2019.

The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements under the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position at December 31, 2019 of the Company and of the results of the Company's operations and cash flows for 2019.

Further, in our opinion, the Management's review gives a fair assessment of the development in the Company's activities and financial matters, results for the year, cash flows and financial position as well as a description of material risks and uncertainties that the Company face.

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

Copenhagen, October 21, 2020

Executive Board

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Lars Staal Wegner
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Lars Aage Staal Wegner
CEO

DocuSigned by:
Niels Iversen Møller
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Niels Iversen Møller

DocuSigned by:
Andreas Holm Mattsson
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Andreas Holm Mattsson

Board of Directors

DocuSigned by:
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Kim Bjørnstrup
Chairman

DocuSigned by:
Helen Boudreau
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Helen Marie Boudreau

DocuSigned by:
JoAnn Suzich
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Jo Ann Suzich

DocuSigned by:
Roberto Prego Pineda
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DocuSigned by:
Steven J. Projan
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Steven J. Projan

Independent Auditor's Report

To the Shareholders of Evaxion Biotech A/S

Opinion

We have audited the financial statements of Evaxion Biotech A/S for the financial year 1 January 2019 – 31 December 2019, which comprise statement of profit or loss, Statement of other comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2019 in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Copenhagen, October 21, 2020

EY
Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Christian Schwenn Johansen State Authorised Public Accountant Mne33234	Rasmus Bloch Jespersen State Authorised Public Accountant Mne35503

Management's Review

Primary activities

The activities of Evaxion Biotech consist of the development of human immune system detection platforms utilizing artificial intelligence algorithms for the identification of novel vaccine antigens against infectious diseases and personalized cancer treatments.

Development in activities and finances

Evaxion Biotech develops novel infectious disease vaccines and personalized immuno-oncology therapies for the global market. In recent years, the Company has built and maintained Danish and foreign strategic partnerships. The aim has been to establish a pathway to accelerated therapy development while creating therapeutic synergies with various vaccine technologies.

Evaxion Biotech has invested substantial expertise and resources in the development of human immune system detection platforms, allowing the Company to identify novel vaccine candidates for infectious diseases and personalized patient therapy for cancer. The Company aspires to utilize its expertise to create a broad human immune system detection platform allowing it to expand into other human disorders and diseases including viruses, auto-immune disorders, allergies, parasites and microbiome dysbiosis. The Company has also invested substantially in the creation of novel patents in various jurisdictions, intellectual property, know-how and trade secrets as methods of protecting its novel capabilities in working toward cures in high patient need areas.

Evaxion Biotech delivered net losses of USD 11,195 thousand due to significant investments in our leading AI platforms, pre-clinical work and the start of a human clinical trial on the leading therapy candidate, which Management believes to be a sound and necessary investment in patient therapy. Management has described the assessment supporting preparing these financial statements based on the going concern assumption. The Company's ability to continue as a going concern is dependent on its ability to raise financing to enable it to complete its product development and clinical trials. Management has determined that there is not substantial doubt about the Company's ability to continue as a going concern for one year from the latest balance sheet date.

Uncertainty relating to recognition and measurement

Evaxion Biotech's Management has assessed that there are key accounting estimates related to determing fair value of the convertible debt instruments, which were converted in 2019, and share-based compensation as described in note 1.2 to the financial statements.

Subsequent events

No events that could significantly affect the financial statements have occurred after the reporting period closing date.

The Company set up an Australian subsidiary in April 2020 for the express purpose of executing clinical trials in the region, where there is access to patients that we intend to recruit for our next immune-oncology program.

In June 2020 the Company signed a contract with a supplier which includes payment of milestones that grants the Company access to the suppliers IP in the case of the supplier experiencing financial difficulties. Therefore the Company has concluded that the contracts includes payment for intangible assets.

In August 2020 the Company entered a financing contract with the European Investment Bank of up to EUR 20 million divided into 3 tranches. The first tranche of EUR 7 million is expected to be drawn in October, 2020.

In September 2020 the Company did a bridging round and raised equity for USD 6.6 million which was paid to the Company in September 2020.

In September 2020 the Company signed a lease contract for its new premises in Hørsholm in the greater Copenhagen area. The contract is non-cancellable for 10 years and an additional one year cancellation notice.

In September 2020 the Company terminated its agreement with SDU without no additional payment.

Update regarding COVID-19

Evaxion continues to monitor the COVID-19 pandemic and take precautions to keep our employees, patients and business and clinical partners safe. The Company maintains compliance with government and health authorities.

Additionally, we have adapted the way in which we work to ensure we are doing our part in reducing transmission of COVID-19.

The Company has worked closely with laboratories and investigators to ensure safe continuation and working requirements of our ongoing research activities and human clinical trials. The Company has not experienced a materially negative impact from COVID-19.

While business travel has been suspended, we have remained active and effective in the process of raising capital with institutional investors by conducting key meetings on a virtual basis.

Financial statements

Financial Statements

Notes to the financial statements

Financial statements January 1 - December 31

Statement of profit or loss

Note	USD'000	2019	Restated 2018
	Revenue	-	-
2.1/2.3	Research and development expenses	(8.216)	(3.729)
2.2/2.3	General and administrative expenses	(2.647)	(1.898)
	Operating loss	**(10.863)**	**(5.627)**
4.5	Financial income	65	76
4.5	Financial expenses	(1.222)	(719)
	Net loss before tax	**(12.020)**	**(6.270)**
6.1	Income taxes	825	735
	Net loss for the year	**(11.195)**	**(5.535)**
	Attributable to: Shareholders of Evaxion	(11.195)	(5.535)
	Earnings per share:		
6.2	Basic and diluted earnings per share for the period (USD)	(29,01)	(15,43)

Statement of other comprehensive income

Note	USD'000	2019	Restated 2018
	Net loss	(11.195)	(5.535)
	Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
	Exchange differences on currency translation to presentation currency	1	(15)
	Total comprehensive income	**(11.194)**	**(5.549)**
	Attributable to: Shareholders of Evaxion	(11.194)	(5.549)

Financial statements January 1 - December 31

Balance sheet

Note	USD'000	Dec 31, 2019	Restated Dec 31, 2018	Restated Jan 1, 2018
	ASSETS			
3.1	Property, plant and equipment	101	112	179
	Deposits	26	18	32
	Total non-current assets	**127**	**130**	**211**
3.2	Receivables	575	238	680
	Unpaid capital contributions	-	-	1.129
6.1	Tax receivables	823	712	461
	Cash and cash equivalents	9.559	7.433	468
	Total current assets	**10.957**	**8.383**	**2.738**
	TOTAL ASSETS	**11.084**	**8.513**	**2.949**
	EQUITY AND LIABILITIES			
4.2	Share capital	134	58	58
	Other reserves	25.040	5.990	6.005
	Accumulated deficit	(15.812)	(6.979)	(3.514)
	Total equity	**9.362**	**(931)**	**2.549**
4.6	Lease liabilities, non-current	-	24	96
	Total non-current liabilities	**0**	**24**	**96**
4.3	Convertible debt facility	-	8.569	-
4.6	Lease liabilities	36	75	66
4.4	Trade payables	646	139	59
3.3	Other liabilities	1.040	637	178
	Total current liabilities	**1.722**	**9.420**	**304**
	Total liabilities	**1.722**	**9.444**	**400**
	TOTAL EQUITY AND LIABILITIES	**11.084**	**8.513**	**2.949**

Financial statements January 1 - December 31

Cash flow statement

Note	USD'000	2019	Restated 2018
	Net result for the year	**(11.195)**	**(5.535)**
3.5	Adjustment for non-cash items	2.945	2.123
3.4	Changes in net working capital	573	981
	Changes in non-current financial assets - deposits	(7)	13
	Cash flow from operating activities before financial items and tax	**(7.685)**	**(2.418)**
	Interest received	9	2
	Interest paid	(39)	(15)
	Income taxes paid/received, net	688	453
	Cash flow from operating activities	**(7.027)**	**(1.977)**
3.1	Investment in property, plant and equipment	(61)	(7)
	Cash flow from investing activities	**(61)**	**(7)**
	Proceeds from issue of shares and exercise of warrants	9.443	1.092
	Transaction costs related to issuance of shares	(13)	-
4.3/4.6	Proceeds from utilization of convertible debt instrument	152	7.998
4.6	Repayment of leasing liabilities	(73)	(64)
	Cash flow from investing activities	**9.509**	**9.026**
	Cash and cash equivalents at the beginning of the period	7.433	468
	Changes in cash and cash equivalents	**2.421**	**7.043**
	Exchange rate adjustments on cash and cash equivalents	(295)	(77)
	Cash and cash equivalents at the end of the period	**9.559**	**7.433**

Financial statements January 1 - December 31, 2019

Statement of changes in equity

USD'000	Share capital	Share premium	Other reserves: Foreign currency translation reserve	Retained earnings/(Accumulated losses)	Total
Equity at December 31, 2017 and at January 1, 2018	**58**	**6.161**	**(156)**	**(3.513)**	**2.550**
Net result				(5.535)	**(5.535)**
Other comprehensive income			(15)		**(15)**
Share-based compensation expenses				2.069	**2.069**
Equity at December 31, 2018	**58**	**6.161**	**(171)**	**(6.979)**	**(931)**
Net result				(11.195)	**(11.195)**
Other comprehensive income			1		**1**
Share-based compensation expenses				2.362	**2.362**
Increase of nominal value of shares from DKK 1 to DKK 2	58	(58)			-
Issuance of shares for cash	8	9.433			**9.442**
Transation costs		(13)			**(13)**
Settlement of convertible instrument	10	9.685			**9.695**
Equity at December 31, 2019	**134**	**25.209**	**(169)**	**(15.812)**	**9.362**

Financial statements January 1 - December 31, 2019

Notes

1 Basis of preparation

This section summarizes Evaxion Biotech A/S' ('Evaxion' or the Company) accounting policies and key accounting judgements and estimates. Additionally, this section provides information about the overall basis of preparation that Evaxion considers useful and relevant for understanding the financial statements.

