
Forward Pharma Operations ApS

Østergade 24 A, 1., DK-1100 København K

Annual Report for 1 January - 31 December 2021

CVR No 38 75 75 04

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
20/5 2022

Frederik B. Hasling
Chairman of the General
Meeting

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Management's Statement

The Executive Board has today considered and adopted the Annual Report of Forward Pharma Operations ApS for the financial year 1 January - 31 December 2021.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In my opinion the Financial Statements give a true and fair view of the financial position at 31 December 2021 of the Company and of the results of the Company operations for 2021.

I recommend that the Annual Report be adopted at the Annual General Meeting.

Copenhagen, 2 May 2022

Executive Board

Claus Bo Søndergaard Svendsen
CEO

Independent Auditor's Report

To the Shareholder of Forward Pharma Operations ApS

Opinion

We have audited the financial statements of Forward Pharma Operations ApS for the financial year 1 January – 31 December 2021, 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 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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 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.

Independent Auditor's Report

As part of an audit conducted in accordance with ISAs and 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.
- 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.

Independent Auditor's Report

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.

Copenhagen, 2 May 2022

EY Godkendt Revisionspartnerselskab

CVR No 30 70 02 28

Jens Thordahl Nøhr

State Authorised Public Accountant

mne32212

Company Information

The Company

Forward Pharma Operations ApS
Østergade 24 A, 1.
DK-1100 København K

CVR No: 38 75 75 04

Financial period: 1 January - 31 December

Municipality of reg. office: København

Executive Board

Claus Bo Søndergaard Svendsen

Auditors

EY Godkendt Revisionspartnerselskab

Dirch Passers Allé 36

DK-2000 Frederiksberg

Income Statement

1 January - 31 December 2021

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Revenue		621,559	351,024
Other external expenses		<u>-9,625,972</u>	<u>-8,509,336</u>
Gross loss		-9,004,413	-8,158,312
Impairment of investments in subsidiaries		-11,447	-23,032
Financial income	2	1,235,775	1,075,345
Financial expenses	3	<u>-1,706,887</u>	<u>-3,002,938</u>
Loss before tax		-9,486,972	-10,108,937
Tax on profit/loss for the year		<u>0</u>	<u>0</u>
Net loss for the year		<u>-9,486,972</u>	<u>-10,108,937</u>

Distribution of profit

Proposed distribution of profit

Accumulated deficit		<u>-9,486,972</u>	<u>-10,108,937</u>
		<u>-9,486,972</u>	<u>-10,108,937</u>

Balance Sheet 31 December

Assets

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Investments in subsidiaries		19,438,894	19,450,341
Fixed asset investments		19,438,894	19,450,341
Fixed assets		19,438,894	19,450,341
Receivables from group enterprises		96,270,985	95,320,177
Other receivables		742,573	356,282
Prepayments		24,208	15,845
Receivables		97,037,766	95,692,304
Cash at bank and in hand		210,630,060	222,016,513
Current assets		307,667,826	317,708,817
Assets		327,106,720	337,159,158

Balance Sheet 31 December

Liabilities and equity

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Share capital		50,000	50,000
Share premium account		373,034,312	373,034,312
Accumulated deficit		<u>-67,978,966</u>	<u>-58,491,994</u>
Equity		<u>305,105,346</u>	<u>314,592,318</u>
Trade payables		25,430	31,291
Payables to group enterprises		21,938,006	22,477,803
Accrued liabilities		<u>37,938</u>	<u>57,746</u>
Short-term debt		<u>22,001,374</u>	<u>22,566,840</u>
Debt		<u>22,001,374</u>	<u>22,566,840</u>
Liabilities and equity		<u>327,106,720</u>	<u>337,159,158</u>
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Statement of Changes in Equity

	Share capital DKK	Share premium account DKK	Accumulated deficit DKK	Total DKK
2021				
Equity at 1 January	50,000	373,034,312	-58,491,994	314,592,318
Net loss for the year	<u>0</u>	<u>0</u>	<u>-9,486,972</u>	<u>-9,486,972</u>
Equity at 31 December	<u>50,000</u>	<u>373,034,312</u>	<u>-67,978,966</u>	<u>305,105,346</u>
2020				
Equity at 1 January	50,000	373,034,312	-48,383,057	324,701,255
Net loss for the year	<u>0</u>	<u>0</u>	<u>-10,108,937</u>	<u>-10,108,937</u>
Equity at 31 December	<u>50,000</u>	<u>373,034,312</u>	<u>-58,491,994</u>	<u>314,592,318</u>

