UNION therapeutics A/S

Tuboirg Havnevej 18, 2900 Hellerup

CVR no. 33 96 37 50

Annual report 2018

Approved at the Company's annual general meeting on 31/5 2019

Chairman:

J. Hansen

....

Building a better working world

Contents

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 UNION therapeutics A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows 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 Group's and the Parent Company's operations and financial matters and the results of the Group's and the Parent Company's operations and financial position.

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

Copenhagen, 31 May 2019
Executive Board:

Rasmus Vendler Toft-Kehler (CEO)	Morten Otto Alexander Sommer (CSO)	Morten Højland Boesen (CFO)

Board of Directors:

Ole Skov (Chairman)	Jutta Monika Heim	Stig Løkke Pedersen
Morten Otto Alexander Sommer	Rasmus Vendler Toft-Kehler	

Independent auditor's report

To the shareholders of UNION therapeutics A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of UNION therapeutics A/S for the financial year 1 January – 31 December 2018, which comprise statement of comprehensive income, statement of financial position, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent 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 Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Independent auditor's report

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

Copenhagen, 31 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen
State Authorised
Public Accountant
mne33234

Rasmus Bloch Jespersen
State Authorised
Public Accountant
mne35503

Management's review

Company details

Name	UNION therapeutics A/S
Address, zip code, city	Tuborg Havnevej 18, 2900 Hellerup
E-mail	info@uniontherapeutics.com
Telephone	+45 61 77 74 35
CVR no.	33 96 37 50
Registered office	Gentofte
Financial year	1 January – 31 December
Executive Board	Rasmus Vendler Toft-Kehler Morten Otto Alexander Sommer Morten Højland Boesen
Board of Directors	Ole Skov Jutta Monika Heim Stig Løkke Pedersen Morten Otto Alexander Sommer Rasmus Vendler Toft-Kehler
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P O Box 250, 2000 Frederiksberg, Denmark
Investor and media relations	UNION therapeutics Investor Relations Tuborg Havnevej 18 DK-2900 Hellerup E-mail: investor@uniontherapeutics.com
Bankers	Jyske Bank

Management's review

About

UNION therapeutics A/S ("UNION") is a privately held, clinical stage pharmaceutical company, founded and headquartered in Copenhagen (Denmark), managed by a global team with a track record of bringing more than 5 drugs to the market.

The Company is working on the basis of a chemistry platform spanning microbiology and immunology with novel anti-bacterial and anti-inflammatory modes of action.

The Company focuses on discovery and development of innovative medicines to treat diseases at the intercept of microbiology and immunology, with the lead programme offering a differentiated approach for the treatment of atopic dermatitis. Atopic dermatitis is a serious and multifaceted disease with a significant unmet medical need, affecting millions of patients with substantial negative impact on the quality of life of patients and their families.

Further to the lead candidate, UNION is advancing a pipeline of clinical and preclinical candidates for inflammatory as well as infectious diseases.

2018 in review

2018 was a year of significant activity, including the completion of five clinical studies, in-licensing of the rights to two additional programmes, and out-licensing of one veterinary programme (completed in January 2019.

The clinical studies generated data to support ATx201 as a potential new treatment for atopic dermatitis, breaking the trade-off between efficacy and safety/tolerability that characterises the current standard of care. ATx201 represents a new treatment paradigm for atopic dermatitis, offering dual and novel modes of action with i) broad and direct anti-inflammatory activity and ii) restoration of healthy skin microbiome following decolonisation of *Staphylococcus aureus*, while also demonstrating iii) a favourable safety and tolerability profile based on clinical studies in more than 500 volunteers and patients down to the age of 9 months.

A clinical study was also conducted to test ATx201 as a potential treatment of impetigo, a superficial bacterial skin infection, where additional development is required before advancing the programme further. Given the significant potential in skin inflammatory disease, it was decided to focus resources on atopic dermatitis.

2018 also saw significant activity with regard to creation and protection of intellectual property with several key patents being granted, and a number of new patent applications being filed during the year.

Financial review

The statement of comprehensive income for 2018 shows a consolidated loss of USD 7,648,111 against a loss of USD 5,758,947 last year, and the statement of financial position at 31 December 2018 shows a consolidated equity of USD -5,293,947. At 31 December 2018, the Company had a consolidated cash position of approximately USD 3,301,455.

Management's review - continued

Financing and going concern assumption

The statement of financial position at 31 December 2018 shows a consolidated equity of USD -5,293,947 and a consolidated cash position of USD 3,301,455. The development plan for 2019 implies a lower capital requirement than realised in 2018 and is expected to be covered by the Company's current financial resources and expected license income during the year.

The Company's operations are financed via a long-term loan facility under which the Company has undrawn tranches of EUR 13 million subject to certain conditions at 31 December 2018. Management expects the Company's capital resources, together with income from out-licenses agreement entered after the balance sheet date (refer to note 20), to be sufficient to cover the Company's obligations as they mature at least through 31 December 2019.

Further, the Company expects to raise additional funds during 2019 to finance future clinical development and operations.

Based on these measures, the Board of Directors and Management has concluded that there is no significant risk associated with going concern as of the date of these financial statements. On this basis, Management has prepared the financial statements on a going concern assumption.

Loss of subscribed share capital

The Company has lost more than 50% of its subscribed share capital. On the annual general meeting of shareholders in 2019, the Board of Directors plans, in accordance with section 119 of the Danish Companies Act, to account for the Company's financial position and to propose any appropriate measures to re-establish the share capital.