1.1 Accounting policies

Evaxion is a privately-owned biotech company focused on development of human immune system detection platforms utilizing artificial intelligence algorithms for the identification of novel vaccines against infectious diseases and personalized cancer treatments.

The Company is a limited liability company incorporated and domiciled in Denmark with its registered office located at Bredgade 34E, 1260 Copenhagen, Denmark.

The restated financial statements for the year ended December 31, 2019 with restated comparative figures for the year ended December 31, 2018 were authorized of issuance with a resolution of the Board of Directors on October 21, 2020.

The financial statements have been prepared on the historical cost basis except from where otherwise stated. Evaxion's accounting policies are described in each of the individual notes to the financial statements or in section 1.1.

Notes including item specific accounting policies

Section 2 – Operating activities
2.1 Research and development expenses
2.2 General and administrative expenses
2.3 Employee benefit expenses
2.4 Share-based compensation

Section 3 – Operating assets and liabilities

3.1 Property, plant and equipment
3.2 Receivables
3.3 Other payables

Section 4 – Capital structure and financial matters
4.2 Share capital
4.3 Convertible debt instruments
4.5 Financial income and expenses

Section 6 – Other disclosures
6.1 Taxation
6.2 Earnings per share and diluted earnings per share

Applying materiality

When preparing the annual report, Management seeks to improve the value of the information in the report by focusing on information that will provide an understanding of the Company's performance in the reporting period and the financial position at year-end. The goal is to present information that is considered of material importance for our stakeholders, rather than generic descriptions.

Disclosures that are required by IFRS are included in the annual report, unless the information is considered of immaterial importance to users of the annual report.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements under the Danish Financial Statements Act.

The financial statements are presented in U.S. Dollars ("USD") (presentation currency).

The financial statements have been prepared on a going concern basis using a historical cost basis.

All financial assets and liabilities are measured at amortized cost unless otherwise stated.

New accounting policies and disclosures effective in 2020 or Later

The IASB has issued, and the EU has endorsed, a number of new standards, and updated some existing standards, the majority of which are effective for accounting periods beginning on January 1, 2020 or later. Therefore, they are not incorporated in the financial statements. Evaxion expects to adopt these standards, updates and interpretations when they become mandatory. There are no standards that are not yet effective and that would be expected to have a material impact on Evaxion in the current or future reporting periods.

Operating segments

Evaxion is managed and operated as one business unit, which is reflected in the organizational structure. No separate lines of business or separate business entities have been identified with respect to any of the product candidates or geographical markets and therefore no segment information is currently disclosed in the internal reporting.

Post-employement benefit costs

The Company contributes to a defined contribution plan covering eligible employees. The contribution amount is based upon a fixed percentage of employee compensation and such contributions are expensed as incurred.

Accounting for contract with Southern Denmark University (SDU)

The Company enters into agreements from time to time that may be subject to the requirements of IFRS 11 'Joint Arrangements'. The Company evaluates these agreements on execution and applies the requirements of the guidance. To date, the Company has only had one collaborative arrangement. The collaboration agreement with SDU is considered a joint operation as defined in IFRS 11, with the principle place of business being Denmark. For the years ended December 31, 2018 and 2019, the Company recorded $0.0 million and $0.3 million in compensation cost for SDU employees which was reported in research and development costs in the statement of comprehensive loss.

Translation of foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment, in which the Company operates (functional currency). The functional currency of the Company is Danish Kroner (DKK).

Transactions denominated in foreign currencies are translated into the functional currency at the monthly average exchange rates. Monetary items denominated in foreign currencies are translated into the functional currency at closing rates ruling at the reporting date.

All foreign currency gains and losses are recognized in the statement of profit or loss under "Financial income" and "Financial expenses".

The effect from translation from functional currency to presentation currency is recognized in the statement of comprehensive income.

Non-monetary items in foreign currency which are measured at cost at the balance sheet date are translated using the historic rates of exchanges at the date of the transaction.

Presentation currency

The Company has chosen to present the financial statements in USD, due to the presence of American and other international shareholders.

Cash flow statement

The cash flow statement is presented in accordance with the indirect method, with a starting basis of net loss for the year. Cash flows for the year are presented as cash flows from operating, investing and financing activities and include the changes in net cash flows for the year along with cash and cash equivalents at the beginning and end of the reporting period. Cash flows in foreign currencies are translated into the Company's functional currency of DKK at the average exchange rate for the respective year and then presented in USD.

Cash flows from operating activities

Cash flows from operating activities comprise the profit or loss for the year, adjusted for non-cash items such as share-based payment expenses, depreciations, provisions and changes in the working capital and leasehold deposits, financial expenses paid and financial interest received, and amounts paid and received regarding income taxes.

Cash flows from investing activities

Cash flows from investing activities comprise payments related to additions and disposals of property, plant and equipment.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from proceeds from issuance of new shares and related costs, proceeds from issuance of convertible instruments and lease installments.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposit accounts. Financial resources consist of cash and cash equivalents. Cash equivalents are instruments with original maturities of 90 days or less. The Company currently has no debt facility.

1.2 Key accounting estimates and judgements

The use of reasonable estimates and judgements is an essential part of the preparation of the financial statements. Given the uncertainties inherent in the Company's funding activities, Management must make certain key accounting estimates regarding valuation and judgements on the reported amounts.

The key accounting estimates identified are those that have a significant risk of resulting in a material adjustment to the measurement of assets and liabilities in the following reporting period. Management bases its estimates on historical experience and various other assumptions that are held to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis. If necessary, changes are recognized in the period in which the estimate is revised. Management considers the key accounting estimates to be reasonable and appropriate based on currently available information.

Management regards the accounting estimates listed below as the key accounting estimates used in the preparation of the financial statements. No key judgement was applied in preparing the financial statements.

Notes including management's estimates and judgements	Estimates	Judgements
Section 2 – Operating activities		
2.4 Share-based compensation	X	-
Section 4 – Capital structure and financial matters		
4.3 Convertible debt instruments	X	-

1.3 First time adoption of IFRS and restatements

1.3.1 First time adoption of IFRS

This Annual Report is the first Annual Report that is presented in accordance with IFRS. The figures for 2018 and 2019 in the income statement and the balance sheet as at 1 January 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as adopted by the EU and additional requirements under the Danish Financial Statements Act.

The disclosures required by IFRS 1, first-time Adoption of International Financial Reporting Standards (IFRS) concerning the transition from Danish Financial Statement Act ('Local GAAP') to IFRS are provided in note 1.3. The financial statements for the year ended December 31, 2019 are the first Evaxion has prepared in accordance with IFRS. For periods up to and including the year ended December 31, 2018, Evaxion prepared its financial statements in accordance with the Danish Financial Statements Act. Accordingly, Evaxion has prepared financial statements that comply with IFRS applicable as at December 31, 2019, together with the comparative period data for the year ended December 31, 2018, as described in the summary of significant accounting policies.

In connection with the adoption of IFRS the Company changed accounting policy from presenting the statement of profit or loss based on the nature of the expenses, to a functional split into Research & Development (R&D) and General & Administrative (G&A) expenses.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. Evaxion has chosen not to apply any exemptions for applicable standards according to the IFRS 1 standard.

In preparing the financial statements, the Company's opening statement of financial position was prepared as at January 1, 2018, thereby reflecting the date of Evaxion's transition to IFRS. This note explains the principal adjustments made by the Company in converting its financial statements, including the statement of financial position as at January 1, 2018 and the financial statements for the year ended December 31, 2018.

As a result of the Company not expecting taxable profits for the foreseeable future, the IFRS conversion adjustments have no recognized tax impact due to the negative taxable income and the non-recognition of deferred tax assets. Additionally, entitlement to the maximum tax credits related to R&D expenses remains unaffected.

The effect of the conversion is presented in the column "IFRS conversion" in the tables presented in section 1.3.3. The remeasurements comprise the following:

IFRS conversion 1 – Recognition of right of use assets and related lease liabilities in accordance with IFRS 16

Under previous GAAP, operating lease expenses were recognized as an expense. Under IFRS, leases are, with a few exemptions, capitalized and depreciated over the expected useful lifetime. A corresponding lease liability is recognized, and lease payments are allocated between installments on the lease liability and interest expense. The change resulted in recognition of a right of use asset of USD 159 thousand at January 1, 2018 and a lease liability of USD 162 thousand. The right of use asset is classified as a fixed asset under property, plant and equipment in the balance sheet.

IFRS conversion 2 – Accounting for convertible debt instruments

In 2018, the Company issued two convertible debt instruments which were both converted to equity in 2019.

Under Local GAAP, the first issuance of the convertible debt instrument was classified as a compound financial instrument, and an equity component of USD 136 thousand was recognized in equity. Under IFRS, this convertible debt instrument is also classified as a compound instrument. The equity component is determined as the residual between fair value of the instrument as a whole and the fair value of the liability component. The fair value of the liability component is considered to be substantially equal to fair value of the instrument as a whole. Consequently, the amount recognized in equity was transferred to financial liabilities as part of the initial carrying amount. Under Local GAAP, the convertible debt instrument was measured at amortized cost. Under IFRS, the convertible debt instrument is designated as a financial liability and measured at fair value through the statement of comprehensive loss. As at December 31, 2018, the carrying amount was USD 2,195 thousand, an increase of USD 338 thousand over the carrying amount under Local GAAP. For the year ended December 31, 2018, a fair value adjustment in the amount of USD 254 thousand was recognized. Under Local GAAP, an interest expense and foreign currency adjustment in the amount of USD 94 thousand was reported.

