



SAVARA

Savara ApS

Slotsmarken 17, 1 th.
2970 Hørsholm

CVR 37643459

Annual Report

2018

The Annual Report has been presented and adopted at the general meeting 24/5 2019

Lena Erichsen

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MANAGEMENT'S REPORT

Statement of the Executive Management

The Executive Management has today considered and adopted the Annual Report of Savara ApS, CVR 37643459, for the period 1 January to 31 December 2018.

The financial statements have been prepared in accordance with The Danish Financial Statement Act.

In my opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2018 and of the result of the operations in 2018.

I am of the opinion that, the Management's Review includes a fair description of the issues dealt with.

The annual report is recommended for approval at the general meeting.

The Executive Management is aware that as of 31 December 2018 the equity of the company is negative and will seek appropriate measures to restore the capital structure.

Hørsholm, 24 May 2019



Robert Neville
CEO

INDEPENDENT AUDITORS REPORT

To the shareholders of Savara ApS

Opinion

We have audited the annual accounts of Savara ApS for the financial year 1 January - 31 December 2018, which comprise accounting policies used, profit and loss account, balance sheet and notes. The annual accounts have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the annual accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

The management's responsibilities for the annual accounts

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

In preparing the annual accounts, the management is responsible for evaluating the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the annual accounts, unless the management either intends to liquidate the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the annual accounts

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in Denmark, we exercise professional evaluations and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, design and perform audit procedures in response 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 the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the 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 by the management and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about 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 annual accounts 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 annual accounts, including the disclosures in the notes, and whether the annual accounts reflect 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 the internal control that we identify during our audit.

Statement on the management's review

The management is responsible for the management's review.

Our opinion on the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the annual accounts, our responsibility is to read the management's review and in that connection, consider whether the management's review is materially inconsistent with the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, 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 believe that the management's review is in accordance with the annual accounts and that it has been prepared in accordance with the requirements of the Danish Financial Statement Acts. We did not find any material misstatement in the management's review.

Copenhagen, 24 May 2019

Grant Thornton

Statsautoriseret Revisionspartnerselskab

Company reg. no. 34 20 99 36



Ulrik Bloch-Sørensen
State Authorised Public Accountant
MNE-nr. 2913



Martin Bomholtz
State Authorised Public Accountant
MNE-nr. 34117

MANAGEMENT REVIEW

MAIN ACTIVITY

Savara ApS is a subsidiary of Savara Inc., a U.S.-based emerging pharmaceutical development company. Savara Inc (Texas/USA) became a public traded company on the NASDAQ Stock Exchange as of 28 April 2017. The main activity for Savara ApS is to be a holding company for the three subsidiaries – Drugrecure ApS, Pharmaorigin ApS and Savara Australia PTY Ltd.

EXTRAORDINARY EVENTS

No extraordinary events have occurred in 2018.

ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires the making of estimates and judgments that affect the reporting of assets, liabilities and expenses. The estimates and judgments are reviewed on an ongoing basis. Estimates and judgments are based on historical results and on various other assumptions, which Savara believes to be reasonable under the circumstances. However, the actual results may differ significantly from the estimates. We believe that the accounting policies relating to development costs and deferred tax involve estimates or judgments by management that could materially affect the reported financial position and results.

Deferred tax

Due to tax credit reimbursement instalment by the Danish government, Savara Group expects to be reimbursed DKK 5,500k of the tax asset in Q4 2019 - hence the tax receivable has been recognized in the balance sheet. The long-term deferred tax asset has been evaluated against the future income within the next three fiscal years and will not be recognised in the balance sheet.

DEVELOPMENT AND EXPECTATIONS

Savara ApS reached a net loss of DKK 21.3 million in 2018, and holds total assets of DKK 295.1 million, equity of DKK -18.8 million and liabilities of DKK 313.8 million as of 31 December 2018. The Executive Management is aware that as of 31 December 2018 the equity of the company is negative and will seek appropriate measures to restore the capital structure.

Based on a letter of support from the parent company Savara Inc, Savara ApS has a satisfactory funding assurance until the end of 2019 to continue the operation of the company as planned.

Profit and Loss Account

for the period 1 January - 31 December 2018

DKK thousand	Notes	2018	2017
Gross profit		9.928	6.533
Staff expenses	3	(12.938)	(9.272)
Operating profit/loss (-)		(3.010)	(2.739)
Net financials	4	(18.075)	7.991
Profit/loss (-) before tax		(21.085)	5.252
Tax expenses	5	(165)	19
Net profit/loss (-)		(21.250)	5.271

DISTRIBUTION OF NET RESULT

Net profit/loss (-)□		(21.250)	5.271
Suggestion of distribution			
Transferred to retained earnings		(21.250)	5.271
		(21.250)	5.271

