

Adenium Biotech ApS

Ole Maaløes Vej 3, 2200 Copenhagen N

CVR no. 33 88 27 85

Annual report

for the year 1 January - 31 December 2017

Approved at the Company's annual general meeting on 28 May 2018

Chairman:

DocuSigned by:

Paul Goldenheim

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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 Adenium Biotech ApS for the financial year 1 January - 31 December 2017.

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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

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, 28 May 2018
Executive Board:

DocuSigned by:
Paul Goldenheim
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Paul David Goldenheim

DocuSigned by:
Torgeir Vaage
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Torgeir Vaage

Board of Directors:

DocuSigned by:
Paul Goldenheim
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Paul David Goldenheim
Chairman

DocuSigned by:
John Rex
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John Howard Rex

DocuSigned by:
Joseph Michael Feczko
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Joseph Michael Feczko

DocuSigned by:
Andreas Rutger Segerros
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Andreas Rutger Segerros

DocuSigned by:
Emmanuelle Coutanceau
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Emmanuelle Coutanceau



Independent auditor's report

To the shareholders of Adenium Biotech ApS

Opinion

We have audited the financial statements of Adenium Biotech ApS for the financial year 1 January - 31 December 2017, which comprise 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 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 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 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 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 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 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.



Independent auditor's report

- ▶ 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.

Statement on the Management's review

Management is responsible for the Management's review.

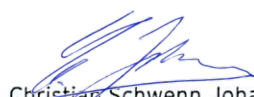
Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 28 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Christian Schwenn Johansen
State Authorised Public Accountant
MNE no.: mne33234



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 Emmanuelle Coutanceau |
| Executive Board | Paul David Goldenheim Torgeir Vaage |
| Auditors | Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmutshs Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark |
| Bankers | Danske Bank |



Management's review

Business review

Adenium Biotech ApS was founded in 2011 to commercialize a research program in Novozymes A/S aimed at developing novel antimicrobial peptides with the potential to treat potentially life-threatening infections. The company program has been funded by Novo Seed and Sunstone Capital in several financing rounds.

The main development focus in the company is currently AA139. AA139 is in late preclinical development as an aerosol therapy for the prevention of exacerbations in patients suffering from cystic fibrosis. AA139 is a synthetic variant of a natural antimicrobial peptide, Arenicin, identified by Novozymes through screening of lugworms with strong efficacy against Gram negative bacteria, including multi-resistant E. Coli, Pseudomonas, Klebsiella and Acinetobacter. In vivo efficacy in both pneumonia and urinary tract infection in animal models has been demonstrated.

The company is currently in a process for raising funds for the progression of AA139 through the final stages of the regulatory preclinical program enabling the transition into the clinic, as well as for a planned phase 1a/b program to establish both safety and efficacy in humans.

Adenium has since 2014 been participating as consortium member in two EU FP7 research programs: PneumoNP and FormAMP, both of which ended in late 2017. In 2017, the Company has calculated a combined grant income for the two projects of EUR 78,721 based on Adenium's project-related costs during the year.

Adenium resides in COBIS, the science park, at 3, Ole Maaløes Vej in Copenhagen. As of 31 December 2017, the organisation consisted of Paul Goldenheim (CEO), Magnus Strandh, Kaela Porter, Dorrit Andersen, Kim Ry Hejnaes, and Torgeir Vaage.

Unusual matters having affected the financial statements

Going concern

At 31 December 2017, the Company had a cash position of approximately DKK 5.7m. However, the cash burn for 2018 is expected to be higher than the cash in hand at the start of the year. The company is in the final stages of raising an additional minimum DKK 4m as short-term funding from the current shareholders. These funds will allow the company to operate through 2018 while completing the process of establishing an investor syndicate to fund the next development stage. It will also allow the company to continue to pursue several grants for which it may be well suited.

Consequently, it is the management's conclusion that the requirements for the going concern assumption are satisfied.

Financial review

The income statement for 2017 shows a loss of DKK 12,511,571 against a loss of DKK 15,473,935 last year, and the balance sheet at 31 December 2017 shows equity of DKK 6,530,815.

During 2017, a debt conversion of convertible loans including accrued interests was completed. The conversion of debt into equity amounted to DKK 58.4m. Total shares after the debt conversion amounts to DKK 3,774 thousand and the equity has been re-established in connection with the debt conversion and amounts to DKK 6,531 thousand at 31 December 2017.