Under Local GAAP, the second issuance of the convertible debt instrument was classified as equity, and the proceeds, USD 5,940 thousand, were recognized in equity. Under IFRS, this convertible debt instrument is classified as a financial liability because it may be settled in a variable number of shares. As a consequence, the convertible debt instrument is designated as a financial liability and the proceeds were transferred to financial liabilities at the initial carrying amount and remeasured at fair value each reporting period through profit or loss. As at December 31, 2018, the carrying amount was USD 6,373 thousand, and a fair value adjustment of the amount of USD 438 thousand was recognized in the 2018 Statement of Comprehensive Loss.

As at December 31, 2018, the carrying amount of both loans was USD 8,569 thousand, and a fair value adjustment of USD 684 thousands was recognized in the 2018 statement of comprehensive loss.

IFRS conversion 3 – Share-based payment

Under previous GAAP, the fair value of equity instruments granted to employees and Management was not recognized as an expense. Under IFRS, fair value of such equity instruments is recognized as compensation expense over the vesting period. As a consequence, an expense of USD 2,069 thousand was recognized in 2018.

The restatement had no impact on the opening equity at January 1, 2018 but increased the net loss for the year ended December 31, 2018 by USD 2,069 thousand.

IFRS conversion 4 – Application of statement of profit or loss by function

The statement of profit or loss has in connection with the adoption of IFRS changed to statement by function instead of statement by nature.

1.3.2 Restatements

The nature and impact of each restatement per line item in the income statements and statement of financial position for Evaxion is presented below.

The restatements have no recognized tax impact due to the negative taxable income and the non-recognition of deferred tax assets due to taxable profit not being expected within a reasonable time frame. Furthermore, entitlement to the maximum tax credits related to R&D expenses remains unaffected.

Restatement A – Acquired patents derecognized from property, plant and equipment

In the financial statements for the year ended December 31, 2017, Evaxion recognized acquired patents as part of intangible assets in the statement of financial position. Management considered this to be a misapplication of accounting policies and the patents were derecognized from the statement of financial position and offset in the opening equity at January 1, 2018. In order to restate the misstatement retrospectively in the opening balance of assets and equity for the earliest period presented, the misstatement is corrected in the opening balance at January 1, 2018 and the income statement as of December 31, 2018.

The restatement decreased the opening equity at January 1, 2018 by USD 115 thousand and decreased the operating expenses for the year ended December 31, 2018 by USD 112 thousand.

Restatement B – Correction of errors related to cutoff and accrual of expenses

Management retrospectively corrected a misstatement related to period cut-off for external expenses and Contract Research Organizations (CRO) in the comparative amounts and restated the opening balances of assets, liabilities and equity at January 1, 2018 and for the income statement period ending December 31, 2018.

The restatement decreased the opening equity at January 1, 2018 by net USD 1 thousand and increased the operating expenses for the year ended December 31, 2018 by USD 8 thousand.

Restatement C – Accrual and reclassification of received governmental grants from revenue to offsetting operating expenses

In the financial statements for the year ended December 31, 2018, the Company recognized government grants when they were received using a "cash-basis" approach. Management considers this to be a misapplication of accounting policies and therefore has corrected the misstatement in the comparative amounts and restated the opening balances of assets, liabilities and equity at January 1, 2018 and for the income statement period ending December 31, 2018.

The restatement increased the opening equity at January 1, 2018 by USD 117 thousand and increased the operating expenses for the year ended December 31, 2018 by USD 259 thousand.

Restatement D – Incorrect exchange rate adjustments on paid-in capital

In the financial statements for the year ended December 31, 2018, exchange rate adjustments of USD 18 thousand related to paid-in capital receivables was incorrectly recognized in equity. The loss should have been presented in the income statement within financial items.

The restatement had no net impact on the equity at December 31, 2018 but increased the financial expenses for the year ended December 31, 2018 by USD 18 thousand.

The nature and impact of each line item restatement in the income statements and statement of financial position for the Company is presented below.

Statement of financial position:

Refer to references in the reconciliation of figures most recently reported to restated comparative figures in note 1.3.3.

Income statement:

Refer to references in the reconciliation of figures most recently reported to restated comparative figures in note 1.3.3.

Statement of cash flows:

Refer to references in the reconciliation of figures most recently reported to restated comparative figures in note 1.3.3.

1.3.3 Reconciliation of figures most recently reported to restated comparative figures

Reconciliation of the financial position as at January 1, 2018 (date of transition to IFRS)

Ref.	USD'000	As most recently reported at January 1, 2018 (Local GAAP)	Restatements	As restated at January 1, 2018 (Local GAAP)	IFRS conversion	As adjusted at January 1, 2018 (IFRS)
	Assets					
A	Intangible assets	115	(115)	0	-	-
1	Property, plant and equipment	20	-	20	159	179
	Leasehold deposits	32	-	32	-	32
	Total non-current assets	**167**	**(115)**	**52**	**159**	**211**
C	Receivables	563	117	680	-	680
	Unpaid capital contributions	1.129	-	1.129	-	1.129
	Tax receivables	461	-	461	-	461
	Cash and cash equivalents	468	-	468	-	468
	Total current assets	**2.621**	**117**	**2.738**	**-**	**2.738**
	Total assets	**2.788**	**2**	**2.790**	**159**	**2.949**
	Equity and liabilities					
	Share capital	58	-	58	-	58
	Other reserves	6.005	-	6.005	-	6.005
1ABC	Accumulated deficit	(3.511)	2	(3.509)	(4)	(3.513)
	Total equity	**2.552**	**2**	**2.554**	**(4)**	**2.550**
1	Lease liabilities	-	-	-	96	96
	Total non-current liabilities	**-**	**-**	**-**	**96**	**96**
1	Lease liabilities	-	-	-	66	66
	Trade payables	59	-	59	-	59
	Other payables	178	-	178	-	178
	Total current liabilities	**237**	**-**	**237**	**66**	**303**
	Total liabilities	**237**	**-**	**237**	**162**	**399**
	Total equity and liabilities	**2.788**	**2**	**2.790**	**159**	**2.949**

Reconciliation of financial position as at December 31, 2018

Ref.	USD'000	As most recently reported at December 31, 2018 (Local GAAP)	Restatements	As restated at January 31, 2018 (Local GAAP)	IFRS conversion	As adjusted at December 31, 2018 (IFRS)
	Assets					
1	Property, plant and equipment	20	-	20	92	112
	Leasehold deposits	18	-	18	-	18
	Total non-current assets	**38**	**-**	**38**	**92**	**130**
BC	Receivables	117	121	238	-	238
	Tax receivables	712	-	712	-	712
	Cash and cash equivalents	7.433	-	7.433	-	7.433
	Total current assets	**8.262**	**121**	**8.383**	**-**	**8.383**
	Total assets	**8.300**	**121**	**8.421**	**92**	**8.513**
	Equity and liabilities					
	Share capital	58	-	58	-	58
2	Other reserves	11.979	7	11.986	(5.996)	5.990
12BC	Accumulated deficit	(6.145)	(155)	(6.300)	(679)	(6.979)
	Total equity	**5.892**	**(148)**	**5.744**	**(6.675)**	**(931)**
1	Lease liabilities	-	-	-	24	24
	Total non-current liabilities	**-**	**-**	**-**	**24**	**24**
1	Lease liabilities	-	-	-	75	75
2	Convertible debt facility	1.902	-	1.902	6.667	8.569
	Trade payables	139	-	139	-	139
BC	Other liabilities	367	269	636	-	637
	Total current liabilities	**2.408**	**269**	**2.677**	**6.743**	**9.420**
	Total liabilities	**2.408**	**269**	**2.677**	**6.767**	**9.444**
	Total equity and liabilities	**8.300**	**121**	**8.421**	**92**	**8.513**

Reconciliation of comprehensive income for the year ended December 31, 2018

Ref.	USD'000	As most recently reported for the year ended December 31, 2018 (Local GAAP)	Restatements	As restated for the year ended December 31, 2018 (Local GAAP)	IFRS conversion	As adjusted for the year ended December 31, 2018 (IFRS)
	Revenue	-	-	-	-	-
4ABC	Gross loss	(1.328)	(264)	(1.592)	1.592	-
4	Staff costs	(1.957)	-	(1.957)	1.957	-
4A	Depreciation, amortization and impairment losses	(119)	109	(10)	10	-
134	Research and development expenses	-	-	-	(3.729)	(3.729)
34	General and administrative expenses	-	-	-	(1.898)	(1.898)
	Operating loss	**(3.404)**	**(155)**	**(3.559)**	**(2.068)**	**(5.627)**
	Financial income	76	-	76	-	76
12D	Financial expenses	(107)	-	(107)	(612)	(719)
	Net loss before tax	**(3.435)**	**(155)**	**(3.590)**	**(2.680)**	**(6.270)**
	Income tax benefit	735	-	735	-	735
	Net loss	**(2.700)**	**(155)**	**(2.855)**	**(2.680)**	**(5.535)**
	Attributable to: Shareholders of Evaxion	(2.700)	(155)	(2.855)	(2.680)	(5.535)

Statement of other comprehensive income

Ref.	USD'000	As most recently reported for the year ended December 31, 2018 (Local GAAP)	Restatements	As restated for the year ended December 31, 2018 (Local GAAP)	IFRS conversion	As adjusted for the year ended December 31, 2018 (IFRS)
	Net loss	**(2.700)**	**(155)**	**(2.855)**	**(2.680)**	**(5.535)**
	Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
	Exchange differences on currency translation	60	8	68	(83)	(15)
	Total comprehensive income	**(2.641)**	**(145)**	**(2.786)**	**(2.763)**	**(5.549)**
	Attributable to: Shareholders of Evaxion	(2.641)	(145)	(2.786)	(2.763)	(5.549)

1.4 Subsequent events

The Company has evaluated subsequent events through October 21, 2020, which is the date that financial statements were available to be issued. Refer to the below for the material subsequent events occurred since December 31, 2019.

