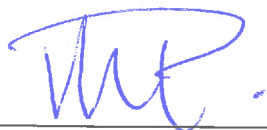


Saniona A/S
Baltorpvej 154
2750 Ballerup
Central Business Registration No 34049610

Annual Report 2017

The Annual General Meeting adopted the annual report on 24 MAY 2018

Chairman of the General Meeting



Name: Thomas Feldthus

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Entity details

Saniona A/S
Baltorpvej 154
2750 Ballerup

Central Business Registration No: 34049610
Registered in: Ballerup
Financial year: 01.01.2017 – 31.12.2017

Board of Directors

Joseph Donald deBethizy, Chairman
Claus Tycho Bræstrup
Karl Johan Bertil Sundberg
Leif Jan Eugen Andersson
Anna Helena Constance Ljung
Jørgen Drejer

Executive Board

Jørgen Drejer, CEO
Thomas Feldthus, CFO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
P.O. Box 1600
0900 Copenhagen C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Saniona A/S for the financial year 01.01.2017 - 31.12.2017.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.


We recommend the annual report for adoption at the Annual General Meeting.

Ballerup, 26.04.2018

Executive Board

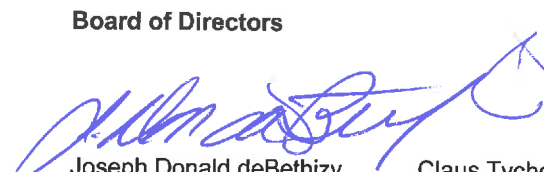


Jørgen Drejer
CEO



Thomas Feldthus
CFO

Board of Directors




Joseph Donald deBethizy
Chairman



Claus Tycho Bræstrup



Karl Johan Bertil Sundberg



Leif Jan Eugen Andersson



Anna Helena Constance Ljung



Jørgen Drejer

Independent auditor's report

To the shareholders of Saniona A/S

Opinion

We have audited the financial statements of Saniona A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations and cash flows for the financial year 01.01.2017 - 31.12.2017 in accordance with the Danish Financial statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial statements Act.

Based on the work we have performed, we conclude that the management commentary 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 commentary.

Ballerup, 26.04.2018

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No: 33963556



Thomas Hermann

State Authorised Public Accountant

Identification number (MNE) 26740

Management commentary

Primary activities

The object of the company is research and development in the pharmaceutical industry and thus related activity.

Development in activities and finances

In 2017, Saniona became a Phase 3 company as its partner, Medix, initiated a Phase 3 trial in Mexico for tesofensine for obesity. By January of 2018, just five short months since initiation, Medix successfully completed patient recruitment for the trial and now anticipates completing the trial by the end of 2018 with top line results available in early 2019. The study may lead to the filing of an application for marketing authorization (MAA) in Mexico in 2019 and potential commercialization and a double-digit royalty stream to Saniona within a few years.

In addition to the clinical advancement of tesofensine, Tesomet, Saniona's proprietary combination of tesofensine and metoprolol, has demonstrated potential benefits in metabolic diseases and eating disorders. In early 2017 Saniona reported positive data from its Phase 2 study of Tesomet in type 2 diabetes (T2D), demonstrating the possibility to obtain clinically relevant weight loss in T2D with a cardiovascular neutral product. In April 2017, Saniona initiated a small exploratory study for Tesomet in adult Prader Willi patients and reported interim data from the study in January 2018. The data indicated efficacy on weight loss and hyperphagia, which represent the major dysfunction in patients with Prader Willi syndrome. In April 2018, Saniona obtained approval to initiate the second part of its Phase 2a trial for Tesomet in adolescents with Prader-Willi syndrome.

Saniona's unique platform creates long-term value as the company's preclinical programs enter the clinic. In December, the company selected a new preclinical candidate, SAN711 for the treatment of neuropathic pain and chronic itching. Saniona is now preparing for the initiation of IND enabling studies with a Phase 1 trial to start in 2019.

Saniona's partnered programs with Boehringer Ingelheim, BenevolentAI, Cadent Therapeutics and The Michael J. Fox Foundation continued to progress well in 2017. Saniona received the final two research milestone payments from The Michael J. Fox foundation and Cadent Therapeutics selected a candidate and initiated preclinical development for its joint Ataxia program. The company hopes to provide compelling and tangible results from these efforts in the future.

In 2017, the company reported revenues of DKK 16,006 thousand and net loss before tax of DKK 37,483 thousand. The company had negative equity of DKK 36,732 thousand at the end of 2017. The company is financed through loans from the parent company and collaboration agreements.

At 31 December 2017, the group had SEK 37,628 thousand in equity and SEK 22,313 thousand in cash and cash equivalents.

