UNION therapeutics A/S

Tuborg Havnevej 18, 2900 Hellerup, Denmark

CVR No
33 96 37 50

Annual report for

1 January
-
31 December 2020

Approved at the company's annual general meeting on April 27, 2021

DocuSigned by:
Morten Boesen
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Chairman

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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 2020.

The annual report has been 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 2020 and of the results of their operations and cash flows for the financial year 1 January – 31 December 2020.

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, the results for the year and the Group's and the Parent Company's financial position.

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

Hellerup, April 18, 2021

Executive Board

DocuSigned by:
Kim Domela Kjøller
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Kim Domela Kjøller (CEO)

DocuSigned by:
Rasmus Toft-Kehler
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Rasmus Vendler Toft-Kehler (Co-founder)

DocuSigned by:
Morten Boesen
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Morten Højland Boesen (CFO)

Board of Directors

DocuSigned by:
Stig Løkke Pedersen
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Stig Løkke Pedersen (Chairman)

DocuSigned by:
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Jutta Monika Heim

DocuSigned by:
Andrew J. Oakley
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Andrew John Oakley

DocuSigned by:
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Morten Otto Alexander Sommer

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Rasmus Toft-Kehler
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Rasmus Vendler Toft-Kehler

Company information

Company
UNION therapeutics A/S
Tuborg Havnevej 18
2900 Hellerup
Denmark

E-mail: info@uniontherapeutics.com
Telephone: +45 61 77 74 35
Central Business Registration No: 33 96 37 50
Registered in Gentofte

Executive Board
Kim Domela Kjøller
Rasmus Vendler Toft-Kehler
Morten Højland Boesen

Board of Directors
Stig Løkke Pedersen (chairman)
Jutta Monika Heim
Andrew John Oakley
Morten Otto Alexander Sommer
Rasmus Vendler Toft-Kehler

Financial year
January 1 - December 31

Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36
2000 Frederiksberg
Denmark

Management's review

About
UNION therapeutics A/S (in the following "the Company" or "UNION") is a privately held, clinical stage, pharmaceutical company dedicated to the development of novel treatments for inflammatory and infectious diseases.

Through medical and pharmaceutical innovation, the Company is using well-characterized compounds with versatile mechanism-of-actions, first- or best-in-class potential and well-established safety profiles, to address unmet medical needs in inflammatory and infectious diseases.

UNION is headquartered in Hellerup (Denmark), managed by an international team comprising pharma executives and biotech entrepreneurs. The leadership team of UNION has successfully contributed to global development and launch of multiple approved medicines.

2020 in review
2020 was a transformative year for UNION.

In March 2020, UNION redirected its ongoing work in infectious diseases to address the COVID-19 pandemic. The decision was motivated by the urgent medical need and enabled by the broad anti-infective activity of niclosamide, which is a potent inhibitor of the SARS-CoV-2 virus causing COVID-19. During the past five years, UNION has established a technology platform for effectively formulating and delivering niclosamide and related compounds. On this basis, UNION developed inhaled and intranasal products that allow effective delivery of niclosamide to the sites of respiratory infections. Having successfully completed clinical tests in healthy volunteers, UNION's product candidates were selected for international platform trials to test the clinical efficacy in COVID-19. The patient trials are expected to initiate during 2021.

2020 also saw a strengthening of UNION's work within inflammatory diseases. In June 2020, UNION completed the acquisition of a series of phosphodiesterase type 4 (PDE4) inhibitors from LEO Pharma A/S. LEO Pharma A/S had been developing candidates from the series from discovery into clinical studies, with the lead compound, orismilast, having demonstrated superior effect over placebo in Phase 2 studies in psoriasis as an oral formulation and in atopic dermatitis as a topical formulation. The compound class and clinical programs are highly complementary to UNION's existing focus and expertise within inflammatory diseases, and in particular immuno-dermatology. In addition, PDE4-inhibition as a broad anti-inflammatory mechanism offers potential benefits across a range of inflammatory indications.

During 2020, the clinical trial of ATx201 as a topical agent for atopic dermatitis was completed with only limited delays to the overall timeline, despite the COVID-19 pandemic affecting study enrolment. Topline data received during early 2021 confirmed the anti-microbial properties and safety of ATx201. The data also showed a substantial reduction of clinical signs and symptoms but insufficient differentiation compared to its vehicle. Accordingly, topical orismilast - which has already demonstrated clinical proof-of-concept with significant effect over vehicle and a favorable safety profile – was chosen as the lead compound for the topical program in atopic dermatitis.

UNION's clinical pipeline was thus significantly expanded and matured during the year, going from one to four different product candidates in mid-to-late-stage clinical development, all targeting multiple disease areas with significant unmet medical needs. The addition of the PDE4 inhibitors further strengthened UNION's offering, adding a new molecular class to the portfolio which will serve as an additional platform for further clinical development.

The research conducted throughout the year also continued to result in the development of new knowledge, manifesting in publication of scientific articles as well as development of new intellectual property.

To support the expanded pipeline and generally high activity level, the organization was continuously strengthened throughout the year, including the appointment of Kim D. Kjøller, MD, as new CEO as of January 1, 2021, as well as new hires in key positions across several functional areas.

2020 also saw a continued strengthening of the shareholder base to support the Company's ongoing development, including successful equity capital raises completed in May 2020 and February 2021, raising close to DKK 200 million. The COVID-19 work also attracted significant public support, including a DKK 15 million grant from Innovation Fund Denmark across 2020 and 2021, as well as selection and invitation for large international government-supported platform trials.

Financial review
The statement of comprehensive income for 2020 shows a consolidated comprehensive loss of DKK 80.936 thousand against a loss of DKK 12.861 thousand last year, and the statement of financial position at 31 December 2020 shows a consolidated equity of negative DKK 58.397 thousand. At 31 December 2020, the Company had a consolidated cash position of DKK 36.425 thousand.

Financing and going concern assumption
In line with market practice for comparable companies at a similar stage of development, the Company's accounting policy is to expense and not capitalize development costs. Combined with the financing from the European Investment Bank being through a venture debt credit facility, the statement of financial position at 31 December 2020 shows a consolidated book value of equity of negative DKK 58.397 thousand and a consolidated cash position of DKK 36.425 thousand. Management consider the Company's capital resources at 31 December 2020 and the gross proceed from the capital increase in February 2021 to be sufficient to cover the Company's obligations for the ongoing activities as they mature at least through 31 December 2021. Furthermore, the Company expects to raise additional funds during 2021 to fund future and additional development activities and operations.

Accordingly, the Board of Directors and Management have concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern at 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
As a result of the Company's accounting policies, financing strategy and utilization of the credit facility provided by the European Investment Bank, as outlined above, the Company has lost more than 50% of its subscribed share capital at 31 December 2020. Following the capital increase completed in February 2021, the share capital was re-established.

Events after the balance sheet date
Capital increase
In February 2021, the Company completed an equity capital raise from existing and new investors, receiving gross proceeds of DKK 155 million.

Independent Auditors 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 2020, which comprise statement of comprehensive income, statement of financial position, 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 2020 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 2020 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.

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 assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

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.

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.

Copenhagen, 18 April 2021
EY Godkendt Revisionspartnerselskab

Christian Schwenn Johansen State Authorised Public Accountant mne33234	Rasmus Bloch Jespersen State Authorised Public Accountant mne35503

Consolidated financial statements
1 January - 31 December

Statement of comprehensive income

DKK'000	Notes	2020	2019
Revenue	4	0	11.649
Research and development costs	5,6	-65.108	-18.506
Administration expenses	5,6	-8.270	-5.949
Operating loss		**-73.377**	**-12.806**
Other operating income	8	9.049	344
Loss before net financials		**-64.328**	**-12.462**
Financial income	9	6	1.986
Financial expenses	10	-22.083	-6.529
Loss before tax		**-86.405**	**-17.005**
Tax benefit for the year	11	5.510	4.143
Loss for the year		**-80.896**	**-12.862**
Other comprehensive income or loss			
Items that may be classified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		-40	1
Other comprehensive income for the period, net of tax		**-40**	**1**
Total comprehensive loss for the year		**-80.936**	**-12.861**
Loss per share - basic and diluted (DKK)	12	-149	-26

Loss for the year and total comprehensive loss is attributable to the shareholders of UNION therapeutics A/S.

Consolidated financial statements
1 January - 31 December

Statement of financial position

DKK'000	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Intangible assets	13	16.566	0
Tangible assets	14	168	464
Deposits		122	112
Total non-current assets		**16.856**	**576**
Current assets			
Tax receivables	11	5.500	4.149
Other receivables and prepayments	15	10.103	1.101
Cash and cash equivalents		36.425	46.466
Total current assets		**52.029**	**51.716**
Total assets		**68.884**	**52.292**

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

Statement of financial position

DKK'000	Notes	31 December 2020	31 December 2019
Equity and liabilities			
Equity			
Share capital	16	563	515
Other reserves		-58.960	-38.823
Total equity		**-58.397**	**-38.308**
Non-current liabilities			
Long-term debt	20	88.894	79.560
Cash-settled warrant obligation	7	6.069	1.443
Lease liabilities	21	0	217
Total non-current liabilities		**94.964**	**81.220**
Current liabilities			
Lease liabilities	21	167	234
Trade payables		7.350	1.188
Warrant and put option	20	18.018	6.006
Other payables	18	6.783	1.952
Total current liabilities		**32.318**	**9.380**
Total liabilities		**127.282**	**90.600**
Total equity and liabilities		**68.884**	**52.292**

Consolidated financial statements
1 January - 31 December

Statement of changes in equity

DKK'000	Notes	Share capital	Other reserves: Foreign currency translation reserve	Accumulated deficit	Total
Equity at 1 January 2019		**500**	**14**	**-35.933**	**-35.419**
Loss for the year		0	0	-12.862	-12.862
Other comprehensive income		0	1	0	1
Total comprehensive income		**0**	**1**	**-12.862**	**-12.861**
Transactions with owners:					
Capital increases	16	15	0	8.235	8.250
Share-based compensation expenses		0	0	1.722	1.722
Equity at 31 December 2019		**515**	**15**	**-38.838**	**-38.308**
Loss for the year		0	0	-80.896	-80.896
Other comprehensive income		0	-40	0	-40
Total comprehensive income		**0**	**-40**	**-80.896**	**-80.936**
Transactions with owners:					
Capital increases	16	47	0	58.600	58.647
Transaction costs		0	0	-70	-70
Share-based compensation		0	0	2.269	2.269
Equity at 31 December 2020		**563**	**-25**	**-58.935**	**-58.397**