Notes to the Financial Statements

1 Key activities

Forward Pharma Operations ApS (the "Company") is a Danish limited liability company and is a wholly owned subsidiary of Forward Pharma A/S (the "Parent"). The Parent and its direct and indirect subsidiaries are defined as the "Group". Effective as of 1 February 2017, the Parent entered into a Settlement and License Agreement (the "License Agreement") with two wholly owned subsidiaries of Biogen Inc. (collectively "Biogen"). In connection with the License Agreement, the Parent restructured its operations ("Restructuring"). The Restructuring included the Parent, on 30 June 2017, forming the Company and contributed to the Company certain assets and liabilities, including its investment in Forward Pharma FA ApS and Forward Pharma GmbH ("FP GmbH") and the legal and beneficial rights, title and interest to defined intellectual property ("IP"). Upon formation, the Company transferred the IP to FWP IP ApS ("FWP IP") (a wholly owned Danish limited liability company established in 2017) and on 22 November 2017, the Company sold the capital stock of FWP IP to FWP HoldCo ApS, a newly formed Danish limited liability company that is owned and controlled by FWP Fonden, a newly formed independent Danish foundation. The primary objective of the Company is to defend and protect the Group's interest in the IP including maximizing the potential benefits from the License Agreement.

	<u>2021</u> DKK	<u>2020</u> DKK
2 Financial income		
Interest received from group enterprises	950,808	941,359
Exchange gains	<u>284,967</u>	<u>133,986</u>
	<u>1,235,775</u>	<u>1,075,345</u>

3 Financial expenses

Interest paid to group enterprises	403,597	414,448
Other financial expenses	1,285,118	1,169,620
Exchange losses	<u>18,172</u>	<u>1,418,870</u>
	<u>1,706,887</u>	<u>3,002,938</u>

4 Contingent assets, liabilities and other financial obligations

The Company is part of a Danish joint taxation group with NB FP Investment General Partner ApS, the Parent (the Company's shareholder) and Forward Pharma FA ApS. Each company within the joint tax group is jointly and severally liable for Danish tax liabilities of the joint tax group. Any subsequent adjustments of corporation taxes may increase the Company's liability.

Notes to the Financial Statements

4 Contingent assets, liabilities and other financial obligations (continued)

The Danish and German tax authorities were conducting a joint tax audit of the Group's Danish tax return and FP GmbH's German tax return. The joint tax audit covered multiple years through the year ended December 31, 2017. The joint tax audit focused primarily on one intercompany transaction that occurred in 2017 between the Parent and FP GmbH (the "Transaction") to ensure the Transaction was conducted at fair value as determined in accordance with generally accepted arm's length principles applicable to taxing cross-border transactions. The Danish and German tax authorities were unable to reach agreement as to whether the Transaction was conducted at fair value and terminated the joint income tax audit in the second quarter of 2021.

Tax Audit in Denmark

On June 2, 2021, the Parent received notice from the Danish tax authorities that they had accepted the Group's 2017 Danish income tax filing and that the Danish income tax audit had concluded; however, the Danish tax authorities reserve the right to audit the Danish tax affairs of the Group at a future date. The Danish tax authorities determined that the Transaction could be considered to be at arm's length terms and found no reason to charge the pricing of the Transaction as reported in the Group's Danish income tax filing.

Tax Audit in Germany

The tax audit in Germany is ongoing. The German tax authorities, in their preliminary assessment, have asserted that they believe the Transaction was not conducted in accordance with arm's length principles applicable to cross-border intercompany transactions and that FP GmbH under reported its taxable income by 265 million EUR (2.0 billion DKK based on the December 31, 2021 exchange rate.) A tax levy computed based on the preliminary assessment, after utilization of FP GmbH's available tax loss carryforward, and before any applicable interest and/or penalty, would be approximate 80.7 million EUR (600 million DKK based on the December 31, 2021 exchange rate.) Management believes the Transaction was conducted at arm's length and the tax filing position taken by FP GmbH is correct.

Management has determined, based on consultations with the Group's tax advisors, that it is probable (i.e., more likely than not) that FP GmbH will not be required to pay additional taxes to the German tax authorities upon the ultimate resolution of the tax dispute in Germany. However, such determination is inherently subjective and, if it is incorrect, then the Group may be subject to significant additional tax levies. The ultimate resolution of the tax dispute in Germany may require that the Group incur a material outflow of cash that would negatively affect the Group's financial position, results of operations and cash holdings.

At the conclusion of the tax audit in Germany, if the German tax authorities are successful in increasing FP GmbH's taxable income and if FP GmbH is unable to pay the related tax levy, the German tax authorities could commence litigation against the Company in Denmark to collect the outstanding balance of the tax levy. If such were to occur, it would likely be time consuming to resolve, very costly to the Company to defend, and could have a material negative effect on the Company's financial position, operating results and cash holdings.

