Forward Pharma A/S

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

Annual Report for 1 January - 31 December 2020

CVR No 28 86 58 80

The Annual Report was presented and adopted at the Annual General Meeting of the Company on / 2021

Frederik B. Hasling
Chairman of the General Meeting

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Forward Pharma A/S for the financial year 1 January - 31 December 2020.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2020 of the Company and of the results of the Company operations for 2020.

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

Copenhagen, 3 May 2021

Executive Board

Claus Bo Søndergaard Svendsen
Executive Officer

Board of Directors

Florian Schönharting Chairman	Torsten Goesch	Jakob Mosegaard Larsen
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Independent Auditor's Report

To the Shareholders of Forward Pharma A/S

Opinion
We have audited the financial statements of Forward Pharma A/S for the financial year 1 January – 31 December 2020, 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 2020 and of the results of the Company's operations for the financial year 1 January – 31 December 2020 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' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2020. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matter below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the financial statements.

Accounting for tax uncertainties

As discussed in note 6 to the financial statements, the Danish and German tax authorities are conducting a joint tax audit on the Company's Danish and its subsidiary's German corporate income tax returns covering multiple years through the year ended December 31, 2017. Such joint tax audit could result in the tax authorities disagreeing with the tax filing positions taken by the Company and its subsidiary,

Independent Auditor’s Report

which could give rise to additional tax payments, including interest and penalties, that could be material. Management has determined that it is not probable (i.e., more likely than not) that the Company and its subsidiary will be required to pay additional taxes upon the ultimate resolution of the joint tax audit.

To test the Company's accounting for tax uncertainties as a result of the ongoing joint tax audit, we considered management's assessment of the joint tax audit based on developments during the year. Our audit procedures included, among others, assessing the most recent correspondence with the relevant tax authorities. In addition, we have evaluated the tax opinions and memorandums provided by the Company's and its subsidiary’s tax advisors, who assisted management in their assessment. We involved tax specialists to assist in evaluating the application of tax rules and regulations applied by management in their assessment. We also assessed the adequacy of disclosures related to the joint tax audit included in note 6 to the financial statements.

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.

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.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Statement on Management’s Review
Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially

Independent Auditor's Report

misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 3 May 2021
EY Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Jens Thordahl Nøhr
State Authorised Public Accountant
mne32212

Company Information

The Company	Forward Pharma A/S Østergade 24 A, 1. DK-1100 København K
	CVR No: 28 86 58 80 Financial period: 1 January - 31 December Municipality of reg. office: København
Board of Directors	Florian Schönharting, Chairman Torsten Goesch Jakob Mosegaard Larsen Grant Hellier Lawrence Duncan Moore
Executive Board	Claus Bo Søndergaard Svendsen
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36 DK-2000 Frederiksberg

Management's Review

Forward Pharma A/S (the "Company") is a limited liability company incorporated and domiciled in Denmark. The registered office is located in Copenhagen, Denmark. The Company has two wholly owned subsidiaries, Forward Pharma USA, LLC ("LLC"), incorporated in the state of Delaware, United States, and Forward Pharma Operations ApS ("Operations"), incorporated in Denmark. Operations has two wholly owned subsidiaries, Forward Pharma FA ApS, incorporated in Denmark, and Forward Pharma GmbH ("FP GmbH"), incorporated in Germany. A liquidation of GmbH was initiated on January 29, 2020. The Company and its direct and indirect subsidiaries are collectively referred to as the "Group".

The accompanying financial statements are those of the Company only. The Company's directly owned subsidiaries (LLC and Operations) are reflected in the accompanying financial statements as "Investments in subsidiaries."

In February 2017, the Company entered into a Settlement and License Agreement (the "License Agreement") with two wholly owned subsidiaries of Biogen Inc. (collectively "Biogen"). Prior to entering into the License Agreement, the Company was actively developing FP187®, a proprietary formulation of dimethyl fumarate ("DMF"), for the treatment of multiple sclerosis ("MS") patients. In accordance with the License Agreement, Biogen paid the Company a non-refundable fee of $1.25 billion (DKK 8.7 billion) ("Non-refundable Fee") in February 2017. The License Agreement also provided for contingently payable royalties due to the Group, as defined in the License Agreement, based on the outcome of certain matters discussed further below.

