

**Sunstone Life Science Ventures Fund III K/S
Amaliegade 10
1256 Copenhagen K
Central Business Registration No 34085919
Annual report 2016**

The Annual General Meeting adopted the annual report on 28.02.2017

Chairwoman of the General Meeting



Name: Merete Lundbye Møller

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Fund details

Fund

Sunstone Life Science Ventures Fund III K/S
Amaliegade 10
DK-1256 Copenhagen K

Central Business Registration No: 34085919

Registered in: Copenhagen
Financial year: 01.01.2016 – 31.12.2016

General Partner

Sunstone LSV General Partner III ApS

Board of Directors in Sunstone LSV General Partner III ApS

Merete Lundbye Møller, Chairwoman
Claus Asbjørn Andersson
Peter James Arthur Benson
Andreas Rutger Segerros
Sten Verland
Søren Lemonius

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab

Statement by the General Partner on the annual report

The Board of Directors in Sunstone LSV General Partner III ApS has today considered and approved the annual report of Sunstone Life Science Ventures Fund III K/S ("the Fund") for the financial year 1 January - 31 December 2016.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements of the Danish Financial Statements Act.


In our opinion, the financial statements give a true and fair view of the Fund's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

In our opinion, the management commentary contains a fair review of the development of the Fund's business and financial matters, the results for the year and of the Fund's financial position as a whole, together with a description of the principal risks and uncertainties that the Fund faces.

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

Copenhagen, 30.01.2017

Board of Directors in Sunstone LSV General Partner III ApS




Merete Lundbye Møller
Chairwoman



Peter James Arthur Benson



Claus Asbjørn Andersson



Andreas Rutger Segerros



Sten Verland



Søren Lemonius

Independent auditor's report

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

Opinion

We have audited the financial statements of Sunstone Life Science Ventures Fund III K/S for the financial year 01.01.2016 - 31.12.2016, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, and notes, including a summary of significant accounting policies. The 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 financial statements give a true and fair view of the Fund's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 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 financial statements* section of this auditor's report. We are independent of the Fund 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.

General Partner's responsibilities for the financial statements

The General Partner is responsible for the preparation of 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 the General Partner 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, the General Partner is responsible for assessing the Fund'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 the General Partner either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Partner.
- Conclude on the appropriateness of the General Partner'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 Fund'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 Fund 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.

Independent auditor's report

Statement on the Management commentary

The General Partner 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.

Copenhagen, 30 / 1 2017

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Kim Takata 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 on 15 December 2011. At the end of 2016, the Fund holds 14 active portfolio enterprises, four of which are new investments made in 2016.

The result for the year is a profit of DKK 13.5 million, which is primarily related to fair value gains from its investments in portfolio enterprises.

The following significant developments have 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.

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 is listed on NASDAQ OMX Nordic Exchange Stockholm and news about the company can be found on <http://cantargia.com/en/news-media/press-releases>.

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

Galecto Biotech AB: Located in Lund, Sweden, with operational activities in Hørsholm, Denmark, develops a drug, which inhibits fibrosis, initially targeting idiopathic pulmonary fibrosis. The company completed clinical trial (all patients treated and samples collected) and data collection in December.

Management commentary

IO Biotech ApS: Located in Copenhagen, Denmark, is a clinical stage biotech company developing immune therapies i.e. checkpoint/cancer vaccines. The company secured funding from Sunstone, Novo Seeds and Lundbeckfonden for its phase II study.

MinervaX ApS: Located in Copenhagen, Denmark, 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 completed clinical phase I as planned.

Opsona Therapeutics Ltd: Located in Dublin, Ireland, develops an antibody-based therapy to prevent reperfusion injuries following kidney transplantation. The company had good clinical progress in phase I MDS trial and received additional funding from its investors in December.

OxThera AB: Located in Stockholm, Sweden, is a biopharmaceutical company with products in late stage clinical development focusing on Primary and Secondary Hyperoxaluria. The company secured funding from Sunstone, Life Science Partners, Ysios, Idinvest, Industrifonden and Kurma to finance a final pivotal phase II/III trial.

