Defensin Therapeutics ApS

COBIS, Ole Maaløes Vej 3, 2200 Copenhagen N

CVR no. 35 51 32 80

Annual report
for the year 1 January - 31 December 2017

Approved at the Company's annual general meeting on 28/5 - 18

Chairman:

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Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Defensin Therapeutics ApS for the financial year 1 January - 31 December 2017.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Copenhagen, 28 May 2018
Executive Board:

Dr. Peter Nordkild

Board of Directors:

Ejner Bech Jensen Chairman	Jan Wehkamp	Matthew Alister Cooper
Søren Neve	Peter Nordkild	

Independent auditor's report

To the shareholders of Defensin Therapeutics ApS

Opinion

We have audited the financial statements of Defensin Therapeutics ApS for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including 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 financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 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 the 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 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 Company in accordance with the International Ethics Standards Board for 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 rules and requirements.

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 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 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 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 the 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.

Independent auditor's report

- 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 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 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 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.

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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

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

Copenhagen, 28 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Christian Schwenn Johansen
State Authorised Public Accountant
MNE no.: mne33234

Management's review

Company details

Name	Defensin Therapeutics ApS
Address, Postal code, City	c/o COBIS COBIS, Ole Maaløes Vej 3, 2200 Copenhagen N
CVR no.	35 51 32 80
Established	6 October 2013
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	www.defensintherapeutics.com/
E-mail	pno@defensintherapeutics.com
Telephone	+45 25 47 16 46
Executive Board	Dr. Peter Nordkild
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark
Bankers	Danske Bank Finanscenter København, Holmens Kanal 2, 1090 Copenhagen K

Management's review

Business review

Defensin Therapeutics is a Danish biopharmaceutical company incorporated 6 October 2013 as a spin out from Novozymes A/S of the human defensin development program.

Going concern

In April 2016, the Company signed a license and R&D agreement with Dr Falk Pharma GMBH (dated 15 April 2016) regarding the rights to develop, manufacture and market Hbd 2 in Europe and Australia. In connection with the completion of the agreement, the Company received an non-refundable upfront payment of EUR 1.5m in 2016. Management considers the upfront payment to cover the relevant cash burn for the upcoming 12 months in 2018. Management has presented the financial statements on a going concern assumption.

Financial review

In 2017, the Company's revenue amounted to DKK 0 against DKK 11,142,900 last year. The income statement for 2017 shows a loss of DKK -2,032,581 against a profit of DKK 6,028,313 last year, and the balance sheet at 31 December 2017 shows equity of DKK 3,942,399.

Research and development activities

Defensin Therapeutics focuses on the development and commercialization of human defensins for the treatment of diseases and conditions associated with dysregulation of the human microbiota.

The human microbiota is the name for the bacterial communities consisting of billions of commensal micro organisms that cover the body's different surfaces e.g. the skin, the ocular surface, the lung surface, the gastrointestinal tract, etc. Our body lives in a symbiotic relationship with the microbiota. The microbiota plays a vital role in regulating our health. Alterations in the composition or function of the microbiota have been associated with more than 25 diseases. Whereas research efforts hitherto have focused on identifying the individual micro organisms constituting the microbiota, Defensin Therapeutics focuses on the regulation of the human microbiota.

Human defensins are cationic peptides secreted on the bodily surfaces as part of the innate immune system to kill invading pathogens while allowing commensal bacteria on which many metabolic processes depend to live in peace. One of the best characterized dysbiotic conditions of the gut is Crohn's Disease. Crohn's seems to be a mucosal barrier disease in which the patients seem to lack the ability to produce defensins.

The development of human beta defensin 2 for colonic Crohn's Disease is being handled by Falk through the licensing agreement. Defensin Therapeutics have established proof of concept in asthma and metabolic syndrome and studies are ongoing in graft-versus-host disease and necrotizing enterocolitis. Patent applications were submitted in both of the latter two diseases in Q4 2017.