Financing Activities

In August 2020, the Company executed a loan agreement ("EIB Loan Agreement") with the European Investment Bank ("EIB") for a principal amount of EUR 20.0 million, divided into 3 tranches of EUR 7.0 million , EUR 6.0 million and EUR 7.0 million. The EIB Loan Agreement tranche balances are due six years from their respective disbursement dates. The EIB loan has a stated interest rate, as well as a paid-in-kind ("PIK") interest rate for each tranche. Tranche 1 has a stated rate of 3.0% and a PIK rate of 4.0%, tranche 2 has a stated rate of 3.0% and a PIK rate of 3.0%, and tranche 3 has a stated rate of 5.0% and no PIK interest. In addition, the Company and EIB are in the process of finalizing the amendment to the EIB Loan Agreement concerning warrants to be issued upon each tranche ("EIB Warrants"). The EIB Warrants have an exercise price of DKK 2 per share and are exercisable upon the completion of an IPO and expire on October 21, 2023.

In September 2020, the Company issued 20,705 Ordinary shares to existing investors in the Company. The purchase price was USD 320 per share for aggregate proceeds of USD 6.6 million. The total costs directly attributable to the offering and therefore netted against proceeds in shareholder's equity are USD 0.1 million. The proceeds were received by the Company on September 17, 2020. On August 10, 2020, the Company's articles of association were amended in connection with the execution of this transaction. The revised articles increased the authorized number of shares the Company can issue by: (i) the 20,705 shares issued in this transaction, as well as (ii) an additional 50,000 Ordinary shares at a nominal price of DKK 2, to be issued any time prior to June 1, 2025. The amended articles also allow the Company to issue an additional 36,061 of compensatory Ordinary share warrants to employees and consultants any time prior to June 1, 2025.

In October 2020, the Company's Board of Directors proposed to increase the share capital and currently have received intentions from new investors amounting to USD 2.4 million with a purchase price per share of USD 320.

Other

On April 17, 2020 the Company formed a new wholly owned subsidiary in Australia named Evaxion Biotech Australia PTY LTD to execute clinical trials for the Company's next immune-oncology program.

In June 2020, the Company entered into a license agreement for the rights to certain intellectual properties. Upon execution of the license agreement, the Company was obligated to make a milestone payment of USD 35,000. The agreement remains in effect until the Company completes a Phase I/IIa clinical study, after that the Company has an option to extend the agreement for an additional 10 year term. Over the initial term of the agreement, the Company is obligated to make various additional milestone payments based on the progress of developed drug candidates. These payments range from USD 0.1 million to USD 0.3 million per payment, depending on the milestone achieved. The Company determined that the milestone payments meet the definition of intangible assets and will be capitalized.

In September 2020, the Company entered into a lease for approximately 15,000 square feet of office and laboratory space in Hørsholm, Denmark. The target commencement date for the lease is February 01, 2021 and will continue for a term of 10 years. The agreement contains an early termination provision which would trigger a termination fee of USD 2.7 million. The initial monthly lease payment is USD 27,500 and through-out the term, the lease is subject to increases ranging from 2-4% on the annual lease payment amount.

In September 2020, the Company terminated its existing agreement with SDU for business reasons. Under the terms of the SDU agreement, the Company did not incur a termination penalty and has no further obligations under this agreement.

COVID-19

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China and on March 11, 2020 the World Health Organization ('WHO') declared COVID-19 a pandemic. The COVID-19 pandemic has resulted in a widespread health crisis and numerous disease control measures being taken to limit its spread. As the pandemic unfolds throughout the world, the healthcare systems of the 17 countries in which the Company is conducting its study will experience great disruption. Governments have instituted quarantining and mandated business and school closures. Travel has been severely restricted. On a macroeconomic level, many experts predict that the outbreak will trigger a period of global economic slowdown or a global recession.

The Company is closely monitoring the potential impact of COVID-19 on the 2020 financial results and cashflows and beyond. The Company's top priority remains the health and safety of its staff and the patients in the study. The Company maintains compliance with government and health authorities. Additionally, we have adapted the way in which we work to ensure we are doing our part in reducing transmission of COVID-19.

The Company has worked closely with laboratories and investigators to ensure safe continuation and working requirements of our ongoing research activities and human clinical trials. The Company has not experienced a materially negative impact from COVID-19.

While business travel has been suspended, we have remained active and effective in the process of raising capital with institutional investors by conducting key meetings on a virtual basis.

Accounting policies

If after the balance sheet date, but prior to the date of the Board of Director's approval of the financial statements, the Company obtains information about conditions that existed at the balance sheet date, the Company assesses if the information affects the amounts recognized in the financial statements.

The Company will adjust the amounts recognized in its financial statements to reflect any adjusting events obtained after the balance sheet date and update the disclosures that relate to those conditions in light of the new information.

For non-adjusting events after the balance sheet date, the Company will not change the amounts recognized in its financial statements, but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

2 Operating activities

2.1 Research and development expenses

Note	USD'000	2019	Restated 2018
2.5	Employee benefit expenses	2.586	1.756
2.3/2.4	Share-based compensation expenses	1.021	896
	External expenses	4.544	1.017
3.1	Depreciation	65	59
	Total research and development expenses	8.216	3.729

The Company's research and development expenses consist mainly of employee benefits and external expenses related to clinical and pre-clinical research and development activities and consumables as well as expenses related to intellectual property rights.

During 2019, the Company recognized government grants of USD 518 thousand (2018: USD 641 thousand) which were deducted in research and development external expenses.

Substantial portions of our clinical studies are performed by third-party laboratories, medical centers, contract research organizations and other vendors, or collectively "CROs". These CROs generally bill monthly or quarterly for services performed. For studies, the Company accrues expenses based upon estimated percentage of work completed and the contract.

Our estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. We evaluate the estimates to determine if adjustments are necessary or appropriate based on information we receive.

Intellectual property

The Company actively seeks to create, maintain and protect intellectual property and proprietary information and technology that is considered important to the Company's business, which includes seeking and maintaining patents covering proprietary technology, product candidates, proprietary processes and any other inventions that are commercially and/or strategically important to the Company's business development.

Accounting policies

Research and development expenses

Research and development expenses include wages and salaries, share-based compensation, external research and development expenses, expenses relating to obtaining and maintaining patents and premises, other expenses, including IT and depreciation, relating to research and development, enhancements and maintenance of the Company's technology platforms.

The research activities are comprised of activities performed before filing an investigational new drug (IND) or equivalent and necessary pre-clinical activities for such product candidates. All research expenses are recognized in the period in which they are incurred.

The development activities are comprised of the activities performed following the filing of an IND or equivalent clinical-enabling activities for such product candidates, including but not limited to, research and clinical research activities. In line with industry practice, internal and subcontracted development costs are expensed as they are incurred. Due to significant regulatory uncertainties and other uncertainties inherent in the development of new products, development expenses do not qualify for capitalization as intangible assets until marketing approval by a regulatory authority is obtained or considered highly probable.

CROs invoice the Company upon the occurrence of predetermined contractual or activity based milestones (such as the enrollment of patients); however, the timing of these invoices and the Company's related payments often do not correspond directly to the level of performance of contracted activities. To the extent payments are made by the Company in advance of the related activities performed by the CROs, they are included in prepayments to clinical research organizations (see Note 3.2) and expensed when the activities performed by the CROs. To the extent the payments are made by the Company following the performance of the related activities, the expense is accrued for as a payable to clinical research organizations (see Note 3.3).

Government grants included in external expenses

Government grants are recognized periodically when the work supported by the grant has been reported and presented as deductions to external expenses as the grants are considered to be cost refunds. Government grants are recognized when a final and firm right to the grant has been obtained. Generally, the right to grant funds is firm and final when the Company has incurred the agreed expenses as set out in the grant investment budgets that form part of each specific grant agreement.

2.2 General and administrative expenses

Note	USD'000	2019	Restated 2018
2.5	Employee benefit expenses	517	190
2.3/2.4	Share-based compensation expenses	1.341	1.173
	External expenses	773	520
3.1	Depreciation and amortization	16	15
	Total general and administrative expenses	2.647	1.898

The Company's general and administrative expenses consist mainly of employee benefits and external expenses related to legal advisors, financial consultants, auditors and other administrative services.

Accounting policies

General and administrative expenses include wages and salaries, share-based compensation, depreciation relating to the leased domicile, other expenses, including IT and depreciation, relating to the management, corporate and business development, and administration of the Company.

2.3 Employee benefit expenses

Note	USD'000	2019	Restated 2018
2.6	Wages and salaries	2.819	1.733
	Share-based compensation costs	2.362	2.069
	Defined contribution plans	96	70
	Other staff expenses	187	143
	Total	5.465	4.016
2.1	Research and development expenses	3.607	2.652
2.2	General and administrative expenses	1.858	1.363
	Total	5.465	4.016
	Non-management employee benefit expenses		
	Research and development expenses	2.582	1.696
	General and administrative expenses	660	34
	Total	3.242	1.730
	Average number of full time employees	25	18
	Number of employees at end of period:		
	Denmark	36	20
	Total employees at end of period	36	20

Refer to note 5.1 for remuneration of the Board of Directors and Executive Management.

Accounting policies

Share-based compensation expenses

The Company has granted warrants to the Board of Directors, Executive Management and employees under various share-based incentive programs. The fair value of the warrants at grant date is recognized as an expense in the statement of profit or loss over the vesting period. Such compensation expenses represent calculated values of warrants granted and do not represent actual cash expenditures. A corresponding amount is recognized in shareholders' equity as the warrant programs are designated as equity-settled share-based compensation transactions. Reference is made to note 2.4 Share-based compensation.