Prexton Therapeutics S.A: Located in Geneva, Switzerland, develops a mGluR4 blocker for the treatment of Parkinson's disease. The company is on track with its development and completed phase I clinical study with results above expectations.

Rigontec GmbH: Located in Bonn, Germany, develops RNA-based immunotherapeutic for the treatment of cancer and viral diseases. The company's development is on track.

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's development is on track.

Uncertainty relating to recognition and measurement

When preparing the Fund's annual report, the General Partner, in accordance with legislative provisions, makes accounting judgements and estimates which form the basis of the annual report. The accounting judgement and estimates made by the General Partner are described in the paragraph "Material uncertainty related to recognition and measurement" under accounting policies to which we refer. Such estimates are primarily relating to the measurement of investments in portfolio enterprises made on the basis of assumptions which the General Partner considers reasonable and realistic, but which are uncertain by nature.

Unusual circumstances affecting recognition and measurement

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

Management commentary

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.

Outlook

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

Statement of comprehensive income

	<u>Notes</u>	<u>31 Dec 2016 DKK'000</u>	<u>31 Dec 2015 DKK'000</u>
Income from investments in portfolio enterprises	3	<u>28,356</u>	<u>3,301</u>
Operating income		28,356	3,301
Administrative expenses	4	(14,402)	(14,683)
Other operating expenses		<u>(177)</u>	<u>(161)</u>
Operating profit/loss (EBIT)		13,777	(11,543)
Financial expenses		<u>(273)</u>	<u>(142)</u>
Profit/loss for the year		<u>13,504</u>	<u>(11,685)</u>
Other comprehensive income		<u>0</u>	<u>0</u>
Total comprehensive income for the year		<u><u>13,504</u></u>	<u><u>11,685</u></u>

Statement of financial position

	<u>Notes</u>	<u>31 Dec 2016 DKK'000</u>	<u>31 Dec 2015 DKK'000</u>
Assets			
Investments in portfolio enterprises	5	<u>281,974</u>	<u>173,067</u>
Fixed asset investments		<u>281,974</u>	<u>173,067</u>
Non-current assets		<u>281,974</u>	<u>173,067</u>
Cash		<u>26,732</u>	<u>8,318</u>
Current assets		<u>26,732</u>	<u>8,318</u>
Assets		<u>308,706</u>	<u>181,385</u>

Statement of financial position

	<u>Notes</u>	31 Dec 2016 DKK'000	31 Dec 2015 DKK'000
Equity and liabilities			
Limited Partners' contribution	6	340,337	225,336
Retained earnings		<u>(31,802)</u>	<u>(45,306)</u>
Equity		<u>308,535</u>	<u>180,030</u>
Bank loans		0	0
Other payables	7	<u>171</u>	<u>1,355</u>
Current liabilities		<u>171</u>	<u>1,355</u>
Liabilities		<u>171</u>	<u>1,355</u>
Equity and liabilities		<u>308,706</u>	<u>181,385</u>

Statement of changes in equity for 2016

	Limited Partners' contribution DKK'000	Retained earnings DKK'000	Total DKK'000
Balance at 1 January 2015	131,233	(33,621)	97,612
Contributions from Limited Partners	94,103	0	94,103
Comprehensive income for the year	0	(11,685)	(11,685)
Distribution of share of proceeds from sale of portfolio enterprises	<u>0</u>	<u>0</u>	<u>0</u>
Balance at 31 December 2015	<u>225,336</u>	<u>(45,306)</u>	<u>180,030</u>
Contributions from Limited Partners	115,001	0	115,001
Comprehensive income for the year	0	13,504	13,504
Distribution of share of proceeds from sale of portfolio enterprises	<u>0</u>	<u>0</u>	<u>0</u>
Balance at 31 December 2016	<u>340,337</u>	<u>(31,802)</u>	<u>308,535</u>

