PCOVERY ApS

Ole Maaløes Vej 3, 2200 Copenhagen N

CVR no. 32 08 69 26

Annual report 2016

Approved at the annual general meeting of shareholders on 31 May 2017

Chairman:

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Jan Bjerrum Bach
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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of PCOVERY ApS for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Copenhagen, 31 May 2017
Executive Board:

Casper Tind Hansen

Board of Directors:

Klaus Christian Schollmeier Chairman	Ilka Wicke	Emmanuelle Coutanceau
Casper Tind Hansen		

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Copenhagen, 31 May 2017
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Casper Tind Hansen

Board of Directors:

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Casper Tind Hansen

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

Copenhagen, 31 May 2017
Executive Board:

Casper Tind Hansen

Board of Directors:

Klaus Christian Schollmeier Chairman	Ilka Wicke	Emmanuelle Coutanceau

Casper Tind Hansen

Independent auditor's report

To the shareholders of PCOVERY ApS

Opinion

We have audited the financial statements of PCOVERY ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with 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 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- 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 conclusion is 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.

Statement on 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 form of 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 our procedures, 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2017
Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen
State Authorised Public Accountant

Management's review

Company details

Name	PCOVERY ApS
Address, Postal code, City	Ole Maaløes Vej 3, 2200 Copenhagen N
CVR no.	32 08 69 26
Established	30 March 2009
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	www.pcovery.com
E-mail	busdev@pcovery.com
Telephone	+45 51 59 45 60
Board of Directors	Klaus Christian Schollmeier, Chairman Ilka Wicke Emmanuelle Coutanceau Casper Tind Hansen
Executive Board	Casper Tind Hansen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark
Bankers	Danske Bank

Management's review

Management commentary

Business review

The Company's main activity is research and development. The Company focuses on developing new drugs for treatment of invasive fungal infections. Pcovery aims to develop a new class of fungal therapy by targeting an essential and highly conserved component of the fungal cell membrane.

The Company's activity is under termination due to the Board of Directors' decision in December 2016 to pursue a solvent liquidation. The Company is expected to commence legal close down at the time of the annual general meeting.

Unusual matters having affected the financial statements

Going concern

Based on results from the drug discovery, the Boad of Directors decided in December 2016 to terminate the Company's research activity and pursue a solvent liquidation.

Employees have been given notice and will resign at the expiry of the notice periods.

At end-December 2016, the Company's cash and cash equivalents amounted to approximately DKK 4.5 million.

The Company's 2017 operations until liquidation will be financed through cash and cash equivalents and tax credits arising from research and development activities conducted during 2016.

On this basis, Management assesses that the Company has sufficient funds to meet its operational requirements through 2017.

Reference is made to note 2 for more details.

Financial review

In 2016, the Company's revenue came in at DKK 79,252 against DKK 0 in 2015. The income statement for 2016 shows a loss of DKK 12,911,665 against DKK 14,801,476 last year, and the balance sheet at 31 December 2016 shows equity of DKK 727,181.

The Company has lost more than 50% of the share capital and is therefore subject to the Danish Company Act. Reference is made to the section on going concern for description of Management's plan for the future.

Non-financial matters

The Company is governed by the rules of good research practice of the Novo Nordisk Foundation, which have been received in connection with a commitment to award research grants to the Company. PCOVERY has received a pre-seed grant totalling DKK 1,650,000 and is therefore governed by the rules of good research practice of the Novo Nordisk Foundation.

We confirm our compliance with these rules.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

No further significant events have occurred subsequent to the financial year.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK	2016	2015
	Revenue	79,252	0
	Gross margin	79,252	0
3	Administrative expenses	-2,078,228	-1,921,642
	Operating profit/loss	-1,998,976	-1,921,642
	Research costs	-15,447,311	-16,734,898
	Profit/loss before net financials	-17,446,287	-18,656,540
4	Financial income	1,357,851	0
5	Financial expenses	-213,360	-156,050
	Profit/loss before tax	-16,301,796	-18,812,590
6	Tax for the year	3,390,131	4,011,114
	Profit/loss for the year	-12,911,665	-14,801,476

		2016	2015
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-12,911,665	-14,801,476
		-12,911,665	-14,801,476

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2016	2015
	ASSETS		
	Non-current assets		
	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	88,634	211,894
	Leasehold improvements	108,572	154,687
		197,206	366,581
	Financial assets		
	Deposits, investments	0	111,240
		0	111,240
	Total non-current assets	197,206	477,821
	Current assets		
	Receivables		
	Income taxes receivable	3,390,457	3,932,701
	Other receivables	330,068	320,398
	Prepayments	0	145,646
		3,720,525	4,398,745
	Cash	4,553,496	7,998,382
	Total Current assets	8,274,021	12,397,127
	TOTAL ASSETS	8,471,227	12,874,948