2.4 Share-based compensation

Warrant program

The Company's articles of association allow for the granting of equity compensation, in the form of warrants, to employees, consultants who provide services similar to employees, members of Executive Management, members of the Scientific Advisory Board who provide services similar to employees, and the Board of Directors. The warrants are subject to a specified service period which ranges from zero to three years. The warrants also become exercisable upon an exit event, which triggers an immediate vesting, or at any time as determined by the Board of Directors in accordance with the terms of the plan. All warrants expire on December 31, 2036. For the years ended December 31, 2018 and 2019, the number of granted or reserved warrants as a percentage of outstanding Ordinary shares was 12.9% and 13.5%, respectively.

The warrants entitle the holder to subscribe the Company's Ordinary shares at an exercise price of DKK 2 for each share of nominal DKK 2. Warrants issued or reserved in 2018 and prior years originally entitled the holder to acquire shares at an exercise price of DKK 1. In connection with issuance of bonus shares to existing shareholders following a change of the entity's legal form into a public limited company in April 2019, the warrants, in accordance with customary adjustment clauses of the warrant agreements, were amended to provide the holder with the right to subsribe shares at an exercise price of DKK 2.

The following schedule specifies the granted warrants:

	Number of warrants #	Weighted Average Exercise Price/Share (DKK)	Weighted Average Remaining Contractual Life (years)
Warrants granted as at January 1, 2018*	41,161	DKK 2	19
Warrants granted**	5,348	2	18
Warrants granted as at December 31, 2018	46,509	2	18
Warrants granted**	7,162	2	17
Warrants granted as at December 31, 2019	53,671	DKK 2	17
Warrants exercisable as at December 31, 2018	—	DKK 2	—
Warrants exercisable as at December 31, 2019	—	DKK 2	—

* In the articles of association 41,582 warrants have been granted, which is in excess of the 41,161 warrants due to resignations and forefeitures.

** The warrants are not incorporated in the articles of association. Rectification will be conducted in October 2020.

Warrants will be issued in 2020 in accordance with the established criteria or legal obligation and warrant allocation that was processed by the Board of Directors in September 2020 to be conducted as per October 31, 2020:

- In December 2018, 2,756 warrants were granted to employees and consultants who provide services similar to employees. 914 warrants vested immediately and 1,842 warrants vest from December 2020 – December 2022. Fair value at grant date amounted to $0.6 million.

- In December 2018, 108 warrants were granted to Executive Management. The warrants vested immediately. Fair value at grant date amounted to an immaterial amount.
- In December 2018, 2,484 warrants were granted to Board Members. The warrants vested immediately. Fair value at grant date amounted to $0.5 million.
- In January 2019, 1,256 warrants were granted to a member of Executive Management. They vest from December 2020 – December 2022. Fair value at grant date amounted to $0.3 million.
- In February 2019, 221 warrants were granted to an employee. They vest from December 2020 – December 2022. Fair value at grant date amounted to $0.1 million.
- In September 2019, 1,500 warrants were granted to an employee. The warrants vested immediately. Fair value at grant date amount to $0.5 million.
- In October 2019, 4,185 warrants were granted to a member of Executive Management. The warrants vest annually over 3 years. Fair value at grant date amounted to $1.3 million.

During 2019, employees, external consultants, executive management and board of directors became entitled to warrants with a fair value equal to a bonus or fee amount. Warrants will be granted in 2020 in accordance with the established criteria or legal obligation and warrant allocation that was adopted by the board of directors in September 2020 to be executed as per October 31, 2020.

The below table sets out the details about these warrants that are to be granted where service period has commenced before grant date:

Participants	**Number of warrants**	**Estimated fair value**	**Vesting Term**	**Exercise Price (DKK)**
Employees	1,760	$0.6 million	3 years	2
Scientific Advisory Board	635	$0.2 million	Immediate	2
Board Members	1,132	$0.4 million	Immediate	2

Share-based compensation expenses included in the statements of comprehensive loss:

	Years Ended December 31,	
(USD in thousands)	**2018**	**2019**
Research and development expenses	$ 896	$ 1,021
General and administrative expenses	1,173	1,341
Total	$ 2,069	$ 2,362

For the years ended December 31, 2018 and 2019, the Company had 612 outstanding warrants to SDU employees and recognized an immaterial amount of expense for these warrants in each period as research and development expenses in the statement of comprehensive loss. During September 2020, the warrants were cancelled. This was treated as an acceleration of the vesting and an immaterial amount of expense was recognized upon cancellation.

Determination of Fair Value of Warrants

The warrants issued under the share-based payment arrangement are deeply in the money at the respective grant dates and are exercisable for nominal consideration. The Company values these warrants based on the intrinsic value of the shares measured as the difference between the fair value of our Ordinary shares and the exercise price.

Due to the highly specialized nature of services provided by consultants who provide services similar to those provided by employees of the Company, transactions with those consultants is measured at fair value of the equity instruments granted.

Under the share-based payment arrangement, there is no protection against capital increases at a discount and dividend distribution. However, dividends are not likely to be distributed and there is generally no reason to raise new capital at below the current share price. On this basis, the Company has assessed that it is generally appropriate to assume that no such transactions will take place during the holding period. When issuing warrants in 2018, convertible bonds with a potential dilutive effect were outstanding, and fair value was adjusted to reflect this potential dilution. For other grants, no such adjustment has been made.

The fair values of the warrants are measured with reference to the share price of the underlying share. This share value was determined using the value established in different financing transactions with unrelated parties. In each of these transactions, the relative ownership of the Company was changed and a share value was established using these fund raising transactions. The fair values of warrants are estimated using a linear interpolation of the share value on grant date based on the value established on capital event dates before and after the grant date.

The warrants are exercisable only upon an exit event or upon the Board of Director's decisions, which is a post vesting restriction. Since the warrants do not expire until December 31, 2036, Management considers it highly unlikely that the warrants will not become exercisable and no adjustment is made to the fair value of the warrants.

During 2019, the Company revised the estimated date of an IPO exit event to occur in December 2021 as opposed to prior years when the Company assumed the warrants would vest on a non-accelerated basis. As a result of this change in estimate, the Company recognized an acceleration of expense of $0.1 million for the year ended December 31, 2019.

The following schedule specifies the outstanding warrants as at December 31, 2018:

Outstanding program	**Per warrant weighted average grant date fair value (DKK)**	**Number of warrants outstanding**	**Average exercise price per warrant (DKK)**	**Remaining term to maturity (years)**
Grant (December 2016)	752.66	19,787	2	18
Grant (April 2017)	865.70	386	2	18
Grant (September 2017)	1,033.62	17,144	2	18
Grant (December 2017)	1,033.62	3,844	2	18
Granted during 2018**	1,333.88	5,348	2	18
Granted at December 31, 2018		46,509	2	18
Warrants exercisable at December 31, 2018		—	2	17

The following schedule specifies the outstanding warrants as at December 31, 2019:

Outstanding program	**Per warrant weighted average grant date fair value (DKK)**	**Number of warrants outstanding**	**Average exercise price per warrant (DKK)**	**Remaining term to maturity (years)**
Grant (December 2016)	752.66	19,787	2	17
Grant (April 2017)	865.70	386	2	17
Grant (September 2017)	1,033.62	17,144	2	17
Grant (December 2017)	1,033.62	3,844	2	17
Granted during 2018** (1)	1,333.88	5,348	2	17
Granted in January 2019** (1)	1,333.88	1,256	2	17
Granted in February 2019**	1,532.63	221	2	17
Granted in September 2019**	2,028.50	1,500	2	17
Granted in October 2019**	2,050.88	4,185	2	17
Granted at December 31, 2019		53,671	2	17
Warrants exercisable at December 31, 2019		—	2	17

(1) Awards valued on December 31, 2018 and January 1, 2019, respectively.

** The warrants are not incorporated in the articles of association. Rectification will be conducted in October 2020.

The Board of Directors and Executive Management holding of share awards for the years ended December 31, 2018 and 2019 is shown below:

Number of warrants held	January 1, 2018	Granted**	December 31, 2018	Granted**	December 31, 2019
Thomas William Wylonis	8,149	1,368	9,517	0	9,517
Steven Projan	—	651	651	0	651
Roberto Prego Pineda	206	344	550	0	550
Roberto Prego Novo (former)	3,197	121	3,318	0	3,318
Joann Suzich	—	—	—	0	0
Board of Directors in total	11,552	2,484	14,036	0	14,036
Lars Aage Staal Wegner	23,348	108	23,456	—	23,456
Thomas Bogenrieder	121	—	121	1,256	1,377
Glenn Vraniak	—	—	—	4,185	4,185
Executive Management in total	23,469	108	23,577	5,441	29,018

Accounting policies

Board members, executive management, full time employees and consultants of which some provide services similar to employees of the Company and some provide other services receive remuneration in the form of equity settled awards whereby services are rendered as consideration for warrants. All grants are characterized as equity settled.

For employees and consultants providing services similar to employees of the Company, the fair value of the equity instruments 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. The grant date is defined as the date at which the parties agree to the contractual terms.

For consultants providing other services, the transactions are measured at fair value of the services received unless this is not reliably measurable. In such cases, the transactions are measured at fair value of the equity instruments granted at the dates where the services are provided.

The fair values of the warrants reflect the terms of the agreement. This also includes post vesting restrictions.

The fair value of the equity instruments granted is recognized as an expense, with a corresponding increase in equity. The total expense is recognized over the service period. The expense recognition is based on an estimate of the number of warrants expected to vest. The estimate is reassessed regularly, and on a cumulative basis, the expense is equal to fair value of the number of warrants which actually vest.

Significant accounting judgements, estimates and assumptions

Estimating the fair values for the equity instruments granted in relation to the share-based payment arrangement of the Company requires careful consideration of appropriate valuation models.

Usually, an option valuation model is applied for determining fair value of warrants. However, as the warrants under the share-based payment arrangement were deeply in the money at the respective grant dates, the time value is virtually 0. The valuation of the warrant is thus based on the intrinsic value of the shares, i.e. fair value per share at the measurement date less the exercise price.