Statement of cash flows

	<u>Notes</u>	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
Operating profit/loss (EBIT)		13,777	(11,543)
Income from investments in portofolio enterprises	3	(28,356)	(3,301)
Working capital changes	8	<u>(1,184)</u>	<u>(1,963)</u>
Cash flows from ordinary primary activities		<u>(15,763)</u>	<u>(16,807)</u>
Financial expenses paid		<u>(273)</u>	<u>(142)</u>
Cash flows from operating activities		<u>(16,036)</u>	<u>(16,949)</u>
Investments in portfolio enterprises		(80,551)	(67,035)
Net proceeds from sale of portfolio enterprises		<u>0</u>	<u>0</u>
Cash flows from investing activities		<u>(80,551)</u>	<u>(67,035)</u>
Change in bank loans		0	(1,801)
Contributions from Limited Partners		115,001	94,103
Distribution of share of proceeds from sale of portofolio enterprises		<u>0</u>	<u>0</u>
Cash flows from financing activities		<u>115,001</u>	<u>92,302</u>
Increase/decrease in cash and cash equivalentents		18,414	8,318
Cash and cash equivalentents at 1 January		<u>8,318</u>	<u>0</u>
Cash and cash equivalentents at 31 December		<u>26,732</u>	<u>8,318</u>

Notes to the financial statements

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Notes

1. Accounting policies

The financial statements of Sunstone Life Science Ventures Fund III K/S for 2016 are prepared in accordance with International Financial Reporting Standards as approved by the EU and disclosure requirements of the Danish Financial Statements Act governing reporting class B enterprises as further outlined in the Danish Executive Order on Adoption of IFRS issued in accordance with the Danish Financial Statements Act.

The financial statements are presented in Danish kroner (DKK), which is the functional currency of the Fund.

The financial statements are presented based on historical costs apart from investments in portfolio enterprises, which are measured at fair value.

Changes to accounting policies due to transition to IFRS

The financial statements of Sunstone Life Science Ventures Fund III K/S for 2016 are the first to be presented in accordance with IFRS, and IFRS 1; First-time Adoption of International Financial Reporting Standards has been applied. Pursuant herewith, the opening balance sheet at 1 January 2015 and comparative figures for 2015 have been prepared in accordance with the standards and interpretations applicable at 31 December 2016.

The General Partner has not deemed it necessary to prepare additional reconciliations between the previous and the new IFRS accounting policies as the transition of the financial statements to be prepared in accordance with IFRS has not resulted in changes to the accounting policies in relation to recognition and measurement and hence the transition to IFRS has had no impact on comprehensive income and equity. Especially, it can be noted that already under the previous accounting policies, investments in portfolio enterprises were accounted for at fair value through profit or loss.

Statement regarding the omission of consolidated financial statements

With reference to IFRS 10, the General Partner of Sunstone Life Science Ventures Fund III K/S has assessed that the Fund meets the definition of an investment company as the following conditions exist:

- 1) The Fund has more than one portfolio investment.
- 2) The Fund has more than one investor, and the investors are not related to each other.
- 3) The Fund's investments in portfolio enterprises primarily occur as equity instruments or similar investments,
- 4) The investments are measured and evaluated on a fair value basis.

As a result the General Partner has decided to apply the exemption rule in IFRS 10 not to prepare consolidated financial statements where the controlled subsidiaries are consolidated, and instead the controlled subsidiaries are accounted for at fair value through profit or loss.

Notes

1. Accounting policies (continued)

Similarly, Sunstone Life Science Ventures Fund III K/S holds investments in portfolio enterprises, which meet the definition of an associate over which the Fund has significant influence. Such investments are also accounted for at fair value through profit or loss whereby all investments are treated as investments in portfolio enterprises no matter the ownership share at fair value through profit or loss.

Standards and interpretations not yet effective

All new and changed standards and interpretations relevant to Sunstone Life Science Ventures Fund III K/S and effective for the financial period beginning at 1 January 2016 have been applied in connection with the preparation of the financial statements.

At the time of publication of the financial statements, a number of new or changed standards and interpretations have not yet become effective. It is the General Partner's assessment that these standards and interpretations will not materially impact the financial statements for the forthcoming years.