Operationally, Saniona continued to strengthen its position both internally and externally. The company's up-listing to the main market of Nasdaq Stockholm further recognizes the company's potential and allows access to a broader institutional investor base both domestically and internationally. Internally, Saniona acquisition of NeuroSearch's

remaining rights of certain preclinical and clinical programs reinforces the company's confidence in the potential of the assets. This buyout significantly increases the upside in tesofensine, Tesomet and NS2359 as they each represent significant value for the future of the company. As Saniona seeks to further develop its late stage pipeline, the company secured financing for the next 2 years through a private placement of SEK 35 million in May and a convertible financing of up to SEK 144 million in December.

Group relations

The company became part of a group on 30 January 2014, where the parent company, Saniona AB, acquired 100 % of the shares in the company. Saniona AB does not have any business other than owning shares in the company. The group is listed on Nasdaq Stockholm First North Premier. The group's share is traded under the ISIN code SE0005794617. The group is a research and development company focused on drugs for diseases of the central nervous system, autoimmune diseases, metabolic diseases and treatment of pain.

Events after the balance sheet date

- In January, Saniona reported top line results from the Tesomet Phase 2a interim study in Prader-Willi syndrome, indicating clinical meaningful reduction in weight and hyperphagia
- In January, Saniona initiated recruitment of 60 volunteers in a Phase 1 study with the new Tesomet tablet
- In January, the extraordinary shareholders' meeting resolved to elect J. Donald deBethizy and Anna Ljung as new ordinary board members and to elect J. Donald deBethizy as new chairman of the board of directors.
- In January, Saniona and BenevolentAI extended the research collaboration
- In February, Saniona's partner, Medix, completed the recruitment of 272 patients in a Phase 3 study for tesofensine in obesity
- In February, Saniona completed recruitment of 60 volunteers in a Phase 1 study with the new Tesomet tablet
- In March, Saniona's partner Cadent Therapeutics initiated a Phase 1 trial for CAD-1883 for the treatment of spinocerebellar ataxia and essential tremor
- In April, Saniona obtained approval to initiate the second part of its Phase 2a trial for Tesomet in adolescents with Prader-Willi syndrome

Income statement of 2017

	Notes	2017	2016
Revenue		16.005.672	58.855.825
Costs of raw materials and consumables		(2.356.718)	(1.648.985)
Other external expenses		(34.207.017)	(34.351.750)
Gross profit/loss		(20.558.063)	22.855.090
Staff costs	1	(16.530.956)	(13.182.180)
Depreciation, amortisation and impairment losses		(432.560)	(301.774)
Operating profit/loss		(37.521.579)	9.371.136
Other financial income		980.172	868.474
Other financial expenses		(941.920)	(615.779)
Profit/loss before tax		(37.483.327)	9.623.831
Tax on profit/loss for the year	2	5.489.603	(2.135.398)
Profit/loss for the year		(31.993.724)	7.488.433
Proposed distribution of profit/loss			
Retained earnings		(31.993.724)	7.488.433
		(31.993.724)	7.488.433

Balance sheet at 31.12.2017

	Notes	2017 DKK	2016 DKK
Other fixtures and fittings, tools and equipment		958.262	795.589
Leasehold improvements		74.645	124.700
Property, plant and equipment	3	1.032.907	920.289
Other receivables		4.550.391	1.102.466
Deferred tax		67.415	77.812
Fixed asset investments		4.617.806	1.180.278
Fixed assets		5.650.713	2.100.567
Trade receivables		5.427.433	9.526.689
Other receivables		2.373.208	1.121.069
Income tax receivable		5.500.000	0
Prepayments		336.125	306.979
Receivables		13.636.766	10.954.737
Cash		3.925.841	29.455.722
Current assets		17.562.607	40.410.459
Assets		23.213.320	42.511.026

Balance sheet at 31.12.2017

	Notes	2017 DKK	2016 DKK
Contributed capital		501.000	501.000
Other reserves		524.288	248.518
Retained earnings		(37.756.912)	(5.763.188)
Equity		(36.731.624)	(5.013.670)
Payables to group enterprises		52.207.046	35.027.019
Non-current liabilities other than provision		52.207.046	35.027.019
Trade payables		3.937.499	4.837.199
Income tax payable		0	1.243.045
Other payables		3.343.910	4.081.411
Deferred income		456.489	2.336.022
Current liabilities other than provisions		7.737.898	12.497.677
Liabilities other than provisions		59.944.944	47.524.696
Equity and liabilities		23.213.320	42.511.026
Unrecognised rental and lease commitments	4		
Contingent liabilities	5		
Related parties with controlling interest	6		

Statement of changes in equity for 2017

	Contributed capital DKK	Other reserves DKK	Retained earnings DKK	Total DKK
Equity beginning of year	501.000	248.518	(5.763.188)	(5.013.670)
Other equity postings	0	275.770	0	275.770
Profit/loss of the year	0	0	(31.993.724)	(31.993.724)
Equity end of year	501.000	524.288	(37.756.912)	(36.731.624)

Notes

1. Staff costs

	2017 DKK	2016 DKK
Wages and salaries	14.912.415	11.905.114
Pension costs	1.217.861	942.213
Other social security costs	(32.227)	(34.267)
Other staff costs	368.453	369.120
	16.530.956	13.182.180
Number of employees at balance sheet date	25	20

Share based payments

The 2015 Annual General Meeting voted in favor of establishing an employee incentive program involving the allotment of a maximum of 64,000 options free of charge to certain employees and consultants of the Group. Allotment of 64,000 employee options took place in July 2015.