Events after the balance sheet date

In January 2019, a license agreement was signed, granting Ceva Santé Animale S.A., a globally leading veterinary care company, the right to use UNION's compound UNI836 for certain indications in companion animals. The license agreement will provide UNION an upfront payment, milestone payments as well as royalties on the sales.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of comprehensive income

		Group		Parent Company	
Note	USD	2018	2017	2018	2017
	Revenue	0	315,394	0	315,394
4,5,6	Research and development costs	-7,531,327	-6,311,239	-7,699,026	-6,221,806
5,6	Administrative expenses	-869,124	-500,585	-869,124	-500,585
	Operating loss	-8,400,451	-6,496,430	-8,568,150	-6,406,997
7	Other operating income	582,919	373,598	582,919	373,598
	Loss before net financials	-7,817,532	-6,122,832	-7,985,231	-6,033,399
8	Financial income	16,826	4,798	22,894	9,131
9	Financial expenses	-867,749	-136,437	-867,732	-136,437
	Loss before tax	-8,668,455	-6,254,471	-8,830,069	-6,160,705
10	Tax benefit for the year	870,109	857,840	870,909	857,840
	Loss after tax	-7,798,346	-5,396,631	-7,959,160	-5,302,865
	Other comprehensive income or loss				
	Items that may be reclassified to profit or loss in subsequent periods				
	Foreign currency translation	150,235	-362,316	150,235	-362,316
	Total comprehensive loss for the year	-7,648,111	-5,758,947	-7,808,925	-5,665,181
	Attributable to:				
	Equity holders of the parent	-7,648,111	-5,758,947	-7,808,925	-5,665,181
		-7,648,111	-5,758,947	-7,808,925	-5,665,181

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of financial position

		Group		Parent Company	
Note	USD	2018	2017	2018	2017
	Assets				
	Non-current assets				
11	Tangible assets				
	Other fixtures and fittings, tools and equipment	9,160	7,661	9,160	7,661
	Total tangible assets	9,160	7,661	9,160	7,661
	Other non-current assets				
12	Investments in subsidiaries	0	0	1	1
	Rent deposits	16,666	17,189	16,666	17,189
	Total other non-current assets	16,666	17,189	16,667	17,190
	Total non-current assets	25,826	24,850	25,827	24,851
	Current assets				
	Receivables				
10	Tax receivables	844,771	887,189	844,771	887,189
16	Receivables from group entities	0	0	75,886	204,341
	Other receivables	203,712	410,464	199,027	410,464
	Prepayments	18,867	165,505	18,866	165,505
		1,067,350	1,463,158	1,138,550	1,667,499
13	Cash in bank	3,301,455	2,228,549	3,161,739	2,113,981
	Total current assets	4,368,805	3,691,707	4,300,289	3,781,480
	TOTAL ASSETS	4,394,631	3,716,557	4,326,116	3,806,331

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of financial position

		Group		Parent	
Note	USD	2018	2017	2018	2017
	Equity and liabilities				
14	Equity				
14	Share capital	78,015	78,015	78,015	78,015
	Retained earnings	-5,144,483	2,243,802	-5,211,532	2,337,568
	Foreign currency translation reserve	-227,479	-377,714	-227,479	-377,714
	Total equity	-5,293,947	1,944,103	-5,360,996	2,037,869
	Non-current liabilities				
18	Long-term debt	7,648,938	0	7,648,938	0
21	Warrant put option	993,797	0	993,797	0
10	Deferred tax	0	306	0	306
21	Net settlement of cash-settled warrant obligation	382,934	400,827	382,934	400,827
	Total non-current liabilities	9,025,669	401,133	9,025,669	401,133
	Current liabilities				
	Trade payables	490,851	1,208,168	489,385	1,204,175
16	Payables to Management	0	698	0	698
	Other payables	172,058	83,793	172,058	83,794
	Deferred income	0	78,662	0	78,662
	Total current liabilities	662,909	1,371,321	661,443	1,367,329
	Total liabilities	9,688,578	1,772,454	9,687,112	1,768,462
	TOTAL EQUITY AND LIABILITIES	4,394,631	3,716,557	4,326,116	3,806,331

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

	Group			
USD	Share capital	Retained earnings	Foreign currency translation reserve	Total
Equity at 1 January 2017	14,780	-194,369	-15,398	-194,987
Comprehensive income				
Loss for the year	0	-5,396,630	0	-5,396,630
Other comprehensive income				
Foreign currency translation reserve	0	0	-362,316	-362,316
Total comprehensive income	14,780	-5,590,999	-377,714	-5,953,933
Capital increase from convertible bonds	2,290	7,891,132	0	7,893,422
Increase of share capital	60,945	-60,945	0	0
Share-based compensation	0	4,614	0	4,614
Equity at 31 December 2017	78,015	2,243,802	-377,714	1,944,103
Equity at 1 January 2018	78,015	2,243,802	-377,714	1,944,103
Comprehensive income				
Loss for the year	0	-7,798,346	0	-7,798,346
Other comprehensive income				
Foreign currency translation reserve	0	0	150,235	150,235
Total comprehensive income	78,015	-5,554,544	-227,479	-5,704,008
Share-based compensation	0	410,061	0	410,061
Equity at 31 December 2018	78,015	-5,144,483	-227,479	-5,293,947

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

	Parent Company			
USD	Share capital	Retained earnings	Foreign currency translation reserve	Total
Equity at 1 January 2017	14,780	-194,369	-15,398	-194,987
Comprehensive income				
Loss for the year	0	-5,302,864	0	-5,302,864
Other comprehensive income				
Foreign currency translation reserve	0	0	-362,316	-362,316
Total comprehensive income	14,780	-5,497,233	-377,714	-5,860,167
Capital increase from convertible bonds	2,290	7,891,132	0	7,893,422
Increase of share capital	60,945	-60,945	0	0
Share-based compensation	0	4,614	0	4,614
Equity at 31 December 2017	78,015	2,337,568	-377,714	2,037,869
Equity at 1 January 2018	78,015	2,337,568	-377,714	2,037,869
Comprehensive income				
Loss for the year	0	-7,959,160	0	-7,959,160
Other comprehensive income				
Foreign currency translation reserve	0	0	150,235	150,235
Total comprehensive income	78,015	-5,621,592	-227,479	-5,771,056
Share-based compensation	0	410,060	0	410,060
Equity at 31 December 2018	78,015	-5,211,532	-227,479	-5,360,996

Consolidated financial statements and parent company financial statements 1 January – 31 December