Events after the balance sheet date

No significant events occurred subsequent to the financial year which may impact the financial statements for the year 1 January - 31 December 2017.

Financial statements 1 January - 31 December

Income statement

Note	DKK	2017	2016
	Revenue	0	11,142,900
	Gross margin	0	11,142,900
	Administrative expenses	-91,010	-548,826
	Operating profit/loss	-91,010	10,594,074
	Research and development costs	-2,195,578	-3,173,151
	Profit/loss before net financials	-2,286,588	7,420,923
	Financial expenses	-31,281	-55,042
	Profit/loss before tax	-2,317,869	7,365,881
2	Tax for the year	285,288	-1,337,568
	Profit/loss for the year	-2,032,581	6,028,313

	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-2,032,581	6,028,313
		-2,032,581	6,028,313

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2017	2016
	ASSETS		
	Non-current assets		
	Financial assets		
	Deposits, rent agreement	4,532	4,400
4	Deferred tax assets	0	2,760
		4,532	7,160
	Total non-current assets	4,532	7,160
	Current assets		
	Receivables		
	Income taxes receivable	288,048	0
	Other receivables	63,989	55,763
	Prepayments	132,865	7,372
		484,902	63,135
	Cash	3,633,914	7,673,467
	Total current assets	4,118,816	7,736,602
	TOTAL ASSETS	4,123,348	7,743,762
	EQUITY AND LIABILITIES		
	Equity		
3	Share capital	1,150,000	1,150,000
	Retained earnings	2,792,399	4,824,980
	Total equity	3,942,399	5,974,980
	Current liabilities		
	Trade payables	138,539	335,905
	Income taxes payable	0	1,385,899
	Other payables	42,410	46,978
	Total current liabilities	180,949	1,768,782
	Total liabilities	180,949	1,768,782
	TOTAL EQUITY AND LIABILITIES	4,123,348	7,743,762

1 Accounting policies
6 Contractual obligations and contingencies, etc.
7 Collateral

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings	Total
Equity at 1 January 2017	1,150,000	4,824,980	5,974,980
Transfer through appropriation of loss	0	-2,032,581	-2,032,581
Equity at 31 December 2017	1,150,000	2,792,399	3,942,399

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Defensin Therapeutics ApS for 2017 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Public grants

Public grants to cover expenses are recognised in the income statement when it is deemed likely that all grant criteria have been met. Grants which must be repaid under certain circumstances are recognised only where they are not expected to be repaid.

Income statement

Revenue

Revenue consists of revenue from collaboration agreements, comprising upfront, milestone payments, licences, royalty and compensation for research and development services rendered to third parties.

Revenue from the sale of licences is recognised when earned according to the terms of the collaboration agreement.

Non-refundable upfront payments are recognised as revenue at the date of assignment of rights if such payments relate to a sale of immaterial rights or if such payments are not related to future performance obligations.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Administrative expenses

Administrative expenses include expenses incurred in the year for purposes of managing and administering the Company, including expenses relating to administrative staff, management, office premises/expenses as well as amortisation/depreciation of assets used for administrative purposes.

Research costs

Research and development costs include research costs not satisfying the criteria for capitalisation, including expenses like clinical trials, patent costs and research staff.

Other operating income and operating expenses

Other operating income comprise items of a secondary nature relative to the entity's core activities, including gains or losses on the sale of fixed assets.

Other operating income comprise research grants received.

Government grants are recognised at the time when a final and firm right to the grant has been obtained and to the extent that the entity has obtained reasonable assurance to comply with the conditions attaching to them and the grants will be received. In 2015, a government grant from Innovation Fund Denmark was received.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Financial expenses

Financial expenses are recognised in the income statement at the amounts that concern the financial year. Net financials include interest expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments and changes in provisions for uncertain tax positions. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Financial assets

Financial assets comprise rental deposits, which are recognised at cost.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

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

Cash

Cash comprises bank accounts which are subject only to minor risks of changes in value.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes, tax paid on account and changes in provisions for uncertain tax positions.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Uncertain tax positions exist with respect to the interpretation of complex tax regulations. Management has established provisions based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors such as interpretation of the tax regulation. The actual obligation may deviate and be dependent on the outcome of litigations and settlements with the relevant tax authorities.