Each employee option will entitle the holder to acquire one new share in Saniona for a subscription price of SEK 20.72 corresponding to 100% of the average closing price of the Parent Company's share during the ten trading days after the annual meeting 2015. Holders can take advantage of assigned and earned stock options during 30 days from the day following the publication of the Group's quarterly reports, or in the case of full-year, full-year report, for the first time after publication of the quarterly report for the first quarter of 2018 and last time after publication of the quarterly report for the third quarter of 2019.

The 2017 Annual General Meeting voted in favour of establishing an employee incentive program involving the allotment of a maximum of 38,750 options free of charge to certain employees and consultants of the Group. Allotment of 38,750 employee options took place in July 2017.

Each employee option will entitle the holder to acquire one new share in Saniona for a subscription price of SEK 41.13 corresponding to 100% of the average closing price of the Parent Company's share during the ten trading days after the annual meeting 2017. Holders can take advantage of assigned and earned stock options during 30 days from the day following the publication of the Group's quarterly reports, or in the case of full-year, full-year report, for the first time after publication of the quarterly report for the first quarter of 2021 and last time after publication of the quarterly report for the third quarter of 2022.

The fair value of the options was determined to be SEK 13.13 per option for the 2015 program and SEK 29.48 per option for the 2017 using the Black-Scholes pricing model. The data below has been used for the calculation.

Employee incentive program	2015	2017
Allotted options	64,000	38,750
Fair value per option (SEK)	13.13	29.48
Share price for underlying shares (SEK)	19.90	45.50
Subscription price (SEK)	20.72	41.13
Vesting period	4 years	4 years
Estimated life of the option	4.50 years	5.50 years
Risk-free interest rate during the life of the option	0.2257%	-0.0584%
Assumed volatility*	91.29%	76.75%
Expected dividends	0	0

* The volatility equals the historical volatility for the longest period where trading activity is available (for the period since listing at AktieTorget on April 22, 2014 to date of grant).

Share-based compensation expenses for the full year of 2017 totalled SEK 359 (211) thousand. The Group accounts for share-based compensation by recognizing compensation expenses related to share-based instruments granted to the management, employees and consultants in the income statement. Such compensation expenses represent the fair market values of warrants granted and do not represent actual cash expenditures.

According to the table below, the Group had 102,292 (64,000) options outstanding as of December 31, 2017. If all issued warrants are exercised for subscription of new shares, the Parent Company's will issue a total of 102,292 new shares corresponding to a dilution of approximately 0.47%.

	Options granted in 2015	Options granted in 2017	Total
Share-based payment			
Outstanding at 1 January 2017	64,000	-	64,000
Granted during the period	-	38,750	38,750
Forfeited during the period	-	- 458	- 458
Outstanding at 31 December 2017	64,000	38,292	102,292

The Board of Directors and Executive Management have no options in the Company as of December 31, 2017.

2. Tax on profit/loss for the year

	2017 DKK	2016 DKK
Tax on current year taxable income	(5.500.000)	2.097.308
Change in deferred tax for the year	10.397	38.090
	(5.489.603)	2.135.398

3. Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK	Leasehold improve- ments DKK
Costa beginning of year	2.583.457	250.276
Additions	545.178	0
Cost end of year	3.128.635	250.276
Depreciation and impairment losses beginning of the year	(1.787.868)	(125.576)
Depreciation for the year	(382.505)	(50.055)
Depreciation and impairment losses end of the year	(2.170.373)	(175.631)
Carrying amount end of year	958.262	74.645

4. Unrecognised rental and lease commitments

	2017 DKK	2016 DKK
Hereof liabilities under rental or lease agreements until maturity in total	888.990	888.576

5. Contingent liabilities

	2017 DKK	2016 DKK
Recourse and non-recourse guarantee commitments	39.000	39.000
Contingent liabilities in total	39.000	39.000

A bank guarantee of DKK 39 thousand has been issued to a third party.

The Entity serves as an administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed entities and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these entities.

6. Related parties with controlling interest

The Company has registered the following shareholder to have the controlling interest of the company:

Saniona AB, Sverige, 100 %.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises.

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary writedowns of the relevant inventories.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

Share-based incentive programmes

Share-based incentive programmes in which the employees are offered to buy shares in the immediate parent company (equity-settled share-based payment transactions) are measured at the fair value of the equity instruments at the time of granting and are recognised in the income statement under staff costs at the time of granting. The related counter entry is recognised directly in equity.

The fair value of the equity instruments is calculated using the Black-Scholes formula including the parameters defined in note 1.

Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	1-5 years
Leasehold improvements	5 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Items of plant and equipment are written down to the lower of recoverable amount and carrying amount.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Income tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.