

SAVARA

Savara ApS

Slotsmarken 17, 1 th.
2970 Hørsholm

CVR 37643459

Annual Report

2019

The Annual Report has been presented and adopted at the general meeting 27th May 2020

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 2019.

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 2019 and of the result of the operations in 2019.

I am of the opinion that the management commentary includes a fair description of the issues dealt with.

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

Hørsholm, 27th May 2020



Robert Neville
CEO

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Savara ApS

Opinion

We have audited the financial statements of Savara ApS for the financial year 1 January to 31 December 2019, which comprise accounting policies, income statement, statement of financial position and notes. The financial statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements present a fair view of the company's assets, equity and liabilities, and financial position at 31 December 2019 and of the results of the company's activities for the financial year 1 January to 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 and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the section "Auditor's responsibilities for the audit of the financial statements". We are independent of the company in accordance with international ethical requirements for auditors (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that provide a fair view in accordance with the Danish Financial Statements Act. Management is also responsible for such internal control as the 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, the 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 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 about 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 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 can arise due to 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 these financial statements.

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

- Identify and assess the risks of material misstatement in the financial statements, 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 for one 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 and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the financial statements using the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists arising from 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 disclosures in the notes, and whether the financial statements reflect the underlying transactions and events in a manner that presents a 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 commentary

The management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we express no assurance opinion thereon.

In connection with our audit of the financial statements, it is our responsibility to read the management commentary and to consider whether the management commentary is materially inconsistent with the financial statements or the evidence obtained during the audit, or whether it otherwise appears to contain material misstatement.

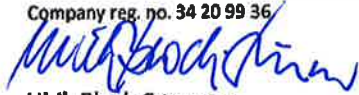
Furthermore, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we believe that the management commentary is consistent with the financial statements and that it has been prepared in accordance with the provisions of the Danish Financial Statement Act. We did not discover any material misstatement in the management commentary.

Copenhagen, 27th May 2020

Grant Thornton

Statsautoriseret Revisionspartnerselskab
Company reg. no. 34 20 99 36



Ulrik Bloch-Sørensen
State Authorised Public Accountant
mne2913



Martin Bomholtz
State Authorised Public Accountant
mne34117

MANAGEMENT COMMENTARY

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 2019.

ESTIMATES AND JUDGMENTS

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 Q2 2020 - 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 16.6 million in 2019, and holds total assets of DKK 445.0 million, equity of DKK -35.3 million and liabilities of DKK 480.3 million as of 31 December 2019.

Based on a letter of support from the parent company Savara Inc, Savara ApS has a satisfactory funding assurance until the end of 2020 to continue the operation of the company as planned.

Profit and Loss Account

for the period 1 January - 31 December 2019

DKK thousand	Notes	2019	2018
Gross profit		20.517	9.998
Staff expenses □	3	(27.122)	(12.938)
Depreciation and writedown	6	(152)	(70)
Operating profit/loss (-)		(6.757)	(3.010)
Net financials	4	(9.804)	(18.075)
Profit/loss (-) before tax		(16.561)	(21.085)
Tax expenses	5	-	(165)
Net profit/loss (-) □		(16.561)	(21.250)
DISTRIBUTION OF NET RESULT			
Net profit/loss (-) □		(16.561)	(21.250)
Suggestion of distribution			
Transferred to retained earnings		(16.561)	(21.250)
		(16.561)	(21.250)

Balance Sheet

At 31. December 2019

ASSETS

DKK thousand	Notes	2019	2018
FIXED ASSETS			
Tangible fixed assets ¹			
Plant and equipment	6	550	284
Financial fixed assets:			
Investment in subsidiaries	7	79.255	79.255
Deposits	8	285	285
Total fixed assets		80.090	79.824
CURRENT ASSETS			
Receivables			
Intercompany receivables [□]		361.510	210.393
Other receivables		2.438	2.700
Total receivables [□]		363.947	213.093
Cash and cash equivalents		981	2.138
Total current assets		364.928	215.232
Total assets		445.019	295.056