The License Agreement did not resolve, among others, the pending opposition proceeding (the "Opposition Proceeding") against the Company's European patent EP2801355 ("the '355 Patent"). The License Agreement contemplated the Opposition Division, the Technical Board of Appeal and the Enlarged Board of Appeal of the European Patent Office (the "EPO"), as applicable, to make final determinations in the proceedings before them. The final determinations in the proceedings would determine whether future royalties are due to the Company in accordance with the License Agreement.

If the Company is successful in the Opposition Proceeding (i.e., the Company obtains, as a result of the Opposition Proceeding, and any appeals therefrom, a patent with a claim covering oral treatment of MS with 480 mg/day of DMF), the Group would be eligible beginning on January 1, 2021 to collect a 10% royalty (increasing to 20% from January 1, 2029) until the earlier of the expiration or invalidation of the patents defined in the License Agreement, on a country-by-country basis on Biogen's net sales outside the United States of DMF-containing products indicated for treating MS that, but for the license granted under the License Agreement, would infringe a Company patent, provided that other conditions of the License Agreement are satisfied. Among the conditions that need to be satisfied for any royalty to be payable by Biogen to the Group is the absence of generic entry in a particular geography having a particular impact as defined in the License Agreement. If the Company is unsuccessful in the Opposition Proceeding and any appeals therefrom, the Group would not be entitled to future royalties on Biogen's net sales outside the United States.

On January 29, 2018, the Opposition Division of the EPO concluded the oral proceedings concerning the '355 Patent. The Opposition Division revoked the '355 Patent after considering third-party oppositions from several opponents. On March 22, 2018, the Opposition Division issued its detailed reasons for the decision. On May 7, 2018, the Company appealed the Opposition Division's decision to the Technical

Board of Appeal ("TBA") of the EPO and filed its detailed grounds of appeal on August 1, 2018. On July 8, 2019, the Company received notice from the EPO that the appeal would be heard by the TBA of the EPO on June 18, 2020 (the "2020 Hearing"). As a result of the ongoing coronavirus pandemic, the 2020 Hearing has been postponed twice and is now scheduled to occur on September 6, 2021. Management expects the TBA to issue a ruling on the same day as the hearing with a fully argued decision approximately two months following the hearing.

If the Company receives a favorable ruling following the hearing, it is expected that the TBA will remand the case to the Opposition Division, in order for the Opposition Division to resolve the remaining elements of the original opposition. Management estimates that the Opposition Division would take approximately two to three years to resolve the remaining elements of the original opposition. However, delays can occur that would extend the time needed for the Opposition Division to reach a conclusion on the remaining elements of the original opposition. The Company is not entitled to any royalty payments from the License Agreement until and unless all remaining elements of the original opposition are resolved in the Company's favor. As such, the earliest time the Company may expect to receive any revenues from the License Agreement, if at all, is 2024.

If the Company receives an unfavorable ruling following the hearing on September 6, 2021, it would, for all practical purposes, represent an unsuccessful outcome of the Opposition Proceeding, resulting in no royalties being due to the Company from Biogen based on Biogen's future net sales outside the United States, as defined in the License Agreement. The Company may request a rehearing of the September 6, 2021 hearing with the Enlarged Board of Appeal of the EPO in an effort to overturn the unfavorable outcome, but the likelihood of getting a rehearing is low. The denial of a request to rehear would end the Opposition Proceeding in favor of the opponents.

As a result of entering into the License Agreement, combined with, among other things, the Company has permanently discontinued the development of DMF formulations, including FP187®.