Consolidated financial statements
1 January - 31 December

Cash flow statement

DKK'000	Notes	2020	2019
Loss for the year		-80.896	-12.862
Adjustment for non-cash items	23	23.458	1.237
Changes in net working capital	24	1.945	-1.967
Changes in non-current financial assets		-10	-3
Interest received		7	93
Interest paid		-221	-227
Income taxes received		4.170	5.500
Cash flow from operating activities		**-51.546**	**-8.230**
Investment in patents, trademarks and other rights	13	-1.668	0
Cash flow from investing activities		**-1.668**	**0**
Proceeds from capital increase		43.749	8.250
Costs associated with capital increase		-70	0
Proceeds from issuance of loans	21	0	24.763
Lease instalments	21	-155	-152
Cash flow from financing activities		**43.524**	**32.861**
Net cash flow for the year		**-9.690**	**24.631**
Cash at the beginning of the period		46.466	21.775
Exchange rate adjustments of cash		-351	60
Cash and cash equivalents at end of the year		**36.425**	**46.466**
Cash and cash equivalents as per Statement of Financial Position		**36.425**	**46.466**
Non-cash financing activities			
Non-cash capital increases included in equity	13	14.898	0

Consolidated financial statements
1 January - 31 December

Note summary

Note
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2. Critical accounting estimates and judgements
3. Financing and going concern assumption
4. Revenue
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6. Staff costs
7. Share-based payment
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9. Financial income
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12. Basic and diluted loss per share
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17. Related party disclosures
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19. Contingent assets and liabilities, contractual liabilities, and pledges
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Notes

1. Accounting policies

Corporate information

The financial statements of UNION therapeutics A/S (the Company) for the year ended 31 December 2020 comprise both the consolidated financial statements of UNION therapeutics A/S and its subsidiaries UNION therapeutics North America Inc. and UNION therapeutics Research Services ApS (the Group) and the separate parent company financial statements of UNION therapeutics A/S (the parent). The Board of Directors considered and approved the 2020 Annual Report of UNION therapeutics A/S on 18 April 2021. The Annual Report will be submitted to the shareholders of UNION therapeutics A/S for approval at the Annual General Meeting on 27 April, 2021. UNION therapeutics A/S is a public limited liability company (in Danish: Aktieselskab or A/S) incorporated and domiciled in Denmark with privately held shares. The registered office is located at Tuborg Havnevej 18, 2900 Hellerup, Denmark.

Basis for preparation

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 and additional requirements of the Danish Financial Statements Act for reporting class B enterprises. All approved, mandatory standards and bases for conclusion effective at 31 December 2020 have been applied in the financial year.

The financial statements have been prepared under the historical cost convention, except for cash-settled warrants and non-derivative financial instruments that are measured at fair value.

The financial statements are presented in DKK and have been rounded to the nearest thousand.

Applied materiality

The financial statements are based on the concept of materiality and UNION therapeutics A/S focuses on information that is considered material and relevant to the users of the financial statements. The financial statements are a result of processing large numbers of transactions and aggregating those into classes according to their nature or function. The aggregated transactions are presented in classes of similar items in the financial statements. Line items not individually material are aggregated with other items of similar nature in the financial statements or in the notes.

The disclosure requirements are substantial in IFRS and the Danish Financial Statement Act. Management provides specific disclosures required unless the information is considered immaterial to the financial decision-making of the users of these financial statements and otherwise not warranted or not applicable.

Information on COVID-19

UNION therapeutics A/S' business, operations and clinical studies were impacted by the effects of COVID-19. Although the clinical studies continued without interruption during 2020, delays and increased costs resulting from implications of COVID-19 were experienced. However, UNION therapeutics A/S has not recognized any writeoffs, impairments of assets, or losses due to onerous contracts. The COVID-19 pandemic may, in the long-term, affect the productivity of UNION therapeutics A/S' staff; the ability to attract, integrate, manage and retain qualified personnel or key employees; the global supply chains and relationships with vendors and other parties; significant disruption of global financial markets; and reduced ability to secure additional funding. UNION therapeutics A/S continuously monitors the COVID-19 pandemic and its potential impact on the business and financials.

Notes

Changes in the accounting policies and disclosures

Classification change

Reclassification changes have been made in the financial statements regarding classification of "Research and development costs" and "Administration expenses". The comparative figures have been restated to reflect the classification change. In the statement of comprehensive income for 2019 "Administration expenses" of DKK 896 thousand, previously presented as "Research and development costs", have been reclassified to "Administration expenses". The classification change did not impact operating loss for 2019.

New accounting policies and disclosures in 2020

UNION therapeutics A/S has applied the following standards and amendments for the first time for the reporting period commencing 1 January 2020:

- Definition of Materiality – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The implementation of the amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

New accounting policies and disclosures effective in 2021 or later

The IASB has issued, and the EU has endorsed, a number of new standards, and updated some existing standards, the majority of which are effective for accounting periods beginning on January 1, 2021 or later. Therefore, they are not incorporated in the financial statements. UNION therapeutics A/S expects to adopt these standards, updates and interpretations when they become mandatory. There are no standards that are not yet effective and that would be expected to have a material impact on UNION therapeutics A/S in the current or future reporting periods and on foreseeable future transactions.

Notes

Consolidated financial statements

The consolidated financial statements comprise the parent company, UNION therapeutics A/S, and two subsidiaries 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. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

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

Foreign currency translation

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 and the Danish subsidiary is DKK. The functional currency of the U.S. 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 recognized 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.

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 recognized in the latest annual report is recognized in the statement of comprehensive income as financial income or financial expenses.

Translation of foreign operations

Assets and liabilities in the functional currency, USD, of the U.S. subsidiary are translated to the presentation currency, DKK, at the exchange rate applicable on December 31 for the respective year. Income and expenses of the U.S. subsidiary are translated to DKK at the average exchange rate which corresponds to an approximation of the exchange rates prevailing on each individual transaction date. Translation differences arising in the translation to presentation currency are recognized in other comprehensive income.

Notes

Statement of comprehensive income

Revenue
Revenue from contracts with customers is recognized when control of the goods and services are transferred to the customer and is recognized by the amount that reflects the consideration to which UNION therapeutics A/S expects to be entitled in exchange for those goods or services.

As UNION therapeutics A/S' pharmaceutical activities are at the clinical stage, the company does not yet have significant revenue generating activites.

Contracts with customer regarding out-license contracts, where UNION therapeutics A/S transfers license of intellectual property generally includes a single performance obligation only. Revenue from such contract transfers a "right to use license" whereby revenue is recongnised at a point in time, when control with the license has been transferred to the customer. Contracts may include variable considerations in the form of upfront and milestone payments subject to successful achievement of certain research and development and regulatory approval milestones, as well as royalties on sales.

If the consideration in a contract includes a variable amount, UNION therapeutics A/S estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Upfront and milestone payments that are attributable to specific events as a result of previous events or research and/or development activities (where the license already has been transferred), e.g. completion of specific objectives, are included in the transaction price and therefore recognized as revenue when it is highly probable that the event has been met and the receipt of revenue is highly probable. Non-refundable upfront payments attributable to previous research and/or development activities are recognized as revenues at the time when its certain that the fee is earned.

Sales-based royalties promised in exchange for a license of intellectual property are recognized as revenue only when (or as) the later of the following events occurs:
- the subsequent sale occurs; and
- the license has been transferred.

Sales-based royalties will therefore be recognized as revenue only when the underlying sales occur as the royalty is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of UNION therapeutics A/S.

Revenue is measured at the fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties.

Notes

Research and development costs

Research and development costs are primarily internal and external costs incurred in the development of the UNION therapeutics A/S product candidates, including personnel costs, share-based compensation expense, external research and development expenses, and enhancement and maintenance of UNION therapeutics A/S' intellectual properties.

UNION therapeutics A/S records accruals for estimated research and development costs, comprising payments for work performed by third-party contractors and others. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, in which case, they are reflected in the financial statements as expense, prepaid expense or accrued expense.

Contract Research Organizations expenses and related prepayments and accruals

Substantial portions of UNION therapeutics A/S' clinical studies are performed by third-party laboratories, medical centers, contract research organizations and other vendors (collectively, the "CROs"). The CROs generally invoice monthly or quarterly for services performed. For studies, UNION therapeutics A/S accrues expenses based upon estimated percentage of work completed.

UNION therapeutics A/S' estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. UNION therapeutics A/S evaluates the estimates to determine if adjustments are necessary or appropriate based on information received.

CROs invoice UNION therapeutics A/S upon the occurrence of predetermined contractual or activity-based milestones; however, the timing of these invoices and UNION therapeutics A/S' related payments often do not correspond directly to the level of performance of contracted activities. To the extent payments are made by UNION therapeutics A/S in advance of the related activities performed by the CROs, they are included in prepayments to clinical research organizations and expensed when the activities are performed by the CROs. To the extent the payments are made by UNION therapeutics A/S following the performance of the related activities, the expense is accrued for as a payable to clinical research organizations.

Administration expenses

Administration expenses consist primarily of personnel costs, including share-based compensation, and costs related to finance, corporate and business development. In addition, administration expenses include depreciation and other expenses for UNION therapeutics A/S' headquarters. UNION therapeutics A/S recognizes administration expenses in the period in which such costs occur.

Notes

Other operating income

Other operating income comprises items secondary to the principal activities of the entities, including gains on ongoing disposal and replacement of items of property and plant and equipment. Gains 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 recognized 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 recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, exchange gains and losses on transactions denominated in foreign currencies and are recognized in the income statements at the amounts that concern the financial year. Furthermore, amortisation of financial assets and liabilities, including lease liabilities, as well as surcharges and allowances under the on-account tax scheme and changes in the fair value of non-derivative financial liabilities that are measured as fair value through profit or loss.

Income 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 recognized in the statement of comprehensive income, whereas the portion that relates to transactions taken to equity is recognized 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 (Ligningslovens § 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.

Notes

Intangible assets

Separately acquired intangible assets
Separately acquired intangible assets are measured at historical costs. Such assets have a finite useful life and are subsequent to initial measurement carried at costs less accumulated amortization and impairment.

For acquisition of intangible rights involving equity-settled share-based payment transactions, Management measures the fair value of the rights received and the corresponding increase in equity by reference to the fair value of the rights received, unless that fair value cannot be estimated reliably. If Management cannot estimate reliably the fair value of the rights received, it measures the fair value and the corresponding increase in equity by reference to the fair value of the equity instruments granted.

Variable or contingent consideration for the acquisition of intangible rights is accounted for under the cost accumulation model, whereby all future considerations is added, when incurred, to the cost of the asset initially recorded.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized using the straight line method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

UNION therapeutics A/S has no intangible assets with indefinite useful lives.

Internally generated intangible assets from development
Intangible assets arising from development projects should be recognized in the balance sheet. The criteria that must be met for capitalization are that:
• the development project is clearly defined and identifiable and the attributable costs can be measured reliably during the development period;
• the technological feasibility, adequate resources to complete and a market for the product or an internal use of the product can be documented; and
• management has the intent to produce and market the product or to use it internally.

Such an intangible asset should be recognized 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.

UNION therapeutics A/S has not capitalized intangible assets from development, as the criteria for capitalization is not met. Accordingly, all research and development costs are recognized in the statement of comprehensive income when incurred.

