


**Sunstone Life Science Ventures Fund III
K/S
Central Business Registration No
34085919
Frederiksberggade 16
1459 Copenhagen K**

Annual report 2015

The Annual General Meeting adopted the annual report on 25.02.2016

Chairman of the General Meeting



Name: Merete Lundbye Møller

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Entity details

Entity

Sunstone Life Science Ventures Fund III K/S
Frederiksberggade 16
1459 Copenhagen K

Central Business Registration No: 34085919

Registered in: Copenhagen

Financial year: 01.01.2015 - 31.12.2015

Executive Board

Merete Lundbye Møller

Søren Lemonius

Sten Verland

Peter Benson

Claus Asbjørn Andersson

Andreas Rutger Segerros

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

Postboks 1600

0900 København C

Statement by Management on the annual report

The Executive Board of Sunstone LSV General Partner III ApS have today considered and approved the annual report of Sunstone Life Science Ventures Fund III K/S for the financial year 01.01.2015 - 31.12.2015.

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 31.12.2015 and of the results of its operations for the financial year 01.01.2015 - 31.12.2015.

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

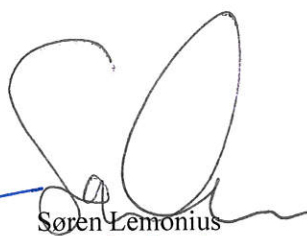
We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 29.01.2016

Executive Board



Merete Lundbye Møller



Søren Lemonius



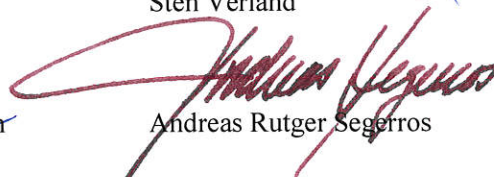
Sten Verland



Peter Benson



Claus Asbjørn Andersson



Andreas Rutger Segerros

Independent auditor's reports

To the General Partner and the Limited Partners of Sunstone Life Science Ventures Fund III K/S

Report on the financial statements

We have audited the financial statements of Sunstone Life Science Ventures Fund III K/S for the financial year 01.01.2015 - 31.12.2015, which comprise the accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2015 and of the results of its operations for the financial year 01.01.2015 - 31.12.2015 in accordance with the Danish Financial Statements Act.

Independent auditor's reports

Statement on the management commentary

Pursuant to the Danish Financial Statements Act, we have read the management commentary. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the management commentary is consistent with the financial statements.

Copenhagen, 29.01.2016

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR-nr. 33963556



Kim Mücke

State Authorised Public Accountant

Management commentary

Primary activities

Sunstone Life Science Ventures Fund III K/S invests in early-stage life science companies mainly located in the Nordic countries.

A team of five investment professionals in Denmark is responsible for the investment management.

Development in activities and finances

The Fund was established 6 December 2011. At the end of 2015 the Fund holds 11 active portfolio companies, three of which are new investments made in 2015.

Loss for the year of DKK 11.7 million is primarily related to fair value losses and management fee.

Future results of Sunstone Life Science Ventures Fund III K/S are dependent on the development in the value of the Entity's investments in portfolio enterprises.

The following development has taken place during the year:

Adenium Biotech ApS: Located in Copenhagen, Denmark, develops peptide-based treatments for severe multi-resistant bacterial infections. The company continued the non-clinical development program and will soon be able to file its first CTA/IND. The company hired Paul Goldenheim as new CEO during the year.

ARO Medical ApS: Located in Aarhus, Denmark, develops a spinal implant for reduction of chronic pain often following surgery for spinal disc herniation. Testing of the ARO Cinch implant goes according to plan and first indications are promising.

Cantargia AB: Located in Lund, Sweden, develops an antibody targeting the hard-to-hit cancer stem cells in hematological cancers. The company was listed on NASDAQ OMX First North Stockholm in Q1 2015. News about the company can be found on <http://cantargia.com/news>.

Follicum AB: Located in Lund, Sweden, develops a new treatment for people suffering from hair loss (alopecia). The company is listed on the Swedish stock exchange, Aktietorget. News about the company can be found on <http://www.follicum.se/en/news>.

Galecto Biotech AB: Located in Lund, Sweden, develops a drug, which inhibits fibrosis, initially targeting idiopathic pulmonary fibrosis. The company continues the development program with the objective to conclude the Bristol-Meyers Squibb option deal from 2014.