Cash flow statement

Note	USD	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
	Profit/loss before tax	-8,668,455	-6,254,470	-8,830,069	-6,160,704
	Adjustment to reconciled profit before tax to net cash flows:				
5	Share-based compensation	425,603	381,297	425,603	381,297
4	Depreciation of other fixtures and fittings, tools and equipment	3,645	1,775	3,645	1,775
	Financial income	-22,960	-4,798	-22,894	-9,131
	Financial expenses	873,883	136,437	867,732	136,437
	Working capital adjustments				
	Decrease/increase in trade and other receivables and prepayments	353,391	-393,382	486,482	-597,724
	Decrease/increase in trade and other payables and payables to group enterprises and Management	-629,750	1,054,398	-627,225	1,050,406
	Decrease/increase in deferred income	-78,662	78,662	-78,662	78,662
	Interest received	8,199	4,798	14,459	5,028
	Interest paid	-13,083	-38,458	-13,083	-38,458
	Income tax received	887,189	61,210	887,189	61,210
	Cash flows from operating activities	-6,861,000	-4,972,531	-6,886,823	-5,091,202
	Rent deposits	523	-14,659	523	-14,659
11	Purchase/sale of other fixtures and fittings, tools and equipment	-5,397	-9,549	-5,397	-9,549
	Cash flows from investing activities	-4,874	-24,208	-4,874	-24,208
19	Long-term debt	8,138,049	0	8,138,049	0
	Capital increase	0	7,165,399	0	7,165,399
	Cash flows from financing activities	8,138,049	7,165,399	8,138,049	7,165,399
	Net cash flows from operating, investing and financing activities	1,272,175	2,168,659	1,246,352	2,049,988
13	Cash in bank at 1 January	2,228,548	532,054	2,113,981	532,054
	Exchange gains/losses on cash in bank	-199,268	-472,164	-198,594	-468,061
13	Cash in bank at 31 December	3,301,455	2,228,549	3,161,739	2,113,981

Consolidated financial statements and parent company financial statements 1 January – 31 December

Note summary

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies

Corporate information

The financial statements of UNION therapeutics A/S for the year ended 31 December 2018 comprise both the consolidated financial statements of UNION therapeutics A/S and its subsidiary Union therapeutics North America Inc. (the Group) and the separate parent company financial statements for UNION therapeutics A/S. The consolidated financial statements and the parent company financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 31 May 2019. UNION therapeutics A/S is a public limited company incorporated and domiciled in Denmark with privately held shares. The registered office is located at Tuborg Havnevej 18, 2900 Hellerup, Denmark.

Basis of preparations

The consolidated financial statements of UNION therapeutics A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU at 31 December 2018 and additional disclosure requirements of the Danish Financial Statements Act for reporting class B enterprises. All approved, mandatory standards and bases for conclusion effective at 31 December 2018 have been applied in the financial year.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, UNION therapeutics A/S (the Company), and a subsidiary controlled by UNION therapeutics A/S.

The Group controls an entity if the Group is exposed to or is entitled to variable returns due to its interest in the entity and can impact these returns through its controlling interest in the entity.

In the assessment as to whether the Group exercises control, allowance is made for de facto control and potential voting rights that are real and of substance at the reporting date.

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated.

In the consolidated financial statements, the items of subsidiaries are recognised in full.

Updates to the Group's accounting policies

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of UNION therapeutics A/S' annual financial statements for the year ended December 31, 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time IFRS 9 Financial Instruments that require restatement of previous financial statements. The adoption of IFRS 9 did not have a significant impact on the condensed consolidated financial statements. In addition, there have been amendments to IFRS 2, Share-Based Payment, which the Group adopted, but did not have any impact on the Group's condensed consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers, was effective on January 1, 2018, however, as the Group did not generate revenue in 2018 and 2017, the standard is not applicable at this time.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. Only the standards and interpretations that are expected to have an impact on the Group's financial position, performance, and/or disclosures are listed. The Group intends to adopt these standards, as applicable, when they become effective.

IFRS 16 Leases, effective for annual periods beginning on or after January 1, 2019

IFRS 16 requires all leases (except for short-term leases and leases of low-value assets) to be recognized as a right-of-use asset and lease liability, measured at the present value of future lease payments recognized as a right-of-use asset and lease liability, measured at the present value of future lease payments. The right-of-use asset is subsequently depreciated in a similar way to other depreciable assets over the lease term and interest calculated on the lease liability in a similar way to how it is calculated on finance leases under IAS 17. Consequently, the change will also impact the presentation in the income statement and the statement of cash flows.

UNION therapeutics has assessed the standard, and the changes will require capitalization of several of UNION therapeutics' operating lease contracts, representing approximately USD 69 thousand or 2% of the consolidated total assets. The impact on result and equity will be insignificant.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

As at the reporting date, the Group has operating leasing commitments of approx. USD 107 thousand from 2019 – 2021 from leases that are currently available for use by the Group.

For the current lease commitments, the Group expects to recognise right-of-use assets and lease liabilities of approximately. USD 69 thousand on the date of transition.

In calculating the discounted value of future lease payments, the Group will apply its incremental borrowing rate. In general, the Group does not expect any significant impact on the financial statements as a result of adoption of IFRS 16.

Foreign currency translation

Translation of foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment that best reflect the economic substance in which the legal entities operate (functional currency). The functional currency of the parent company is DKK, and the functional currency of the US subsidiary is USD.

Transactions denominated in currencies other than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the rate at the transaction date and the rate at the date of payment are recognised in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the date of the statement of financial position.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised in profit or loss as financial income or financial expenses.

In the consolidated financial statements, the statement of comprehensive income of foreign operations with a functional currency other than Danish kroner are translated at the exchange rate at the transaction date, and the statement of financial position items are translated at closing rates. An average exchange rate for each month is used as the exchange rate at the transaction date in so far as this does not significantly distort the presentation of the underlying transactions.

Foreign exchange differences arising on translation of the opening equity of such entities at closing rates and on translation of the statements of comprehensive income from the exchange rate at the transaction date to closing rates are recognised in other comprehensive income in a separate translation reserve under equity.