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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

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

Notes

Leases

UNION therapeutics A/S assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

UNION therapeutics A/S applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities for future remaining lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Right-of-use asset are recognized at the lease commencement date (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and restoration costs.
Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the right-of-use asset using the straight-line method. In addition, right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements.
Right-of-use assets are presented within 'Tangible assets'. Under the company's current lease agreements, the estimated useful live is 5 years from the inception of the lease, equivalent to the lease term.

Lease liabilities

At the commencement date of the lease, UNION therapeutics A/S recognizes lease liabilities measured at the present value of the following payments, when applicable:
- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments (linked to an index or interest rate);
- expected payments under residual value guarantees;
- the exercise price of purchase options, where exercise is reasonably certain;
- lease payments in optional renewal periods, where exercise of extension options is reasonably certain; and
- penalty payments for the termination of a lease, if the lease term reflects the exercise of the respective termination option.

The lease payments are discounted using the interest rate implicit in the lease if this rate can be readily determined. Otherwise, UNION therapeutics A/S' incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Generally, UNION therapeutics A/S uses its incremental borrowing rate as the discount rate.

Lease liabilities are subsequently measured at amortized cost using the effective interest method. In addition, the carrying amount of the lease liabilities are remeasured if there is a modification, a change in the lease term, or a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

Impairment of non-current assets

Non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. UNION therapeutics A/S has not recognized any impairment losses to date.

Other receivables

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

Prepayments

Prepayments recognized under assets comprise prepaid expenses regarding subsequent financial reporting periods.

Cash and cash equivalents

Cash is comprised of cash on hand and in bank deposit accounts. Cash equivalents are instruments with original maturities of 90 days or less.

Notes

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 receivables primarily comprise receivable tax credit for research and development expenditures.

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 recognized 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.

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. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized 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 recognized outside the profit or loss is recognized 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.

Equity
Share capital
The share capital comprises the nominal amount of the company's ordinary shares, each at a nominal value of DKK 1.

Foreign currency translation reserve
Exchange differences arising on translation of foreign controlled entities into the presentation currency, DKK, are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified in the statement of comprehensive income when the net investment is disposed of.

Accumulated deficit
Accumulated deficit include the accumulated profit or loss for the year. Further, accumulated deficit includes the share premium comprising the amount received, attributable to shareholders' equity, in excess of the nominal amount of the shares issued at the company's capital increases, reduced by any expenses directly attributable to the capital increases. Accumulated deficit also include the corresponding increase in equity relating to share-based payment expense recognized in the profit or loss, arising from equity-settled share-based compensation programs.

Notes

Share-based payments

Members of the Board of Directors and key personnel of the Group receive remuneration in the form of share-based payments.

Equity-settled awards
For equity-settled, share-based payment transactions, UNION therapeutics A/S measures the goods received at the fair value of the goods or services received, unless that fair value cannot be estimated relaibly. If UNION therapeutics A/S cannot estimate reliably the fair value of the goods or services received, it measures their fair value by reference to the fair value of the equity instruments granted.

The cost of equity-settled awards is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The cost is recognized 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 expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognized 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.

Cash-settled awards
A liability is recognized for the fair value of cash-settled awards. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

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

Amortized 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.

Notes

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 recognizes 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.

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 liability component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the warrant put option component.

Other liabilities
Other financial liabilities are on initial recognition measured at the proceeds received net of transaction costs paid. On subsequent recognition, liabilities are measured at amortized 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 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 the purpose of fair value disclosures, the company 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.

Notes

Subsequent events
If UNION therapeutics A/S obtains information after the balance sheet date, but prior to the date of the Board of Director's approval of the financial statements, about conditions that existed at the balance sheet date, UNION therapeutics A/S assesses if the information affects the amounts that it recognizes in the financial statements.

UNION therapeutics A/S will adjust the amounts recognized in its financial statements to reflect any adjusting events after the balance sheet date and update the disclosures that relate to those conditions in the light of the new information.

For non-adjusting events after the balance sheet date, UNION therapeutics will not change the amounts recognized in its financial statements but will disclose the nature of the non-adjusting events 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 Group's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the Group'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 comprehensive income for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid or received 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 is comprised of cash on hand and in bank deposit accounts. Cash equivalents are instruments with original maturities of 90 days or less. The Company does not have any cash equivalents for the years ended 31 December, 2020 or 2019.

Notes

2. Critical accounting estimates and judgements

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 accounting policies described in note 1, Management has exercised the following critical accounting judgements and estimates which significantly influence the amounts recognized in the financial statements:

Measuring of share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the respective awards. This estimate also requires determination of the most appropriate inputs to the valuation model including the share price, expected life of the share option, market interest rate, and volatility and making assumptions about them. UNION therapeutics A/S initially measures the cost of equity-settled and cash-settled share-based payment awards using the Black-Scholes model to determine the fair value of the respective awards. For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognized in comprehensive income. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 7.

Measuring of EIB warrant and put-option

Estimating fair value of the EIB warrant and put option requires determination of the most appropriate valuation model and the determination of the most appropriate inputs to the valuation model. UNION therapeutics A/S measures the fair value by the end of each reporting period by use of the Black-Scholes model. For the EIB warrant and put-option, estimated share-price is the most significant input. UNION therapeutics A/S determines the value of the share price with reference to the share price applied in most resent capital increase transactions, and adjusted for any value infliction points. The assumptions and method used for estimating fair value for the warrant and put-option are further disclosed in Note 25.

Revenue Recognition

Evaluating the criteria for revenue recognition under license agreements requires management's judgement to assess and determine the following:

- The nature of performance obligations and whether they are distinct or should be combined with other performance obligations to determine whether the performance obligations are satisfied over time or at a point in time.
- An assessment of whether the achievement of milestone payments is highly probable.

Reference is made to Note 4.

Notes

3. Financing and going concern assumptions

In line with market practice for comparable companies at a similar stage of development, the Company's accounting policy is to expense and not capitalize development costs. Combined with the financing from the European Investment Bank being through a venture debt credit facility, the statement of financial position at 31 December 2020 shows a consolidated book value of equity of negative DKK 58.397 thousand and a consolidated cash position of DKK 36.425 thousand. Management consider the Company's capital resources at 31 December 2020 and the gross proceed from the capital increase in February 2021 to be sufficient to cover the Company's obligations for the ongoing activities as they mature at least through 31 December 2021. Furthermore, the Company expects to raise additional funds during 2021 to fund future and additional development activities and operations.

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

4. Revenue

DKK'000	**2020**	**2019**
License revenue from upfront and milestone payments, recognized at a point in time	0	11.649
Total revenue	**0**	**11.649**

License Revenue for Intellectual Property

In January 2019, UNION therapeutics A/S entered into an out-licensing agreement with an external party. Under the terms of the agreement, UNION therapeutics A/S is eligible for upfront and milestone payments upon successful achievement of certain research and development and regulatory approval milestones, as well as royalties on sales. Payments under the agreement are due within 60 days from the date of invoice.

Revenue from up-front payment: The license to UNION therapeutics A/S' intellectual property is determined to be distinct from the other performance obligations identified in the arrangement. As such, UNION therapeutics A/S has recognized revenue from the non-refundable upfront payment at the point in time the performance obligation relating to the transfer of the license to the licensee was completed. The company recognized DKK 0 and DKK 7.467 thousand from up-front payment received under the license agreement in 2020 and 2019, respectively.

Revenue from milestone payments: At the inception of the out-license agreement, UNION therapeutics A/S evaluated whether the achievement of milestones were considered highly probable and estimated the amount to be included in the transaction price using the most likely amount method. Milestone payments that are not within the control of UNION therapeutics A/S or the license partner, such as scientific milestones and regulatory approvals, are not considered probable of being achieved until those scientific milestone are met or regulatory approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which UNION therapeutics A/S recognizes revenue as or when the performance obligations under the contract are satisfied. Any adjustments from the re-evaluation of the probability of achievement of milestones are recorded on a cumulative catch-up basis in the period of adjustment. Under UNION therapeutics A/S existing license agreement, milestone payments have been allocated to the license transfer performance obligation. The company recognized DKK 0 and DKK 3.734 thousand from milestone payments received under the license agreement in 2020 and 2019, respectively. The 2019 milestone was triggered by successful completion of a clinical efficacy study.

Sales based royalties: Sales-based royalties will be recognized as revenue only when the underlying sales occur as the royalty is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of UNION therapeutics A/S. The Company did not recognize any revenue from sales based royalties in 2020 and 2019.

Segment information

An operating segment is a part of the Company that conducts business activities from which it can generate revenue and incur costs, and for which independent financial information is available. Identification of segments is based on internal reporting to the chief operating decision maker ("CODM"). The CODM for the Company is the Chief Executive Officer. The Company does not divide its operations into different segments and the CODM operates and manages the Company's entire operations as one segment. No separate business areas or separate business units have been identified in connection with line of business, product candidates or geographical markets.

Information about Geographical Areas

In 2019, net revenue of DKK 11,2 million comprised licensing revenue from one costumer in France. There were no material non-current assets attributable to countries other than Denmark in 2020 and 2019.

Notes

5. Research and development costs and Administration expenses

DKK'000

Research and development costs	**Notes**	**2020**	**2019**
Employee benefit expenses	6	7.453	6.327
Share-based compensation expenses	6,7	5.542	461
External costs		52.113	11.717
		65.108	**18.506**

Administration expenses	**Notes**	**2020**	**2019**
Employee benefit expenses	6	4.026	3.066
Share-based compensation expenses	6,7	1.354	207
External costs		2.735	2.430
Depreciation		155	246
		8.270	**5.949**

6. Staff costs

DKK'000		**2020**	**2019**
Wages and salaries		9.518	8.226
Defined contribution plans		300	262
Other social security costs		410	345
Share-based compensation expenses	7	6.896	668
Other staff costs		1.250	560
		18.374	**10.062**
Research and development costs		12.995	6.789
Administrative expenses		5.379	3.273
		18.374	**10.062**
Average number of full-time employees		9	9

Remuneration to Executive Board and Board of Directors

	2020		**2019**	
DKK'000	**Executive Board**	**Board of Directors**	**Executive Board**	**Board of Directors**
Wages and salaries	4.666	140	4.704	150
Share-based compensation expenses	644	391	1.725	683
Social security	10	0	9	0
	5.320	**531**	**6.438**	**833**

Notes

7. Share-based payment

Warrant programs

UNION therapeutics A/S has established share-based incentive programs (equity-settled and cash-settled) for members of the Board of Directors, members of the Executive Board and key personnel in the form of warrants. Warrants are granted by the Board of Directors in accordance with authorizations given to it by the general meeting of shareholders and as incorporated into the company's articles of associations.

Warrants granted in February 2017

In April 2017, the general meeting of shareholders granted warrants with right to subscribe for up to 4.465 shares of nominally DKK 1 in the Company with an exercise price of DKK 239,80 per warrant. At 31 December 2020 and 2019, the Board of Directors have granted in total 4.465 warrants under this program. These warrants vest and become exercisable upon an exit event, defined as an event of IPO, merger, demerger, or solvent liquidation, which trigger an immediate vesting upon grant. These warrants may be settled in equity instruments of the company or in cash at the discretion of the warrant holder. Accordingly, these warrants are classified as cash-settled warrants. The life of the warrants under the February 2017 program is 5 years from the date of grant.

