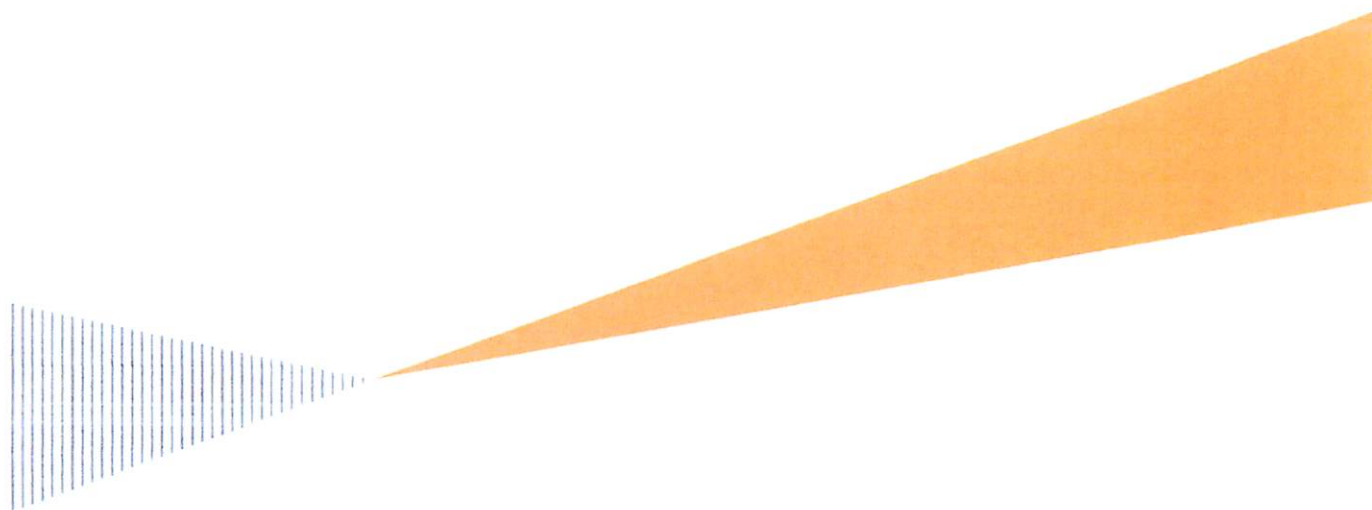


Adenium Biotech ApS

Ole Maaløes Vej 3, 2200 Copenhagen N

CVR no. 33 88 27 85



Annual report 2015

Approved at the annual general meeting of shareholders on

20 June 2016

Chairman:

Paul D. J. Andersen



Building a better
working world



Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditors' report	3
Management's review	5
Company details	5
Operating review	6
Financial statements for the period 1 January - 31 December	8
Income statement	8
Balance sheet	9
Statement of changes in equity	10
Notes to the financial statements	11

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Adenium Biotech ApS for the financial year 1 January - 31 December 2015.

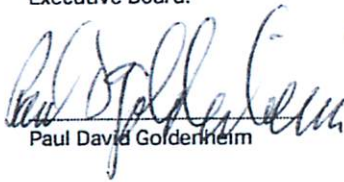
The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of the Company's operations for the financial year 1 January - 31 December 2015.

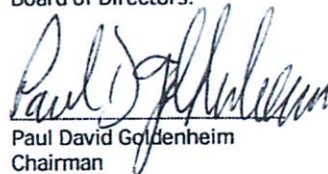
Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Copenhagen, 20 June 2016
Executive Board:


Paul David Goldenheim
Torgeir Vaage

Board of Directors:


Paul David Goldenheim
Chairman

John Howard Rex

Joseph Michael Feczko

Andreas Rutger Segerros

Stephen Christgau

Independent auditors' report

To the shareholders of Adenium Biotech ApS

Independent auditors' report on the financial statements

We have audited the financial statements of Adenium Biotech ApS for the financial year 1 January - 31 December 2015, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Emphasis of matter regarding matters in the financial statements

Without qualifying our opinion, we wish to draw attention to note 2 to the financial statements, which describes the uncertainty associated with the Company's ability to continue its operations. Expecting the Company to be able to cover its unfilled funding requirements, Management has presented the financial statements on a going concern assumption.