Translation from functional currency to presentation currency

The Company's consolidated financial statements and parent company financial statements are presented in USD. The Company has elected USD as the presentation currency due to the fact that reporting in this currency is considered most relevant to the readers of the financial statements.

In the statement of comprehensive income, the functional currency of the parent company (DKK), is translated into the presentation currency, USD, at the monthly average exchange rates. Assets and liabilities are translated into USD at the exchange rates at the date of the financial position. Exchange differences arising from such translation are recognised directly in other comprehensive income and presented in a separate reserve in equity.

Statement of comprehensive income

Research and development costs

Research and development costs primarily comprise salary and related cost, license, patent and other intellectual property-related costs and external development costs, as well as depreciation and amortization directly attributable to the Group's research activities. All research and development costs are recognised in the income statement as incurred.

Administrative costs

Administrative costs primarily comprise salary and related expenses and other external administrative costs.

Other operating income

Other operating income comprises items secondary to the principal activities of the entities, including gains and losses on ongoing disposal and replacement of intangible assets and items of property and plant and equipment. Gains and losses on disposal are made up as the sales price less selling costs and the carrying amount at the time of disposal.

Moreover, other income comprises government and privately funded grants. 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 attached to the grants received. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Finance income and expenses comprise interest income and expenses, exchange gains and losses on transactions denominated in foreign currencies. Furthermore, amortisation of financial assets and liabilities, including finance lease liabilities, as well as surcharges and allowances under the on-account tax scheme and changes in the fair value of financial assets and liabilities designated upon initial recognition as fair value through profit or loss.

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 statement of comprehensive income, 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 section 8X of the Danish Tax Assessment Act (ligningsloven § 8X).

Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

- it is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Property, plant and equipment

Property, plant and equipment include leasehold improvements and other fixtures and fittings, tools 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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

The depreciation basis, which is made up as the cost reduced by a residual value, if any, is distributed on a straight-line basis over the expected useful life of the assets, cf. below:

	Useful life	Residual value
Other fixtures and fittings, tools and equipment	2-5 years	0
Leasehold improvements	5 years	0

Gains and losses from current replacements of items of property, plant and equipment are reduced and recognised in other income/expenses.

Rental deposits

Rental deposits are measured at amortized cost.

Other receivables

Other receivables, which include VAT and grant receivables, are initially measured at fair value and subsequently measured at amortised cost, which usually corresponds to the nominal value. The value is reduced by impairment losses.

Prepayments

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

Cash in bank

Cash and cash equivalents comprise cash in bank.

Income tax and deferred tax

Current income tax

Tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities within one year from the date of the statement of financial position. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation or "uncertainty" and establishes provisions where appropriate. To date, no provisions have been established for uncertain tax positions.

Tax for the year includes a tax credit for research and development at the applicable tax rate for the year in question if the Company is deemed to qualify for the tax credit under the Danish Corporate Income Tax Act.

Deferred tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilised.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the profit or loss is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities of the same tax jurisdiction are offset if a legally enforceable right exists to set off.

Upfront payments and deferred income

Upfront payments that are deemed attributable to subsequent research and development work are initially recognised as deferred income and recognised and allocated as revenue over the planned development period. This judgement is made when entering the agreement and is based on development budgets and plans. The planned development period is assessed on an ongoing basis. If the expected development period is changed significantly, this will require a reassessment of the allocation period. The allocation periods have not been changed in 2018 and 2017 for any of the Company's collaborations.

Share-based payments

The Board of Directors, key personnel, and lenders (The European Investment Bank) of the Group receive remuneration in the form of share-based payments.

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in note 6.

The cost is recognised in the statement of comprehensive income together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognised at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the holder. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

Cash-settled transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. Further details are given in note 6.

Financial liabilities

Financial liabilities measured at fair value through profit or loss (FVPL)

A financial liability is measured at FVPL if it meets the definition of held for trading. The Company includes in this category, warrant put options.

Financial liabilities measured at amortised cost

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Company includes in this category loans and other short-term payables.

Loans are initially recognised at fair value, net of transaction costs incurred, if any. Loans are subsequently measured at amortised cost using the effective interest rate method, or EIR. Gains and losses are recognised in the statement of comprehensive income within financial items when liabilities are derecognised as well as when the EIR amortization process is used.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Compound financial instruments

A compound financial instrument which contains both a liability and an embedded put option component is separated at the issue date.

The Company has issued a loan with an embedded put option feature pursuant to which the lender may require the company to purchase all or part of the warrants held by the lender at the fair value of the warrants at the time of exercise.

When establishing the accounting treatment of these non-derivative instruments the Company first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, or warrant put option instruments in accordance with IAS 32 Financial Instruments: Presentation.

The Company separately recognises the components of a financial instrument that: (a) creates a financial liability for the Company; and (b) grants a put option to the lender to purchase all or part of the warrants held by the lender.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Classification of the liability and warrant put option components is not revised as a result of a change in the likelihood that the warrant put option will be exercised, even when exercise of the option may appear to have become economically advantageous to the holders. When allocating the initial carrying amount of a compound financial instrument to its liability and warrant put option components, the warrant put option component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the liability component.

Other liabilities

Other financial liabilities are on initial recognition measured at the proceeds received net of transaction costs. On subsequent recognition, liabilities are measured at amortised cost corresponding to the nominal unpaid debt.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Subsequent events

If the Company receives information after the reporting period, but prior to the date of the Board of Directors' approval of the financial statements, about conditions that existed at the end of the reporting period, the Company assesses whether the information affects the amounts recognised in the financial statements. The Company will adjust the amounts recognised in the financial statements to reflect any adjusting events after the reporting period and update the disclosures that relate to those conditions in the light of the new information.

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

Cash flow statement

The cash flow statement shows the entity's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the entity's cash and cash equivalents at the beginning and the end of the year.

Cash flows from operating activities are presented using the indirect method and are made up as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid income taxes.

Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities.

Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest-bearing debt.

Cash and cash equivalents comprise cash and short-term securities in respect of which the risk of changes in value is insignificant.