Balance Sheet

At 31. December 2018

ASSETS

DKK thousand	Notes	2018	2017
FIXED ASSETS			
Tangible fixed assets			
Plant and equipment	6	283	102
Financial fixed assets			
Investment in subsidiaries	7	79.255	79.257
Deposits	8	285	214
Total fixed assets		79.824	79.574
CURRENT ASSETS			
Receivables			
Receivables, corporate tax	5	-	-
Intercompany receivables		210.393	100.723
Other receivables		2.700	1.362
Total receivables		213.094	102.085
Cash and cash equivalents		2.138	1.522
Total current assets		215.232	103.607
Total assets		295.056	183.181

Balance Sheet

At 31. December 2018

EQUITY AND LIABILITIES

<u>DKK thousand</u>	<u>Notes</u>	<u>2018</u>	<u>2017</u>
Equity			
Share capital		50	50
Retained earnings		(18.807)	2.443
<u>Total equity</u>		<u>(18.757)</u>	<u>2.493</u>
Liabilities			
Current liabilities			
Trade creditors		8.336	12.545
Intercompany liabilities		303.360	165.745
Other debts		2.118	2.399
<u>Total current liabilities</u>		<u>313.813</u>	<u>180.688</u>
<u>Total liabilities</u>		<u>313.813</u>	<u>180.688</u>
<u>Total equity and liabilities</u>		<u>295.056</u>	<u>183.181</u>

Changes in equity

DKK thousand	Share Capital	Retained Earnings	Statutory Reserves	Total
Equity at 1st January 2018	50	2.443	-	2.493
Profit/loss (-)	-	(21.250)		(21.250)
Equity at 31 December 2018	50	(18.807)	-	(18.757)

Notes

DKK thousand

1. IMPORTANT MATTERS

Savara intends to license its products to pharmaceutical companies and thereby derive income from a combination of fixed payments and ongoing royalty income. Until Savara has established such a license agreement, Savara will be a capital-consuming company due to investments in drug development and in further strengthening of the pipeline. Therefore, it is vital that the company always has sufficient financial resources. Savara does not expect commercial revenue until the fiscal year of 2021.

Based on a letter of support from the parent company Savara Inc, Savara ApS has a satisfactory funding assurance until the end of 2019 to continue the operation of the company as planned.

The valuation of the assets, in the subsidiary Drugrecure ApS, are based on the expected regulatory approval to market the products under development. Given GM-CSF is already approved for other indications, management believes it is highly likely that the regulatory approval will be obtained provided the studies result in positive outcomes, and has consequently recognized the development projects as assets in the balance sheet of the subsidiary Drugrecure ApS.

2. ACCOUNTING POLICIES

Accounting policies applied in the preparation of the financial statements are set out below.

Basis of preparation

The Annual Report has been prepared in accordance with The Danish Financial Statements Act. for class B companies. Savara has a satisfactory funding assurance for 2019 - thus, the annual report for 2018 has been prepared for on-going business. The financial statements are presented in DKK, reflecting the company's functional currency.

Recognition and measurement in general

All costs – including depreciation, amortisation, write-down, provisions, and reversals, which are due to changes in estimated amounts previously recognised in the profit and loss account – are recognised in the profit and loss account.

Assets are recognised in the balance sheet when the company is liable to achieve future, financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the company is liable to lose future, financial benefits and the value of the liability can be measured reliably.

Translation of foreign currency

Operational transactions in foreign currency are translated by using the exchange rate at cost basis upon bank transaction. Differences in the rate of exchange arising between the rate at the date of transaction and the rate at the date of payment are recognised in the profit and loss account as an item under net financials.

Debtors, creditors, and other monetary items in foreign currency – not settled at the date of the balance sheet – are translated by using the period closing rate held by The Danish Central Bank. The difference between the closing rate and the rate at the time of establishment of the receivable or the payable is recognised in the profit and loss account under financial income and financial costs.

Fixed assets and other non-monetary assets acquired in foreign currency and which are not considered to be investment assets purchased in foreign currencies are measured at the exchange rate on the transaction date.

Notes

DKK thousand

INCOME STATEMENT

Gross profit

Gross profit comprises of other operational income and external expenditures.

External expenses compromise all external costs including development costs, which are not directly attributable to the Company's development of new products (capitalised costs). External expenses includes depreciation and write-downs.

Staff expenses

Staff expenses comprise total remuneration to Savara employees.

Net Financials

Net financials include interest income, interest expenses on and realized and unrealized exchange rate gains and losses. Net financials are recognised in the profit and loss account with the amounts concerning the financial year.

Tax

Tax comprises the current tax for the year and the changes in deferred tax. Tax costs are recognised in the profit and loss account with the amounts concerning the fiscal year with the share referring to entries in the equity subsequently deferred tax asset.

BALANCE SHEET ITEMS

Tangible assets

Tangible assets are measured at cost with deduction of accrued depreciation and write-down.

The basis of depreciation is costs with deduction of expected residual value after the end of the useful life of the asset. The cost comprises the acquisition cost and costs directly attached to the acquisition until the time when the asset is ready for use. Depreciation takes place on a straight line basis and based on an evaluation of the expected useful life:

Office equipment and fittings: 3 years

Minor assets with an expected useful life of less than 1 year and/or of a cost less than EUR 2,000 (app. DKK 15,000) are recognised as costs in the profit and loss account in the year of acquisition.