The income statement of the Company for the year ended December 31, 2020 shows a loss of DKK 42.2 million. As of December 31, 2020, the Company held cash and cash equivalents of DKK 256,2 million and the Company's equity totaled DKK 474,1 million. The Company currently estimates that there will be adequate liquidity to continue as a going concern beyond the next twelve months. There is a high level of uncertainty in estimating the costs we will incur to continue the Opposition Proceeding and to defend and protect the intellectual property associated with the Company. There are other uncertainties that could negatively affect our estimated cash spend in 2021 including, but not limited to, an unforeseen negative outcome of the tax audits in Denmark and Germany. Accordingly, our estimated use of cash for the year ending December 31, 2021 could change near-term and the change could be material. We have no long-term financial commitments, such as lines of credit or guarantees, which are expected to affect our liquidity, other than an office rental lease, which we consider immaterial.

We currently expect that our operating results will remain at current levels in the future or exhibit a slightly lower deficit.

Income Statement 1 January - 31 December

	Note	2020	2019
		DKK	DKK
Other operating income		3,959,096	5,090,034
Other external expenses		-11,722,824	-11,059,189
Gross loss		**-7,763,728**	**-5,969,155**
Staff expenses	2	-5,054,589	-16,079,837
Impairment of investments in subsidiaries		-11,502,472	-9,405,279
Loss before financial income and expenses		**-24,320,789**	**-31,454,271**
Financial income	3	693,608	3,326,470
Financial expenses	4	-18,575,530	-337,457
Loss before tax		**-42,202,711**	**-28,465,258**
Tax on profit/loss for the year	5	1,020	0
Net loss for the year		**-42,201,691**	**-28,465,258**

Distribution of profit

Proposed distribution of profit

Retained earnings	-42,201,691	-28,465,258
	-42,201,691	**-28,465,258**

Balance Sheet 31 December

Assets

	Note	2020	2019
		DKK	DKK
Investments in subsidiaries		314,835,681	325,067,872
Fixed asset investments		**314,835,681**	**325,067,872**
Fixed assets		**314,835,681**	**325,067,872**
Receivables from group enterprises		451,798	474,080
Other receivables		170,702	62,477
Corporation tax		1,189,109	1,189,109
Prepayments		2,020,026	1,939,678
Receivables		**3,831,635**	**3,665,344**
Cash at bank and in hand		**256,198,495**	**284,413,049**
Currents assets		**260,030,130**	**288,078,393**
Assets		**574,865,811**	**613,146,265**

Balance Sheet 31 December

Liabilities and equity

	Note	2020	2019
		DKK	DKK
Share capital		964,876	950,739
Other reserves		44,169,038	43,801,655
Retained earnings		428,972,769	471,174,460
Equity		**474,106,683**	**515,926,854**
Trade payables		2,732,798	395,711
Payables to group enterprises		95,334,024	94,392,665
Other payables		290,559	341,192
Accrued liabilities		2,401,747	2,089,843
Short-term debt		**100,759,128**	**97,219,411**
Debt		**100,759,128**	**97,219,411**
Liabilities and equity		**574,865,811**	**613,146,265**
Subsequent events	1		
Contingent assets, liabilities and other financial obligations	6		
Intellectual Property Proceedings and the Settlement and License Agreement	7		
Accounting Policies	8		

Statement of Changes in Equity

	Share capital	Other reserves	Retained earnings	Total
	DKK	DKK	DKK	DKK
2020				
Equity at 1 January	950,739	43,801,655	471,174,460	515,926,854
Share issuance	14,137	0	0	14,137
Share-based compensation	0	2,215,675	0	2,215,675
Equity award payments	0	-1,848,292	0	-1,848,292
Net loss for the year	0	0	-42,201,691	-42,201,691
Equity at 31 December	**964,876**	**44,169,038**	**428,972,769**	**474,106,683**
2019				
Equity at 1 January	950,739	33,985,125	499,639,718	534,575,582
Share-based compensation	0	14,252,435	0	14,252,435
Equity award payments	0	-4,435,905	0	-4,435,905
Net loss for the year	0	0	-28,465,258	-28,465,258
Equity at 31 December	**950,739**	**43,801,655**	**471,174,460**	**515,926,854**

Notes to the Financial Statements

1 Subsequent events

Subsequent to December 31, 2020, there were no events that are required to be reported except the exercise of options and warrants representing 1,776,832 ordinary shares at a per share exercise price of 0.01 DKK.