Parent company financial statements

The Parent Company has the same accounting policies for recognition and measurement as the Group. The Parent Company's accounting policies deviate from the Group's accounting policies as described below.

Investments in subsidiaries

Investments in subsidiaries are measured at cost.

The Group annually tests whether the investment in subsidiaries has suffered any impairment.

Impairment tests are performed on subsidiaries if events or changes in circumstances indicate that their carrying amount may not be recoverable. If cost exceeds the recoverable amount, the carrying amount is written down to the recoverable amount.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

The judgments, estimates, and assumptions made are based on historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise.

Dividends from investments in subsidiaries are recognised in the income statement in the financial year in which the dividend is declared.

2 Significant accounting judgements, estimates and assumptions

In preparing the financial statements, Management makes various accounting judgements as well as estimates and define assumptions which form the basis of recognition, measurement and presentation of the Company's assets and liabilities.

The estimates and assumptions applied are based on historical experience, the most recent information available at the reporting date, and other factors that Management considers reasonable under the circumstances.

The basis for judgement and information can by nature be inaccurate or incomplete, and the Company is subject to uncertainties, which can result in an actual outcome that deviates from the estimates and defined assumptions. It may be necessary in the future to change previous estimates and judgements as a result of supplementary information, additional knowledge and experience of subsequent events.

In applying the Company's accounting policies described in note 1, Management has exercised the following critical accounting judgements and estimates which significantly influence the amounts recognised in the financial statements:

Research and development

Intangible assets arising from development projects should be recognised in the statement of financial position. The criteria that must be met for capitalisation are:

- The Company has the technical feasibility to complete the intangible asset so that it will be available for use or sale.
- The Company intends to complete the intangible asset and use or sell it.
- The Company has the ability to use or sell the intangible asset.
- The intangible asset will generate probable future economic benefits. Among other things, the Company must demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- Adequate technical, financial and other resources must be available to complete the development and to use or sell the intangible asset.
- The Company is able to reliably measure the expenditure attributable to the intangible asset during its development.

Such an intangible asset should be recognised if sufficient certainty can be documented that the future income from the development project will exceed the aggregate cost of production, development, and sale and administration of the product.

In line with industry practice, the Company expenses all research costs as incurred as these do not qualify for capitalisation as intangible assets until marketing approval by a regulatory authority is obtained or highly probable, due to regulatory and other uncertainties inherent in the development of new products. Accordingly, the Company has not recognised such assets at this time.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

2 Significant accounting judgements, estimates and assumptions (continued)

Share-based payment

Determination of fair value of the net settlement obligation related to warrants is associated with significant estimation uncertainty due to the fact that the shares of the Company are not traded in an active market and with few capital increases to support share prices. Reference is made to note 6.

3 Financing and going concern assumption

At 31 December 2018, the statement of financial position at 31 December 2018 shows a consolidated equity of USD -5,293,947 and a consolidated cash positions of USD 3,301,455. The development plan for 2019 implies a lower capital requirement than realized in 2018, and is expected to be covered by the company's current financial resources and expected license income during the year.

The Company's operations are financed via a long term loan facility under which the company has undrawn tranches of EUR 13 million, subject to certain conditions, at 31 December 2018. Management expects the Company's capital resources together with income from out-licenses agreement entered after the balance sheet date (refer to note 20) is sufficient to cover the company's obligations as they mature for a period until 31 December 2018.

Further, the company expects to raise additional funds during 2019 to finance future clinical development and operations.

Based on these measures the Board of Directors and management has concluded that there is no significant risk associated with going concern as of the date of these financial statements. On this basis Management has prepared the financial statement on a going concern assumptions.

	Group		Parent Company	
USD	2018	2017	2018	2017
4 Depreciation				
Included in R&D costs:				
Depreciation on tangible assets (note 11)	3,645	1,775	3,645	1,775
	3,645	1,775	3,645	1,775

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

USD	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
5 Staff costs				
Included in research and development costs:				
Wages and salaries	1,909,294	1,301,732	1,909,294	971,416
Share-based compensation expense (note 6)	239,849	376,958	239,849	376,958
Social security costs	6,036	8,049	6,036	3,254
Other costs	94,111	101,364	94,111	93,348
Included in administrative expenses:				
Wages and salaries	284,664	40,467	284,664	40,467
Share-based compensation expense (note 6)	185,755	4,339	185,755	4,339
Social security costs	900	136	900	136
Other costs	14,031	3,889	14,031	3,889
	2,734,640	1,836,934	2,734,640	1,493,807
Average number of full time employees during the year	8	5	8	5

Staff costs includes cost of consultants not included in the number for full time employees.

Remuneration to the Executive Board and Board of Directors

USD	2018 Executive Board	2018 Board of Directors	2017 Executive Board	2017 Board of Directors
Wages and salaries	669,577	14,179	274,053	0
Share-based compensation expense (note 6)	143,997	41,758	0	4,339
Social security costs	881	0	554	0
Other costs	0	0	15,558	0
	814,455	55,937	290,165	4,339

6 Share-based payment

For the period ending 31 December 2018, the Company has issued warrants to certain members of the Board of Directors, key personnel and lenders.