Independent auditors' report

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 20 June 2016
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR No. 30 70 02 28

Christian S. Johansen
State Authorised Public Accountant



Management's review

Company details

Name	Adenium Biotech ApS
Address, Postal code, City	Ole Maaløes Vej 3, 2200 Copenhagen N
CVR No.	33 88 27 85
Established	2 September 2011
Financial year	1 January - 31 December
Website	www.adeniumbiotech.com
Board of Directors	Paul David Goldenheim, Chairman John Howard Rex Joseph Michael Feczko Andreas Rutger Segerros Stephen Christgau
Executive Board	Paul David Goldenheim Torgeir Vaage
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P O Box 250, 2000 Frederiksberg, Denmark
Bankers	Danske Bank

Management's review

Operating review

The Company's business review

Supported by Novo A/S' seed financing program, Novo Seeds, Adenium Biotech ApS (Adenium) was founded on 2 September 2011, based on Novozymes A/S' (Novozymes) Arenicin program. In August 2013, Adenium received additional funding from Sunstone Capital and Novo Seed. Arenicin is an antimicrobial peptide identified by Novozymes through screening of lugworms. Arenicin shows strong efficacy against Gram negative bacteria. The wild type shows efficacy against a broad range of Gram negative bacteria causing various infections, but has high protein binding. Novozymes has successfully identified and synthesised a number of Arenicin variants with lower protein binding. Studies have shown efficacy against multiresistant E. Coli, Pseudomonas, Klebsiella and Acinetobacter. In vivo efficacy in both pneumonia and urinary tract infection in animal models has been demonstrated. In October 2013, Adenium selected AA139, the most efficacious Arenicin variant, as clinical product candidate. If additional preclinical studies are successful, it is expected that testing in human volunteers will be initiated in the spring of 2016.

In November 2013, Adenium acquired the rights to Plectasin, another antimicrobial peptide with selective activity against Gram positive bacteria, from Novozymes. Adenium will evaluate developing the Plectasin variant AP114 against C. Diff associated diarrhoea and AP138 against osteo and cardio implant related infections with MRSA.

Adenium is participating as consortium member in two EU FP7 research programs: PneumoNP (start: January 2014) and FormAMP (Start: December 2013). In 2015, the Company has calculated a combined grant income for the two projects of EUR 139,238 based on Adenium's project-related costs during the year.

Adenium resides in COBIS, the science park, at 3, Ole Maaloes Vej in Copenhagen. At 31 December 2015, the organisation consisted of Paul Goldenheim (CEO), Edward Fang, Magnus Strandh, Kim Ry Hejnæs, Dorrit Andersen and Torgeir Vaage.

Unusual matters having affected the financial statements

Going concern

At 31 December 2015, the Company had a cash position of approximately DKK 10.7 million, however, the cash burn for 2016 is expected to be higher than the cash in hand end of year.

At the beginning of 2015, the Company had established aggressive plans for filing a CTA for AA-139, the Company's lead program, by the end of 2015. However, due to some surprising preclinical findings during 1H:2015, the Company decided to further expand the preclinical documentation of AA-139, before moving ahead towards clinical development. This expanded preclinical program has continued into 2016, leading up to a decision whether or not to progress the development of AA-139. Based on the achieved results, the Company has decided to recommend the progression of AA-139 towards clinical stage, and this decision has been backed by the Company's existing investors.

The existing investors have confirmed their support of the Company's development activities until initiation of first-in-man studies, planned for mid-2017. In order to finance the planned development activities in 2016/17, including, the Company is planning to issue additional convertible loans from current investors. The Management expects that the convertible loans will be converted to equity at 31 December 2019.

In May 2016, subsequent to the balance sheet date, the Company expanded the loan facilities with additional DKK 14 million which may be issued as convertible debt to the Company's existing investors when required.

If, contrary to Management's expectations, the Company is not successful in completing the above-mentioned financing rounds, the activities of the Company may be immediately downsized so as to allow operations to be continued until 31 December 2016.

Management's review

Operating review

Financial review

The income statement for 2015 shows a loss of DKK 23,602,763 against a loss of DKK 12,419,168 last year, and the balance sheet at 31 December 2015 shows a negative equity of DKK 23,901,472.

Post balance sheet events

Based on a full review of the preclinical documentation of AA-139 in April 2016, the existing investors in Adenium have expressed their clear intention to continue funding the Company and the AA-139 program until initiation of first-in-man studies.

In May 2016, subsequent to the balance sheet date, the Company expanded the loan facilities with additional DKK 14 million which may be issued as convertible debt to the Company's existing investors when required.

No events have occurred after the financial year-end which could significantly affect the Company's financial position.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK	2015	2014
5	Administrative expenses	-843,915	-806,680
	Ordinary operating profit/loss	-843,915	-806,680
4	Other operating income	1,036,190	979,682
	Research and development costs	-27,995,311	-16,108,919
	Operating profit/loss	-27,803,036	-15,935,917
	Financial income	3,116	373
	Financial expenses	-1,677,843	-50,014
	Profit/loss before tax	-29,477,763	-15,985,558
6	Tax for the year	5,875,000	3,566,390
	Profit/loss for the year	-23,602,763	-12,419,168
	Proposed profit appropriation/distribution of loss		
	Retained earnings/accumulated loss	-23,602,763	-12,419,168
		-23,602,763	-12,419,168

