

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 2019

Approved at the Company's annual general meeting on 26 May 2020

Chairman:



.....
Peter Hviid Nordkild





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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 2019.

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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

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, 26 May 2020
Executive Board:

Peter Hviid Nordkild

Board of Directors:




Ejner Bech Jensen
Chairman

Robert Ehehalt

Matthew Alister Cooper

Søren Neve



Peter Hviid Nordkild

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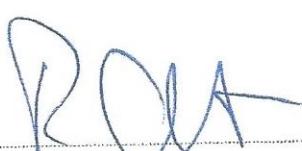
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Copenhagen, 26 May 2020
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Peter Hviid Nordkild


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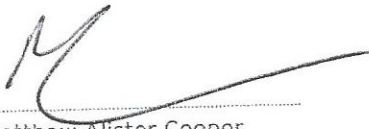
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Board of Directors:

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Peter Hviid Nordkild

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Matthew Alister Cooper

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 2019, 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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 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.
- ▶ 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.

Independent auditor's report

- ▶ 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, 26 May 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Rasmus Bloch Jespersen
State Authorised Public Accountant
mne35503

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	Peter Hviid Nordkild
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Allé 36, 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.

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 a non-refundable upfront payment of EUR 1.5m in 2016. The production of hBD-2 has turned out to be more complicated than originally thought and Falk has thus decided to terminate the agreement as per March 12th 2020.

Financial review

The income statement for 2019 shows a loss of DKK 1,721,113 against a loss of DKK 2,952,934 last year, and the balance sheet at 31 December 2019 shows equity of DKK 4,823,177.

Going concern

At 31 December 2019, cash balance amounts to DKK 4,808 thousand. Management expects that the cash burn for 2020 will be approximately DKK 1,500 thousand and thus not exceed the cash available at 31 December 2019. Management has presented the financial statements on a going concern assumption.

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 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.

Defensin Therapeutics have established proof of concept in inflammatory bowel disease, asthma; metabolic syndrome; Graft-versus-host disease and necrotizing enterocolitis with oral administration of hBD-2.

Events after the balance sheet date

Subsequent to the balance date 31 December 2019, Dr. Falk terminated the contract with the Company. In 2020, management will focus on finding alternative partners for the development of the Company's drug candidates.

After the balance sheet date 31 December 2019, the COVID-19 virus impacted Denmark. Management consider the outbreak to constitute a non-adjusting event and as a result, management have not adjusted any figures in the financial statements 2019.

No other significant events occurred subsequent to the financial year which may impact the financial statements for the year 1 January - 31 December 2019.

Outlook

In 2020, management will focus on finding alternative partners for the development of the Company's drug candidates. Management does not expect any revenue and for 2020, management expected the company to be loss making. Reference is made to section on capital resources and going concern in this managements review.

Financial statements 1 January - 31 December

Income statement

Note	DKK	2019	2018
	Administrative expenses	-179,703	-141,499
	Operating profit/loss	-179,703	-141,499
	Research and development costs	-1,654,069	-3,117,176
	Profit/loss before net financials	-1,833,772	-3,258,675
	Financial expenses	-18,881	-16,037
	Profit/loss before tax	-1,852,653	-3,274,712
3	Tax for the year	131,540	321,778
	Profit/loss for the year	-1,721,113	-2,952,934
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-1,721,113	-2,952,934
		-1,721,113	-2,952,934

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2019	2018
	ASSETS		
	Non-current assets		
	Financial assets		
	Deposits, rent agreement	0	4,668
		0	4,668
	Total non-current assets	0	4,668
	Current assets		
	Receivables		
	Income taxes receivable	131,540	321,778
	Other receivables	94,672	109,339
	Prepayments	7,372	74,727
		233,584	505,844
	Cash	4,808,097	610,066
	Total current assets	5,041,681	1,115,910
	TOTAL ASSETS	5,041,681	1,120,578
	EQUITY AND LIABILITIES		
	Equity		
4	Share capital	1,261,376	1,190,126
	Share premium account	0	0
	Retained earnings	3,561,801	-160,535
	Total equity	4,823,177	1,029,591
	Current liabilities		
	Trade payables	198,904	71,249
	Other payables	19,600	19,738
	Total current liabilities	218,504	90,987
	Total liabilities	218,504	90,987
	TOTAL EQUITY AND LIABILITIES	5,041,681	1,120,578