Fair value is based on unobservable input (level 3) and is determined using the Black-Scholes option pricing model. The key parameters used for determining the fair value are:

- Volatility
- Share price
- Risk-free interest rate
- Expected life
- Exercise price

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

6 Share-based payment (continued)

The tables below summarise the grant activity related to warrants:

USD	Board of Directors	Key personnel	Lender	Total
Outstanding, 1 December 2017	2,095	0	0	2,095
Granted during the year	2,513	9,678	18,691	30,882
Exercised	0	0	0	0
Expired	0	0	0	0
Forfeited	0	0	0	0
Outstanding, 31 December 2017	4,608	9,678	18,691	32,977
Granted during the year	0	10,310	0	10,310
Exercised	0	0	0	0
Expired	0	0	0	0
Forfeited	0	0	0	0
Outstanding, 31 December 2018	4,608	19,988	18,691	43,287

The tables below summarise the assumptions, conditions and other information relating to warrants:

	2018			2017		
	Board of Directors	Key personnel	Lender	Board of Directors	Key personnel	Lender
Volatility (%)	-	55-69	-	55	55	55
Share price (USD)	-	131	-	16-131	131	131
Expected life in years	-	4-10	-	4	3-5	5
Risk-free interest rate (%)	-	0.004	-	0.004	0.004	0.004
Exercise price (USD)		131	-	16-131	39-131	0.2
Fair value of equity settled awards at grant date (USD'000)	-	-	-	-	89	-
Fair value of cash-settled warrants at 31 December (USD'000)	-	90	-	-	89	-
Share-based compensation expense (USD'000)	41	389	-8	4	377	0
Accounting method	Equity settled	Equity and cash settled	Equity settled	Equity settled	Equity and cash settled	Equity settled

Board of Directors

Warrants granted in March 2016 and April 2017 vest partly, gradually and partly cliff-based over a period of 4 years subject to continued employment. No warrants were granted to the Board of Directors during the twelve month period ended 31 December 2018.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

6 Share-based payment (continued)

Key personnel (including former employees)

Warrants granted in February 2017 have no conditions other than non-vesting exercise conditions such as an IPO, change of control event, solvent liquidation or merger/demerger.

Warrants granted in November 2017 and in 2018 vest partly, gradually and partly cliff-based over a period of 3 years subject to continued employment.

Lender

In October 2017, Management entered into a loan contract with the European Investment Bank. As consideration for the loan, the European Investment Bank was granted warrants that vest relative to the drawdown on the loan in two tranches. In January 2018, the Company called the first of two tranches under the finance contract. A number of 8,722 warrants vested upon drawdown of the first tranche.

7 Other operating income

Other (operating income consists of government grants (Innovation Fund Denmark and Train2Target). These grants provide compensation for a part of certain project specific research and development expenses, including wages and salaries. In 2018, UNION therapeutics received USD 583 thousand in government grants (2017: USD 374 thousand).

		Group		Parent Company	
	USD	2018	2017	2018	2017
8	Financial income				
	Interest income	8,199	4,798	8,133	5,028
	Interest income, group company	0	0	6,326	4,103
	Foreign currency adjustments	8,627	0	8,435	0
		16,826	4,798	22,894	9,131
9	Financial expenses				
	Interest expense	830,572	32,607	836,706	32,607
	Foreign currency adjustments	24,094	97,979	17,943	97,797
	Other	13,083	5,851	13,083	6,033
		867,749	136,437	867,732	136,437

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

10 Tax

The major components of income tax benefit for the years ended 31 December 2018 and 2017 are:

	Group		Parent Company	
USD	2018	2017	2018	2017
Statement of comprehensive income				
Current income tax charge	870,109	833,237	870,909	833,237
Relating to origination and reversal of temporary differences	0	24,603	0	24,603
Income tax expense (income) reported in the statement of comprehensive income	870,109	857,840	870,909	857,840
Statement of other comprehensive income				
Deferred tax charges to other comprehensive income during the year:				
Currency adjustment due to presentation in USD	0	-1,613	0	-1,613
Deferred tax charged to other comprehensive income	0	-1,613	0	-1,613
Deferred tax				
1 January	306	23,296	306	23,296
Adjustment of deferred tax current year	-306	-24,997	-306	-24,997
Adjustment of deferred tax prior year	0	394	0	394
Currency adjustment on deferred tax	0	1,613	0	1,613
Deferred tax at 31 December	0	306	0	306
Deferred tax comprises temporary differences related to:				
Tax deductible losses	1,416,361	461,683	1,416,361	461,683
Other temporary differences	48,087	108	48,087	108
Deferred tax at 31 December	1,464,448	461,792	1,464,448	461,792
Deferred tax assets not recognised:				
Deferred tax assets not recognised	-1,464,448	-461,486	-1,464,448	-461,486
Deferred tax at 31 December	0	307	0	307

Reconciliation of tax expense and the accounting profit multiplied by the Danish domestic tax rate for 2018 and 2017:

Accounting loss before tax	8,686,455	6,550,791	8,830,069	6,550,791
At the Danish statutory income tax rate of 22% (2017: 22%)	1,911,020	1,375,983	1,942,615	1,375,983
Foreign exchange adjustment	38,507	-23,997	7,712	-23,997
Tax effect of				
Non-recognised tax loses	-1,007,979	-461,683	-1,007,979	-461,683
Other non-deductible costs	-71,746	-7,860	-71,746	-7,860
Adjustment of deferred tax	306	-24,603	306	-24,603
	870,109	857,840	870,909	857,840

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

11 Tangible assets

Other fixtures and fittings, tools and equipment

USD	Group and Parent Company 2018	Group and Parent Company 2017
Cost		
At 1 January	9,549	0
Currency adjustment	-456	0
Additions	5,397	9,549
At 31 December	14,490	9,549
Depreciation		
At 1 January	1,888	0
Currency adjustment	-203	113
Additions	3,645	1,775
At 31 December	5,330	1,888
Net book value		
At 31 December	9,160	7,661

USD	Parent Company 2018	Parent Company 2017
12 Investments in subsidiaries		
Cost at 1 January	1	0
Additions	0	1
Cost at 31 December	1	1
Carrying amount at 31 December	1	1

Name and registered office	Voting rights and ownership
UNION therapeutics North America Inc.	100%

The subsidiary is considered a separate entity.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

		Group		Parent Company	
	USD	2018	2017	2018	2017
13	Cash in bank				
	Cash in bank	3,301,455	2,228,549	3,161,739	2,113,981
		3,301,455	2,228,549	3,161,739	2,113,981

Cash in bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

14 Capital management and share capital

Capital management

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the shareholders of the Company.

The primary objective of the Company's capital management is to maximise shareholder value.

The Company is in a start-up phase and does not have formalised capital management objectives besides ensuring that it is appropriate to prepare the financial statements based on a going concern assumption.