Due to the highly specialised nature of services provided by consultants who provide services other than those provided by employees of the Company, transactions with those consultants is measured at fair value of the equity instruments granted.

Under the share-based payment arrangement, there is no protection against capital increases at a discount and dividend distribution. However, dividends are not likely to be distributed and there is generally no reason to raise new capital at below the current share price. On this basis, the Company has assessed that it is generally appropriate to assume that no such transactions will take place during the holding period. When issuing warrants in 2018, convertible bonds with a potential dilutive effect were outstanding, and fair value was adjusted to reflect this potential dilution. For other grants, no such adjustment has been made.

The fair values of the equity instruments are measured with reference to the share prices determined in relation to three capital increases in March 2016, September 2017 and July 2019, respectively where the relative ownership of the company was affected. The fair values of warrants related to the grants afforded between the two dates, have been estimated using a linear interpolation.

The warrants are exercisable only upon an exit event or upon the Board's decisions. This is a post vesting restriction. Due to the fact that the warrants do not expire until December 31, 2036, Management considers it highly unlikely that the warrants will not become exercisable and no adjustment is made to fair value in this respect.

Up until December 31, 2018, it was Management's assessment that no exit would take place before the last vesting date. As of December 31, 2019, it is Management's assessment that an exit event will occur 1 year before the last vesting date. A cumulative catch up of the expense was made to reflect this re-assessment.

3 Operating assets and liabilities

3.1 Property, plant and equipment

USD'000	Buildings	Other equipment	Total
Balance at December 31, 2017	**158**	**21**	**179**
			-
Cost at the beginning of the year	172	27	199
Additions during the year	7	7	14
Disposals during the year	-	-	-
Exchange rate adjustment	(8)	(2)	(10)
Cost at the end of the year	171	32	203
Depreciation at beginning of the year	(12)	(6)	(18)
Depreciation for the year	(70)	(7)	(77)
Depreciation reversed on disposals during the year	-	-	-
Exchange rate adjustment	3	1	4
Depreciation at the end of the year	(79)	(12)	(91)
Balance at December 31, 2018	**92**	**20**	**112**
Cost at the beginning of the year	171	33	203
Additions during the year	12	61	73
Disposals during the year	-	-	-
Exchange rate adjustment	(4)	(0)	(4)
Cost at the end of the year	179	93	272
Depreciation at beginning of the year	(79)	(13)	(91)
Depreciation for the year	(67)	(14)	(82)
Depreciation reversed on disposals during the year	-	-	-
Exchange rate adjustment	2	0	2
Depreciation at the end of the year	(144)	(26)	(171)
Balance at December 31, 2019	**34**	**67**	**101**

Depreciation included in the statement of profit and loss

Note	USD'000	2019	Restated 2018
2.1	Research and development expenses	(64)	(58)
2.2	General and administrative expenses	(16)	(15)
	Total depreciation included in the statement of profit or loss	**(80)**	**(73)**
	Total accumulated depreciation of right-of-use assets at December 31	(145)	(79)

Accounting policies

Property, plant and equipment include leasehold improvements and other equipment. Property, plant and equipment are measured at cost less accumulated depreciation and impairment. The cost includes the cost of acquisition and expenses directly related to the acquisition until such time when the asset is available for use.

Depreciation

Depreciation is calculated on a straight-line basis over the expected useful lives of the assets, which are as follows:

Assets	Useful life	Residual value
Buildings	The lifetime of the underlying lease contract	Zero
Other equipment	3-6 years	Zero

The useful lives and residual values are reviewed and adjusted if appropriate at the end of each reporting period.

Impairment

If circumstances or changes in the Company's operations indicate that the carrying amount of non-current assets in a cash-generating unit may not be recoverable, management reviews the asset for impairment. The basis for the review is the recoverable amount of the assets, determined as the greater of the fair value less cost to sell or its value in use. Value in use is calculated as the net present value of future cash inflow generated from the asset. If the carrying amount of an asset is greater than the recoverable amount, the asset is written down to the recoverable amount. An impairment loss is recognized in the statement of profit or loss when the impairment is identified.

Right-of-use assets

The Company leases its office premises in Copenhagen. The property lease contract was effective from November 1, 2017 and is non-cancellable in the period from November 1, 2017 to October 31, 2019. Hereafter, the option to terminate is six months for both lessor and lessee. The contract does not provide a right, obligation, or an option to buy the office premises. The contract contains both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components according to the specific pricing of the services in the agreements. The Company is expecting to change office location during 2020.

The lease agreement is recognized as a right-of-use asset and corresponding liability in accordance with IFRS 16 *Leases*.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

Short-term and low value leases are not recognized as right-of-use assets.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the income statement over the lease period to ensure a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease payments are discounted using the interest rate implicit in the lease. As that rate cannot be readily determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The Company applied a weighted average incremental borrowing rate of 3.8%, estimated as a combination of a mortgage loan with a 20-year maturity (which is the maximum length for office properties) and a bank loan at floating rate.

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3.2 Receivables

Note	USD'000	Dec 31, 2019	Restated Dec 31, 2018	Restated Jan 1, 2018
	Current receivables			
	Prepayments to clinical research organisations	17	30	133
	VAT receivables	75	55	26
	Receivables from collaboration partners	-	-	516
	Other receivables	32	5	4
	Prepayments	451	147	-
	Total current receivables	**575**	**238**	**680**

Accounting policies

Other receivables, VAT receivables and receivables from collaboration partners are measured at amortized cost less impairment. Prepayments include expenditures related to future financial periods and are measured at nominal value.

3.3 Other payables

Note	USD'000	Dec 31, 2019	Restated Dec 31, 2018	Restated Jan 1, 2018
	Other payables			
	Payables to clinical research organizations	588	197	-
	Employee cost liabilities	275	226	159
	Other liabilities	177	214	19
	Total other payables	**1.040**	**637**	**178**

Accounting policies

Payables to clinical research organizations consist of CRO and vendor accruals. Employee cost liabilities are comprised of provision for holiday allowance, provision for salaries and other employee related provisions. Other liabilities consist of commitments and liabilities related to government grants received in advance. Other liabilities are initially measured at fair value adjusted for transaction costs. Subsequently, other liabilities are measured at amortized cost which generally corresponds to nominal value.

3.4 Changes in net working capital

Note	USD'000	2019	Restated 2018
3.2	Change in current prepayments, clinical research organisations	13	103
3.2	Change in receivables from collaboration partners	-	516
3.2	Change in other receivables	(26)	(1)
3.2	Change in VAT receivables	(19)	(29)
3.2	Change in prepayments	(304)	(147)
	Change in trade payables	507	79
3.3	Change in research and development clinical trials payables	391	197
3.3	Change in employee cost liabilities	49	67
3.3	Change in other liabilities	(37)	195
	Change in working capital before exchange rate adjustments	**573**	**981**

Working capital is defined as current assets (excluding cash) less current liabilities (excluding convertible debt) and measures the net liquid assets the Company has available for the business.

3.5 Adjustments for non-cash items

Note	USD'000	2019	Restated 2018
	Reversals of non-cash in the statement of profit or loss		
6.1	Income tax	(825)	(735)
3.1	Depreciation	81	74
4.5	Interest income	(9)	(2)
4.5	Interest expenses	39	15
	Change in fair value of conversion of convirtable debt instrument	1.183	684
	Share-based compensation costs	2.362	2.069
	Other adjustments:		
	Exchange rate adjustments	113	19
	Total adjustments for non-cash items	**2.945**	**2.123**

4 Capital structure and financial matters

4.1 Liquidity and Capital Resources

Since its inception, Evaxion has financed its operations through capital increases as well as funding for research from government grants.

As of December 31, 2019 the Company had cash and cash equivalents of USD 9,559 thousand as compared to USD 7,433 thousand as of December 31, 2018. The current cash and cash equivalents are immediately liquid and held in various non-interest-bearing business accounts.

As of December 31, 2018 the Company had debt of USD 8,569 thousand from convertible debt instruments that were issued to investors to fund ongoing operations of the Company including furthering of key therapy assets. See note 4.3 for additional information regarding the convertible debt facilities. The ultimate conversion of this convertible debt instrument occurred in August of 2019 as a result of achieving a conversion triggering threshold of raising a capital increase of USD 10 million capital. This debt capital along with proceeds from the capital increase in 2019 provided the additional capital necessary to fund the operations into 2020.

As of December 31, 2019 the Company has no debt, nor does the Company have any debt facilities.

Management is continually seeking to obtain additional funding, cf. note 1.4. The funding is anticipated to be a mix of equity financing with both existing and new institutional investors, government and scientific grants and non-recourse loans.

4.2 Share capital

On December 31, 2019, the share capital of the Company comprised 421,782 Ordinary shares (358,806 in 2018) with a nominal value of DKK 2 each.

Each share entitles the holder to cast one vote at general meetings in the Company.

	Number of shares	Share capital (DKK´000)
Share capital at January 1, 2019	358,806	359
Increase of nominal value of shares from DKK 1 to DKK 2	-	359
Capital increase at July 17, 2019 (conversion of debt facility 1)	8,416	17
Capital increase at July 17, 2019 (conversion of debt facility 2)	23,562	47
Capital increase at July 17, 2019	27,713	55
Capital increase at December 19, 2019	3,285	7
Share capital at December 31, 2019	**421,782**	**844**
Share capital at January 1, 2018	358,806	359
Share capital at December 31, 2018	**358,806**	**359**

Loss of subscribed share capital

On December 31, 2018, the Company had lost more than 50% of its subscribed share capital. At the annual general meeting of the shareholders held on March 29, 2019, the Board of Directors gave, in accordance with section 119 of the Danish Companies Act, an account of the Company's financial position. As part of the account, the Board of Directors stated that in its view, special actions were not required. The share capital of the Company was subsequently re-established through the conversion of the Convertible Loan and issue of new shares during 2019.

