

Forward Pharma A/S

Annual Report 2017

CVR-Number: 28865880

The Annual Report was presented
and adopted at the Annual General
Meeting of the Company on
30 May 2018

Frederik B. Hasling, attorney-at-law

Company address:
Østergade 24 A, 1st floor, DK-1100 Copenhagen K, Denmark.

Forward Pharma A/S

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Management's statement

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Forward Pharma A/S (the "Company" or the Parent) for the financial year ended 31 December 2017.

The Annual Report is prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and additional disclosure requirements of the Danish Financial Statements Act.

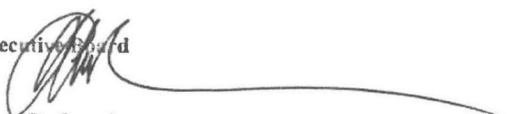
It is our opinion that the Company's financial statements give a true and fair view of the Company's financial position as of 31 December 2017, and the results of its operations and cash flows for the year ended 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the significant developments that impacted the Company's operations and financial condition.


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

Copenhagen, 14 May 2018

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Supervisory Board


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Chairman

Torsten L. Goesch

Jakob Mosegaard Larsen

Grant Hellier Lawrence

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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 (the "Company") for the financial year 1 January -31 December 2017, which comprise a Statement of Financial Position, Statement of Profit or Loss, Statement of Other Comprehensive Income (Loss), Statement of Changes in Shareholders' Equity, Statement of Cash Flow and notes, including accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of 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 2017 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of 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.

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 International Financial Reporting Standards as adopted by the EU and additional disclosure requirements of 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 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 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 judgment and maintain professional skepticism 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 conclusion is 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.

Statement on the 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 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 our procedures, 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 misstatements of the Management's review.

Copenhagen, 14 May 2018
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Claus Kronbak
State Authorised
Public Accountant
MNE-no.: mne 28675

Management's review

As discussed in more detail in notes to the financial statements, effective as of 1 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. As a result of entering into the License Agreement, the future development and sale by the Company of FP187® or another DMF-containing formulation (collectively "DMF Formulation") is uncertain at this time and will be determined based on the outcome of matters discussed further in the notes to the financial statements. The Company announced on 1 March 2017 plans to complete the remaining research and development efforts of FP187® and pursue an organizational realignment to reduce personnel and operating expenses by mid-year 2017. The organizational realignment was substantially completed by 30 September 2017. Under certain conditions, the Company may decide to reinstate the development of FP187®, or initiate the development of another DMF Formulation.

Forward Pharma A/S is referred to herein as the "Company" or "Parent". Forward Pharma A/S and its subsidiaries are collectively referred to herein as the "Group." This Annual Report includes the unconsolidated financial statements of the Parent. Amounts reported herein are stated in United States Dollars ("USD") unless otherwise stated. The Company is required to file Group consolidated financial statements with the United States Securities and Exchange Commission that are included in the Company's Form 20-F but are not part of this Annual Report.

Developments during the year

The financial statements for the year 2017 show operating income of USD 1.1 billion compared to an operating loss of USD 40.3 million in 2016. The favorable change of USD 1.2 billion from 2016 to 2017 is primarily the result of the receipt of the non-refundable fee of USD 1.25 billion ("Non-refundable Fee") received from Biogen in accordance with the License Agreement. The License Agreement does not obligate Biogen to remit additional amounts to the Company unless the Company prevails in certain patent disputes discussed in more detail below. For the year ended 31 December 2017, we reported net income of USD 880.2 million compared to a net income of USD 2.0 million for the year ended 31 December 2016. The favorable change was primarily related to the receipt of the Non-refundable Fee offset by an increase in income tax expense.