Also see note 7.

2 Staff expenses

	2020 DKK	2019 DKK
Wages and salaries	2,918,218	2,904,148
Other social security expenses	22,643	19,083
Warrants & share-based payments	2,113,728	13,156,606
	5,054,589	**16,079,837**
Average number of employees	**2**	**3**

3 Financial income

	2020 DKK	2019 DKK
Other financial income	692,541	1,518,064
Exchange adjustments	0	1,808,295
Exchange gains	1,067	111
	693,608	**3,326,470**

4 Financial expenses

	2020 DKK	2019 DKK
Interest paid to group enterprises	941,359	72,886
Other financial expenses	79,773	63,531
Exchange losses	17,554,398	201,040
	18,575,530	**337,457**

Notes to the Financial Statements

5 Tax on profit/loss for the year

	2020	2019
	DKK	DKK
Current tax for the year	-1,020	0
	-1,020	**0**

6 Contingent assets, liabilities and other financial obligations

Contingent liabilities

The Company has been part of two Danish joint tax groups since January 19, 2013 that have included members who are not part of the Group. Under Danish tax rules, the Company is jointly and severally liable, with other members of the Danish joint tax group, for tax obligations of the Danish tax group. Any subsequent adjustments of either Danish joint tax group's taxable income may increase the Company's liability.

Tax uncertainties

Currently, the Danish and German tax authorities are conducting a joint tax audit of the Company's Danish tax return and the Company's indirectly wholly owned subsidiary's German tax return. The joint tax audit covers multiple years through the year ended December 31, 2017. The Company and the Company's indirectly owned subsidiary in German, are collectively referred to as "FP". While management believes that appropriate tax filing positions have been taken by the FP, FP does exercise significant judgment when determining tax filing positions. The tax rules and regulations are very complex and there can be no assurance that management's interpretation and application of these rules and regulations to determine tax filing positions will be accepted by the tax authorities. The joint tax audit could result in the tax authorities disagreeing with the tax filing positions taken by FP, which would expose FP to additional taxes being assessed, including interest and penalties that could be material.

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

Notes to the Financial Statements

7 Intellectual Property Proceedings and the Settlement and License Agreement

In February 2017, the Company entered into a Settlement and License Agreement (the "License Agreement") with two wholly owned subsidiaries of Biogen Inc. (collectively "Biogen"). Prior to entering into the License Agreement, the Company was actively developing FP187®, a proprietary formulation of dimethyl fumarate ("DMF"), for the treatment of multiple sclerosis ("MS") patients. In accordance with the License Agreement, Biogen paid the Company a non-refundable fee of $1.25 billion (DKK 8.7 billion) ("Non-refundable Fee") in February 2017. The License Agreement also provided for contingently payable royalties due to the Group, as defined in the License Agreement, based on the outcome of certain matters discussed further below.

The License Agreement did not resolve, among others, the pending opposition proceeding (the "Opposition Proceeding") against the Company's European patent EP2801355 (“the ‘355 Patent”). The License Agreement contemplated the Opposition Division, the Technical Board of Appeal and the Enlarged Board of Appeal of the European Patent Office (the "EPO"), as applicable, to make final determinations in the proceedings before them. The final determinations in the proceedings would determine whether future royalties are due to the Company in accordance with the License Agreement.