The Company makes adjustments in light of changes in economic conditions and other requirements. To maintain the capital structure, the Company may issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

Loan facility and warrant and put option agreement with the European Investment Bank

In October 2017, the Company entered into a finance contract with the European Investment Bank ensuring a loan facility of USD 24 million (denominated and disbursed in EUR).

Under the finance contract, the loan shall be disbursed in up to two tranches and the repayment date is no later than the fifth anniversary of the relevant disbursement date. The loan agreement is subject to a number of financial and non-financial terms.

As part of the loan agreement, the Company entered into a floating charge agreement pursuant to which a floating charge of USD 2.1 million is pledged. Furthermore, the Company entered into a negative pledge preventing it to subsist any security over any of its assets.

As consideration for the loan, the Company has granted 18,691 warrants to the European Investment Bank that vest relative to the drawdown on the loan in two tranches. The loan agreement further includes an embedded derivative in form of a put option, pursuant to which the European Investment Bank may require the Company to purchase all or part of the vested warrants held by the European Investment Bank at fair value of the warrants at the time of exercise.

In January 2018, the Company called the first of the two tranches under the finance contract. The first tranche totalled EUR 7,000,000. The loan and accumulated interest falls due for payment in January 2023. A number of 8,722 warrants vested upon drawdown of the first tranche.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

14 Capital management and share capital (continued)

Share capital

500,000 shares of USD 0.156 each has been issued and paid in full. Only one class of shares exist, and no shares have any special rights.

Loss of subscribed share capital

The Company has lost more than 50% of its subscribed share capital. On the annual general meeting of shareholders in 2019, the Board of Directors plans, in accordance with section 119 of the Danish Companies Act, to account for the Company's financial position and to propose any appropriate measures to re-establish the share capital.

15 Foreign currency translation reserve

Parent Company

In the statement of comprehensive income, the functional currency, DKK, is translated into the presentation currency, USD, at the average exchange rates. Assets and liabilities are translated into USD at the exchange rates at the balance sheet date. Exchange differences arising from such translation are recognised directly in other comprehensive income and presented in a separate reserve in equity.

Group

In the statement of comprehensive income for the Parent Company, the functional currency, DKK, is translated into the presentation currency, USD, at the average exchange rates. Assets and liabilities are translated into USD at the exchange rates at the balance sheet date. Exchange differences arising from such translation are recognised directly in other comprehensive income and presented in a separate reserve in equity. In the statement of comprehensive income for the consolidated subsidiary, the functional currency is USD, and therefore, no exchange differences have been recognised in other comprehensive income in this respect.

16 Related party disclosures

Group and Parent Company

Related parties comprise UNION therapeutics North America, Inc., an America based subsidiary, and UNION therapeutic A/S' Executive Management and Board of Directors.

No single shareholder has significant influence or control over the Company.

Besides paying the usual salary and share-based payment to the Executive Management and Board of Directors as further described in notes 5 and 6, the Company did not carry through any transactions with its related parties besides the below mentioned transactions.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

16 Related party disclosures (continued)

	Year	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Transactions with other related parties:					
Associates:					
Clinical-Microbiomics A/S	2018	14,496	16,422	0	0
	2017	9,386	0	0	0
UNION therapeutics North America, Inc.	2018	0	563.449	75,914	0
	2017	0	418,422	204,341	0
Key management personnel:					
Director receivables and payables	2018	0	0	0	0
	2017	0	0	0	698

Holding companies

The Company is jointly controlled by the holding companies Vendler ApS and Manjin ApS, which are owned by members of the Executive Board. There were no transactions between UNION therapeutics A/S and the holding companies in 2018 and 2017.

Associated parties

Clinical-Microbiomics A/S

UNION therapeutics A/S renders contract research services to and from Clinical-Microbiomics A/S. Clinical-Microbiomics A/S is partly owned by the holding companies to UNION therapeutics A/S, and members of the Executive Board of UNION therapeutics A/S are appointed to the Board of Directors of Clinical-Microbiomics A/S.

UNION therapeutics North America, Inc.

UNION therapeutics North America, Inc. renders contract research services from UNION therapeutics A/S. Moreover, UNION therapeutics A/S has provided a loan to UNION therapeutics North America, Inc. UNION therapeutics North America, Inc. was founded on 24 March 2017 and is a wholly-owned subsidiary of UNION therapeutics A/S.

Board of Directors

Reference is made to note 5 and 6.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at year end are unsecured and interest free and settlement occurs in cash. No guarantees were provided or received for any related party receivables or payables. For the years ended 31 December 2018 and 31 December 2017, the Company did not record any impairment of receivables relating to amounts owed by related parties.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

17 Contingent liabilities, contractual obligations and pledges

Group and Parent Company

The Company has entered into an operating lease agreement regarding its office building. The lease has a non-cancellable term of 2 years and future minimum rental payments at 31 December 2018 amounted to USD 82 thousand (2017: USD 130 thousand).

Furthermore, the Company has contracts with CRO's, where the CRO will carry out clinical trials for the Company. There is a contract in place between the parties but the amounts are not fixed as it depends on reaching milestones, number of enrolled patients, etc.

The Company has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of USD 2 million is pledged. Furthermore, the Company has entered into a negative pledge preventing it from placing any of its assets as security excluding the aforementioned floating charge to the European Investment Bank.

18 Financial risks

The Company's financial risks are managed by the Executive Board. The Company has identified financial risks, but follows a policy where Management continually monitors the following defined risks: liquidity risk, interest rate risk, currency risk and credit risk.

Liquidity risk

Liquidity risk is the risk that UNION therapeutics will not be able to meet its financial obligations as they fall due. The Executive Board monitors its risk of a shortage of funds using a liquidity planning tool.

The Company's objective and policy is to maintain a balance between continuity of funding and flexibility through the use of bank credits, grants, collaboration agreements and hire purchase contracts.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

18 Financial risks (continued)

The table below summarises the category and maturity profile of the Company's financial assets and liabilities based on contractual undiscounted payments.