Significant accounting policies and estimates

When preparing the financial statements, the General Partner makes several accounting estimates forming the basis for the presentation, recognition and measurement of the Fund's assets and liabilities. The most significant accounting estimates and assessments are presented in note 2.

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 Fund, and the value of the asset can be measured reliably. Assets are eliminated from the balance sheet when it is no longer probable that future economic benefits will flow to the Fund.

Acquisition and sale of financial assets and liabilities are recognised in the balance sheet at the commitment date.

Liabilities are recognised in the balance sheet when the Fund 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 Fund, and the value of the liability can be measured reliably. Liabilities are eliminated from the balance sheet when it is no longer probable that future economic benefits will flow out of the Fund.

On initial recognition, assets and liabilities are measured at cost; however, on initial recognition, investment assets are measured at fair value, ordinarily corresponding to cost less direct expenses incurred. Measurement subsequent to initial recognition is effected as described below for each financial statement item. Consideration is made for events occurring during the period from the balance sheet date until the presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date.

Notes

1. Accounting policies (continued)

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

Foreign currency translation

On initial recognition, transactions made in a different currency than the Fund's functional currency 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 statement of comprehensive income as financial income or financial expenses.

Exchange rate adjustments relating to investments in portfolio enterprises are presented in the statement of comprehensive income together with other fair value adjustments concerning the investments.

Income taxes

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

Statement of comprehensive income

Income from investments in portfolio enterprises

Income from investments in portfolio enterprises comprises gains/losses from divestments, fair value changes and received dividends and other similar types of returns from the investments.

Gains/losses from divestment of investments in portfolio enterprises are stated as the difference between the selling price or disposal consideration and the carrying amount of the portfolio enterprises at the time of sale or disposal, respectively.

Dividends from investments in portfolio enterprises are recognised as income when final entitlement to the dividends is obtained, which is usually at the time of the approval of the declaring dividends by the portfolio enterprise.

External expenses

External expenses include general costs, investment costs relating to incomplete investments and management fee to the management company, Sunstone LSV Management A/S.

Notes

1. Accounting policies (continued)

Financial expenses

Other financial expenses comprise interest expenses, which are accrued based on the principal amount and the effective interest rate. The effective interest rate represents the discount rate which should be used when discounting future payments related to the financial asset or the financial liability, in order for the present value of these to correspond with the carrying amount of the asset and the liability, respectively.

Balance sheet

Investments in portfolio enterprises

Investments in portfolio enterprises comprise equity investments in portfolio enterprises and loans to portfolio enterprises measured at fair value through profit or loss.

The fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date. The fair value of the unlisted investments is determined in accordance with IPEV's Valuation Guidelines, according to which the fair value – depending on the type and maturity of the investment – is determined to be equal to cost (typically applied for new investments), the price of recent investments, multiple-based calculations based on industry benchmarks or discounted cash flow models. The price of a recent investment is only applied if the transaction includes the participation of new investors obtaining more than an insignificant ownership share in the portfolio enterprise.

Receivables

Receivables, typically representing deferred payments from the divestment of an investment, are measured at amortised cost less write-downs for bad and doubtful debts.

Other financial liabilities

Other financial liabilities comprise accounts payable, accrued expenses, other liabilities and bank loans.

Statement of cash flows

The statement of cash flows is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented as the operating profit/loss adjusted for non-cash operating items including fair value adjustments of investments in portfolio enterprises and working capital changes attributable to the operating activities.

Cash flows from investing activities comprise payments in connection with investments, including follow-up investments, and proceeds from divestment of portfolio enterprises.

Notes

1. Accounting policies (continued)

Cash flows from financing activities comprise changes in the limited partners' contribution, distributions to Limited Partners as well as the raising of loans and instalments on interest-bearing debt, if any.

2. Critical accounting judgements, estimates, assumptions and uncertainties

Sunstone Life Science Ventures Fund III K/S invests in portfolio enterprises, which primarily includes equity investments and to a smaller extent contribution of loans to development-oriented enterprises, and which may require continuous contribution of capital. The investments are accounted for at a fair value through profit or loss. 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.