Restructuring

Under the terms of the License Agreement, the Company restructured its operations on 30 June 2017 whereby the Company transferred to Forward Pharma Operations ApS (a newly created and wholly owned Danish limited liability company) certain assets and liabilities, including the legal and beneficial rights, title and interest to defined intellectual property, and Forward Pharma Operations ApS transferred the intellectual property to FWP IP ApS (a newly created and wholly owned Danish limited liability company.) The final step in the restructuring was completed on 22 November 2017 when the capital stock of FWP IP ApS was sold 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. In consideration for the capital stock of FWP IP ApS, FWP HoldCo ApS paid Forward Pharma Operations ApS DKK 336,000 (USD 54,000 based on the 31 December 2017 exchange rate). FWP Fonden's three-member board includes one independent director and one director appointed by each of the Company and Biogen. Accordingly, the Company does not control nor does it have exposure or rights to variable returns from the FWP Fonden, FWP HoldCo ApS or FWP IP ApS. During the year ended December 31, 2017, the Company contributed DKK 5 million (USD 805,000 based on the 31 December 2017 exchange rate) as the initial capitalization of FWP Fonden and is obligated to pay DKK 100,000 (USD 16,000 based on the 31 December 2017 exchange rate) annually to FWP IP ApS in exchange for FWP IP ApS agreeing to hold, prosecute and maintain the transferred intellectual property in accordance with certain agreements. In connection with the initial capitalization of FWP Fonden, the Company's annual funding obligations to FWP IP ApS and the sale of the capital stock of FWP IP ApS to FWP HoldCo ApS, the Company incurred a net expense of USD 759,000 that is included in general and administrative expenses for the year ended 31 December 2017.

Share Split and Shareholder Distribution

On 2 August 2017, the Company's shareholders approved a 10 for 1 share split and a capital reduction of EUR 917.7 million, or USD 1.1 billion. The capital reduction was effected by a distribution to shareholders in September 2017.

The capital reduction was executed through the annulment of 80% of the ordinary shares outstanding post share split. Following the share split and the capital reduction, each ADS was modified to represent two ordinary shares. Each ordinary share subsequent to the share split has a nominal value of DKK 0.01. See Note 5.1 in the accompanying financial statements for additional information.

Amendment to the Company's Articles of Association

In November 2017, the shareholders of the Company approved an amendment to the Company's articles of association. The amendment modified the terms of certain outstanding options and warrants granted by the Company to mitigate the dilution to such awards caused by the Shareholder Distribution. In November 2017, a similar amendment was approved by the board of directors of the Company in respect of certain deferred share awards granted by the Company (the amended options, warrants and deferred shares are collectively referred to as the "Awards" and the amendments of the Awards are collectively referred to as the "Amendment"). The overall effect of the Amendment provided for cash payments to Award holders of EUR 36.2 million (USD 43.4 million based on the 31 December 2017 exchange rate) and a reduction in the number of outstanding Awards of 28.8 million. As a result of the Amendment, the Company recognized compensation expense of USD 11.7 million and a reduction to shareholder equity of USD 32.2 million. See Note 3.2 in the accompanying financial statements for additional information.

Intellectual Property Proceedings and the License Agreement

On 1 February 2017, the License Agreement with Biogen and certain additional parties became effective. The License Agreement provides Biogen with a co-exclusive license in the U.S., and an exclusive license outside the U.S., to the Company's intellectual property effective as of 9 February 2017. Biogen also is required, if certain conditions are met within the time period set forth in the License Agreement, including the termination or expiration of any required waiting period under the HSR Act, to obtain an exclusive license to the Company's intellectual property in the U.S.

In accordance with the License Agreement, Biogen paid the Company the Non-refundable Fee and could be obligated to pay the Group royalties in the future subject to the outcome of certain matters discussed below.

On 13 April 2015, an administrative patent judge at the PTAB declared the Interference Proceeding between the Company's United States patent application and the United States patent held by a subsidiary of Biogen. The License Agreement does not resolve the Interference Proceeding or the Opposition Proceeding. The Company and Biogen intend to permit the PTAB and the Federal Circuit, as applicable, and the EPO, and the Technical Board of Appeal and the Enlarged Board of Appeal, as applicable, to make final determinations in the proceedings before them. Only if the Group is successful in the Interference Proceeding and/or the Opposition Proceeding, as discussed further below, will it be eligible to receive royalties starting as early as 2021 based on Biogen's net sales of DMF-containing products indicated for treating MS as defined in the License Agreement, provided that other conditions of the License Agreement are satisfied within the time period set forth in the License Agreement. As the result of the restructuring as discussed above, specifically the Company's transfer of the IP to Forward Pharma Operations ApS, any royalties that become payable to the Group will not be remitted to the Company.

If the Group is successful in the Interference Proceeding (i.e., the Group obtains, as a result of the Interference Proceeding, and any appeals therefrom to the Federal Circuit (including *en banc* review), a patent with a claim covering oral treatment of MS with 480 mg per day of DMF), and if Biogen obtains an exclusive license in the U.S., the Group may be eligible beginning on 1 January 2021 to collect a 10% royalty (increasing to 20% from 1 January 2029) until the earlier of the expiration or invalidation of the patents defined in the License Agreement, on Biogen's net sales in the U.S. of DMF-containing products indicated for treating MS that, but for the rights granted under the License Agreement, would infringe a Group 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 having a particular impact as defined in the License Agreement. If Biogen obtains an exclusive license in the U.S., we would likely permanently discontinue development of a DMF Formulation.