Receivables, corporate tax [□]

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Balance Sheet

At 31. December 2019

EQUITY AND LIABILITIES

DKK thousand	Notes	2019	2018
Equity			
Share capital□		50	50
Retained earnings		(35.368)	(18.807)
Total equity		(35.318)	(18.757)
Liabilities			
Non current liabilities			
Other debts		1.045	-
Total non current liabilities□	9	1.045	-
Current liabilities			
Accounts Payable Trade		8.641	8.336
Intercompany liabilities		468.036	303.360
Other debts		2.615	2.118
Total current liabilities□		479.292	313.814
Total liabilities□		480.337	313.814
Total equity and liabilities□		445.019	295.056

Changes in equity

DKK thousand	Share Capital	Retained Earnings	Statutory Reserves	Total
Equity at 1st January 2019	50	(18.807)	-	(18.757)
Profit/loss (-) □	-	(16.561)	-	(16.561)
Equity at 31 December 2019	50	(35.368)	-	(35.318)

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 2024.

Based on a letter of support from the parent company Savara Inc, Savara ApS has a satisfactory funding assurance until the end of 2020 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. Furthermore the company has chosen to comply with some of the rules applying to class C companies. Savara has a satisfactory funding assurance for 2019 - thus, the annual report for 2019 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

Notes

DKK thousand

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.

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 USD 1,000 (app. DKK 6,800) are recognised as costs in the profit and loss account in the year of acquisition.

Notes

DKK thousand

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.

Receivables

Receivables are measured at amortised cost which usually corresponds to face value. In order to meet expected losses, write down for impairment are measured at net realisable value.

Tax

Corporate tax (less than 12 months) are recognised in the balance sheet reflecting the tax credit reimbursement installment by the Danish government – expected to be received in June 2020.

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

	2019	2018
Salaries and wages□	25.004	12.000
Pensions□	1.979	854
Other expenses for social securities etc.□	139	84
Total staff expenses□	27.122	12.938
Full year average number of full time employees (FTE)□	22,4	10,9

4. Financial income and expenses

	2019	2018
Interest expenses external	8	5
Interest expenses group companies	15.253	9.150
Interest income external group companies□	(10.921)	(5.721)
Currency translation external□	404	189
Currency translation group companies□	5.060	14.452
Financial income and expenses for the period□	9.804	18.075

5. Tax expenses

	2019	2018
Withholding tax	-	165
Total tax expense	-	165

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 June 2020.

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.

Notes

DKK thousand

6. Fixed Assets

	2019	2018
Costs at the beginning of the year	423	188
Additions in period	419	265
Disposals in period	-	(31)
Costs end of period	841	423
Depreciation and writedown at the beginning of the year	139	86
Reversed depreciation on disposals	-	(9)
Depreciation and writedown in period	152	62
Depreciation and writedown end of period	291	139
Book value end of period	550	283

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

7. Investments in subsidiaries

	2019	2018
Investment in subsidiaries at the beginning of the year	79.255	79.257
Additions during the period	-	(2)
Book value end of period	79.255	79.255

8. Deposits

	2019	2018
Deposit at the beginning of the year	285	214
Additions during the period	-	71
Deposit end of period	285	285

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

Notes

DKK thousand

9. Other debts

	2019	2018
Vacation pay obligation, salaried employees	1.045	-
Other debts end of period	1.045	-
Share of liabilities due after 5 years	990	-

10. Pledged assets and securities

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

11. Contractual obligations and pending litigations

Obligations on rental properties

As of 31 December 2019 Savara has total commitments of DKK 1.5 million until 2022.

Pending litigations

Savara ApS has no pending litigations as of 31 December 2019.

12. 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 EUR 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.

13. 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, Pharmaorlgin ApS and Savara Australia Pty Ltd.

Notes

DKK thousand

14. 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 2019.