4.3 Convertible debt instruments

USD'000	Convertible loans
Amount received in 2018	7,998
Fair value adjustment included in finance cost	684
Currency adjustment	(113)
Carrying amount at December 31, 2018	**8,569**
Amount received in 2019	152
Fair value adjustment included in finance cost	1,179
Currency adjustment	(205)
Converted to equity during 2019	(9,695)
Carrying amount at December 31, 2019	-

During 2018, the Company made 2 convertible debt instrument issuances. They were both converted into common shares during 2019 arising from a capital increase triggering a conversion (qualified capital increase) taking place, under the terms of the agreements.

The main terms of the first issue are:

- Term: 12 months from issuance
- Interest coupon 7.5% p.a. accruing over the term of the loan
- Loan currencies : USD 855 thousand is USD denominated and DKK 7,113 thousand is DKK denominated
- Lender conversion option if a capital increase in excess of 9.8 (qualified capital increase) MDKK takes place before maturity. The conversion price is the share price obtained at the capital increase less a 20% discount.
- Repayment in cash of principal + accrued interest at a premium of 50% if all shares of the company are sold
- Lender conversion option to a fixed number of shares if the loan has not been repaid or converted under the other settlement terms of the agreement.

The main term of the second issuance are:

- Term: Expires on December 31, 2020
- Interest coupon 7.5% p.a. accruing over the term of the loan
- Loan currencies: USD 5,395 thousand is USD denominated and DKK 5,000 thousand (USD 612 thousand) is DKK denominated.
- Mandatory conversion if a capital increase in excess of USD 10 million (qualified capital increase) takes place before maturity. The conversion price is the share price obtained less a 5% discount if the capital increase take place in 2018, 10% if it takes place in 2019 and 20% if it takes place in 2020.
- Repayment in cash of principal + accrued interest at a premium of 50% if all shares of the company are sold
- Mandatory conversion at maturity with a conversion price of USD 160.41 per share. 10 days before conversion, USD denominated loans will convert into DKK whereas the conversion price remains denominated in USD.

Accounting policies

Convertible debt instruments are classified as financial liabilities unless the company has an unconditional right to avoid settlement in cash and has no obligation to settle in a variable number of shares.

For the first issuance, the company does not have an unconditional right to avoid settlement in cash. The second issuance comprises an at maturity obligation to settle in a variable number of shares. Therefore, both convertible debt instruments comprise a debt host instrument.

Conversion features comprising a fixed number of the entity's shares in exchange for a fixed principal in the entity's functional currency are equity instruments and separated from the debt host contract as the residual between fair value of the contract and fair value of a similar debt instrument without the conversion feature. All other equity conversion features are embedded derivatives.

Both convertible debt instruments included a conversion feature resulting in settlement in a variable number of shares. Consequently, none of the instruments comprise an equity component. They included the following non-closely related embedded derivatives:

- At-maturity conversion options for Convertible Debt Instrument 1

- At-maturity conversion provisions for Convertible Debt Instrument 2
- Early settlement mechanism on both issuances through delivery of a variable number of shares at a discounted price.
- Change of control prepayment provision

Management has designated, due to the existence of non-closely related embedded derivatives, each debt instrument to be carried at fair value through profit or loss. Changes arising from changes in the company's own credit risk is recognized in other comprehensive income. The inputs used in the valuation as at December 31, 2018 are detailed in the table below:

	Assumption applied
DKK/USD exchange rate	0.154
Discount rate	Convertible Debt 1 - 39% Convertible Debt 2 – 25%
Probability of a qualifying financing event taking place	95%
Evaxion share price	$207

Key accounting estimates and judgements on convertible debt instruments

Fair value is determined as the present value of a probability weighting of the mutually exclusive settlement alternatives with the weightings discussed below. Management has used the expected effective yield when issuing the convertible debt instruments as the discount rate. Fair value is to a substantial degree based on unobservable input (level 3 measurement).

As of December 31, 2018, Management considered it highly probable that a qualifying capital increase would take place during 2019 and before expiry of the first issue resulting in an offer for the holders of issuance 1 instruments to convert at a 20% discount and a mandatory conversion for issuance 2 instruments at a 10% discount. Due to the 20% issuance 1 discount, Management expected all holders to elect conversion to shares. A change of control event prior to a qualifying capital increase was considered remote. Consequently, fair value is primarily affected by the expected settlement with shares in excess of the principal amount and only to a limited extent by the conversion at maturity.

When determining fair value, the discount rate applied is the expected effective yield when issuing the loans. Management has assessed that no events significantly affecting the yield on the instruments took place between the dates of issue and December 31, 2018. The expected conversion premium is accrued over the term of the loans.

Management has assessed that no significant events affecting the creditworthiness of the entity during the period where the instruments where outstanding took place. Consequently, the change in fair value arising from change in own credit risk is considered immaterial.

Sensitivity to changes in fair value as of December 31, 2018

The sensitivity analysis below shows the impact of increasing and decreasing various inputs used in the valuation of the convertible debt instruments. The inputs that were changed were: (i) USD to DKK exchange rate, (ii) discount rate, (iii) probability of qualifying financing event and (iv) the Company's share price. The following table shows the impact on the statement of comprehensive income of these changes in the value of the convertible debt instruments as at December 31, 2018:

(USD in thousands)	Impact on Convertible Debt 1		Impact on Convertible Debt 2	
Exchange rate increased by 5%	$	(48)	$	(272)
Exchange rate decreased by 5%	$	48	$	272
Discount rate decreased by 3%	$	(24)	$	(85)
Financing Event probability decreased by 25%	$	(100)	$	(40)
Share price increased by 10%	$	(10)	$	(39)
Share price decreased by 10%	$	10	$	39

Valuation processes applied

In connection with adoption of IFRS as the basis of preparation for the 2019 financial statements, Management has engaged external advisors to assist with determination of fair value of the convertible debt instruments as of December 31, 2018.

4.4 Financial risks

The Company is exposed to multiple financial risks due to its operations. The financial risks primarily include currency and liquidity risks. A risk with a potential financial implication of less than USD 0.5 million is considered to have low potential impact.

The Company's ability to continue as a going concern is dependent on its ability to raise financing to enable it to complete its product development and clinical trials. Management has determined that there is not substantial doubt about the Company's ability to continue as a going concern for one year from the latest balance sheet date.

The financial risk exposures are described in further detail below:

Risk exposure	Impact	What can go wrong	Mitigating actions taken by the Company
Foreign currency risk	Low	The exposure to foreign currency fluctuations is considered minor, as the majority of the Company's expenses are incurred in the functional currency (DKK) or currencies closely correlated to DKK. The most significant cash flows for the Company on a quantitative basis are, in descending order, DKK, USD and EUR.	The policy for managing foreign currency risks is to convert cash received from issuance of shares to currencies that match the denomination of budgeted costs.
Liquidity risk	Low	The exposure to liquidity risk primarily relates to the risk of failure to meet the Company's obligations when they become due, which could happen if current assets are not enough to cover the amount of short-term liabilities.	The policy in the Company for managing liquidity risks is to have cash sufficient to act appropriately in case of unforeseen fluctuations in liquidity. The Company's cash requirements for the forthcoming 12-month period are estimated monthly.

The maturity analysis of financial liabilities as at December 31:

	January 1, 2018					
(USD in thousands)	Carrying amount	Contractual cash flows	<1 year	1 – 5 years	>5 years	Total
Lease liabilities	(162)	(198)	(68)	(130)	—	(198)
Trade payables		(59)	(59)	—	—	(59)
Other payables	(19)	(19)	(19)	—	—	(19)
Total	(240)	(276)	(146)	(130)	—	(276)

	December 31, 2018					
(USD in thousands)	Carrying amount	Contractual cash flows	<1 year	1 – 5 years	>5 years	Total
Convertible debt instruments [(1)]	(8.569)	(2,132)	(2.132)	—	—	(2.132)
Lease liabilities	(99)	(130)	(75)	(55)		(130)
Trade payables	(139)	(139)	(139)	—	—	(139)
Other payables	(214)	(214)	(214)	—	—	(214)
Total	(9,021)	(2,615)	2.560	(55)	—	(2.615)

	December 31, 2019					
(USD in thousands)	**Carrying amount**	**Contractual cash flows**	**<1 year**	**1 – 5 years**	**>5 years**	**Total**
Lease liabilities	(36)	(55)	(55)	—	—	(55)
Trade payables	(646)	(646)	(646)	—	—	(646)
Other payables	(177)	(177)	(177)	—	—	(177)
Total	(859)	(878)	(878)	—	—	(878)

The financial liabilities include estimated or contractual interest rate payments.

4.5 Financial income and expenses

Note	USD'000	2019	Restated 2018
	Financial income		
	Interest income, bank	8	2
	Interest income, other	1	-
	Foreign exchange gains	57	74
	Total financial income	**65**	**76**
	Financial expenses		
	Interest expenses	36	8
	Interest expenses, other	0	2
	Interest expenses, leasing	2	5
4.3	Change in fair value, convertible debt instrument	1.183	684
	Foreign exchange loss	0	21
	Total financial expenses	**1.222**	**719**
	Net financial items	**(1.157)**	**(643)**

Accounting policies

Net financial items include interest income and expenses, gains and losses on foreign currency transactions and surcharges as well as changes in fair value of the convertible debt facility.