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2015	2014
	ASSETS		
	Non-current assets		
	Property, plant and equipment		
	Other fixtures and fittings, tools and equipment	72,800	0
		<u>72,800</u>	<u>0</u>
	Investments		
	Other receivables	23,453	22,770
		<u>23,453</u>	<u>22,770</u>
	Total non-current assets	<u>96,253</u>	<u>22,770</u>
	Current assets		
	Receivables		
	Income taxes receivable	5,875,000	3,566,390
	Other receivables	2,501,568	264,471
	Prepayments	42,039	46,798
		<u>8,418,607</u>	<u>3,877,659</u>
	Cash	10,682,730	13,506,842
	Total current assets	<u>19,101,337</u>	<u>17,384,501</u>
	TOTAL ASSETS	<u>19,197,590</u>	<u>17,407,271</u>
	EQUITY AND LIABILITIES		
	Equity		
7	Share capital	1,436,800	1,436,800
	Retained earnings /Accumulated loss	-25,338,272	-1,735,509
	Total equity	<u>-23,901,472</u>	<u>-298,709</u>
	Liabilities other than provisions		
	Non-current liabilities other than provisions		
9	Convertible debt instruments eligible for dividend	37,711,334	12,042,667
		<u>37,711,334</u>	<u>12,042,667</u>
	Current liabilities other than provisions		
	Other credit institutions	28,646	24,568
	Trade payables	3,651,452	2,537,877
	Other payables	84,754	1,058,927
	Deferred income	1,622,876	2,041,941
		<u>5,387,728</u>	<u>5,663,313</u>
	Total liabilities other than provisions	<u>43,099,062</u>	<u>17,705,980</u>
	TOTAL EQUITY AND LIABILITIES	<u>19,197,590</u>	<u>17,407,271</u>

- 1 Accounting policies
- 2 Material uncertainties regarding going concern
- 3 Events after the balance sheet date
- 10 Contractual obligations and contingencies, etc.

Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings /Accumulated loss	Total
Equity at 1 January 2015	1,436,800	-1,735,509	-298,709
Profit/loss for the year	0	-23,602,763	-23,602,763
Equity at 31 December 2015	1,436,800	-25,338,272	-23,901,472

With reference to section 119 of the Danish Financial Statements Act, the Company has lost more than 50% of its share capital and has negative equity at 31 December 2015.

The Management expects to reestablish a positive equity through shareholder loans which will be converted to equity at a later stage.

Please also refer to note 2 regarding financing.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Adenium Biotech ApS for 2015 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

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

Reporting currency

The financial statements are presented in Danish kroner.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates 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 at 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.

Public grants

Public grants given to cover expenses are recognised in the income statement once it is probable that all criteria for being given the grant are satisfied. Grants which must be repaid under certain circumstances are recognised only in so far as they are not expected to be repaid.

Income statement

Other operating income

Other operating income and operating expenses comprise items of a secondary nature relative to the entity's core activities. Other operating income comprises EU grants received as refund for costs incurred.

Administrative expenses

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

Research costs

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

Amortisation/depreciation and impairment of intangible assets and property, plant and equipment

The item comprises amortisation/depreciation and impairment of intangible assets and property, plant and equipment.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Other securities and investments

Investments comprise rental deposits, which are recognised at cost.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value. An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired, in which case the carrying amount is reduced to the net realisable value.

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

Write-downs are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

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

Cash at hand and in bank

Cash at hand and in bank comprise cash and short-term marketable securities which are subject to an insignificant risk of changes in value.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Corporation tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for 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. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

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.

Other payables

Other payables are measured at net realisable value.

Convertible loans

Convertible loans are recognised as liabilities until converted at which time the liability is taken to equity at nominal value.

Deferred income

Deferred income recognised as a liability comprises EU grants received as refund for costs incurred in subsequent financial reporting years.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

2 Material uncertainties regarding going concern

At 31 December 2015, the Company had a cash position of approximately DKK 10.7 million, however, the cash burn for 2016 is expected to be higher than the cash in hand end of year.

At the beginning of 2015, the Company had established aggressive plans for filing a CTA for AA-139, the Company's lead program, by the end of 2015. However, due to some surprising preclinical findings during 1H:2015, the Company decided to further expand the preclinical documentation of AA-139, before moving ahead towards clinical development. This expanded preclinical program has continued into 2016, leading up to a decision whether or not to progress the development of AA-139. Based on the achieved results, the Company has decided to recommend the progression of AA-139 towards clinical stage, and this decision has been backed by the Company's existing investors.

The existing investors have confirmed their support of the Company's development activities until initiation of first-in-man studies, planned for mid-2017. In order to finance the planned development activities in 2016/17, including, the Company is planning to issue additional convertible loans from current investors. The Management expects that the convertible loans will be converted to equity at 31 December 2019.

