

IO Biotech ApS

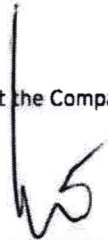
Ole Maaløes Vej 3, 2200 Copenhagen N

CVR no. 36 47 44 83

Annual report 2017

Approved at the Company's annual general meeting on 4 May 2018

Chairman:


Peter Hirth



Building a better
working world



Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Financial statements 1 January - 31 December	7
Income statement	7
Balance sheet	8
Statement of changes in equity	10
Notes to the financial statements	11

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 IO Biotech ApS for the financial year 1 January - 31 December 2017.

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

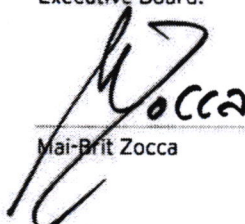
In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017.

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


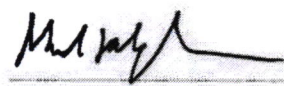
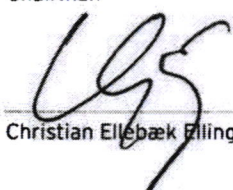

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 4 May 2018

Executive Board:


Mai-Britt Zocca

Board of Directors:


Peter Hirth
Chairman
Stephan Christgau
Mads Hald Andersen
Christian Ellerbæk Elling
Claus Asbjørn Andersson

Independent auditor's report

To the shareholders of IO Biotech ApS

Opinion

We have audited the financial statements of IO Biotech 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.
- ▶ 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, 4 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	IO Biotech ApS
Address, Postal code, City	Ole Maaløes Vej 3, 2200 Copenhagen N
CVR no.	36 47 44 83
Established	23 December 2014
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	www.iobiotech.com
E-mail	mz@iobiotech.com
Telephone	+45 21 94 78 56
Board of Directors	Peter Hirth, Chairman Stephan Christgau Mads Hald Andersen Christian Ellebæk Elling Claus Asbjørn Andersson
Executive Board	Mai-Brit Zocca
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, 2000 Frederiksberg, Denmark
Bankers	Danske Bank

Management's review

Business review

IO Biotech is a clinical stage biotech company developing disruptive immune therapies for immunological treatment of cancer. IO Biotech has a pipeline of first-in-class immune modulating anti-cancer therapies based on a unique platform technology enabling the activation of T cells that are specific for immune inhibitory molecules.

IO Biotech has achieved a proven track record of progressing compounds to the clinic and has two lead immune modulating anti-cancer therapies targeting IDO and PD-L1 in clinical development and several compounds finalising preclinical phase.

In 2017, IO Biotech strengthened its management team by appointing Dr. Eva Ehrnrooth as Chief Medical Officer.

Unusual matters having affected the financial statements

Going concern

The Company's budget for 2018 shows funding needs that exceed the Company's cash and net working capital positions at 31 December 2017. Thus, Management expects to secure a capital increase during 2018 with participation of current and potentially new investors. In the event that the Company is not able to secure additional funding, Management is able to reduce operational activities and maintain the Company as going concern until the end of 2018.

Financial review

The income statement for 2017 shows a loss of DKK 25,107,554 against a loss of DKK 12,322,483 last year, and the balance sheet at 31 December 2017 shows equity of DKK 44,283,802.

Management considers the Company's financial performance in the year satisfactory and in line with the strategic directions.

By end of 2017, the share capital was in total DKK 276,557 with Sunstone Capital, Lundbeckfonden and Novo A/S as main investors. No additional funding was raised in 2017.

In March 2017, the Company exercised an option to acquire the licence to the IP related to TDO based immunotherapy from Herlev and Gentofte hospital.

Events after the balance sheet date

In February 2018, the Company entered clinical collaboration with MSD evaluating IO102 in combination with KEYTRUDA® (pembrolizumab) in first-line treatment of patients with metastatic non-small cell lung cancer.