Warrants granted from November 2017

In November 2017, the Board of Directors were authorized to grant warrants for up to 25.000 shares in the company in the period until 31 March 2022. At 31 December 2020, the Board of Directors have granted in total 23.593 warrants under this authorization. In June 2020, the Board of Directors were authorized to grant warrants for up to an additional 25.000 shares in the company in the period until 25 June 2025. At 31 December 2020 no warrants were granted under this authorization.

Warrants granted under the November 2017 equity incentive plan are classified as equity settled and generally vest over four year service periods in periodic installments that may or may not be equal, which triggers linear or graded vesting profiles. Certain warrants under this program vest immediate upon grant. The life of the warrants under the November 2017 program varies from 4-10 years from the date of grant.

The table below summarises share-based compensation expenses included in the statement of profit or loss:

DKK'000	**2020**	**2019**
Research and development expenses	5.542	461
Administrative expenses	1.354	207
	6.896	**668**

The following schedule specifies the movements of number and weighted average exercise price of warrants in 2020 and 2019:

Equity settled warrants

Number of warrants	**Board of Directors**	**Executive board**	**Employees**	**Total**	**Weighted average exercise price per warrant (DKK)**	**Weighted average grant date fair value per warrant (DKK)**
Outstanding, 31 December 2018	4.608	8.000	7.523	20.131	**740**	**387**
Granted during the year	2.500	0	5.000	7.500	**534**	**278**
Forfeited	0	0	-5.213	-5.213	**815**	**452**
Outstanding, 31 December 2019	**7.108**	**8.000**	**7.310**	**22.418**	**654**	**335**
Granted during the year	0	0	1.175	1.175	**228**	**703**
Forfeited	0	0	0	0		
Outstanding, 31 December 2020	**7.108**	**8.000**	**8.485**	**23.593**	**633**	**354**

Cash settled warrants

Number of warrants	**Former employees**	**Total**	**Weighted average exercise price per warrant (DKK)**	**Weighted average grant date fair value per warrant (DKK)**
Outstanding, 31 December 2018	4.465	4.465	**240**	**100**
Granted during the year	0	0	**0**	**0**
Forfeited	0	0	**0**	**0**
Outstanding, 31 December 2019	**4.465**	**4.465**	**240**	**100**
Granted during the year	0	0	**0**	**0**
Forfeited	0	0	**0**	**0**
Outstanding, 31 December 2020	**4.465**	**4.465**	**240**	**100**

The weighted average remaining contractual life for warrants outstanding was 2,8 years and 3,6 years at 31 December 2020 and 2019, respectively.
The range of the exercise price for warrants outstanding was DKK 1-815 and DKK 96-815 at 31 December 2020 and 2019, respectively.
On 31 December 2020 and 2019, 18.859 and 12.840 warrants had vested and were exerciseable. The weighted exercise price was DKK 541,99 per warrant and DKK 519,79 per warrant at 31 December 2020 and 2019 respectively.

Notes

7. Share-based payment (continued)

Determination of fair value of warrants
UNION therapeutics A/S determines and calculates the fair value of each equity settled warrant granted during the year and for each cash-settled warrant, at each balance sheet date using the Black-Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- Dividend yield. Is determined to be zero for 2020 and 2019.
-The expected stock price volatility: As it is not possible to estimate the expected volatility of a non-public listed entity's share price, UNION therapeutics A/S has estimated the fair value of its warrants by using the volatility of an appropriate peer group of listed biotechnology companies.
-The risk-free interest rate, which is based on the Danish government bonds having a yield with a maturity equal to the expected term of the option in effect at the time of grant.
-The expected life of warrants, which is based on vesting terms, expected rate of exercise and life terms in the warrant program.
-Estimate of UNION therapeutics A/S' market share price. As UNION therapeutics A/S is not listed on a stock exchange the estimated fair value of the warrants at each measuring date, using the Black-Scholes model, has been established by assuming that the value of UNION therapeutics A/S' shares is the price per share determined at the latest financing round and considering additional relevant facts and circumstances.

Valuation assumptions for warrants in 2020 and 2019
The fair value at each measuring date in 2020 and 2019 is measured using the following significant assumptions:

Equity settled warrants	**2020**	**2019**
Dividend yield	-	-
Volatility (%)	61-77	65
Risk-free interest rate	-0,4% - 0,5%	-0,7%
Market share price range applied	DKK 534-1.237	DKK 534
Exercise price	DKK 1 - 534	DKK 534
Life of equity settled warrants granted	5 years	5 years
The grant date fair value per warrant	DKK 533-932	DKK 278

Cash settled warrants	**2020**	**2019**
Dividend yield	-	-
Volatility (%)	67	61
Risk-free interest rate	-0,6%	-0,4%
Market share price at year end	DKK 1.600	DKK 534
Exercise price	DKK 239,8	DKK 239,8
Life of cash-settled warrants at 31 December	1,1 year	2,1 years
The 31 December fair value per warrant	DKK 1.359	DKK 323

Reconciliation of fair value of cash settled warrants:

DKK'000	**Cash settled warrants**
1 January 2019	2.496
Fair value adjustment through comprehensive income	-1.054
At 31 December 2019	**1.443**
Fair value adjustment through comprehensive income	4.627
At 31 December 2020	**6.069**

Notes

8. Other operating income

Other operating income consists of government grants (Innovation Fund Denmark and Train2Target) and other items secondary to the Company's activities. These grants provide compensation for a part of certain project-specific research and development expenses, including wages and salaries. In 2020, UNION therapeutics A/S recognized DKK 8.723 thousand as income from government grants (2019: DKK 344 thousand).

There are no unfulfilled conditions and other contingencies attached to government assistance that has to be recognized.

9. Financial income

DKK'000	Notes	2020	2019
Interest income		6	93
Foreign exchange gains		0	63
Fair value adjustment, warrant and put option (unrealized)	20	0	1.830
		6	**1.986**

10. Financial expenses

DKK'000		2020	2019
Interest expenses		380	139
Interest expenses, lease liabilities		11	28
Interest expenses, EIB loan	21	9.409	6.362
Foreign exchange loss		271	0
Fair value adjustment, warrant and put option (unrealized)	20	12.012	0
		22.083	**6.529**

Notes

11. Income taxes

The major components of income tax benefit for the years ended 31 December 2020 and 2019 are:

DKK'000	**2020**	**2019**
Income taxes in the statement of profit or loss		
Net result before tax	-86.405	-17.005
Corporate income tax rate in Denmark	22%	22%
Computed corporate income tax (benefit)	**-19.009**	**-3.741**
Prior year adjustments	-15	0
Adjustment for non-deductible expenses	106	9
Adjustment for R&D super deduction	-4.027	-62
Adjustment for warrant	1.517	147
Change in deferred tax asset not recognized	15.917	-496
Total income tax (benefit)	**-5.510**	**-4.143**
Deferred tax in the statement of financial position		
Tax deductible losses	22.262	9.253
EIB loan facility	2.484	-357
Other temporary differences	52	7
Deferred tax at 31 December	**24.798**	**8.903**
Deferred tax assets not recognized		
Deferred tax assets not recognized	-24.798	-8.903
Deferred tax at 31 December	**0**	**0**

The unused tax losses can be carried forward indefinitely.

At 31 December 2020 and 2019 tax receivable of DKK 5,5 million and DKK 4,1 million comprise receivable tax credit for research and development expenditures at the applicable tax rate under the Danish Tax Assessment Act.

Notes

12. Basic and diluted loss per share

Basic loss per share is calculated as the net result for the period that is allocated to the parent company's ordinary shares, divided by the weighted average number of shares outstanding. Diluted loss per share is calculated as the net result for the period that is allocated to the parent company's shares, divided by the weighted average number of shares outstanding and adjusted by the dilutive effect of potential shares. The loss for the year and weighted average number of shares used in the calculation of basic and diluted result per share are as follows:

DKK'000, except share amounts and per share amounts	**Notes**	**2020**	**2019**
Loss for the year		-80.896	-12.862
Weighted average number of shares outstanding		544.731	504.059
Loss per share before and after dilution (DKK)		**-149**	**-26**

For changes in the number of ordinary shares outstanding after the reporting period refer to note 16.

The following potential ordinary shares are anti-dilutive and are therefore not included in the weighted average number of shares for the purpose of diluted earnings per share:

		2020	**2019**
Outstanding warrants under employee incentive programs	7	28.058	26.883
Outstanding warrants relating to EIB loan facility	16	11.268	11.268
Total outstanding warrants		**39.326**	**38.151**

Notes

13. Intangible assets

DKK'000	Patents, trademarks and other
Cost	
At 1 January 2020	0
Additions, acquired separately	16.566
At 31 December 2020	**16.566**
Depreciation	
At 1 January 2020	0
Additions	0
At 31 December 2020	**0**
Net book value	
At 31 December 2020	**16.566**

Acquisition of PDE4-inhibitor program

In June 2020, UNION therapeutics A/S entered into an asset purchase agreement with Leo Pharma A/S. Pursuant to this agreement, Leo Pharma A/S sold and transferred certain intangible rights in the form of patents and compound data relating to the ‘PDE4 inhibitor compounds’ to UNION therapeutics A/S.

In consideration of the acquisition of the intangible rights, in 2020, UNION therapeutics A/S paid in cash DKK 1.668 thousand and by issuance and grant of 12.044 shares of nominal 1 DKK at a rate of DKK 1.237 per share, equivalent to a value of DKK 14.898 thousand. The value of the intangible assets acquired, is measured at the fair value of the cash paid and of the equity instruments granted, with reference to the corresponding increase in equity of DKK 14.898 thousand. The applied rate per share is determined with reference to the share price applied in the most recent capital increase completed by the UNION therapeutics A/S in May 2020.

Under the terms of the Agreement, UNION therapeutics A/S agreed to make future payments to LEO Pharma A/S that were contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION therapeutics A/S applies the cost accumulation method for the accounting for such contingent payments.

Under the agreement, UNION therapeutics A/S will, subject to meeting certain clinical, regulatory, and sales milestones, pay in cash to the seller up to USD 200 million or DKK 1.240 million. Also, UNION therapeutics A/S will pay to the seller low single-digit percentage royalty applied on net sales of covered products until the expiry of the royalty term which ends at the latest on the twelfth anniversary of the first commercial sale of covered products.

The acquired intangible asset is not being amortized until approval of the underlying asset has been received from regulatory authorities. Management has not identified indicators of impairment concerning the acquired intangible rights.

