



Pharmaero ApS

CVR no. 32 82 79 42

Dalslandsgade 11, 2300 Copenhagen S

Annual report for 2018

Adopted at the annual general meeting on
21 February 2019

A handwritten signature in blue ink, appearing to be "C. J. Jensen", written over a horizontal line.

chairman

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Statement by management on the annual report

The supervisory and executive boards have today discussed and approved the annual report of Pharmaero ApS for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

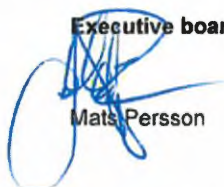
In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the company's operations and financial matters and the results of the company's operations and its financial position.

We recommend the adoption of the annual report at the annual general meeting.

Copenhagen, 21 February 2019

Executive board



Mats Persson

Supervisory board



Mats Persson
chairman



Aleksandar Danilovski



Carl-Ake Carlsson



Markus Puusepp



Per Martin Linse



Mikkel Lyager Olsen

Independent auditor's report

To the shareholders of Pharmaero ApS

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2018, and of the results of the Company's operations for the financial year 1 January - 31 December 2018

in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Pharmaero ApS for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet and notes, including a summary of significant accounting policies ("financial statements").

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

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover 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 management's review and, in doing so, consider whether 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 management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that 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 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 the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report

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 these financial statements.

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

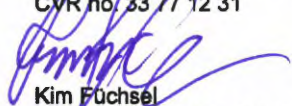
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.
- 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 disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

Independent auditor's report

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, 21 February 2019

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31



Kim Fuchsøl
State Authorised Public Accountant
MNE no. 9291



Conrad Matrup Lundsgaard
State Authorised Public Accountant
MNE no. 34529

Company details

The company	Pharmaero ApS Dalslandsgade 11 2300 Copenhagen S
	Telephone: +4532645500
	CVR no.: 32 82 79 42
	Reporting period: 1 January - 31 December 2018
	Domicile: Copenhagen S
Supervisory board	Mats Persson, chairman Carl-Ake Carlsson Per Martin Linse Aleksandar Danilovski Markus Puusepp Mikkel Lyager Olsen
Executive board	Mats Persson
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Management's review

Business activities

The activities of Pharmaero ApS are development and sales of pharmaceutical products for human use.

Business review

The Company's income statement for the year ended 31 December shows a loss of TDKK 132,278, and the balance sheet at 31 December 2018 shows an equity of TDKK 6,747.

Investments

The Company has in 2018 written down the development costs to zero, due to accounting requirements related to Management's best assessments of the risk and uncertainty related to the future income from the development projects in the Intangible assets.

Management still sees potential in the Company and still has confidence in its products which it will continue to develop in 2019.

Outlook

The Company expects an activity level at the same level as in 2018.

Significant events occurring after end of reporting period

No events have occurred after the balance sheet date which could significantly affect the Company's financial position.

Income statement 1 January - 31 December

	Note	2018 TDKK	2017 TDKK
Administrative costs		-2.924	-1.255
Research cost		-30.479	-527
Operating profit/loss		-33.403	-1.782
Impairment on intangible assets		-120.819	0
Financial income		3	0
Financial costs		-69	-62
Profit/loss from ordinary activities before tax		-154.288	-1.844
Profit/loss before tax		-154.288	-1.844
Tax on profit/loss for the year	1	22.010	394
Net profit/loss for the year		-132.278	-1.450
Proposed distribution of profit			
Transferred to other statutory reserves		-44.645	23.915
Retained earnings		-87.633	-25.365
		-132.278	-1.450

Balance sheet 31 December

	<u>Note</u>	<u>2018</u> TDKK	<u>2017</u> TDKK
Assets			
Development projects in progress		0	120.819
Intangible assets	2	<u>0</u>	<u>120.819</u>
Total non-current assets		<u>0</u>	<u>120.819</u>
Other receivables		807	1.793
Corporation tax		5.012	5.500
Prepayments		0	25
Receivables		<u>5.819</u>	<u>7.318</u>
Cash at bank and in hand		<u>15.021</u>	<u>4.059</u>
Total current assets		<u>20.840</u>	<u>11.377</u>
Total assets		<u><u>20.840</u></u>	<u><u>132.196</u></u>