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements 1 January - 31 December

Income statement

Note	DKK	2017	2016
3	Administrative expenses	-4,203,494	-1,736,263
	Operating profit/loss	-4,203,494	-1,736,263
	Other operating income	1,451,779	883,367
3,4	Research costs	-27,863,816	-14,249,427
	Profit/loss before net financials	-30,615,531	-15,102,323
	Financial income	39,907	0
	Financial expenses	-31,930	-40,421
	Profit/loss before tax	-30,607,554	-15,142,744
5	Tax for the year	5,500,000	2,820,261
	Profit/loss for the year	-25,107,554	-12,322,483
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-25,107,554	-12,322,483
		-25,107,554	-12,322,483

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2017	2016
	ASSETS		
	Fixed assets		
6	Intangible assets		
	Acquired intellectual property	1,230,000	1,000,000
		<u>1,230,000</u>	<u>1,000,000</u>
7	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	118,201	7,116
		<u>118,201</u>	<u>7,116</u>
	Investments		
	Deposits	81,502	36,037
		<u>81,502</u>	<u>36,037</u>
	Total fixed assets	<u>1,429,703</u>	<u>1,043,153</u>
	Non-fixed assets		
	Receivables		
	Corporation tax receivable	5,500,000	2,820,261
	Other receivables	1,347,447	962,060
	Prepayments	136,676	10,110
		<u>6,984,123</u>	<u>3,792,431</u>
	Cash	<u>41,170,369</u>	<u>68,857,029</u>
	Total non-fixed assets	<u>48,154,492</u>	<u>72,649,460</u>
	TOTAL ASSETS	<u>49,584,195</u>	<u>73,692,613</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2017	2016
	EQUITY AND LIABILITIES		
	Equity		
8	Share capital	276,557	276,557
	Retained earnings	44,007,245	69,114,799
	Total equity	44,283,802	69,391,356
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	3,340,891	2,613,849
	Other payables	1,959,502	1,687,408
		5,300,393	4,301,257
	Total liabilities other than provisions	5,300,393	4,301,257
	TOTAL EQUITY AND LIABILITIES	49,584,195	73,692,613
1	Accounting policies		
2	Going concern uncertainties		
9	Contractual obligations and contingencies, etc.		
10	Collateral		

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings	Total
Equity at 1 January 2017	276,557	69,114,799	69,391,356
Transfer through appropriation of loss	0	-25,107,554	-25,107,554
Equity at 31 December 2017	276,557	44,007,245	44,283,802

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of IO Biotech 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.

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

Income from the rendering of services is recognised as revenue as the services are rendered. Accordingly, revenue corresponds to the market value of the services rendered during the year (percentage-of-completion method).

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.

Administrative expenses

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

Research costs

The item includes research costs not satisfying the criteria for capitalisation. Research costs comprise salaries, patent costs, consultancy fees, clinical trial cost, etc.

Contractual costs to provide services related to clinical trial start-up activities are recognised ratably over the estimated start-up period.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Contractual costs to provide services related to patient treatment are recognised based on data related to patient screening, enrollment and monitoring visits. Fixed fees not directly correlated to patient activities, such as CRO management fees or database maintenance, are often recognised ratably over the treatment period.

Contractual costs to provide wrap-up activities are often recognised ratably over the estimated wrap-up period

Other operating income

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

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.

Amortisation/depreciation

The item comprises depreciation and impairment of property, plant and equipment.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Acquired intellectual property	10 - 20 years
--------------------------------	---------------

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Fixtures and fittings, other plant and equipment	3 - 5 years
--	-------------

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and 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. 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.

Tax of the year includes tax credits for costs incurred in connection with research and development activities under the Danish Tax Regime.

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including development projects.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Investments

Deposits are measured at cost.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

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.

Prepayments

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

Cash

Cash comprise cash and short term securities which are readily convertible into cash and 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.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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

Other payables

Other payables are measured at net realisable value.

2 Going concern uncertainties

The Company's budget for 2018 shows funding needs that exceed the Company's cash and net working capital positions at 31 December 2017. Thus, Management expects to secure a capital increase during 2018 with participation of current and potentially new investors. In the event that the Company is not able to secure additional funding, Management is able to reduce operational activities and maintain the Company as going concern until the end of 2018.