Notes

14. Tangible assets

DKK'000	Notes	Right-of-use assets	Other equipment	Total
Cost				
At 1 January 2020		650	94	745
Adjustments	21	-206	0	-206
Additions		0	0	0
At 31 December 2020		**444**	**94**	**539**
Depreciation				
At 1 January 2020		217	64	281
Adjustments	21	-65	0	-65
Additions		136	19	155
At 31 December 2020		**288**	**83**	**371**
Net book value				
At 31 December 2020		**156**	**12**	**168**

DKK'000	Right-of-use assets	Other equipment	Total
Cost			
At 1 January 2019	650	94	745
Additions	0	0	0
At 31 December 2019	**650**	**94**	**745**
Depreciation			
At 1 January 2019	0	35	35
Additions	217	29	246
At 31 December 2019	**217**	**64**	**281**
Net book value			
At 31 December 2019	**434**	**30**	**464**

Right-of-use assets

The company leases its office premises in Copenhagen. The property lease is non-cancellable in the period through 30 June 2021 for the lessee and 31 December 2021 for the lessor. Hereafter, the option to terminate is six months. The contract does not provide a right, obligation, or an option to buy the office premises. The contract contains both lease and non-lease components according to the specific pricing of the services in the agreements.

In 2020 and 2019, the expense related to variable lease payments not included in the lease liabilities amounts to DKK 77 thousand and DKK 77 thousand and was recognized in administration expenses.

15. Other receivables and prepayments

DKK'000	2020	2019
VAT receivables	972	348
Other receivables	9.012	699
Prepayments	119	54
	10.103	**1.101**

Other receivables for 2020 includes government grant receivables of DKK 8.673 thousand (agreement signed in 2020 and amount received in 2021).

Notes

16. Capital management and share capital

Capital Management
The Board of Directors monitors the share and capital structure to ensure that UNION therapeutics A/S' capital resources support the strategic goals. UNION therapeutics A/S' goal is to maintain a strong capital base so as to maintain confidence from investors, creditor, employees and collaboration partners, and a continuous advancement of the research and development pipeline and business in general.

UNION therapeutics A/S is primarily financed through equity investments from shareholders and a long-term loan agreement with the European Investment Bank. UNION therapeutics A/S has also obtained financing through licence agreements, governmental- and private grants.

The adequacy of UNION therapeutics A/S' available funds will depend on various factors, including the advancement of the research and development programs, the magnitude of investments in these programs, and UNION therapeutics A/S' ability to establish commercial collaboration and licensing agreements with partners.

As such, UNION therapeutics A/S may require additional funds and may attempt to raise additional funds through equity or debt financings, licence and collaborative agreements with partners, or from other sources.

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 EUR 20 million.
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.

In January 2018, the Company called the first of the two tranches under the finance contract. The first tranche totalled EUR 7 million. The loan and accumulated interest fall due for payment in January 2023.

In December 2019, the Company called the second of the two tranches under the finance contract. The second tranche totalled EUR 3,32 million. The loan and accumulated interest fall due for payment in December 2024.

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. Each warrant entitles EIB to subscribe for 1 share of nominal DKK 1 against payment of exercise price of 1 DKK. Vested warrants can be exercised in part of in full at any time at the discretion of EIB. Warrants not exercised after 20 years shall lapse.

Upon draw down of the first tranche in 2018, 8.722 warrants vested. Upon drawdown of the second tranche in 2019, 2.546 warrants vested, and 7.423 warrant were lapsed and became void. A number of 11.268 warrants were outstanding at 31 December 2020 and 2019.

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 an option price equivalent to the fair value of the warrants at the time of exercise. Reference is made to note 25.

As part of the loan agreement, the Company entered into a floating charge agreement pursuant to which a floating charge of EUR 2 million is pledged. Furthermore, the Company entered into a negative pledge preventing it to subsist any security over any of its assets. Reference is made to note 21.

Notes

16. Capital management and share capital (continued)

Share capital
The share capital comprises of 562.859 shares of nominal DKK 1, each of which have been issued and paid in full. Only one class of shares exists, and no shares carry any special rights.

	Number of shares	Share capital (DKK'000)
Share capital at 1 January 2019	500.000	500
Capital increase at 19 September 2019	14.044	14
Capital increase at 6 December 2019	1.404	1
Share capital at 31 December 2019	**515.448**	**515**
Share capital at 1 January 2020	515.448	515
Capital increase at 7 May 2020	35.367	35
Capital increase at 23 June 2020	12.044	12
Share capital at 31 December 2020	**562.859**	**563**

In February 2021, the Company completed a cash capital increase of nominal DKK 96.741. Hereafter, the share capital comprises of DKK 659.600 shares of DKK 1, each of which have been paid in full. Reference is made to note 22.

Loss of subscribed share capital
As a result of the group's accounting policy, financing strategy and utilization of the credit facility provided by the European Investment Bank, at 31 December 2020 the company has lost more than 50% of its subscribed share capital. Following the capital increase in February 2021, the share capital was re-established.

17. Related party disclosures

UNION therapeutic A/S' related parties comprise significant shareholders, Board of Directors, Executive Management, and close members of the family of these persons.

Besides paying the salary, board fees and share-based payment to the Executive Management and Board of Directors as further described in notes 6 and 7, the company did not carry through any transactions with its related parties besides the below-mentioned transactions.

DKK'000	**Year**	**Other income**	**Purchases**	**Receivables**	**Payables**
Transactions with other related parties:					
Associates:					
Clinical-Microbiomics A/S	2020	301	0	0	0
	2019	128	0	0	0
Cajaikas ApS	2020	0	1.260	0	0
	2019	0	1.080	0	0
Black Swans Exist ApS	2020	20	671	0	49

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 2020 or 2019.

Notes

17. Related party disclosures (continued)

Associated parties

Clinical-Microbiomics A/S

UNION therapeutics A/S renders administrative services to 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.

Cajaikas ApS
UNION therapeutics A/S renders contract research and management services from Cajaikas ApS. Cajaikas ApS is owned by a member of the Board of Directors of UNION therapeutics A/S.

Black Swans Exist ApS
UNION therapeutics A/S renders recruitment services from and administrative services to Black Swans Exist ApS. Black Swans Exist ApS is partly owned by the holding companies to UNION therapeutics A/S, Manjin ApS and Vendler ApS.

Remuneration of the executive board and the Board of Directors
Reference is made to notes 6 and 7.

Terms and conditions of transactions with related parties
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.

18. Other payables

DKK'000	**2020**	**2019**
Salary related payables	1.889	531
Other liabilities	4.894	1.420
	6.783	**1.952**

Other liabilities primarily comprise of accruals for CRO costs. Clinical activity level was significantly higher at year end 2020 compared to year end 2019.

19. Contingent assets and liabilities, contractual obligations and pledges

The group has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2 million (2019: EUR 2 million) is pledged. Furthermore, the group 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.

License Agreements
UNION therapeutics A/S is entitled to potential milestone payments and royalties on successful commercialization of products developed under license agreements with an external party (note 4). Since the size and timing of such payments are uncertain until the milestones are reached or sales are generated, the agreements may qualify as contingent assets. However, it is impossible to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Acquired Intangible Assets
As part of the acquisition of intangible rights UNION therapeutics A/S may be required to make milestone and royalty payments to the seller (note 13). It is impossible to measure the value of such future payments, but UNION therapeutics A/S expects to generate future income from such products which will exceed any milestone and royalty payments due, and accordingly no such liabilities have been recognized.

Notes

20. Financial risks

The group's financial risks are managed by the Executive Board. The group 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 A/S 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 group's objective and policy are to maintain a balance between continuity of funding and flexibility through the use of equity investments from shareholders and external loans.

UNION therapeutics A/S has no unused credit facilities at 31 December 2020 and 2019. Refer to note 3.

The following are the contractual undiscounted out flows associated with the Company's financial liabilities in the current and prior year based on their contractual maturities.

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total contractual cash flows
2020					
Long-term debt (amortized cost)	88.894	0	118.136	0	118.136
Trade payables (amortized cost)	7.350	7.350	0	0	7.350
Lease liabilities (amortized cost)	167	167	0	0	167
Warrant and put option (fair value)	18.018	18.018	0	0	18.018
	114.429	**25.535**	**118.136**	**0**	**143.671**

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total contractual cash flows
2019					
Long-term debt (amortized cost)	79.560	0	80.038	38.098	118.136
Trade payables (amortized cost)	1.188	1.188	0	0	1.188
Lease liabilities (amortized cost)	451	234	217	0	451
Warrant and put option (fair value)	6.006	6.006	0	0	6.006
	87.206	**7.428**	**80.255**	**38.098**	**125.781**

The maturity analysis is based on the following assumptions:

- The amounts disclosed in the tables are the contractual undiscounted cash flows (including interest payments). Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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 A/S has no significant interest-bearing debt with variable interest, and UNION therapeutics A/S' 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 therapeutics A/S' exposure to the risk of changes in foreign exchange rates primarily relates to the Group's operating activities when revenue or expense transactions are denominated in a foreign currency.

Notes

21. Changes in liabilities arising from financing activities

DKK'000

2020

			Non-cash changes				
	2019	**Cash flows**		**Adjustment opening**	**Interest**	**Foreign exchange adjustment**	**2020**
Debt facility	79.558	0		0	9.409	-73	88.894
Leasing	451	-155		-140	11	0	167
Total	**80.009**	**-155**		**-140**	**9.420**	**-73**	**89.061**

2019

			Non-cash changes				
	2018	**Cash flows**	**Reclass. to warrant put option**	**Adoption of IFRS 16**	**Interest**	**Foreign exchange adjustment**	**2019**
Debt facility	49.866	24.763	-1.357	0	6.362	-76	79.558
Leasing	0	-152	0	575	28	0	451
Total	**49.866**	**24.611**	**-1.357**	**575**	**6.390**	**-76**	**80.009**

22. Events after the balance sheet date

In February 2021 UNION therapeutics A/S completed an equity capital raise, receiving gross proceeds of DKK 155 million.

23. Cash flow statement - adjustments

DKK'000	**2020**	**2019**
Income taxes	-5.510	-4.143
Depreciation and amortisation	155	246
Financial costs/income	21.916	4.543
Share-based compensation costs	6.896	668
Other adjustments, primarily exchange rate adjustments	0	-78
	23.458	**1.237**

24. Cash flow statement - changes in net working capital

DKK'000	**2020**	**2019**
Changes in other receivables	-8.358	-184
Changes in VAT receivables	-624	231
Changes in prepayments	-65	69
Changes in employee related liabilities	1.358	-591
Changes in trade payables	6.148	-611
Changes in other liabilities	3.487	-881
	1.945	**-1.967**

Notes

25. Fair value measurement

The group 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.

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 fair value of financial instruments measured on level 3

The group has entered into 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 by use of the Black-Scholes valuation model.

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

Fair value measurement of the EIB warrant and put option

The fair value of the warrant and put option (note 16) 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 (note 6). The probabilities of the various estimates within the applied range can be reasonably assessed and are used in Management's estimate of fair value.