Other payables

Other payables are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK	2017	2016
2 Tax for the year		
Estimated tax charge for the year	-288,048	1,340,328
Deferred tax adjustments in the year	2,760	-2,760
	-285,288	1,337,568

Tax for the year in 2017 comprises recognised tax credits with reference to LL §8X regarding tax credits for research and development expenditures.

DKK	2017	2016
3 Share capital		
Analysis of the share capital:		
1,150,000 shares of DKK 1.00 nominal value each	1,150,000	1,150,000
	1,150,000	1,150,000

Analysis of changes in the share capital over the past 4 years:

DKK	2017	2016	2015	2014
Opening balance	1,150,000	1,150,000	830,000	0
Capital increase	0	0	320,000	830,000
	1,150,000	1,150,000	1,150,000	830,000

DKK	2017	2016
4 Deferred tax		
Deferred tax relates to:		
Intangible assets	0	-2,760
	0	-2,760

The Company has deferred tax assets tax losses which may be carried forward infinitely, however, as it is uncertain whether these tax losses can be utilised within a foreseeable future (3-5 years), their carrying amount has not been recognised in the financial statements.

5 Staff costs and incentive programmes

Staff costs are recognised as follows in the financial statements:

DKK	2017	2016
Research	912,401	904,522
	912,401	904,522

Financial statements 1 January - 31 December

Notes to the financial statements

Incentive programmes

In August 2015, 180,087 warrants were granted to the Executive Board member and other relevant stakeholders entitling each holder to subscribe one share against cash payment of DKK 1.25.

In April 2016, additional 80,000 warrants were granted to key employees and other relevant stakeholders entitling each holder to subscribe one share against cash payment of DKK 1.25.

No warrant-related expenses have been recognised in the annual report in accordance with the Danish Financial Statements Act.

6 Contractual obligations and contingencies, etc.

Contingent liabilities

Defensin Therapeutics ApS and Dr. Falk Pharma GmbH entered into a Development and Commercialization Agreement on 15 April 2016. Under this agreement, Defensin Therapeutics ApS received a non-refundable upfront payment of EUR 1.500.000 in 2016. In addition to the payment to Defensin Therapeutics ApS, Dr. Falk Pharma GmbH paid EUR 279 thousand in withholding tax to the German tax authorities.

Management has considered the relevant tax regulation, and consider the non-refundable upfront payment to be exempted from any withholding taxes. Hence, Defensin Therapeutics ApS has applied for exemption from German withholding tax on royalties in accordance with Sec. 50d Income Tax Act (EStG) in conjunction with the double taxation treaty between Germany and Denmark. The company has submitted application to the German tax authorities claim repayment of the withholding tax paid by Dr. Falk Pharma GmbH on behalf of the company.

Defensin Therapeutics ApS awaits the outcome of the request for withholding tax relief. In case the German tax authorities reject the application for withholding tax relief, Defensin Therapeutics ApS may be liable to Dr. Falk Pharma GmbH for an amount of EUR 279 thousand.

Management has not recognized any provision for uncertain tax positions at 31 December 2017.

Other contingent liabilities

Upon the successful completion of phase I clinical testing of human beta defensin-2 or a variant thereof, a milestone payment of DKK 500,000 is payable to Novozymes A/S.

Other financial obligations

Other rent and lease liabilities:

DKK	2017	2016
Rent and lease liabilities	4,400	4,400

The Company has a two-month termination notice on the rental agreement at 31 December 2017.

7 Collateral

The Company has not placed any assets or other as security for loans at 31 December 2017.