4.6 Changes in liabilities arising from financing activities

			Non-cash changes					
USD'000	Opening Balance	Cash flows	Accumulated interest	Fair value adjustment	Additions	Conversion	Exchange rate adjustments	Closing Balance
Leasing Liabilities	162	(67)	5		7		(8)	99
Convertible debt facility	-	7.998	-	684	-	-	(113)	8.569
Balance at December 31, 2018 (restated)	**162**	**7.931**	**5**	**684**	**7**	**-**	**(121)**	**8.668**
Leasing Liabilities	99	(75)	2	-	12	-	(2)	36
Convertible debt facility	8.569	152	-	1.183	-	(9.695)	(209)	-
Balance at December 31, 2019	**8.668**	**77**	**2**	**1.183**	**12**	**(9.695)**	**(211)**	**36**

Convertible debt

For detailed information about the convertible debt instruments, refer to note 4.3 Convertible debt instruments.

Leasing liabilities

As a result of the lease accounting of IFRS 16, the Company has capitalized the only right-of-use asset being the domicile lease. Upon implementation on January 1, 2018, the Company has recognized a liability to make lease payments (i.e. the lease liabilities) of $0.2 million and an asset representing the right to use the underlying asset during the lease term (i.e. the right-to-use asset) of $0.2 million. The liability was measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the standard adoption date of January 1, 2018. The Company applied an incremental borrowing rate of 3.8%. For the years ended December 31, 2018 and 2019, the expense related to variable lease payments not included in the lease liabilities was immaterial and was recognized in operating expense.

For the years ended December 31, 2018 and 2019, the expense related to variable lease payments not included in the lease liabilities was immaterial and was recognized in operating expense.

5 Corporate governance

This section covers financial matters related to the system by which the Company is directed and controlled.

5.1 Remuneration to the Board of Directors and Executive Management

USD'000	2019	Restated 2018
Remuneration to the Executive Management		
Wages and salaries	916	605
Share-based compensation expenses	956	1,157
Total	**1,872**	**1,761**
Remuneration to the Board of Directors		
Wages and salaries	-	-
Share-based compensation expenses	351	525
Total	**351**	**525**
Remuneration to the Board of Directors and Executive Management		
Research and development expenses	1,025	956
General and administrative expenses	1,197	1,329
Total	**2,223**	**2,286**

The Executive Management comprised three members in 2018, four members from January 2019 and five members from October 2019.

Total remuneration for members of Executive Management registered with the Danish Business Authority amounts to USD 2.2 million (USD 2.3 million in 2018). All members of the Board of Directors are registered with the Danish Business Authority.

Share-based compensation

In 2019, the total net share-based compensation expenses regarding remuneration to the Executive Management amounted to USD 956 thousand compared with USD 1,157 thousand in 2018. For further comments on the development in share-based compensation expense, refer to note 2.4 Share-based compensation.

5.2 Management's holding of shares and share-based instruments

At December 31, the Board of Directors and Executive Management held the following shareholdings in the Company:

Number of ordinary shares owned	2019	2018
Niels Iversen Møller	119,239	119,232
Andreas Holm Mattsson	115,662	115,662
Lars Aage Staal Wegner	5,059	5,052
Executive Management in total	**239,960**	**239,946**

Number of ordinary shares owned	2019	2018
Roberto Prego Pineda	8,618	8,543
Thomas William Wylonis	13,385	13,086
Steven Projan	326	-
Board of Directors in total	**22,329**	**21,629**

Warrants will be issued in 2020 in accordance with the established criteria or legal obligation and warrant allocation that was processed by the Board of Directors in September 2020 to be conducted as per October 31, 2020.

The Board of Directors and Executive Management holding of share awards for the years ended December 31, 2018 and 2019 is shown below:

Number of warrants held	December 31, 2019	Reserved	December 31, 2018	Reserved	January 1, 2018
Thomas William Wylonis	10,051	534	9,517	1,368	8,149
Steven Projan	967	316	651	651	-
Roberto Prego Pineda	550	-	550	344	206
Roberto Prego Novo (former)	3,516	198	3,318	121	3,197
Joann Suzich	84	84	-	-	-
Board of Directors in total	**15,168**	**1,132***	**14,036**	**2,484**	**11,552**
Lars Aage Staal Wegner	23,456	-	23,456	108	23,348
Thomas Bogenrieder	1,377	1,256	121	-	121
Glenn Vraniak	4,185	4,185	-	-	-
Executive Management in total	**29,018**	**5,441**	**23,577**	**108**	**23,469**

5.3 Related party transactions

The group's transactions with other related parties

USD'000	2019	2018
Transactions with related parties (expenses)		
Accrued interest on convertible debt instruments issued to members of Executive Management and Board of Directors. Refer to note 4.3.	(4)	(4)
Balances with related parties at year-end (asset)		
None	-	-
Balances with related parties at year-end (liabilities)		
Convertible debt instruments issued to members of Executive Management and Board of Directors (nominal value plus accrued interest of 7.5%). Refer to note 4.3.	-	117

The Company's related parties comprise the significant shareholders of the Company, the Executive Management group, the Board of Directors and the close members of the family of these persons.

The Company has not granted any loans, guarantees, or other commitments to or on behalf of any of the members in the Board of Directors or Executive Management. Other than the remuneration and other transactions relating to the Board of Directors and Executive Management described in note 5.1 and 5.2 and capital increases on the same terms as other investors, no other significant transactions have taken place with the Board of Directors or the Executive Management during 2019 and 2018.

6 Other disclosures

The notes presented in this section are relevant for the overall understanding of the financial statements but are not relevant for the key themes in the financial statements.

6.1 Taxation

USD'000	2019	2018 (restated)	Jan 1, 2018 (restated)
Current tax on net loss	825	735	
Total income tax benefit for the period	825	735	

Reconciliation of effective tax rate to Danish statutory tax rate			
Statutory corporate income tax rate in Denmark	22%	22%	
Non-deductible expenses	(5%)	(10%)	
Tax credit research and development expenditures	7%	12%	
Change in deferred tax asset not capitalized	(17%)	(12%)	
Effective tax rate	7%	12%	

Deferred tax in the balance sheet			
Deferred tax assets	4, 270	1,647	995
Write-down of deferred tax assets	(4,270)	(1,647)	(995)
Deferred tax asset recognized in the balance sheet	0	0	0

On December 31, 2019, the Company had tax loss carry-forwards in Denmark of USD 1.3 million (2018: USD 0.1 million) for income tax purposes, all of which can be carried forward infinitely according to Danish Corporate Income Tax Act. The tax loss carry-forwards are included in the above deferred tax assets.

Income tax benefit for the year includes a tax credit for research and development expenditures at the applicable tax rate under the Danish Corporate Income Tax Act.

Accounting policies

Income tax

The income tax for the period comprises current and deferred tax, including prior-year adjustments and changes in provisions for uncertain tax positions. Tax is recognized in the statement of profit or loss, except to the extent that it relates to items recognized in equity or in other comprehensive income.

Current tax payables and receivables are recognized in the balance sheet as a receivable in the event of prepayments and amounts due.

Deferred taxes

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Where the tax value can be determined according to alternative tax rules, deferred tax is measured on the basis of the planned use of the asset or the settlement of the obligation.

Deferred tax assets are measured at the value at which they are expected to be utilized, either through elimination against tax on future earnings or through a set-off against deferred tax liabilities. Deferred tax assets are set of within the same legal tax entity and jurisdiction.

Tax receivables

Current tax assets for the current and prior periods shall be measured at the amount expected to be recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Management's judgements

The Company is subject to corporate taxes in Denmark and is required to accrue for income taxes, deferred income tax assets and liabilities, and provisions for uncertain tax positions.

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expenses already recorded. As at December 31, 2019 and 2018, the Company has not recognized any provisions for uncertain tax positions.

The Company recognizes deferred income tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilized. Management has considered future taxable income in assessing whether deferred income tax assets should be recognized and has concluded that the deferred income tax assets do not meet the criteria for being recognized as assets in the balance sheet.

6.2 Earnings and diluted earnings per share

Basic loss per share is calculated by dividing the net loss attributable for the year to shareholders of Evaxion Biotech A/S by the weighted average number of ordinary shares outstanding during the year. As net losses from continuing operations were recorded in the years 2018 and 2019, the dilutive potential shares are anti-dilutive for the earnings per share calculation.

Note	USD'000	2019	Restated 2018
	Gain / (Loss) for the year (USD'000)	(11.195)	(5.535)
	Weighted average number of shares	385.898	358.806
	Basic and dilutive earnings per share for the year	**(29,01)**	**(15,43)**

The following potential ordinary shares are anti-dilutive and are therefore excluded from the weighted average number of ordinary shares for the purpose of diluted earnings/loss per share:

	2019	Restated 2018
Granted or reserved warrants	57.198	46.388
Convertible Debt 1	—	8.416
Convertible Debt 2	—	22.996

Accounting policies

Basic EPS is calculated by dividing the profit/loss for the year attributable to ordinary equity holders of the company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated as net profit or loss divided by the sum of average number of shares outstanding, including the dilutive effect of the outstanding share pool related to warrants and convertible debt instruments unless antidilutive.

6.3 Contingent liabilities and contractual obligations

Litigations and Investigations

The Company is not involved in any pending litigations, claims and investigations that individually and in the aggregate is expected to have a material impact on the financial position, operating profit or cash flow.

The contractual obligations are similarly individually and, in the aggregate, not material to the future financial position, operating profit or cash flow.

Contingent liabilities

The Company has entered contracts with CROs where different payment schedules apply. The Company has assessed that no bonus payments to CROs should be recognized but there is a contingent liability in regard of the Company's contract with a CRO of zero and 0.2 million as of December 31, 2018 and 2019.

Contractual obligations

At December 31, 2019, the Company had the following contractual commitments which fall due as follows:

	December 31, 2019					
(USD in thousands)		Contractual cash flows	<1 Year	1 – 2 years	2 - 5 years	>5 years
Purchase obligations		710	587	103	20	
Total..		710	587	103	20	—

The Company has purchase obligations of USD 0.6 million due to CRO's and USD 0.1 million due to university partners as of December 31, 2019.