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

	2020	**2019**
Dividend yield	-	-
Volatility (%)	67	61
Annual risk-free interest rate	-0,6%	-0,4%
Market share price at year-end	DKK 1.600	DKK 534
Exercise price	DKK 1	DKK 1
Life of option	2-4 years	3-5 years

Sensitivity

At 31 December 2019 and 31 December 2020, 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 measurements under Level 3 hierarchy:

	Warrant and put option
1 January 2019	6.479
Additions, fair value at draw down	1.357
Fair value adjustment through profit or loss	-1.830
At 31 December 2019	**6.006**
Fair value adjustment through profit or loss	12.012
At 31 December 2020	**18.018**

Parent company financial statements
1 January - 31 December

Statement of comprehensive income

DKK'000	Notes	2020	2019
Revenue	4	0	11.649
Research and development costs	5,6	-65.122	-19.506
Administration expenses	5,6	-8.270	-5.949
Operating loss		**-73.391**	**-13.807**
Other operating income	8	9.049	344
Loss before net financials		**-64.342**	**-13.463**
Financial income	9	46	2.028
Financial expenses	10	-21.957	-6.529
Loss before tax		**-86.253**	**-17.964**
Tax benefit for the year	11	5.515	4.148
Loss for the year		**-80.738**	**-13.816**
Other comprehensive income or loss		0	0
Total comprehensive loss for the year		**-80.738**	**-13.816**

Loss for the year and total comprehensive loss is attributable to the shareholders of UNION therapeutics A/S.

Parent company financial statements
1 January - 31 December

Statement of financial position

DKK'000	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Intangible assets	12	16.566	0
Tangible assets	13	168	464
Investments in subsidiaries	14	40	40
Deposits		122	112
Total non-current assets		**16.896**	**616**
Current assets			
Tax receivables	11	5.500	4.155
Receivables from group entities		1.353	166
Other receivables and prepayments	15	10.103	1.056
Cash and cash equivalents		36.027	45.827
Total current assets		**52.982**	**51.204**
Total assets		**69.878**	**51.820**

Parent company financial statements
1 January - 31 December

Statement of financial position

DKK'000	Notes	31 December 2020	31 December 2019
Equity and liabilities			
Equity			
Share capital	16	563	515
Other reserves		-59.248	-39.309
Total equity		**-58.685**	**-38.794**
Non-current liabilities			
Long-term debt	20	88.894	79.560
Cash-settled warrant obligation	7	6.069	1.443
Lease liabilities	21	0	217
Total non-current liabilities		**94.964**	**81.220**
Current liabilities			
Lease liabilities	21	167	234
Trade payables		7.350	1.202
Warrant and put option	20	18.018	6.006
Other payables	18	8.065	1.952
Total current liabilities		**33.599**	**9.394**
Total liabilities		**128.563**	**90.614**
Total equity and liabilities		**69.878**	**51.820**

Parent company financial statements
1 January - 31 December

Statement of changes in equity

			Other reserves	
DKK'000	**Notes**	Share capital	Accumulated deficit	Total
Equity at 1 January 2019		**500**	-35.450	**-34.950**
Loss for the year		0	-13.816	-13.816
Other comprehensive income		0	0	0
Total comprehensive income		**0**	**-13.816**	**-13.816**
Transactions with owners:				
Capital increases	16	15	8.235	8.250
Share-based compensation		0	1.722	1.722
Equity at 31 December 2019		**515**	**-39.309**	**-38.794**
Loss for the year		0	-80.738	-80.738
Other comprehensive income		0	0	0
Total comprehensive income		**0**	**-80.738**	**-80.738**
Transactions with owners:				
Capital increases	16	47	58.600	58.647
Transaction costs		0	-70	-70
Share-based compensation		0	2.269	2.269
Equity at 31 December 2020		**563**	**-59.248**	**-58.685**

Parent company financial statements
1 January - 31 December

Cash flow statement

DKK'000	**Notes**	**2020**	**2019**
Loss for the year		-80.738	-13.816
Adjustment for non-cash items	23	23.447	1.190
Changes in net working capital	24	2.027	-757
Changes in non-current financial assets		-10	-3
Interest received		6	92
Interest paid		-261	-227
Income taxes received		4.170	5.500
Cash flow from operating activities		**-51.359**	**-8.021**
Investment in patents, trademarks and other rights	12	-1.668	0
Cash flow from investing activities		**-1.668**	**0**
Proceeds from capital increase		43.749	8.250
Costs associated with capital increase		-70	0
Proceeds from issuance of loans	21	0	24.763
Lease instalments	21	-155	-152
Cash flow from financing activities		**43.524**	**32.861**
Net cash flow for the year		**-9.502**	**24.840**
Cash at the beginning of the period		45.827	20.864
Exchange rate adjustments of cash		-297	123
Cash and cash equivalents at end of the year		**36.027**	**45.827**
Cash and cash equivalents as per Statement of Financial Position		**36.027**	**45.827**
Non-cash financing activities			
Non-cash capital increases included in equity	12	14.898	0

Parent company financial statements
1 January - 31 December

Note summary

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1. Accounting policies

Basis of preparation

The parent company financial statements of UNION therapeutics A/S have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish requirements. The accounting policies are the same as for the consolidated financial statements with the supplementary accounting policies for the parent described below. For detailed description of the accounting policies of the group, please refer to note 1 in the consolidated financial statements.

Note disclosures have been included in the parent company financial statement only where amounts differ from the consolidation financial statement. The parent company financial statements are presented in DKK. All values are rounded to the nearest thousand.

Supplementary accounting policies for the Parent Company

Investments in subsidiaries

Investments in subsidiaries are measured in the parent company financial statements at the lower of cost and recoverable amount. Distributed dividends are recognized in the income statement of the parent company.

2. Critical accounting estimates and judgements

Management assesses that, in respect of the financial reporting for the parent company, no accounting estimates or judgements are made when applying the parent company's accounting policies, which are significant to the financial reporting apart from those disclosed in note 2 in the consolidated financial statements.

Notes

3. Financing and going concern assumptions
For financing and going concern assumption, please refer to note 3 in the consolidated financial statements.

4. Revenue

DKK'000	**Parent company**	
	2020	**2019**
License revenue from upfront and milestone payments, recognized at a point in time	0	11.649
Total revenue	**0**	**11.649**

License Revenue for Intellectual Property

In January 2019, UNION therapeutics A/S entered into an out-licensing agreement with an external party. Under the terms of the agreement, UNION therapeutics A/S is eligible for upfront and milestone payments upon successful achievement of certain research and development and regulatory approval milestones, as well as royalties on sales. Payments under the agreement are due within 60 days from the date of invoice.

Revenue from up-front payment: The license to UNION therapeutics A/S' intellectual property is determined to be distinct from the other performance obligations identified in the arrangement. As such, UNION therapeutics A/S has recognized revenue from the non-refundable upfront payment at the point in time the performance obligation relating to the transfer of the license to the licensee was completed. The company recognized DKK 0 and DKK 7.467 thousand from up-front payment received under the license agreement in 2020 and 2019, respectively.

Revenue from milestone payments: At the inception of the out-license agreement, UNION therapeutics A/S evaluated whether the achievement of milestones were considered highly probable and estimated the amount to be included in the transaction price using the most likely amount method. Milestone payments that are not within the control of UNION therapeutics A/S or the license partner, such as scientific milestones and regulatory approvals, are not considered probable of being achieved until those scientific milestone are met or regulatory approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which UNION therapeutics A/S recognizes revenue as or when the performance obligations under the contract are satisfied. Any adjustments from the re-evaluation of the probability of achievement of milestones are recorded on a cumulative catch-up basis in the period of adjustment. Under UNION therapeutics A/S existing license agreement, milestone payments have been allocated to the license transfer performance obligation. The company recognized DKK 0 and DKK 3.734 thousand from milestone payments received under the license agreement in 2020 and 2019, respectively. The 2019 milestone was triggered by successful completion of a clinical efficacy study.

Sales based royalties: Sales-based royalties will be recognized as revenue only when the underlying sales occur as the royalty is variable and the amount or timing of that consideration varies on the basis of the occurrence or non-occurrence of a future event that is not substantially within the control of UNION therapeutics A/S. The Company did not recognize any revenue from sales based royalties in 2020 and 2019.

Segment information

An operating segment is a part of the Company that conducts business activities from which it can generate revenue and incur costs, and for which independent financial information is available. Identification of segments is based on internal reporting to the chief operating decision maker (“CODM”). The CODM for the Company is the Chief Executive Officer. The Company does not divide its operations into different segments and the CODM operates and manages the Company’s entire operations as one segment. No separate business areas or separate business units have been identified in connection with line of business, product candidates or geographical markets.

Information about Geographical Areas

In 2019, net revenue of DKK 11,2 million comprised licensing revenue from one costumer in France. There were no material non-current assets attributable to countries other than Denmark in 2020 and 2019.

Notes

5. Research and development costs and Administration expenses

DKK'000

Research and development costs	**Notes**	**2020**	**2019**
Employee benefit expenses	6	7.453	6.327
Share-based compensation expenses	6,7	5.542	461
External costs		52.127	12.717
		65.122	**19.506**

Administration expenses			
Employee benefit expenses	6	4.026	3.066
Share-based compensation expenses	6,7	1.354	207
External costs		2.735	2.430
Depreciation		155	246
		8.270	**5.949**

6. Staff costs

		Parent company	
DKK'000		**2020**	**2019**
Wages and salaries		9.518	8.226
Defined contribution plans		300	262
Other social security costs		410	345
Share-based compensation expenses	7	6.896	668
Other staff costs		1.250	560
		18.374	**10.062**
Research and development costs		12.995	6.789
Administrative expenses		5.379	3.273
		18.374	**10.062**
Average number of full-time employees		9	9

Remuneration to Executive Board and Board of Directors

	2020		**2019**	
DKK'000	**Executive Board**	**Board of Directors**	**Executive Board**	**Board of Directors**
Wages and salaries	4.666	140	4.704	150
Share-based compensation expenses	644	391	1.725	683
Social security	10	0	9	0
	5.320	**531**	**6.438**	**833**

Notes

7. Share-based payment
Warrant programs
UNION therapeutics A/S has established share-based incentive programs (equity-settled and cash-settled) for members of the Board of Directors, members of the Executive Board and key personnel in the form of warrants. Warrants are granted by the Board of Directors in accordance with authorizations given to it by the general meeting of shareholders and as incorporated into the company's articles of associations.

Warrants granted in February 2017
In April 2017, the general meeting of shareholders granted warrants with right to subscribe for up to 4.465 shares of nominally DKK 1 in the Company with an exercise price of DKK 239,80 per warrant. At 31 December 2020 and 2019, the Board of Directors have granted in total 4.465 warrants under this program. These warrants vest and become exercisable upon an exit event, defined as an event of IPO, merger, demerger, or solvent liquidation, which trigger an immediate vesting upon grant. These warrants may be settled in equity instruments of the company or in cash at the discretion of the warrant holder. Accordingly, these warrants are classified as cash-settled warrants. The life of the warrants under the February 2017 program is 5 years from the date of grant.