Methods and assumptions for determining the fair value of investments in unlisted portfolio enterprises is described in note 5.

3. Income from investments in portfolio enterprises

	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
Realised gain	0	0
Fair value gain	<u>28,356</u>	<u>3,301</u>
Income from investments in portfolio enterprises	<u>28,356</u>	<u>3,301</u>

4. Expenses

The Fund had no employees during the financial year. Administrative work is performed by Sunstone LSV Management A/S (see note 10). No salary or remuneration has been paid to the General Partner. Administrative expenses cover management fee to Sunstone LSV Management A/S of DKK 14,395 thousand (2015: DKK 14,644 thousand) and other administration expenses of DKK 7 thousand (2015: 39 thousand)

Notes

	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
5. Investments in portfolio enterprises		
Cost at beginning of year	157,606	90,571
Additions	<u>80,551</u>	<u>67,035</u>
Cost at end of year	<u>238,157</u>	<u>157,606</u>
Revaluations at beginning of year	15,461	12,160
Revaluations	<u>28,356</u>	<u>3,301</u>
Revaluation at end of year	<u>43,817</u>	<u>15,461</u>
Carrying amount at end of year	<u>281,974</u>	<u>173,067</u>

<u>Portfolio enterprises</u>	<u>Registered in</u>	<u>Corporate form</u>	<u>Equity interest</u> <u>%</u>
ARO Medical	Denmark	ApS	13.6
Adenium Biotech	Denmark	ApS	45.0
Cantargia	Sweden	AB	4.5
Follicum	Sweden	AB	17.2
Galecto Biotech	Sweden	AB	20.5
IO Biotech	Denmark	ApS	18.9
MinervaX	Denmark	ApS	18.2
Opsona Therapeutics	Ireland	Ltd.	5.5
OxThera	Sweden	AB	6.9
Prexton Therapeutics	Switzerland	S.A	23.9
RSPR Pharma	Sweden	AB	21.1
Rigontec	Germany	GmbH	11.6

Notes

5. Investments in portfolio enterprises (continued)

The General Partner regularly and at least on a quarterly basis reviews the fair value of its portfolio enterprises in connection with its non-public reporting to its Limited Partners and in connection with the preparation of the financial statements.

This implies that underlying results in the portfolio enterprises are not reflected in profit/loss of the Fund.

The Fund's portfolio enterprises are not classified as investment companies. They are engaged in doing business in trading and development, etc. The Fund has no limitations concerning the potential reception of dividends or having loans etc. repaid from the portfolio enterprises, apart from the fact that distribution from the portfolio enterprises can only take place if it is considered proper and prudent.

Methods and assumptions for determining fair values in unlisted portfolio enterprises

The fair value for each unlisted portfolio enterprise is determined based on methods which best reflect the individual investment's potential and risk.

In general, the fair value is determined following the IPEV Valuation Guidelines which prescribe the use of accepted valuation methods, such as price of recent investments, multiple analysis/benchmarking, most recent transaction multiple and other relevant methods. The Fund invests venture capital primarily in development stage companies without any or with only limited revenue entailing that the fair value measurement of each of the investments is inherently subject to considerable uncertainty.

Upon initial investment, **cost** of the investment is generally determined to represent the fair value. If new investors join the investments and obtain more than just an insignificant share of the enterprise, the **price of a recent investment** is used as basis for determining the fair value.

Throughout the life of the investment, the General Partner reviews its investments for potential impairment, which may materialise if the portfolio enterprises have been subject to pervasive negative development and/or if the Fund decides that it will no longer participate in the further funding and there is a considerable risk that the portfolio enterprise may not be able to continue its operations or it is by other means obvious that there is a pervasive decline in the fair value of the portfolio enterprise. In these cases, the value is written down to a new lower fair value based on the General Partner's best estimate.

The fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date.

The fair value is determined in the functional currency of the portfolio enterprise, which is then translated to DKK at the exchange rate at the balance sheet date, and any exchange rate adjustment is included in the fair value adjustment of the investment in profit or loss.