Balance sheet 31 December

	<u>Note</u>	<u>2018</u> TDKK	<u>2017</u> TDKK
Equity and liabilities			
Share capital		11.272	8.180
Reserve for development expenditure		0	44.645
Retained earnings		<u>-4.525</u>	<u>47.550</u>
Equity	3	<u>6.747</u>	<u>100.375</u>
Provision for deferred tax	4	<u>0</u>	<u>16.998</u>
Total provisions		<u>0</u>	<u>16.998</u>
Trade payables		1.738	4.286
Other payables		<u>12.355</u>	<u>10.537</u>
Total current liabilities		<u>14.093</u>	<u>14.823</u>
Total liabilities		<u>14.093</u>	<u>14.823</u>
Total equity and liabilities		<u>20.840</u>	<u>132.196</u>
Staff	5		
Subsequent events	6		
Contingencies	7		
Related parties and ownership structure	8		

Statement of changes in equity

	Share capital	Reserve for development expenditure	Retained earnings	Total
Equity at 1 January 2018	8.180	44.645	47.550	100.375
Cash capital increase	3.092	0	35.558	38.650
Net profit/loss for the year	0	-44.645	-87.633	-132.278
Equity at 31 December 2018	11.272	0	-4.525	6.747

	Share capital	Reserve for development expenditure	Retained earnings	Total
Equity 1 January 2017	7.060	20.730	60.035	87.825
Cash capital increase	1.120	0	12.880	14.000
Net profit/loss for the year	0	23.915	-25.365	-1.450
Equity 31 December 2017	8.180	44.645	47.550	100.375

Notes

	2018	2017
	TDKK	TDKK
1 Tax on profit/loss for the year		
Current tax for the year	-5.012	-5.500
Deferred tax for the year	-16.998	5.106
	<u>-22.010</u>	<u>-394</u>

2 Intangible assets

	Development projects in progress
Cost at 1 January 2018	120.819
Additions for the year	0
Impairment for the year	-120.819
Carrying amount at 31 December 2018	<u>0</u>

Development projects are capitalized when the development costs relate to new products or processes that are clearly defined and identifiable and the company can demonstrate a future economic benefit, the technical feasibility, sufficient resources, a future market and the intention of completing the intangible asset and ability to use or sell it as well as measure reliably the expenditure attributable to the development.

The write down of the development costs to zero is due to accounting requirements related to the Management's best assessment of the risk and uncertainty related to the future income from the development projects in the Intangible assets.

Management still sees potential in the Company and still has confidence in its products which it will continue to develop in 2019.

3 Equity

The share capital has developed as follows:

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January	8.180	7.060	5.212	4.414	3.966
Additions for the year	3.092	1.120	1.848	798	448
Share capital	<u>11.272</u>	<u>8.180</u>	<u>7.060</u>	<u>5.212</u>	<u>4.414</u>

Notes

	2018	2017
	TDKK	TDKK
4 Provision for deferred tax		
Provision for deferred tax at 1 January 2018	16.998	11.892
Provision in year	-16.998	5.106
Provision for deferred tax at 31 December 2018	0	16.998
Intangible assets	0	26.580
Tax loss carry-forward	0	-9.582
	0	16.998

5 Staff

Average number of employees	1	0
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According to the Danish Financial Statements Act section 98B (3), remuneration to the Executive Board has not been disclosed.

6 Subsequent events

No events have occurred after the balance sheet date which may materially affect the Company's financial position.

7 Contingencies

The Company has no contingencies or economical liabilities other than included in the Annual Report and notes.

8 Related parties and ownership structure

Ownership structure

According to the company's register of shareholders, the following shareholder holds at least 5% of the votes or at least 5% of the share capital:

Xellia Pharmaceuticals ApS, Denmark, 50 %
SHL Medical AG, Switzerland, 50%

Accounting policies

The Annual Report of Pharmaero ApS for 2018 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act with additions from reporting class big C about development projects.

The accounting policies applied are consistent with those of last year.

The annual report for 2018 is presented in TDKK.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Revenue

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Administrative costs

Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Research costs

Research and development costs comprise costs relating to development projects that do not qualify for recognition in the balance sheet and amortisation of recognised development projects.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects

Development projects are capitalized when the development costs relate to new products or processes that are clearly defined and identifiable and the company can demonstrate a future economic benefit, the technical feasibility, sufficient resources, a future market and the intention of completing the intangible asset and ability to use or sell it as well as measure reliably the expenditure attributable to the development.

Development projects that do not fulfill these requirements are expensed.

Receivables

Receivables are measured at amortised cost.

Equity

Dividends

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

Capitalised development cost occurred from January 1, 2018 are reflected as an reserve in equity in accordance with the Danish Financial Act section 83.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Accounting policies

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at 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 rates 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 latest financial statements is recognised in the income statement as financial income or financial expenses.