Management commentary

Minervax A/S: Located in Copenhagen, develops a vaccine against Group B Streptococcus (GBS). GBS is the leading cause of life-threatening bacterial infections in newborn babies affecting some 8,000 babies annually in Europe and the US. The company will continue the work with the clinical phase 1 in 2016.

Opsona Therapeutics Ltd: Located in Dublin, Ireland, develops an antibody-based therapy to prevent reperfusion injuries following kidney transplantation. The company has received promising initial data from a phase II study as well as from a phase I trial in MDS.

Prexton Therapeutics S.A: Located in Geneva, Switzerland, develops a mGluR4 blocker for treatment of Parkinson's disease. The company secured funding from Sunstone and Ysios for its phase I study in 2015.

Rigontec GmbH: Located in Bonn, Germany, develops RNA-based immunotherapeutics for the treatment of cancer and viral diseases. The company secured funding from Sunstone, Wellington Partners, Boehringer Ingelheim Venture Fund and Forbion Capital Partners for its phase I study in 2015.

RSPR Pharma AB: Located in Stockholm, Sweden, develops a mast cell inhibitor with the aim to get an oral treatment for allergic asthma. The company started its phase II development in 2015.

Uncertainty relating to recognition and measurement

When preparing the annual report, the General Partner, in accordance with legislative provisions, makes accounting judgments and estimates, which form the basis of the annual report. The accounting judgments and estimates made by the General Partner are described in the paragraph "Management's significant accounting judgments and estimates" under accounting policies to which we refer. Such estimates are made on the basis of assumptions, which the General Partner considers reasonable and realistic, but which are uncertain by nature.

Unusual circumstances

Except for the fair value losses on investments, the annual report is not influenced by unusual circumstances.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

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.

The accounting policies applied for this annual report are consistent with those applied last year.

The description of accounting policies reflects the Entity's special activity as venture fund.

The annual report is presented in DKK 1,000.

Income tax

The annual report does not include current or deferred tax due to the corporate form.

Material uncertainty related to recognition and measurement

When preparing the Entity's annual report, Management makes accounting judgments and estimates, which form the basis of the presentation, recognition and measurement of the Entity's assets and liabilities. In particular, the accounting judgments and estimates made by Management relate to the Entity's investments in portfolio enterprises, which include contribution of equity and loans to development-oriented enterprises, the assets of which essentially include intangible assets, and which may require continuous contribution of capital. When measuring the fair value of the unlisted investments, the General Partner assesses the development stage of the portfolio enterprises compared to the initial plans at the time of making the initial investments, future financing requirements, commercialisation possibilities, timing of exit and possible exit values.

The fair value of each unlisted portfolio enterprise is determined in accordance with commonly used valuation principles based on the IPEV Valuation Guidelines, taking into account the assessment of the development stage of the enterprise as well as its market potential and expected cash flows in order to reflect the fair value of the portfolio enterprise in the best way possible.

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 assets 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 liabilities can be measured reliably.

Accounting policies

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 one 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.

Exchange rate adjustments relating to investments in portfolio companies are recognised in the income statement together with fair value adjustments concerning the investments.

Income statement

Other external expenses

Other external expenses include administration costs, start up costs and investment costs.

Administrative expenses comprise expenses for administration incurred by the Entity.

Investment costs comprise due diligence expenses relating to uncomplete investments etc.

Investment costs relating to completed investments are added to the cost of investments.

Other operating expenses

Other operating expenses comprise management fee to the management company, Sunstone LSV Management A/S.

Income from other fixed asset investments

Income from other fixed asset investments comprises realised gains/losses from divestments as well as unrealised value adjustments from revaluation and write-down of investments in portfolio companies.

Accounting policies

Other financial expenses

Other financial expenses comprise interest expenses, realised and unrealised capital losses on transactions in foreign currencies which do not relate to exchange adjustments of investments in portfolio companies.

Balance sheet

Other investments

Other investments included as fixed asset investments comprise investments in portfolio companies and loans to portfolio companies. Investments in portfolio companies made in the financial year are recognised at cost at the time of investment.

The cost includes expenses incurred in connection with acquisition of portfolio companies. Unlisted investments in portfolio companies are subsequently measured in accordance with IPEV's Valuation Guidelines, under which investments including loans are recognised at fair value at the balance sheet date in accordance with section 38 of Danish Financial Statement Act. For investments in portfolio companies listed on a stock exchange, fair value is determined as the stock price at the balance sheet date. Value adjustments are recognised in the income statement.