Notes

5. Investments in portfolio enterprises (continued)

Each investment has been valued using the valuation techniques listed below:

Portfolio enterprise	Corporate form	2016	2015
<i>Investments in associates:</i>			
Adenium Biotech	ApS	Cost	Cost
Galecto Biotech	AB	Internal valuation	Internal valuation
RSPR Pharma	AB	Cost	Cost
Prexton Therapeutics	S.A	Cost	Cost
<i>Other investments</i>			
Follicum	AB	Listing price	Listing price
Opsona Therapeutics	Ltd.	Cost	Cost
Rigontec	GmbH	Cost	Cost
Cantargia	AB	Listing price	Listing price
MinervaX	ApS	Cost	Cost
ARO Medical	ApS	Cost	Cost
IO Biotech	ApS	Cost	
Galacteye Pharma	ApS	Cost	
Neuprozyme 2016	IVS	Cost	
OxThera	AB	Cost	

Fair value hierarchy for determining fair value for investments in portfolio enterprises

IFRS has established a fair value hierarchy for certain assets measured at fair value:

- Quoted prices in active markets for identical instruments (level 1)
- Quoted prices in active markets for similar assets or liabilities or other valuation methods under which all material inputs are based on observable market data (level 2) (not used in 2015 and 2016)
- Valuation techniques under which any material inputs are not based on observable market data (level 3).

The measurement of investments in portfolio enterprises classified according to level 3 is based on measurement methods, in which material non-observable inputs are included such as assessment of which method best reflects fair value, assessment of the performance of each portfolio enterprise, determination of multiples and future earnings, and assessment of whether a pervasive negative development should result in the recognition of impairment write-downs.

The fair value of the Fund's portfolio enterprises is impacted by the development in applied multiples as well as expected future earnings and development in each portfolio enterprise. A decrease or increase in the above-mentioned material non-observable inputs may have a direct effect on the measurement of the portfolio enterprises, just as the fair value of the Fund's portfolio enterprises is impacted by the development in macroeconomic conditions.

Notes

5. Investments in portfolio enterprises (continued)

The development in the value of investments in portfolio enterprises classified into level 1 and 3 can be summarised as follows:

	Level 1 DKK'000	Level 3 DKK'000	Total investment DKK'000	Fair value gain DKK'000
2015				
Fair value at 1 January	11,368	91,363	102,731	-
Follow-up investments	1,399	65,636	67,035	-
Initial public offerings	3,868	(3,143)	725	725
Other fair value adjustments	2,018	(668)	1,350	1,350
Exchange rate adjustments	0	1,226	1,226	1,226
Fair value at 31 December	18,653	154,414	173,067	3,301

	Level 1 DKK'000	Level 3 DKK'000	Total investment DKK'000	Fair value gain DKK'000
2016				
Fair value at 1 January	18,653	154,414	173,067	-
Follow-up investments	4,128	76,423	80,551	-
Other fair value adjustments	(7,072)	35,840	28,768	28,768
Exchange rate adjustments	94	(506)	(412)	(412)
Fair value at 31 December	15,803	266,171	281,974	28,356

	2016 DKK'000	2015 DKK'000
6. Limited Partners' contributions		
Limited Partners' contributions at beginning of year	225,336	131,233
Contributions made during the year	115,001	94,103
Limited Partners' contributions at end of year	340,337	225,336

Notes

6. Limited Partners' contributions (continued)

The contributed capital represents the Limited Partner's total equity contribution. The Fund's contributed capital comprises 99.90% A shares and 0.10% B shares. The Fund'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 Fund exceeds a fixed minimum rate of return p.a. (hurdle rate) of the investors' contributed capital.

	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
7. Other payables		
Sundry accrued expenses	<u>171</u>	<u>1,355</u>

The carrying amount of sundry accrued expenses relates to other payables such as legal fees, auditor's fees, etc. The recognised amount approximates the fair value of the liabilities.