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	1,630,708	1,377,618
	Retained earnings	-903,527	1,228,138
	Total equity	727,181	2,605,756
	Non-current liabilities		
	Convertible debt instruments eligible for dividend	0	5,380,128
	Total non-current liabilities	0	5,380,128
	Current liabilities		
	Convertible debt instruments eligible for dividend	6,278,951	2,791,844
	Trade payables	642,780	1,164,602
	Other payables	822,315	932,618
	Total current liabilities	7,744,046	4,889,064
	Total liabilities	7,744,046	10,269,192
	TOTAL EQUITY AND LIABILITIES	8,471,227	12,874,948

1 Accounting policies
2 Going concern uncertainties
8 Contractual obligations and contingencies, etc.
9 Collateral

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings	Total
Equity at 1 January 2016	1,377,618	1,228,138	2,605,756
Capital increase	253,090	10,882,870	11,135,960
Expenses, capital increase	0	-102,870	-102,870
Transfer, see "Appropriation of loss"	0	-12,911,665	-12,911,665
Equity at 31 December 2016	1,630,708	-903,527	727,181

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of PCOVERY ApS for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Despite the decision to liquidate, the Company remains subject to the Financial Statements Act. Assets have been measured at the lower of booked value and the net realisable value.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Public grants

Public grants, such as PhD grants, to cover expenses are recognised in the income statement when it is deemed likely that all grant criteria have been met. Grants which must be repaid under certain circumstances are recognised only when they are not expected to be repaid.

Income statement

Revenue

Income from the rendering of services is recognised as revenue as the services are rendered. Accordingly, revenue corresponds to the market value of the services rendered during the year (percentage-of-completion method).

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Administrative expenses

Administrative expenses include expenses incurred in the year for company management and administration, including expenses relating to administrative staff, Management, office premises and expenses as well as amortisation/depreciation of assets used for administrative purposes.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Research costs

The item includes research costs not satisfying the criteria for capitalisation, including expenses relating to clinical trials, patent and research staff.

Depreciation and impairment

The item comprises depreciation and impairment of property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Other fixtures and fittings, tools and equipment	3 - 5 years
Leasehold improvements	5 years

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Tax for the year includes tax credit for costs incurred in connection with research and development activities under the Danish Tax Credit Regime.

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Impairment of non-current assets

The carrying amount of property, plant and equipment is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Deposits are measured at cost. Where the net realisable value is lower than cost, deposits are written down to this lower value.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities, with the exception of temporary differences occuring at the time of acquisition and liabilities neither affecting the resultat of operations nor the taxable income.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Tax credit from research and development expenditures is recognised in the balance sheet as tax receivables.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. Interest-bearing debt is subsequently measured at amortised cost, using the effective interest rate method. Borrowing costs, including capital losses, are recognised as financing costs in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Convertible loans

Convertible loans are broken down into a liability element and an equity element based on the relevant instrument of debt. On initial recognition, the liability is recognised at the fair value of a similar liability without a conversion right. The remaining amount of the convertible loan is recognised as equity. On subsequent recognition, the liability is measured at amortised cost until converted or repaid. The equity element is not re-measured after initial recognition.

2 Going concern uncertainties

Based on results from the drug discovery, the Boad of Directors decided in December 2016 to terminate the Company's research activity and pursue a solvent liquidation.

Employees have been given notice and will resign at the expiry of the notice periods.

At end-December 2016, the Company's cash and cash equivalents amounted to approximately DKK 4.5 million.

The Company's 2017 operations until liquidation will be financed through cash and cash equivalents and tax credits arising from research and development activities conducted during 2016.

On this basis, Management assesses that the Company has sufficient funds to meet its operational requirements through 2017.

	DKK	2016	2015
3	Staff costs		
	Wages/salaries	6,158,174	5,854,798
	Pensions	227,566	202,203
	Other social security costs	33,399	23,209
	Other staff costs	115,353	154,195
		6,534,492	6,234,405
	Staff costs are recognised as follows in the financial statements:		
	Administration	1,547,599	1,447,107
	Research	4,986,893	4,787,298
		6,534,492	6,234,405
	Average number of full-time employees	8	8

Financial statements for the period 1 January - 31 December

Notes to the financial statements

	DKK	2016	2015
4	Financial income		
	Exchange gain on convertible debt instrument	1,357,851	0
		1,357,851	0
5	Financial expenses		
	Interest expenses, associates	46,620	138,064
	Other interest expenses	1,871	121
	Exchange losses	164,869	17,865
		213,360	156,050
6	Tax for the year		
	Estimated tax charge for the year	-3,390,457	-3,932,701
	Tax adjustments, prior years	326	-78,413
		-3,390,131	-4,011,114

7 Share capital

Analysis of the share capital:

	2016	2015
125,000 A- shares of DKK 1.00 nominal value each	125,000	125,000
463,512 B- shares of DKK 1.00 nominal value each	463,512	463,512
1,042,196 C- shares of DKK 1.00 nominal value each	1,042,196	789,106
	1,630,708	1,377,618

Class B and C-shares carry special rights by way of preferential rights in case of distribution of dividends, etc.