Group

USD	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total	Carrying amount
2018					
Loans and receivables measured at amortised cost					
Other receivables	203,712	0	0	203,712	203,712
Rent deposits	0	16,666	0	16,666	16,666
	203,712	16,666	0	220,378	220,378
Financial liabilities measured at fair value (level 3)					
Warrant put option	*0*	993,797	*0*	993,797	993,797
Cash settled share-based compensation	0	415,540	0	415,540	415,540
	0	1,409,337	0	1,409,337	1,409,337
Financial liabilities measured at amortised cost					
Long-term debt	*0*	7,648,938	*0*	7,648,938	7,648,938
Trade payables	490,851	0	0	490,851	490,851
Other payables	172,058			172,058	172,058
	662,909	7,648,938	0	8,311,847	8,311,847
2017					
Loans and receivables measured at amortised cost					
Other receivables	410,464	0	0	410,464	410,070
Rent deposits	0	17,189	0	17,189	17,189
	410,464	17,189	0	427,653	427,259
Financial liabilities measured at fair value (level 3)					
Cash settled share-based compensation	0	400,827	0	400,827	400,827
	0	400,827	0	400,827	400,827
Financial liabilities measured at amortised cost					
Trade payables	1,208,168	0	0	1,208,168	1,208,168
Other payables	83,793	0	0	83,793	83,793
	1,291,961	0	0	2,583,922	2,583,922

Consolidated financial statements and parent company financial statements 1 January – 31 December

18 Financial risks - continued

Parent Company

USD	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total	Carrying amount
2018					
Loans and receivables measured at amortised cost					
Receivables from group entities	75,914	0	0	75,914	75,914
Other receivables	199,027			199,027	199,027
Rent deposits	0	16,666	0	16,666	16,666
	274,941	16,666	0	291,607	291,607
Financial liabilities measured at fair value (level 3)					
Warrant put option	*0*	993,797	*0*	993,797	993,797
Cash settled share-based compensation	0	415,540	0	415,540	415,540
	0	1,409,337	0	1,409,337	1,409,337
Financial liabilities measured at amortised cost					
Long-term debt	*0*	7,648,938	*0*	7,648,938	7,648,938
Trade payables	489,384	0	0	489,384	489,384
Other payables	172,058			172,058	172,058
	661,442	7,648,938	0	8,310,380	8,310,380
2017					
Loans and receivables measured at amortised cost					
Receivables from group entities	204,341	0	0	204,341	204,341
Other receivables	410,464	0	0	410,464	410,464
Rent deposits	0	17,189	0	17,189	17,189
	614,805	17,189	0	631,994	631,994
Financial liabilities measured at fair value (level 3)					
Put option	0	0	0	0	0
Cash settled share-based compensation	0	400,827	0	400,827	400,827
	0	400,827	0	400,827	400,827
Financial liabilities measured at amortised cost					
Trade payables	1,204,175	0	0	1,204,175	1,204,175
Other payables	83,793	0	0	83,793	83,793
	1,287,968	0	0	1,287,968	2,575,937

Consolidated financial statements and parent company financial statements 1 January – 31 December

18 Financial risks (continued)

Group and Parent Company

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

UNION therapeutics has no significant interest-bearing debt with variable interest, and UNION therapeutics' interest rate risks primarily relate to the position of cash in banks. As such, no separate analysis is provided.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. UNION therapeutic' exposure to the risk of changes in foreign exchange rates primarily relates to the Company's operating activities when revenue or expense transactions are denominated in a foreign currency. UNION therapeutics has established a USD account to hedge the currency risk.

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. UNION therapeutics is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits at banks, rent deposits and other financial instruments.

At each reporting date, an impairment analysis is performed on an individual basis for the Company's financial instruments. The Company accounted for an impairment loss of receivables of USD 0 and USD 0 in 2018 and 2017, respectively.

The carrying value of UNION therapeutics' financial instruments, as disclosed in the statement of financial position, represents the maximum credit exposure, hence, no separate disclosure is provided.

19 Changes in liabilities arising from financing activities

Group and Parent Company

			Non-cash changes				
	2017	Cash flows	Reclass. to warrant put option	Interest	Amor-tisation	Currency adj.	2018
Debt facility	0	8,138,049	-1,150,328	798,413	24,196	-161,392	7,648,938
Total liabilities from financing activities	0	8,138,049	-1,150,328	798,413	24,196	-161,392	7,648,938

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes to the financial statements

20 Events after the balance sheet date

Group and Parent

In January 2019, a license agreement was signed, granting Ceva Santé Animale S.A., a globally leading veterinary care company, the right to use UNION's compound UNI836 for certain indications in companion animals. The license agreement will provide UNION an upfront payment, milestone payments as well as royalties on the sales.

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

21 Fair value measurement

The Company measures derivatives at fair value as at each reporting date. When estimating the fair value of financial instruments, management applies the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments measured on level 3

The Company has entered a finance contract with an embedded warrant and put option. Management has estimated the fair value of the embedded warrant and put option using valuation techniques in the form of valuation models. Reference is made to note 6.

Valuation models and assumptions

Management assessed that cash, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The following key methods and assumptions were used to estimate the fair values of level 3 financial instruments:

The fair value of the embedded warrant put option is estimated using the Black-Scholes Valuation model. This valuation method requires Management to make certain assumptions about the model inputs, such as the underlying share price, and volatility. The probabilities of the various estimates within the applied range can be reasonably assessed and are used in Management's estimate of fair value.

At 30 June 2018, other things being equal, a 1% increase in the share price will result in a 1% increase the fair value of the warrant put option. Similarly, a 1% decrease in the share price will reduce the fair value of the warrant put option by 1%.

Reconciliation of fair value measurement under Level 3 hierarchy:

	Cash settled warrants	Embedded put option	Total
At 31 December 2017	400,827	0	400,827
Addition, fair value at drawdown	0	1,021,846	1,021,846
Fair value adjustment through profit of loss	-2,065	-8,423	-10,488
Foreign currency exchange adjustments	-15,828	-19,626	-35,454
At 30 June 2018	382,934	993,797	1,376,731