Events after the balance sheet date

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



Financial statements 1 January - 31 December

Income statement

| Note | DKK | 2017 | 2016 |
|------|---|--------------------|--------------------|
| | Administrative expenses | -1,589,268 | -2,173,324 |
| | Operating profit/loss | -1,589,268 | -2,173,324 |
| 2 | Other operating income | 588,355 | 1,653,558 |
| | Research and development costs | -10,585,677 | -14,310,785 |
| | Profit/loss before net financials | -11,586,590 | -14,830,551 |
| | Financial income | 0 | 4,639 |
| 4 | Financial expenses | -3,110,336 | -3,664,990 |
| | Profit/loss before tax | -14,696,926 | -18,490,902 |
| 5 | Tax for the year | 2,185,355 | 3,016,967 |
| | Profit/loss for the year | -12,511,571 | -15,473,935 |
| | Recommended appropriation of profit/loss | | |
| | Retained earnings/accumulated loss | -12,511,571 | -15,473,935 |
| | | -12,511,571 | -15,473,935 |



Financial statements 1 January - 31 December

Balance sheet

| Note | DKK | 2017 | 2016 |
|------|--|------------------|--------------------|
| | ASSETS | | |
| | Non-current assets | | |
| | Property, plant and equipment | | |
| | Other fixtures and fittings, tools and equipment | 36,400 | 54,600 |
| | | <u>36,400</u> | <u>54,600</u> |
| | Financial assets | | |
| | Other receivables | 24,760 | 24,039 |
| | | <u>24,760</u> | <u>24,039</u> |
| | Total non-current assets | <u>61,160</u> | <u>78,639</u> |
| | Current assets | | |
| | Receivables | | |
| | Income taxes receivable | 2,185,355 | 3,016,967 |
| | Other receivables | 179,109 | 318,187 |
| | Prepayments | 17,855 | 15,335 |
| | | <u>2,382,319</u> | <u>3,350,489</u> |
| | Cash | <u>5,717,015</u> | <u>15,715,267</u> |
| | Total current assets | <u>8,099,334</u> | <u>19,065,756</u> |
| | TOTAL ASSETS | <u>8,160,494</u> | <u>19,144,395</u> |
| | EQUITY AND LIABILITIES | | |
| | Equity | | |
| 6 | Share capital | 3,773,506 | 1,436,800 |
| | Retained earnings /Accumulated loss | 2,757,309 | -40,812,207 |
| | Total equity | <u>6,530,815</u> | <u>-39,375,407</u> |
| | Non-current liabilities | | |
| | Convertible debt instruments eligible for dividend | 0 | 55,352,539 |
| | Total non-current liabilities | <u>0</u> | <u>55,352,539</u> |
| | Current liabilities | | |
| | Other credit institutions | 9,042 | 22,378 |
| | Trade payables | 1,002,148 | 1,976,305 |
| | Other payables | 618,489 | 460,401 |
| | Deferred income | 0 | 708,179 |
| | Total current liabilities | <u>1,629,679</u> | <u>3,167,263</u> |
| | Total liabilities | <u>1,629,679</u> | <u>58,519,802</u> |
| | TOTAL EQUITY AND LIABILITIES | <u>8,160,494</u> | <u>19,144,395</u> |

1 Accounting policies

9 Contractual obligations and contingencies, etc.



Financial statements 1 January - 31 December

Statement of changes in equity

| DKK | Share capital | Retained earnings /Accumulated loss | Total |
|--|---------------|---|-------------|
| Equity at 1 January 2016 | 1,436,800 | -25,338,272 | -23,901,472 |
| Transfer through appropriation of loss | 0 | -15,473,935 | -15,473,935 |
| Equity at 1 January 2017 | 1,436,800 | -40,812,207 | -39,375,407 |
| Debt conversion | 2,336,706 | 56,081,087 | 58,417,793 |
| Transfer through appropriation of loss | 0 | -12,511,571 | -12,511,571 |
| Equity at 31 December 2017 | 3,773,506 | 2,757,309 | 6,530,815 |

During 2017, a debt conversion of convertible loans including accrued interests was completed. The conversion of debt into equity amounted to DKK 58.4m. Total shares after the debt conversion amounts to DKK 3,774 thousand and the equity has been re-established in connection with the debt conversion and amounts to DKK 6,531 thousand at 31 December 2017.



Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Adenium Biotech ApS for 2017 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.

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".

Income statement

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.

Other operating income

Other operating income comprises items of a secondary nature relative to the entity's core activities, including gains or losses on the sale of fixed assets.

Other operating income comprises research grants received from EU.

Government grants are recognised at the time when a final and firm right to the grant has been obtained and to the extent that the entity has obtained reasonable assurance to comply with the conditions attaching to them and the grants will be received.



Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Depreciation

The item comprises depreciation of property, plant and equipment.

The basis of amortisation, which is calculated as cost less any residual value, is amortised 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

The residual value is determined at the time of acquisition and is reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further amortisation charges are recognised. In case of changes in the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

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 (including recognised tax credits with reference to LL §8X regarding tax credits for research and development expenditures) 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.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Financial assets

Financial assets comprise rental deposits, which are recognised at cost.

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates 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).



Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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 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.

Impairment losses 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

Cash comprises bank accounts which are 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 according to the liability method on all temporary differences between the carrying amount and the tax base 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.



Financial statements 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.

Deferred income

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

| | | | |
|---|--|-------------------|-------------------|
| | DKK | 2017 | 2016 |
| 2 | Other operating income | | |
| | Grants, PneumoNP | 172,798 | 1,182,555 |
| | Grants, FORAMP | 415,557 | 471,003 |
| | | <u>588,355</u> | <u>1,653,558</u> |
| | | | |
| | DKK | 2017 | 2016 |
| 3 | Depreciation of property, plant and equipment | | |
| | Depreciation of property, plant and equipment | 18,200 | 18,200 |
| | | <u>18,200</u> | <u>18,200</u> |
| | | | |
| | DKK | 2017 | 2016 |
| 4 | Financial expenses | | |
| | Interest expenses, convertible loans from shareholders | 3,065,254 | 3,641,205 |
| | Other financial expenses | 45,082 | 23,785 |
| | | <u>3,110,336</u> | <u>3,664,990</u> |
| | | | |
| | DKK | 2017 | 2016 |
| 5 | Tax for the year | | |
| | Estimated tax charge for the year | -2,185,355 | -3,016,967 |
| | | <u>-2,185,355</u> | <u>-3,016,967</u> |

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



Financial statements 1 January - 31 December

Notes to the financial statements

| DKK | 2017 | 2016 |
|---|------------------|------------------|
| 6 Share capital | | |
| Analysis of the share capital: | | |
| 3,773,506 shares of DKK 1.00 nominal value each | 3,773,506 | 1,436,800 |
| | <u>3,773,506</u> | <u>1,436,800</u> |

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

| DKK | 2017 | 2016 | 2015 | 2014 | 2013 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Opening balance | 1,436,800 | 1,436,800 | 1,436,800 | 1,436,800 | 956,800 |
| Capital increase | 2,336,706 | 0 | 0 | 0 | 480,000 |
| | <u>3,773,506</u> | <u>1,436,800</u> | <u>1,436,800</u> | <u>1,436,800</u> | <u>1,436,800</u> |

During 2017, a debt conversion of convertible loans including accrued interests was completed. The conversion of debt into equity amounted to DKK 58.4m. Total shares after the debt conversion amounts to DKK 3,774 thousand at 31 December 2017.

7 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.

| DKK | 2017 | 2016 |
|---|------------------|------------------|
| 8 Staff costs and incentive programmes | | |
| Wages/salaries | 4,546,743 | 4,542,434 |
| Other social security costs | 3,848 | 3,905 |
| Other staff costs | 87,587 | 96,991 |
| | <u>4,638,178</u> | <u>4,643,330</u> |

Staff costs are recognised as follows in the financial statements:

| | | |
|----------|------------------|------------------|
| Research | 4,638,178 | 4,643,330 |
| | <u>4,638,178</u> | <u>4,643,330</u> |

| | | |
|---|----------|----------|
| Number of employees at the balance sheet date | <u>2</u> | <u>2</u> |
|---|----------|----------|

Incentive programmes

At 31 December 2017, 280,529 warrants were granted to key employees and other relevant stakeholders entitling each holder to subscribe one share against cash payment of DKK 25.

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



Financial statements 1 January - 31 December

Notes to the financial statements

9 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 | 2017 | 2016 |
|----------------------------|--------|--------|
| Rent and lease liabilities | 43,759 | 32,622 |