Cash

Cash comprises bank deposits.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which comprise other payables.

Income statement for 2015

	<u>Notes</u>	<u>2015 DKK'000</u>	<u>2014 DKK'000</u>
Other external expenses	1	<u>(161)</u>	<u>(74)</u>
Gross profit/loss		(161)	(74)
Other operating expenses		<u>(14.683)</u>	<u>(14.855)</u>
Operating profit/loss		(14.844)	(14.929)
Income from other investments and receivables that are fixed assets	2	3.301	12.886
Other financial expenses		<u>(142)</u>	<u>(22)</u>
Profit/loss for the year		<u>(11.685)</u>	<u>(2.065)</u>
Proposed distribution of profit/loss			
Retained earnings		<u>(11.685)</u>	<u>(2.065)</u>
		<u>(11.685)</u>	<u>(2.065)</u>

Balance sheet at 31.12.2015

	<u>Notes</u>	<u>2015 DKK'000</u>	<u>2014 DKK'000</u>
Other investments		<u>173.067</u>	<u>102.731</u>
Fixed asset investments	3	<u>173.067</u>	<u>102.731</u>
Fixed assets		<u>173.067</u>	<u>102.731</u>
Cash		<u>8.318</u>	<u>0</u>
Current assets		<u>8.318</u>	<u>0</u>
Assets		<u><u>181.385</u></u>	<u><u>102.731</u></u>

Balance sheet at 31.12.2015

	<u>Notes</u>	<u>2015 DKK'000</u>	<u>2014 DKK'000</u>
Contributed capital	4	225.336	131.233
Retained earnings		<u>(45.306)</u>	<u>(33.621)</u>
Equity		<u>180.030</u>	<u>97.612</u>
Bank loans		0	1.801
Other payables	5	<u>1.355</u>	<u>3.318</u>
Current liabilities other than provisions		<u>1.355</u>	<u>5.119</u>
Liabilities other than provisions		<u>1.355</u>	<u>5.119</u>
Equity and liabilities		<u><u>181.385</u></u>	<u><u>102.731</u></u>
Contingent liabilities	6		
Related parties with control	7		

Statement of changes in equity for 2015

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	131.233	(33.621)	97.612
Increase of capital	94.103	0	94.103
Profit/loss for the year	0	(11.685)	(11.685)
Equity end of year	<u>225.336</u>	<u>(45.306)</u>	<u>180.030</u>

The stated contributed capital represents the Limited partners' total equity contributions.

Notes

1. Other external expenses

The Fund had no employees during the financial year. All administrative work is performed by Sunstone LSV Management A/S. No salary or remuneration has been paid to the general partner.

2. Income from other investments and receivables that are fixed assets

Income from other fixed asset investment comprise unrealised value adjustments from investments in portfolio companies and realised gains/losses. This year's unrealised gain from investment in portfolio companies amounts to DKK 3,301k (2014: DKK 12,886k.).

	Other in- vestments DKK'000
3. Fixed asset investments	
Cost beginning of year	90.571
Additions	<u>67.035</u>
Cost end of year	<u>157.606</u>
Revaluations beginning of year	12.160
Revaluations	<u>3.301</u>
Revaluations end of year	<u>15.461</u>
Carrying amount end of year	<u>173.067</u>
	2015
	<u>DKK'000</u>
4. Contributed capital	
Changes in contributed capital	
Contributed capital beginning of year	131.233
Increase of capital	<u>94.103</u>
Contributed capital end of year	<u>225.336</u>

The contributed capital represents the Limited partner's total equity contribution. The Entity's contributed capital comprise 99.85% A-shares and 0.15% B-shares. The Entity's A-shares are paid successively and pro rata and the B-shares are fully paid-up. One of the share classes has a dividend preference attached when the realised return in the Entity exceeds a fixed minimum rate of return p.a. (hurdle rate) of the investors's contributed capital.

Notes

5. Other short-term payables

Other short-term payables includes prepaid capital contributed from limited partners and amounts to DKK 1,211k (2014: 3,197k)

6. Contingent liabilities

At the balance sheet date, the Fund has assumed obligations to make further investments in portfolio companies or otherwise assumed obligations towards the portfolio companies by an amount up to totally DKK 25,361k (2014: DKK 12,356k.) Payment may be conditional on the portfolio companies meeting predefined requirements.

7. Related parties with control

The General Partner of the Entity is Sunstone LSV General Partner III ApS, Copenhagen.