- 1 Accounting policies
- 2 Events after the balance sheet date
- 7 Contractual obligations and contingencies, etc.
- 8 Contingent assets
- 9 Collateral

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Share premium account	Retained earnings	Total
Equity at 1 January 2019	1,190,126	0	-160,535	1,029,591
Adjustment to share premium regarding 2018 debt conversion	0	10,032	0	10,032
Capital increase	71,250	5,516,888	0	5,588,138
Expenses, capital increase	0	-83,471	0	-83,471
Transfer through appropriation of loss	0	0	-1,721,113	-1,721,113
Transferred from share premium account	0	-5,443,449	5,443,449	0
Equity at 31 December 2019	1,261,376	0	3,561,801	4,823,177

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Defensin Therapeutics ApS for 2019 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.

Income statement

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.

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

Income tax for the year includes income tax credits under with reference to the Danish Tax Regime (LL §8X) regarding tax credits for research and development expenditures.

Balance sheet

Financial assets

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

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

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.

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 and tax paid on account. Tax credits from research and development expenditures are recognised in the balance sheet as income tax receivables.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

2 Events after the balance sheet date

Subsequent to the balance date 31 December 2019, Dr. Falk terminated the contract with the Company. In 2020, management will focus on finding alternative partners for the development of the Company's drug candidates.

After the balance sheet date 31 December 2019, the COVID-19 virus impacted Denmark. Management consider the outbreak to constitute a non-adjusting event and as a result, management have not adjusted any figures in the financial statements 2019.

No other significant events occurred subsequent to the financial year which may impact the financial statements for the year 1 January - 31 December 2019.

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK	2019	2018
3 Tax for the year			
Estimated tax charge for the year		-131,540	-321,778
		<u>-131,540</u>	<u>-321,778</u>

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

	DKK	2019	2018
4 Share capital			
Analysis of the share capital:			
1,150,000 shares of DKK 1.00 nominal value each		1,150,000	1,150,000
		<u>1,150,000</u>	<u>1,150,000</u>

Analysis of changes in the share capital over the past 5 years:

DKK	2019	2018	2017	2016	2015
Opening balance	1,190,126	1,150,000	1,150,000	1,150,000	830,000
Capital increase	71,250	40,126	0	0	320,000
	<u>1,261,376</u>	<u>1,190,126</u>	<u>1,150,000</u>	<u>1,150,000</u>	<u>1,150,000</u>

	DKK	2019	2018
5 Deferred tax			

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.

6 Staff costs and incentive programmes

Staff costs are recognised as follows in the financial statements:

	DKK	2019	2018
Research		975	755,264
		<u>975</u>	<u>755,264</u>
Average number of full-time employees		<u>1</u>	<u>1</u>

Financial statements 1 January - 31 December

Notes to the financial statements

Incentive programmes

As per 31 December 2019, 678,068 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.

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

7 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

DKK	2019	2018
Rent and lease liabilities	0	4,400

8 Contingent assets

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.

The Danish and German Tax Authorities has not coordinated the taxation of the milestone payment received in 2016 from Dr Falk Pharma GMBH. The company has a pending claim with the Danish Tax Authorities to reimburse any double taxation on the transaction.

Management has estimated the contingent asset to be DKK 289 thousand, however due to uncertainty regarding timing and amount, management has not recognized any tax receivable in the balance sheet 31 December 2019.

9 Collateral

The Company has not placed any assets or other as security for loans at 31 December 2019.