Warrants granted from November 2017
In November 2017, the Board of Directors were authorized to grant warrants for up to 25.000 shares in the company in the period until 31 March 2022. At 31 December 2020, the Board of Directors have granted in total 23.593 warrants under this authorization. In June 2020, the Board of Directors were authorized to grant warrants for up to an additional 25.000 shares in the company in the period until 25 June 2025. At 31 December 2020 no warrants were granted under this authorization.

Warrants granted under the November 2017 equity incentive plan are classified as equity settled and generally vest over four year service periods in periodic installments that may or may not be equal, which triggers linear or graded vesting profiles. Certain warrants under this program vest immediate upon grant. The life of the warrants under the November 2017 program varies from 4-10 years from the date of grant.

The table below summarises share-based compensation expenses included in the statement of profit or loss:

DKK'000	**2020**	**2019**
Research and development expenses	5.542	461
Administrative expenses	1.354	207
	6.896	**668**

The following schedule specifies the movements of number and weighted average exercise price of warrants in 2020 and 2019:

Equity settled warrants

Number of warrants	**Board of Directors**	**Executive board**	**Employees**	**Total**	**Weighted average exercise price per warrant (DKK)**	**Weighted average grant date fair value per warrant (DKK)**
Outstanding, 31 December 2018	4.608	8.000	7.523	20.131	**740**	**387**
Granted during the year	2.500	0	5.000	7.500	**534**	**278**
Forfeited	0	0	-5.213	-5.213	**815**	**452**
Outstanding, 31 December 2019	**7.108**	**8.000**	**7.310**	**22.418**	**654**	**335**
Granted during the year	0	0	1.175	1.175	**228**	**703**
Forfeited	0	0	0	0		
Outstanding, 31 December 2020	**7.108**	**8.000**	**8.485**	**23.593**	**633**	**354**

Cash settled warrants

Number of warrants	**Former employees**	**Total**	**Weighted average exercise price per warrant (DKK)**	**Weighted average grant date fair value per warrant (DKK)**
Outstanding, 31 December 2018	4.465	4.465	**240**	**100**
Granted during the year	0	0	**0**	**0**
Forfeited	0	0	**0**	**0**
Outstanding, 31 December 2019	**4.465**	**4.465**	**240**	**100**
Granted during the year	0	0	**0**	**0**
Forfeited	0	0	**0**	**0**
Outstanding, 31 December 2020	**4.465**	**4.465**	**240**	**100**

The weighted average remaining contractual life for warrants outstanding was 2,8 years and 3,6 years at 31 December 2020 and 2019, respectively.
The range of the exercise price for warrants outstanding was DKK 1-815 and DKK 96-815 at 31 December 2020 and 2019, respectively.
On 31 December 2020 and 2019, 18.859 and 12.840 warrants had vested and were exerciseable. The weighted exercise price was DKK 541,99 per warrant and DKK 519,79 per warrant at 31 December 2020 and 2019 respectively.

Notes

7. Share-based payment (continued)

Determination of fair value of warrants
UNION therapeutics A/S determines and calculates the fair value of each equity settled warrant granted during the year and for each cash-settled warrant, at each balance sheet date using the Black-Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- Dividend yield. Is determined to be zero for 2020 and 2019.
-The expected stock price volatility: As it is not possible to estimate the expected volatility of a non-public listed entity's share price, UNION therapeutics A/S has estimated the fair value of its warrants by using the volatility of an appropriate peer group of listed biotechnology companies.
-The risk-free interest rate, which is based on the Danish government bonds having a yield with a maturity equal to the expected term of the option in effect at the time of grant.
-The expected life of warrants, which is based on vesting terms, expected rate of exercise and life terms in the warrant program.
-Estimate of UNION therapeutics A/S' market share price. As UNION therapeutics A/S is not listed on a stock exchange the estimated fair value of the warrants at each measuring date, using the Black-Scholes model, has been established by assuming that the value of UNION therapeutics A/S' shares is the price per share determined at the latest financing round and considering additional relevant facts and circumstances.

Valuation assumptions for warrants in 2020 and 2019

Equity settled warrants	**2020**	**2019**
Dividend yield	-	-
Volatility (%)	61-77	65
Risk-free interest rate	-0,4% - 0,5%	-0,7%
Market share price range applied	DKK 534-1.237	DKK 534
Exercise price	DKK 1 - 534	DKK 534
Life of equity settled warrants granted	5 years	5 years
The grant date fair value per warrant	DKK 533-932	DKK 278

Cash settled warrants	**2020**	**2019**
Dividend yield	-	-
Volatility (%)	67	61
Risk-free interest rate	-0,6%	-0,4%
Market share price at year end	DKK 1.600	DKK 534
Exercise price	DKK 239,8	DKK 239,8
Life of cash-settled warrants at 31 December	1,1 year	2,1 years
The 31 December fair value per warrant	DKK 1.359	DKK 323

Reconciliation of fair value of cash settled warrants:

DKK'000	**Cash settled warrants**
1 January 2019	2.496
Fair value adjustment through comprehensive income	-1.054
At 31 December 2019	**1.443**
Fair value adjustment through comprehensive income	4.627
At 31 December 2020	**6.069**

Notes

8. Other operating income

Other operating income consists of government grants (Innovation Fund Denmark and Train2Target) and other items secondary to the Company's activities. These grants provide compensation for a part of certain project-specific research and development expenses, including wages and salaries. In 2020, UNION therapeutics A/S recognized DKK 8.723 thousand as income from government grants (2019: DKK 344 thousand).

There are no unfulfilled conditions and other contingencies attached to government assistance that has to be recognized.

9. Financial income

DKK'000	Notes	Parent company 2020	Parent company 2019
Interest income		6	93
Interest income, group entities		40	43
Foreign exchange gains		0	62
Fair value adjustment, warrant and put option (unrealized)	21	0	1.830
		46	**2.028**

10. Financial expenses

DKK'000		Parent company 2020	Parent company 2019
Interest expenses		380	139
Interest expenses, lease liabilities		11	28
Interest expenses, EIB loan	22	9.409	6.362
Foreign exchange loss		146	0
Fair value adjustment, warrant and put option (unrealized)	21	12.012	0
		21.957	**6.529**

Notes

11. Income taxes
The major components of income tax benefit for the years ended 31 December 2020 and 2019 are:

	Parent company	
DKK'000	**2020**	**2019**
Income taxes in the statement of profit or loss		
Net result before tax	-86.253	-17.964
Corporate income tax rate in Denmark	22%	22%
Computed corporate income tax (benefit)	**-18.976**	**-3.952**
Prior year adjustments	-15	0
Adjustment for non-deductible expenses	79	9
Adjustment for R&D super deduction	-4.027	-62
Adjustment for warrant	1.517	147
Change in deferred tax asset not recognized	15.907	-290
Total income tax (benefit)	**-5.515**	**-4.148**
Deferred tax in the statement of financial position		
Tax deductible losses	22.251	9.253
EIB loan facility	2.484	-357
Other temporary differences	63	7
Deferred tax at 31 December	**24.798**	**8.903**
Deferred tax assets not recognized		
Deferred tax assets not recognized	-24.798	-8.903
Deferred tax at 31 December	**0**	**0**

The unused tax losses can be carried forward indefinitely.

At 31 December 2020 and 2019 tax receivable of DKK 5,5 million and DKK 4,1 million comprise receivable tax credit for research and development expenditures at the applicable tax rate under the Danish Tax Assessment Act.

Notes

12. Intangible assets

DKK'000	Patents, trademarks and other
Cost	
At 1 January 2020	0
Additions, acquired separately	16.566
At 31 December 2020	**16.566**
Depreciation	
At 1 January 2020	0
Additions	0
At 31 December 2020	**0**
Net book value	
At 31 December 2020	**16.566**

Acquisition of PDE4-inhibitor program

In June 2020, UNION therapeutics A/S entered into an asset purchase agreement with Leo Pharma A/S. Pursuant to this agreement, Leo Pharma A/S sold and transferred certain intangible rights in the form of patents and compound data relating to the 'PDE4 inhibitor compounds' to UNION therapeutics A/S.

In consideration of the acquisition of the intangible rights, in 2020, UNION therapeutics A/S paid in cash DKK 1.668 thousand and by issuance and grant of 12.044 shares of nominal 1 DKK at a rate of DKK 1.237 per share, equivalent to a value of DKK 14.898 thousand. The value of the intangible assets acquired, is measured at the fair value of the cash paid and of the equity instruments granted, with reference to the corresponding increase in equity of DKK 14.898 thousand. The applied rate per share is determined with reference to the share price applied in the most resent capital increase completed by the UNION therapeutics A/S in May 2020.

Under the terms of the Agreement, UNION therapeutics A/S agreed to make future payments to LEO Pharma A/S that were contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION therapeutics A/S applies the cost accumulation method for the accounting for such contingent payments.

Under the agreement, UNION therapeutics A/S will, subject to meeting certain clinical, regulatory, and sales milestones, pay in cash to the seller up to USD 200 million or DKK 1.240 million. Also, UNION therapeutics A/S will pay to the seller low single-digit percentage royalty applied on net sales of covered products until the expiry of the royalty term which ends at the latest on the twelfth anniversary of the first commercial sale of covered products.

The acquired intangible asset is not being amortized until approval of the underlying asset has been received from regulatory authorities. Management has not identified indicators of impairment concerning the acquired intangible rights.

Notes

13. Tangible assets

DKK'000	Notes	Right-of-use assets	Other equipment	Total
Cost				
At 1 January 2020		650	94	745
Adjustments	22	-206	0	-206
Additions		0	0	0
At 31 December 2020		**444**	**94**	**539**
Depreciation				
At 1 January 2020		217	64	281
Adjustments	22	-65	0	-65
Additions		136	19	155
At 31 December 2020		**288**	**83**	**371**
Net book value				
At 31 December 2020		**156**	**12**	**168**

DKK'000	Right-of-use assets	Other equipment	Total
Cost			
At 1 January 2019	650	94	745
Additions	0	0	0
At 31 December 2019	**650**	**94**	**745**
Depreciation			
At 1 January 2019	0	35	35
Additions	217	29	246
At 31 December 2019	**217**	**64**	**281**
Net book value			
At 31 December 2019	**434**	**30**	**464**

Right-of-use assets

The company leases its office premises in Copenhagen. The property lease is non-cancellable in the period through 30 June 2021 for the lessee and 31 December 2021 for the lessor. Hereafter, the option to terminate is six months. The contract does not provide a right, obligation, or an option to buy the office premises. The contract contains both lease and non-lease components according to the specific pricing of the services in the agreements.

In 2020 and 2019, the expense related to variable lease payments not included in the lease liabilities amounts to DKK 77 thousand and DKK 77 thousand and was recognized in administration expenses.

Notes

14. Investments in subsidiaries

DKK'000	**2020**	**2019**
Cost at 1 January	40	0
Additions	0	40
Cost at 31 December	40	40
Carrying amount at 31 December	**40**	**40**

Name and registered office	**Voting rights and ownership**
UNION therapeutics North America Inc., Collateral MMA, 33 Bedford street, Suite 9, Lexington MA 02420	100%
UNION therapeutics Research Services ApS, Tuborg Havnevej 18, 2900 Hellerup	100%

15. Other receivables and prepayments

DKK'000	**2020**	**2019**
VAT receivables	972	348
Other receivables	9.012	654
Prepayments	119	54
	10.103	**1.056**

Other receivables for 2020 includes government grant receivables of DKK 8.673 thousand (agreement signed in 2020 and amount received in 2021).