	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
8. Working capital changes		
Change in other liabilities	<u>(1,184)</u>	<u>(1,963)</u>
	<u>(1,184)</u>	<u>(1,963)</u>

9. Financial risks and financial instruments

Categories of financial instruments:

Investments in portfolio enterprises	<u>281,974</u>	<u>173,067</u>
Financial assets measured at fair value through profit/loss	<u>281,974</u>	<u>173,067</u>
Other receivables	<u>0</u>	<u>0</u>
Loans and receivables	<u>0</u>	<u>0</u>
Other liabilities	<u>171</u>	<u>1,355</u>
Financial liabilities measured at amortised cost	<u>171</u>	<u>1,355</u>

The Fund adheres to an investment strategy approved by the investors. As a result of its investments in portfolio enterprises, the Fund is directly exposed to changes in liquidity, credit, interest and currency risks.

Notes

9. Financial risks and financial instruments (continued)

Liquidity risks

Maturity of financial liabilities is specified below divided into timing intervals. The specified amounts represent the amounts due for payment.

	<u>Within 1 year DKK'000</u>	<u>Between 1 and 5 years DKK'000</u>	<u>After 5 years DKK'000</u>	<u>Total DKK'000</u>
Other payables	1,355	-	-	1,355
31 December 2015	<u>1,355</u>	<u>-</u>	<u>-</u>	<u>1,355</u>

	<u>Within 1 year DKK'000</u>	<u>Between 1 and 5 years DKK'000</u>	<u>After 5 years DKK'000</u>	<u>Total DKK'000</u>
Other payables	171	-	-	171
31 December 2016	<u>171</u>	<u>-</u>	<u>-</u>	<u>171</u>

Credit risks

In some cases the Fund provides loans to its portfolio enterprises. These loans are considered part of the investment and are therefore not considered to represent a separate credit risk but is rather considered being part of the total investment risk and risk relating to determining a fair value of the investments.

In some cases, the Fund has receivables from the sale of investments. Typically the payment is secured by the buyer depositing the receivable on escrow accounts in accepted credit institutions and, therefore, the credit risk is considered limited.

At 31 December 2016 and 2015, the Fund is not exposed to any credit risks.

Interest risks

The Fund has access to a credit facility of DKK 40,000 thousand with a variable interest. At 31 December 2016, the Fund has not drawn on its credit facility and hence an increase of 1 percentage point compared to the interest-rate level at the balance sheet date would only have an immaterial impact on results for the year and equity.

Notes

9. Financial risks and financial instruments (continued)

Currency risks

Some of the Fund's investments are exposed to changes in foreign currencies like USD, GBP or EUR. The Fund consider the currency risk as part of the whole investment risk and hence, the Fund does not separately hedge the currency risk relating to its investments in portfolio enterprises.

In addition, the Fund is indirectly exposed to currency risks through investments in portfolio enterprises which trade in other currencies than their functional currencies and hence, development in exchange rates may influence income and thereby their determination of fair value of the portfolio enterprises.

10. Related party transactions

Related parties with control

No single Limited Partner has control over the Fund.

Transactions with related parties

The General Partner is Sunstone LSV General Partner III ApS. In the financial year, the Fund has paid a management fee to Sunstone LSV Management A/S, which is related to Sunstone LSV General Partner III ApS. See note 4.

11. Assets charged and contingent liabilities etc.

The Fund's has no assets charged.

At the balance sheet date, the Fund has no obligations or commitments towards portfolio enterprises or other types of contingent liabilities.

12. Events after the reporting date

No events have occurred after the reporting date, which would materially influence the evaluation of this annual report.

13. Contingent liabilities

At the balance sheet date, the Fund has assumed obligations to make further investments in portfolio enterprises or otherwise assumed obligations towards the portfolio companies by an amount up to totally DKK 33,519 thousand (2015: DKK 25,361 thousand). Payment may be conditional on the portfolio enterprises meeting pre-defined requirements.

Notes

14. Approval of the financial statements for publication

At its Board meeting on 30.01.2017, the General Partner approved the financial statements. The financial statements will be presented to the Fund's Limited Partners for approval at the Annual General Meeting on 28.02.2017.