In May 2016, subsequent to the balance sheet date, the Company expanded the loan facilities with additional DKK 14 million which may be issued as convertible debt to the Company's existing investors when required.

If, contrary to Management's expectations, the Company is not successful in completing the above-mentioned financing rounds, the activities of the Company may be immediately downsized so as to allow operations to be continued until 31 December 2016.

3 Events after the balance sheet date

Based on a full review of the preclinical documentation of AA-139 in April 2016, the existing investors in Adenium have expressed their clear intention to continue funding the Company and the AA-139 program until initiation of first-in-man studies.

In May 2016, subsequent to the balance sheet date, the Company expanded the loan facilities with additional DKK 14 million which may be issued as convertible debt to the Company's existing investors when required.

No events have occurred after the financial year-end which could significantly affect the Company's financial position.

DKK	2015	2014
4 Other operating income		
Grants, PneumoNP	547,180	731,337
Grants, FORAMP	489,010	248,345
	1,036,190	979,682

Financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK	2015	2014
5 Staff costs		
Wages/salaries	3,160,700	4,048,204
Other social security costs	11,053	12,193
Other staff costs	64,162	45,794
	<u>3,235,915</u>	<u>4,106,191</u>

Staff costs are recognised as follows in the financial statements:

Research	<u>3,235,915</u>	<u>4,106,191</u>
	<u>3,235,915</u>	<u>4,106,191</u>

Incentive programmes

In August 2012, 31,000 warrants were granted to key employees and other relevant stakeholders entitling each holder to subscribe one share against cash payment of DKK 25 per share.

No warrant-related expenses have been recognised in the annual report in accordance with the Danish Financial Statements Act.

DKK	2015	2014
6 Tax for the year		
Estimated tax charge for the year	<u>-5,875,000</u>	<u>-3,566,390</u>
	<u>-5,875,000</u>	<u>-3,566,390</u>

Estimated tax for the year contains recognised tax credits for the income year 2015 with reference to LL §8X regarding tax credits for research and development expenditures.

DKK	2015	2014
7 Share capital		
The share capital consists of the following:		
1,436,800 shares of DKK 1.00 each	<u>1,436,800</u>	<u>1,436,800</u>
	<u>1,436,800</u>	<u>1,436,800</u>

Each A share carries five voting rights and each B share carries one voting right.

The Company's share capital has remained DKK 1,436,800 in the past year.

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

DKK	2015	2014	2013	2012	2011
Opening balance	1,436,800	1,436,800	956,800	516,800	80,000
Capital increase	0	0	480,000	440,000	436,800
	<u>1,436,800</u>	<u>1,436,800</u>	<u>1,436,800</u>	<u>956,800</u>	<u>516,800</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

8 Deferred tax

The Company has tax losses which may be carried forward infinitely, however, as it is uncertain whether these tax losses can be utilised within a foreseeable future (3-5 years), their carrying amount has not been recognised in the financial statements.

9 Convertible debt instruments

	<u>Exchange deadline</u>	<u>Exchange rate</u>	<u>2015 DKK</u>
Principal loan amount	31-12-2019	1.00	12,000,000
Principle loan amount (round 2, 2015)	31-12-2019	1.00	14,000,000
Principle loan amount (round 3, 2015)	31-12-2019	1.00	10,000,000
Accrued interest	31-12-2019	1.00	1,711,334
			<u>37,711,334</u>

The Company has issued convertible debt instruments totalling DKK 36,000,000. The debt instruments issued by the Company earn interest on market terms being 8% pro anno resulting in an accrued interest at 31 December 2015 which amounts to DKK 1,711,334.

The loan issued pursuant to the convertible debt instrument, including any accrued or unpaid interest, falls due for repayment on 31 December 2019.

Outside the scope of the Danish Insolvency Act and other wind-up situations, the lenders are not entitled to require the loans repaid before the repayment date.

As per the repayment date, the lenders are entitled to convert the loan, including accrued or unpaid interests, to shares at a price per share of DKK 25.

Refer to note 3 regarding events after the balance sheet date for convertible loan agreements signed in 2016.

10 Contractual obligations and contingencies, etc.

Other contingent liabilities

In 2011 and 2013, the Company acquired certain patents and data libraries from Novozymes. In the event that these rights generate sales of products developed from these patents and data libraries, the Company will have to pay royalty. The Company has currently not developed any such products and there is significant uncertainty as to whether such products will ever be developed or sold. Against this background, the Company has not recognised any liabilities related to such potential royalties.

Other financial obligations

Other rent and lease liabilities:

DKK	<u>2015</u>	<u>2014</u>
Rent and lease liabilities	<u>32,511</u>	<u>31,731</u>