Notes to the Financial Statements

4 Contingent assets, liabilities and other financial obligations (continued)

FP GmbH does not have sufficient liquidity or any other assets enabling it to pay a material tax levy when a final tax assessment is issued by the German tax authorities. Upon the receipt of a material final tax assessment, FP GmbH's management will evaluate whether an over-indebtedness or illiquidity condition existed under German law and whether FP GmbH has become insolvent. If FP GmbH's management concludes that FP GmbH has become either over-indebted or illiquid, insolvency proceedings will commence in a German court. FP GmbH will take all available steps to avoid insolvency, including, but not limited to, appealing the tax assessment and requesting suspension of execution of the tax assessment notice; however, depending on the facts and circumstances at the time the final tax assessment is issued by the German tax authorities, FP GmbH's management may not be able to avoid the insolvency of FP GmbH. If FP GmbH is unsuccessful in avoiding insolvency, a court-appointed insolvency administrator ("Administrator") will commence overseeing the day-to-day operations of FP GmbH and the management of FP GmbH will no longer control FP GmbH. In advance of receiving the final audit assessment from the German tax authorities, management submitted an application to the German courts to allow FP GmbH to enter debtor-in-possession ("DIP") proceedings on 28 April 2022. Entering DIP proceedings allows FP GmbH's management to remain in control of the day-to-day activities of FP GmbH while a court-appointed supervisor would monitor the activities of FP GmbH. There is no assurance the application will be accepted by the German court and if the court were to reject the application, insolvency proceedings would begin, management would lose control of the day-to-day activities of FP GmbH and the Administrator would begin managing the day-to-day activities of FP GmbH. Under DIP proceedings, FP GmbH's management is obligated, when overseeing the day-to-day operations of FP GmbH, to put the interest of creditors before the interest of shareholders. For financial reporting purposes, the prioritization of the interest of creditors in managing the affairs of FP GmbH, in substance, limits management's decision-making ability resulting in management being deemed to have lost control of FP GmbH on the date the DIP application was submitted to the German court. As a consequence of management losing control of FP GmbH, the Company's financial statements for the year ending 31 December 2022, will include a nonrecurring impairment loss equal to the Company's investment in FP GmbH. As of December 31, 2021, the Company's investment in FP GmbH totals 19.4 million DKK.

5 Related parties

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Forward Pharma A/S
Østergade 24 A, 1
1100 København K

Notes to the Financial Statements

6 Subsequent events

Subsequent to December 31, 2021, there were no events that are required to be reported except for the matters discussed in note 4 regarding Forward Pharma GmbH (a directly owned subsidiary of the Company referred to as "FP GmbH"), which has submitted an application to begin debtor-in-possession ("DIP") proceedings, causing the Company to incur a non-cash impairment loss on investments in subsidiaries of approximately 19.4 million DKK.

The directly owned subsidiaries are Forward Pharma FA ApS and FP GmbH.

Notes to the Financial Statements

7 Accounting Policies

The Annual Report of Forward Pharma Operations ApS for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The Financial Statements included herein are presented in Danish kroner (DKK).

Recognition and measurement

Revenues are recognised in the income statement as earned in accordance with International Financial Reporting Standard No.15 Revenues from Contracts with Customers. Furthermore, financial assets and liabilities are measured at fair value or amortized. Expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as adjustments related to changes in accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognized in the balance sheet when it is probable that the asset will provide future economic benefit that will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below under the caption "Balance Sheet."

Translation policies

Transactions are measured in DKK.

Transactions in foreign currencies are initially recorded by the Company using the spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated to DKK based on currency spot rates at each reporting date. Differences arising on settlement or translation of monetary items denominated in foreign currency are recognized in the income statement. The Company does not hedge foreign exchange transactions.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

7 Accounting Policies (continued)

Income Statement

Revenue

Revenue comprises of a Management fee charged to other Group entities. Management fee is recognized along with provision of the related services.

Other external expenses

Other external expenses comprise items of the main activities of the Company.

Impairment of investments in subsidiaries

The item “Impairment of investments in subsidiaries” in the income statement includes the proportionate share of the profit/loss for the year.

Financial income and expenses

Finance income (expense) primarily include interest income on USD cash holdings offset by bank charges (negative interest) related to DKK and EUR cash holdings.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the result for the year is recognised in the income statement.

The Company is part of a Danish joint taxation group with NB FP Investment General Partner ApS, the Parent (the Company’s shareholder) and Forward Pharma FA ApS. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation or “uncertainty”. An income tax position taken in a tax filing is reflected in determination of income taxes if it considered probable that the position can be sustained.

31 December 2021 and 2020, the Company's ability to generate taxable profits in the future is not assured; therefore, the Company's deferred tax assets at 31 December 2021 and 2020 do not meet the criteria for financial statement recognition.

Balance Sheet

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment losses.

Notes to the Financial Statements

7 Accounting Policies (continued)

Investment in subsidiaries is reviewed annually for indicators of impairment and written down to the higher of value in use and fair value less costs to sell if lower than the carrying amount.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments include primarily prepaid insurance premiums.

Deferred tax assets and liabilities

Deferred tax is provided based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, unused tax credits and unused tax losses can be utilized. Deferred tax assets and deferred tax liabilities of the same tax jurisdiction are offset if a legally enforceable right exists to set off.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognized outside the profit or loss are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognized in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account.

Capital contributions to group companies

Amounts contributed to subsidiaries are added to the cost price of the subsidiary, which is reviewed annually for impairment, cf. the section "Investment in subsidiaries".

Notes to the Financial Statements

7 Accounting Policies (continued)

Financial debts

Other debts are measured at amortised cost, substantially corresponding to nominal value.