Notes

16. Capital management and share capital

Capital Management

The Board of Directors monitors the share and capital structure to ensure that UNION therapeutics A/S' capital resources support the strategic goals. UNION therapeutics A/S' goal is to maintain a strong capital base so as to maintain confidence from investors, creditor, employees and collaboration partners, and a continuous advancement of the research and development pipeline and business in general.

UNION therapeutics A/S is primarily financed through equity investments from shareholders and a long-term loan agreement with the European Investment Bank. UNION therapeutics A/S has also obtained financing through licence agreements, governmental- and private grants.

The adequacy of UNION therapeutics A/S' available funds will depend on various factors, including the advancement of the research and development programs, the magnitude of investments in these programs, and UNION therapeutics A/S' ability to establish commercial collaboration and licensing agreements with partners.

As such, UNION therapeutics A/S may require additional funds and may attempt to raise additional funds through equity or debt financings, licence and collaborative agreements with partners, or from other sources.

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 EUR 20 million.
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.

In January 2018, the Company called the first of the two tranches under the finance contract. The first tranche totalled EUR 7 million. The loan and accumulated interest fall due for payment in January 2023.

In December 2019, the Company called the second of the two tranches under the finance contract. The second tranche totalled EUR 3,32 million. The loan and accumulated interest fall due for payment in December 2024.

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. Each warrant entitles EIB to subscribe for 1 share of nominal DKK 1 against payment of exercise price of 1 DKK. Vested warrants can be exercised in part of in full at any time at the discretion of EIB. Warrants not exercised after 20 years shall lapse.

Upon draw down of the first tranche in 2018, 8.722 warrants vested. Upon drawdown of the second tranche in 2019, 2.546 warrants vested, and 7.423 warrant were lapsed and became void. A number of 11.268 warrants were outstanding at 31 December 2020 and 2019.

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 an option price equivalent to the fair value of the warrants at the time of exercise. Reference is made to note 25.

As part of the loan agreement, the Company entered into a floating charge agreement pursuant to which a floating charge of EUR 2 million is pledged. Furthermore, the Company entered into a negative pledge preventing it to subsist any security over any of its assets. Reference is made to note 19.

Share capital

The share capital comprises of 562.859 shares of nominal DKK 1, each of which have been issued and paid in full. Only one class of shares exists, and no shares carry any special rights.

	Number of shares	Share capital (DKK'000)
Share capital at 1 January 2019	500.000	500
Capital increase at 19 September 2019	14.044	14
Capital increase at 6 December 2019	1.404	1
Share capital at 31 December 2019	**515.448**	**515**
Share capital at 1 January 2020	515.448	515
Capital increase at 7 May 2020	35.367	35
Capital increase at 23 June 2020	12.044	12
Share capital at 31 December 2020	**562.859**	**563**

In February 2021, the Company completed a cash capital increase of nominal DKK 96.741. Hereafter, the share capital comprises of DKK 659.600 shares of DKK 1, each of which have been paid in full. Reference is made to note 22.

Loss of subscribed share capital

As a result of the company's accounting policy, financing strategy and utilization of the credit facility provided by the European Investment Bank, at 31 December 2020 the company has lost more than 50% of its subscribed share capital. Following the capital increase in February 2021, the share capital was re-established.

Notes

17. Related party disclosures

UNION therapeutic A/S' related parties comprise significant shareholders, the parent company's subsidiaries, Board of Directors, Executive Management, and close members of the family of these persons.

Besides paying the salary, board fees and share-based payment to the Executive Management and Board of Directors as further described in notes 6 and 7, the company did not carry through any transactions with its related parties besides the below-mentioned transactions.

DKK'000	Year	Other operating income	Purchases	Receivables	Payables
Transactions with other related parties:					
Associates:					
Clinical-Microbiomics A/S	2020	301	0	0	0
	2019	128	0	0	0
UNION therapeutics North America, Inc.	2020	0	113	1.510	1.372
	2019	0	1.178	1.515	1.305
Cajaikas ApS	2020	0	1.260	0	0
	2019	0	1.080	0	0
Black Swans Exist ApS	2020	20	671	0	49

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 2020 or 2019.

Associated parties

Clinical-Microbiomics A/S

UNION therapeutics A/S renders administrative services to 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. is a wholly-owned subsidiary of UNION therapeutics A/S.

UNION therapeutics Research Services ApS

UNION therapeutics Research Services ApS was founded on 24 September 2019 and is a wholly owned subsidiary of UNION therapeutics A/S. The company has been without activity in 2020.

Cajaikas ApS

UNION therapeutics A/S renders contract research and management services from Cajaikas ApS. Cajaikas ApS is owned by a member of the Board of Directors of UNION therapeutics A/S.

Black Swans Exist ApS

UNION therapeutics A/S renders recruitment services from and administrative services to Black Swans Exist ApS. Black Swans Exist ApS is partly owned by the holding companies to UNION therapeutics A/S, Manjin ApS and Vendler ApS.

Remuneration of the executive board and the Board of Directors

Reference is made to notes 6 and 7.

Terms and conditions of transactions with related parties

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.

Notes

18. Other payables

DKK'000	**2020**	**2019**
Salary related payables	1.889	531
Payables to group entities	1.268	0
Other liabilities	4.907	1.420
	8.065	**1.952**

Other liabilities primarily comprise of accruals for CRO costs. Clinical activity level was significantly higher at year end 2020 compared to year end 2019.

19. Contingent assets and liabilities, contractual obligations and pledges

The company has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2 million (2019: EUR 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.

License Agreements
UNION therapeutics A/S is entitled to potential milestone payments and royalties on successful commercialization of products developed under license agreements with an external party (note 4). Since the size and timing of such payments are uncertain until the milestones are reached or sales are generated, the agreements may qualify as contingent assets. However, it is impossible to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Acquired Intangible Assets
As part of the acquisition of intangible rights UNION therapeutics A/S may be required to make milestone and royalty payments to the seller (note 13). It is impossible to measure the value of such future payments, but UNION therapeutics A/S expects to generate future income from such products which will exceed any milestone and royalty payments due, and accordingly no such liabilities have been recognized.

Joint taxation

UNION therapeutics A/S is jointly taxed with the Company's Danish subsidiary. As administration company, UNION therapeutics A/S has unlimited joint and several liability, together with the subsidiary, for payment of Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation group. The jointly taxed entities' total known net liability in respect of corporation taxes and withholding taxes payable amounted to DKK 0 at 31 December 2020 and 2019. Any subsequent adjustments to the joint taxation income and withholding taxes, etc. may entail that the Company's liability will increase.

20. 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 A/S 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 are to maintain a balance between continuity of funding and flexibility through the use of equity investments from shareholders and external loans.

UNION therapeutics A/S has no unused credit facilities at 31 December 2020 and 2019. Refer to note 3.

Notes

20. Financial risks (continued)

The following are the contractual undiscounted out flows associated with the Company's financial liabilities in the current and prior year based on their contractual maturities.

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total
2020					
Long-term debt (amortized cost)	88.894	0	118.136	0	118.136
Trade payables (amortized cost)	7.350	7.350	0	0	7.350
Lease liabilities (amortized cost)	167	167	0	0	167
Warrant and put option (fair value)	18.018	18.018	0	0	18.018
	114.429	**25.535**	**118.136**	**0**	**143.671**

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total
2019					
Long-term debt (amortized cost)	79.560	0	80.038	38.098	118.136
Trade payables (amortized cost)	1.202	1.202	0	0	1.202
Lease liabilities (amortized cost)	451	234	217	0	451
Warrant and put option (fair value)	6.006	6.006	0	0	6.006
	87.220	**7.442**	**80.255**	**38.098**	**125.795**

The maturity analysis is based on the following assumptions:

- The amounts disclosed in the tables are the contractual undiscounted cash flows (including interest payments). Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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 A/S has no significant interest-bearing debt with variable interest, and UNION therapeutics A/S' 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 therapeutics A/S' 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.

Notes

21. Changes in liabilities arising from financing activities

DKK'000

2020

	2019	Cash flows	Non-cash changes				2020
				Adjustment opening	Interest	Foreign exchange adjustment	
Debt facility	79.558	0		0	9.409	-73	88.894
Leasing	451	-155		-140	11	0	167
Total	**80.009**	**-155**		**-140**	**9.420**	**-73**	**89.061**

2019

	2018	Cash flows	Non-cash changes				2019
			Reclass. to warrant put option	Adoption of IFRS 16	Interest	Foreign exchange adjustment	
Debt facility	49.866	24.763	-1.357	0	6.362	-76	79.558
Leasing	0	-152	0	575	28	0	451
Total	**49.866**	**24.611**	**-1.357**	**575**	**6.390**	**-76**	**80.009**

22. Events after the balance sheet date

In February 2021 UNION therapeutics A/S completed an equity capital raise, receiving gross proceeds of DKK 155 million.

23. Cash flow statement - adjustments

	Parent company	
DKK'000	**2020**	**2019**
Income taxes	-5.515	-4.148
Depreciation and amortisation	155	246
Financial costs/income	21.911	4.501
Share-based compensation costs	6.896	668
Other adjustments, primarily exchange rate adjustments	0	-78
	23.447	**1.190**

24. Cash flow statement - changes in net working capital

	Parent company	
DKK'000	**2020**	**2019**
Changes in other receivables	-8.358	-184
Changes in VAT receivables	-624	231
Changes in prepayments	-65	69
Changes in employee related liabilities	1.358	-591
Changes in intercompany payables	1.434	1.206
Changes in intercompany receivables	-1.313	-40
Changes in trade payables	6.148	-567
Changes in investments in subsidiaries	-40	0
Changes in other liabilities	3.487	-881
	2.027	**-757**

Notes

25. 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.

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 fair value of financial instruments measured on level 3

The company has entered into 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 by use of the Black-Scholes valuation model.

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

Fair value measurement of the EIB warrant and put option

The fair value of the warrant and put option (note 16) 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 (note 7). The probabilities of the various estimates within the applied range can be reasonably assessed and are used in Management's estimate of fair value.

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

	2020	**2019**
Dividend yield	-	-
Volatility (%)	67	61
Annual risk-free interest rate	-0,6%	-0,4%
Market share price at year-end	DKK 1.600	DKK 534
Exercise price	DKK 1	DKK 1
Life of option	2-4 years	3-5 years

Sensitivity

At 31 December 2019 and 31 December 2020, 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 measurements under Level 3 hierarchy:

	Warrant and put option
1 January 2019	6.479
Additions, fair value at draw down	1.357
Fair value adjustment through profit or loss	-1.830
At 31 December 2019	**6.006**
Fair value adjustment through profit or loss	12.012
At 31 December 2020	**18.018**