DKK	2017	2016
3 Staff costs		
Staff costs are recognised as follows in the financial statements:		
Administration	2,097,454	947,593
Research	6,716,519	2,600,037
	<u>8,813,973</u>	<u>3,547,630</u>
Average number of full-time employees	<u>6</u>	<u>5</u>
4 Amortisation/depreciation of intangible assets and property, plant and equipment		
Amortisation of intangible assets	70,000	0
Depreciation of property, plant and equipment	11,180	5,024
	<u>81,180</u>	<u>5,024</u>

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK	2017	2016
5 Tax for the year			
Estimated tax charge for the year		-5,500,000	-2,820,261
		<u>-5,500,000</u>	<u>-2,820,261</u>
6 Intangible assets			
	DKK		Acquired intellectual property
Cost at 1 January 2017			1,000,000
Additions			300,000
Cost at 31 December 2017			<u>1,300,000</u>
Impairment losses and amortisation at 1 January 2017			0
Amortisation for the year			<u>70,000</u>
Impairment losses and amortisation at 31 December 2017			<u>70,000</u>
Carrying amount at 31 December 2017			<u>1,230,000</u>
Amortised over			<u>10 - 20 years</u>
7 Property, plant and equipment			
	DKK		Fixtures and fittings, other plant and equipment
Cost at 1 January 2017			15,071
Additions			122,265
Disposals			0
Cost at 31 December 2017			<u>137,336</u>
Impairment losses and depreciation at 1 January 2017			7,955
Depreciation			<u>11,180</u>
Impairment losses and depreciation at 31 December 2017			<u>19,135</u>
Carrying amount at 31 December 2017			<u>118,201</u>
Depreciated over			<u>3 - 5 years</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK	2017	2016
8 Share capital		
Analysis of the share capital:		
50,000 A shares of DKK 1.00 nominal value each	50,000	50,000
226,557 B shares of DKK 1.00 nominal value each	226,557	226,557
	<u>276,557</u>	<u>276,557</u>

The B shares carry special preference rights in case of distribution of dividends, etc. and protection against dilution in case of certain issues of shares.

The shareholders of the Company have pre-emptive subscription rights within their respective share classes, unless in the case of issue of warrants where there are no pre-emptive subscription rights, as subscription rights in connection with Anti-Solution Protection are solely available to those shareholders holding shares in the share class to be increased.

The Board is authorised until 31 December 2017 in one or more turns to decide to issue warrants for subscription of A shares at an amount of nominally up to DKK 30,800 and to decide the required capital increase. The warrants can be issued to employees, board members, consultants and others associated with the Company without pre-emptive rights for existing shareholders. The warrants can be issued at a rate below the market rate, however not below par value. The shareholders of the Company have pre-emptive subscription rights within their respective share classes, however, subscription rights in connection with the Anti-Solution Protection are solely available to B shareholders.

On 23 November 2016, the Board of Directors decided to partly exercise the authorisation to issue 10,936 warrants.

On 21 February 2017, the Board of Directors decided to partly exercise the authorisation to issue 10,292 warrants.

On 7 December 2017, the Board of Directors decided to partly exercise the authorisation to issue 4,149 warrants.

Analysis of changes in the share capital over the past 3 years:

DKK	2017	2016	2015
Opening balance	276,557	111,799	50,000
Capital increase	0	164,758	61,799
	<u>276,557</u>	<u>276,557</u>	<u>111,799</u>

Financial statements 1 January - 31 December

Notes to the financial statements

9 Contractual obligations and contingencies, etc.

Other contingent liabilities

DKK	2017	2016
Other contingent liabilities	6,380,555	0
	<u>6,380,555</u>	<u>0</u>

Other contingent liabilities include the Company's commitment regarding co-financed research.

Other financial obligations

Other rent and lease liabilities:

DKK	2017	2016
Rent and lease liabilities	209,278	43,531
	<u>209,278</u>	<u>43,531</u>

As part of the licence agreements entered by the Company once a product is developed and commercialised, the Company may be required to make milestone payments and royalty payments. The Company expects to generate income from such products which will exceed any such milestone and royalty payments due. No minimum unconditional payments have been committed to. The Company has no liabilities prior to the occurrence of a potential future event. Accordingly, no such liabilities have been recognised.

10 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2017.