



SAVARA

Savara ApS
CVR 37643459

Annual Report

In accordance with
ÅRL Danish Financial Statement Act

2016

The Annual Accounts has been presented and approved at the generally assembly ^{31/5} 2017



Martin Christiansen

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MANAGEMENT'S REPORT

Statement of the Executive Management

The Executive Management has today presented the financial statements of Savara ApS, CVR 37643459, for the period 27 April to 31 December 2016.

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 2016 and of the result of the operations and cash flows for the period 27 April to 31 December 2016.

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 2016 the equity of the company is negative and will seek appropriate measures to restore the capital structure.

Hørsholm, 31 May 2017

SAVARA APS



Robert Neville
I am approving this document

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 27 April to 31 December 2016, which comprise accounting policies used, profit and loss account, balance sheet and notes. The annual accounts are 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 2016 and of the results of the company's operations for the financial year 27 April to 31 December 2016 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, 31 May 2017

Grant Thornton
Statsautoriseret Revisionspartnerselskab
Company reg. no. 34 20 99 36



Ulrik Bloch-Sørensen
State Authorised Public Accountant



Martin Bomholtz
State Authorised Public Accountant

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 two subsidiaries – Drugrecure ApS and Pharmaorigin ApS – acquired on the 15 July 2016.

EXTRAORDINARY EVENTS

No extraordinary events have occurred in 2016.

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 2.521k of the tax asset in Q4 2017 - 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 -2.8 million in 2016, and holds total assets of DKK 105.0 million, equity of DKK -2.8 million and liabilities of DKK 108.0 million as of 31 December 2016. The Executive Management is aware that as of 31 December 2016 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 2017 to continue the operation of the company as planned.

Profit and Loss Account

for the period 27 April 2016 - 31 December 2016

DKK thousand	Notes	2016
Gross profit		697
Staff expenses	2	(3.534)
Operating profit/loss (-)		(2.837)
Net financials	3	(559)
Profit/loss (-) before tax		(3.396)
Tax expenses	4	568
Net profit/loss (-)		(2.828)

DISTRIBUTION OF NET RESULT

Net profit/loss (-)	(2.828)
Suggestion of distribution	
Transferred to retained earnings	(2.828)
	(2.828)

Balance Sheet

AT 31 DECEMBER 2016

ASSETS

DKK thousand	Notes	2016
FIXED ASSETS		
Tangible fixed assets		
Plant and equipment	5	161
Financial fixed assets		
Investment in subsidiaries	6	79.225
Receivables		
Deposits	7	199
Total fixed assets		79.585
CURRENT ASSETS		
Receivables		
Receivables, corporate tax	4	2.521
Intercompany receivables		13.162
Accrued income and deferred expenses		2.204
Other debtors		897
Total receivables		18.784
Cash and cash equivalents		6.828
Total current assets		25.612
Total assets		105.197

Balance Sheet

AT 31 DECEMBER 2016

EQUITY AND LIABILITIES

DKK thousand	Notes	2016
Equity		
Share capital		50
Retained earnings		(2.828)
Total equity		(2.778)
Liabilities		
Current liabilities		
Trade creditors		8.125
Intercompany liabilities		98.631
Other debts		1.218
Total current liabilities		107.975
Total liabilities		107.975
Total equity and liabilities		105.197

Changes in equity

<u>DKK thousand</u>	<u>Notes</u>	<u>Share Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Equity at 27 April 2016		50	-	50
Profit/loss (-)		-	(2.828)	(2.828)
<u>Equity at 31 December 2016</u>		<u>50</u>	<u>(2.828)</u>	<u>(2.778)</u>

Notes

DKK thousand

1. CAPITAL RESOURCES

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 2019.

Based on a letter of support from the parent company Savara Inc, Savara ApS has a satisfactory funding assurance until the end of 2017 to continue the operation of the company as planned.

Notes

DKK thousand

2. Staff expenses

	2016
Staff	
Salaries, cash bonus, etc.	3.144
Pension costs and other social security costs	360
Other staff costs	30
Total staff expenses	3.534
Full year average number of full time employees (FTE)	9,0
FTEs as of end of period	8,3

3. Financial Expenses

	2016
Interest expense and bank charges	12
Interest income	-
Currency translation realized	-
Currency translation unrealized	547
Financial expenses for the period	559

4. Tax expenses

	2016
Calculated income tax for the period	-
Deferred tax for the year	(2.521)
Deferred tax related to subsidiaries	1.953
Tax reimbursement for the year	-
Total tax expense	(568)

Due to tax credit reimbursement installment by the Danish government, Savara Group expects to be reimbursed DKK 2.5 million of the tax asset - receivable in November 2017.

The company's tax loss carried forward which amounts to DKK 0.4 million as of 31 December 2016, has not been recognised in the balance sheet.

Notes

DKK thousand

5. Plants and equipments

	2016
Costs at the beginning of the year	-
Transferred assets in the period	188
Additions in period	-
Disposals in period	-
Costs end of period	188
Depreciation and writedown at the beginning of the year	-
Reversed depreciation on disposals	-
Depreciation and writedown in period	27
Depreciation and writedown end of period	27
Book value end of period	161

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

6. Investments in subsidiaries

	2016
Investment in subsidiaries at the beginning of the year	-
Transferred assets in the period	79.225
Additions during the period	-
Disposals during the period	-
Book value end of period	79.225

7. Deposits

	2016
Deposit at the beginning of the year	-
Transferred assets in the period	199
Additions during the period	-
Disposals during the period	-
Deposit end of period	199

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

Notes

DKK thousand

8. Pledged assets and securities

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

9. Contractual obligations and pending litigations

Obligations on rental properties

As of 31 December 2016 Savara has total commitments of DKK 1.1 million until 2019.

Pending litigations

Savara ApS has no pending litigations as of 31 December 2016.

10. 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 revenue, as well as other positive cashflow, against costs in the same currencies.

11. Related-party transactions

Related parties comprise the parent company - Savara Inc (USA), Drugrecure ApS and Pharmaorigin ApS. In accordance with agreement with parent company, the intercompany cash balance provided, is free of interest.

Notes

DKK thousand

12. SIGNIFICANT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The parent company to Savara ApS, Savara Inc (Texas/USA) became a public traded company on the NASDAQ Stock Exchange as of 28 April 2017.

No other significant events have occurred subsequent to the balance sheet date that are considered to have a material influence in the evaluation of the 2016 report.

13. ACCOUNTING POLICIES

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

New standards and interpretations

In 2016, Savara has adopted all new and revised standards and interpretations relevant for Savara that are applicable for accounting periods beginning 1 January 2016. Savara assessed that revised standards and interpretations did not have a material impact on Savara, or they were not relevant.

Amended and new standards that have been published and defined as mandatory for accounting periods beginning 1 January 2017 or later have not yet been implemented.

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 2017 - thus, the annual report for 2016 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.

INCOME STATEMENT

Gross profit

Gross profit comprises of other operational income and external expenditures.

Other operating income comprise accounting items of secondary nature in proportion to principal activities of the company.

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 loans, 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

IT and software licenses: 2 years

Leasehold improvements: 10 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.

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 2017.

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 assets 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.