If the Company is successful in the Opposition Proceeding (i.e., the Company obtains, as a result of the Opposition Proceeding, and any appeals therefrom, a patent with a claim covering oral treatment of MS with 480 mg/day of DMF), the Group would be eligible beginning on January 1, 2021 to collect a 10% royalty (increasing to 20% from January 1, 2029) until the earlier of the expiration or invalidation of the patents defined in the License Agreement, on a country-by-country basis on Biogen's net sales outside the United States of DMF-containing products indicated for treating MS that, but for the license granted under the License Agreement, would infringe a Company patent, provided that other conditions of the License Agreement are satisfied. Among the conditions that need to be satisfied for any royalty to be payable by Biogen to the Group is the absence of generic entry in a particular geography having a particular impact as defined in the License Agreement. If the Company is unsuccessful in the Opposition Proceeding and any appeals therefrom, the Group would not be entitled to future royalties on Biogen's net sales outside the United States.

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If the Company receives a favorable ruling following the hearing, it is expected that the TBA will remand the case to the Opposition Division, in order for the Opposition Division to resolve the remaining elements of the original opposition. Management estimates that the Opposition Division would take approximately two to three years to resolve the remaining elements of the original opposition. However, delays can occur that would extend the time needed for the Opposition Division to reach a conclusion on the remaining elements of the original opposition. The Company is not entitled to any royalty payments from the License Agreement until and unless

7 Intellectual Property Proceedings and the Settlement and License Agreement (continued)

all remaining elements of the original opposition are resolved in the Company's favor. As such, the earliest time the Company may expect to receive any revenues from the License Agreement, if at all, is 2024.

If the Company receives an unfavorable ruling following the hearing on September 6, 2021, it would, for all practical purposes, represent an unsuccessful outcome of the Opposition Proceeding, resulting in no royalties being due to the Company from Biogen based on Biogen's future net sales outside the United States, as defined in the License Agreement. The Company may request a rehearing of the September 6, 2021 hearing with the Enlarged Board of Appeal of the EPO in an effort to overturn the unfavorable outcome, but the likelihood of getting a rehearing is low. The denial of a request to rehear would end the Opposition Proceeding in favor of the opponents.

As a result of entering into the License Agreement, combined with, among other things, the Company has permanently discontinued the development of DMF formulations, including FP187®.

Notes to the Financial Statements

8 Accounting Policies

The Annual Report of the Company for 2020 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 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 recognized in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes to the Financial Statements

8 Accounting Policies (continued)

Income Statement

Revenue

The Company had no revenue in 2020 or 2019.

Other external expenses

Other operating expenses include Management fee charged from other Group entities as well as service of a secondary nature to the main activities of the Company.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses and the fair value of share-based payment.

Share-based payment

Employees, board members and consultants (who provide services similar to employees) of the Company receive remuneration in the form of equity settled awards whereby services are rendered as consideration for equity awards (warrants, deferred shares or share options). The fair value of these equity settled awards is determined at the date of grant resulting in a fixed fair value at grant date that is not adjusted for future changes in the fair value of the equity awards that may occur over the service period. Fair value of warrants and options is determined using the Black-Scholes model while fair value of deferred shares is determined as the fair value of the underlying shares less the present value of expected dividends.

Non-employee consultants (who perform services not similar to employees) of the Company have received equity settled awards in the form of warrants or share options as remuneration for services. The fair value of these equity settled awards is measured at the time services are rendered using the Black-Scholes model. Under this method, the fair value is determined each quarter over the service period until the award vests.

The cost of share-based payments is recognized as an expense together with a corresponding increase in equity over the period in which the performance and/or service conditions are fulfilled.

Other operating income

Other operating income is comprised of Management fee charged to other Group entities. Management fee is recognized along with provision of related services.

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.

Notes to the Financial Statements

8 Accounting Policies (continued)

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 recognized in the income statement.

The Company is part of a Danish joint taxation group with NB FP Investment General Partner ApS, Forward Pharma Operations ApS 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.

At 31 December 2020 and 2019, the Company's ability to generate taxable profits in the future is not assured; therefore, the Company's deferred tax assets at 31 December 2020 and 2019 do not meet the criteria for financial statement recognition.

Balance Sheet

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment losses.

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.

Notes to the Financial Statements

8 Accounting Policies (continued)

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 re assessed 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 recognised 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.

Financial debts

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

Accrued liabilities

Accrued liabilities comprise payments received in respect of income in subsequent years.