The shareholders of the Company have pre-emptive subscription rights within their respective share classes. However, in the case of issue of warrants where there are no pre-emptive subscription rights as subscription rights in connection with Anti-Silution Protection are solely available to C-shareholders.

Until 31 December 2011, the Board was, without pre-emption rights for existing shareholders, authorised to grant up to 80,000 warrants giving the warrant holder right to subscribe class A-shares at an accumulated par value of DKK 80,000 (DKK 1 per share).

On 6 April 2011, the Board allotted 14,000 warrants to Management and external consultants each of which warrant entitles the holder to subscribe one class A-share in the Company against cash payment of DKK 40,000 per class A-share. On 14 December 2011, the Board allotted 37,500 warrants each of which warrant entitles the holder to subscribe one class A-share in the Company against cash payment of DKK 40,000 per class A-share.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

The Board is until 30 June 2017 authorised in one or more turns to decide issuing of warrants for subscription of A-shares at an amount of nominally up to DKK 98,500, however, limited to 10% of the share capital of the Company and decide to the required capital increase. The warrants can be issued without pre-emptive rights for existing shareholders. The warrants can be issued at a rate below the market rate though not below par value.

Until 31 December 2015, the Board is authorised in one or more turns to increase the share capital by nominally DKK 325,985 class C-shares at a price of DKK 4,400 (DKK 44.00 per class C-share) per class C-share against cash payment. The capital increase shall be subscribed by Novo A/S and Boehringer Ingelheim Venture Fond GmbH. Upon the exercise of the authorisation, the shareholders shall have no pre-emptive rights.

On 27 May 2014, the Board has increased the C-share capital of the Company by 41,174 C-shares subscribed at a quotation price of DKK 44 per C-share equally by Novo A/S and Boehringer Ingelheim Venture Fund GmbH having each subscribed 20,587 C-shares. On 26 September 2014, the Board has increased the C-share capital of the Company by 41,174 C-shares subscribed at a quotation price of DKK 44 per C-share equally by Novo A/S and Boehringer Ingelheim Venture Fund GmbH having each subscribed 20,587 C-shares. On 7 April 2015, the Board increased the C-share capital of the Company by 116,734 C-shares subscribed at a quotation price of DKK 44 C-share equally by Novo A/S and Boehringer Ingelheim Venture Fund GmbH having each subscribed 58,367 C-shares. Hereinafter, the remaining Board authorisation comprises nominally 126,902 C-shares.

Until 31 December 2015, the Board is authorised in one or more turns to increase the share capital by nominally DKK 325,985 class C-shares at a price of DKK 4,400 (DKK 44.00 pr. class C-share) per class C-share against cash payment. The capital increase shall be subscribed by the Wellcome Trust Limited by conversion of loan. Upon the exercise of the authorisation, the shareholders shall have no pre-emptive rights.

On 27 May 2014, the Board has increased the C-share capital of the Company by 41,887 C-shares subscribed at a quotation price of DKK 44 per C-share by the Welcome Trust Limited as trustee of the Welcome Trust. On 26 September 2014, the Board has increased the C-share capital of the Company by 41,174 C-shares subscribed at a quotation price of DKK 44 per C-share by the Welcome Trust Limited as trustee of the Welcome Trust. On 7 April 2015, the Board has increased the C-share capital of the Company by 116,734 C-shares subscribed / debt converted at a quotation price of DKK 44 per C-shares subscribed by the Wellcome Trust limited. Hereinafter, the remaining Board authorisation comprises nominally 126,188 C-shares.

Any class C-share may, at the request of its holder, at any time be converted into an class A-share (conversion rate 1:1), and any class B-share may, at the request of its holder, at any time be converted into an class A-share (conversion rate 1:1).

Analysis of changes in the share capital over the past 5 years:

DKK	2016	2015	2014	2013	2012
Opening balance	1,377,618	1,144,150	978,740	523,864	523,864
Capital increase	253,090	233,468	165,410	454,876	0
	1,630,708	1,377,618	1,144,150	978,740	523,864

Financial statements for the period 1 January - 31 December

Notes to the financial statements

8 Contractual obligations and contingencies, etc.

Other contingent liabilities

DKK	2016	2015
Other contingent liabilities	0	444,000
	0	444,000

Other contingent liabilities included the Company's received payroll contributions in connection with research. Upon commercial utilisation of the research results, a repayment obligation of maximum DKK 444,000 arises. Due to the expected liquidation there will be no commercial utilisation of the research results.

For a part of 2013, the Company was jointly taxed with its parent, Novo A/S, which acts as management company, and has limited and alternative liability together with other jointly-taxed group entities for payment of income taxes for the income year 2013 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

Other financial obligations

Other rent and lease liabilities:

DKK	2016	2015
Rent and lease liabilities	0	134,194

The Company has terminated its lease at the end of December 2016.

9 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2016.