Profit or loss deriving from the sales of tangible fixed assets is measured as the difference between the sales price reduced by the selling costs and the book value at the time of the sale. Profit or loss is recognised in the profit and loss account under depreciation.

Write-down of assets

The book values of financial as well as tangible fixed assets are subject to annual write-down assessment in order to disclose any indications of impairment beyond those expressed by amortisation and depreciation respectively.

If indications of impairment are disclosed, impairment tests are carried out for each individual asset or group of assets respectively. Write-down takes place to the recoverable amount, if this value is lower than the book value. The recoverable value is equal to the value of the net selling price or the value in use, whichever is higher. The value in use is determined as the present value of the expected net income deriving from the use of the asset or the group of assets. Any loss based on the write-down test is recognised in the profit and loss account under depreciation.

Notes

DKK thousand

Investment in subsidiaries

Investments in subsidiaries are measured at cost. In case the recoverable amount is lower than the cost, write-down will take place to this lower level.

Tax

Corporate tax (less than 12 months) are recognised in the balance sheet reflecting the tax credit reimbursement installment by the Danish government - receivable in November 2019.

Deferred tax is measured on the basis of all temporary differences in assets and liabilities with a balance sheet focus. Deferred tax is measured based on the tax rules and tax rates applying under the legislation on the balance sheet date and prevailing when the deferred tax is expected to be released as corporate tax.

The current tax rate is 22%.

Accrued income and accrued expenses

Prepaid expenses paid in advance but which has not yet been incurred are recognised under assets.

Accrued expenses recognised under liabilities comprise incurred costs concerning the next financial year.

Cash and cash equivalents

Cash and cash equivalents includes cash in Danske Bank.

Current liabilities

Current liabilities are measured at amortized costs, which usually corresponds to the nominal value.

Other debts

Other debts are measured at amortised cost which usually corresponds to face value. In order to meet expected loss, utilisation takes place at net realisable value.

Notes

DKK thousand

3. Staff expenses

	2018	2017
Salaries and wages	12.000	8.632
Pensions	854	578
Other expenses for social securities etc.	84	61
Total staff expenses	12.938	9.272
Full year average number of full time employees (FTE)	10,9	8,5

4. Financial expenses

	2018	2017
Interest expenses	9.155	2.892
Interest income	(5.721)	(1.342)
Currency translation	14.641	(9.541)
Financial expenses for the period	18.075	(7.991)

5. Tax expenses

	2018	2017
Calculated income tax for the period	-	-
Deferred tax for the year	-	-
Withholding tax	165	-
Tax reimbursement for the year	-	(19)
Total tax expense	165	(19)

Due to tax credit reimbursement installment by the Danish government, Savara Group expects to be reimbursed DKK 5.5 million of the tax asset - receivable in November 2019.

Notes

DKK thousand

6. Fixed Assets

	2018	2017
Costs at the beginning of the year	188	188
Transferred assets in the period	-	-
Additions in period	265	-
Disposals in period	(31)	-
Costs end of period	423	188
Depreciation and writedown at the beginning of the year	86	27
Reversed depreciation on disposals	(9)	-
Depreciation and writedown in period	62	59
Depreciation and writedown end of period	139	86
Book value end of period	283	102

The tangible assets consists of leasehold improvements and office equipment related to Slotsmarken 17, Hørsholm.

7. Investments in subsidiaries

	2018	2017
Investment in subsidiaries at the beginning of the year	79.257	79.225
Transferred assets in the period	-	-
Additions during the period	(2)	32
Book value end of period	79.255	79.257

8. Deposits

	2018	2017
Deposit at the beginning of the year	214	199
Transferred assets in the period	-	-
Additions during the period	71	15
Deposit end of period	285	214

The deposit relates entirely to office leasehold at Slotsmarken 17, Hørsholm.

Notes

DKK thousand

9. Pledged assets and securities

In security for a credit card line, Savara has pledged a cash deposit of DKK 0.3 million.

10. Contractual obligations and pending litigations

Obligations on rental properties

As of 31 December 2018 Savara has total commitments of DKK 2.0 million until 2022.

Pending litigations

Savara ApS has no pending litigations as of 31 December 2018.

11. Financial risks

Savara is primarily exposed to exchange rate risks in the countries where Savara has its main activities i.e. the risks relate to the rise/fall in EURO and USD. It is Group policy not to actively conduct speculation in any financial risks and it is management's strategy to seek to offset exchange-rate risks by matching positive cashflow, against costs in the same currencies.

12. Related-party transactions

The parent company is Savara Inc., 6836 Bee Cave Road, Bld 3, Suite 200, Austin, Texas 78746, USA

Other related parties are the subsidiaries Drugrecure ApS, Pharmaorigin ApS and Savara Australia Pty Ltd.

13. Significant events occurring after the balance sheet date

After the balance sheet date no major events have occurred which significantly affect the evaluation of the financial statements for 2018