If the Group is successful in the Interference Proceeding, but certain conditions are not met in the U.S., including if restraints are placed on Biogen as a result of the process under the HSR Act, and if Biogen does not obtain an exclusive license, the Group could reinstate the development of a DMF Formulation for sale in the U.S. under a co-exclusive license with Biogen, under which the Group may assign its co-exclusive license, on one occasion only, to a single third party. Under the co-exclusive license, the Group would be eligible beginning on 1 January 2023 to collect royalties of 1% on Biogen's net sales in the U.S. of DMF-containing products indicated for treating MS that, but for the rights granted under the License Agreement, would infringe a Group 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 having a particular impact as defined in the License Agreement. If the Group is unsuccessful in the Interference Proceeding after any appeals, the Group would not be entitled to future royalties on Biogen's net sales in the U.S. Moreover, if Biogen prevails in the Interference Proceeding, after any appeals to the Federal Circuit, we may be prevented from commercializing FP187® for MS in the U.S. at a 480 mg per day dose. Were this to occur, we would consider reviewing opportunities to develop other DMF-containing formulations and products, including generics, consistent with the terms of the License Agreement. If we are unable to commercialize FP187® or any other product for sale in the U.S., we would be unable to generate any revenue from such a product.

If the Group is successful in the Opposition Proceeding (i.e., the Group 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 per day of DMF), it would be eligible beginning on 1 January 2021 to collect a 10% royalty (increasing to 20% from 1 January 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 U.S. of DMF-containing products indicated for treating MS that, but for the rights granted under the License Agreement, would infringe a Group 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 Group 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 U.S.

The receipt of the Non-refundable Fee triggered a USD 25 million obligation payable to Aditech Pharma AG in accordance with the addendum to the patent transfer agreement concluded between the Company and Aditech Pharma AG in connection with the License Agreement. See Note 6.2 in the accompanying financial statements for additional information.

On 31 March 2017, the PTAB issued a decision in the Interference Proceeding in favor of Biogen. The PTAB ruled that the claims of the Group's United States Patent Application No. 11/567,871 are not patentable due to a lack of adequate written description. On 30 May 2017, the Group filed a notice of appeal of the PTAB's decision that ended the Interference Proceeding. The appeal was filed in the Federal Circuit and seeks to have the decision overturned and the Interference Proceeding reinstated. On 21 December 2017, the Group filed the final appeal brief, and the appeal will be heard at an oral hearing on 4 June 2018. The appeal is expected to be decided in the second half of 2018.

On 29 January 2018, the Opposition Division of the EPO concluded the oral proceeding concerning patent EP 2801355 and issued an initial decision in the Opposition Proceeding. The Opposition Division revoked patent EP 2801355 after considering third-party oppositions from several opponents. On 22 March 2018, the Opposition Division issued its written decision with detailed reasons for the decision, and on 7 May 2018, the Company appealed the Opposition Division's decision to the Technical Board of Appeal, with an expected duration of the appeal process of an additional two to three years. The Company has until 2 August 2018 to submit detailed grounds of appeal. If the Group prevails in such appeal, we expect the Technical Board of Appeal to remand the case to the Opposition Division, in order for the Opposition Division to resolve the remaining elements of the original opposition.

As of 31 December 2017, the Company held cash, cash equivalents of approximately USD 69.5 million and accordingly we have the ability to fund our operations beyond the next twelve months. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. There is a high level of uncertainty in estimating the costs we will incur to continue the Interference Proceeding and Opposition Proceeding and to defend and protect the intellectual property associated with the Company. At this time, we cannot estimate whether or when we will reinstate development of a DMF Formulation and, if reinstituted, the level of expenditure that will be required to fully develop and commercialize a DMF Formulation. Accordingly, our estimated use of cash for the year ending 31 December 2018 could change near-term and the change could be material.

Subsequent events

Subsequent to 31 December 2017, there were no events that were required to be reported except that on 29 January 2018, the Opposition Division of the EPO issued an initial decision in the Opposition Proceeding revoking patent EP 2801355 as described above. See also Note 1.2 in the accompanying financial statements for additional information.

Statement of Financial Position

as of 31 December 2017 and 2016

	Notes	31 December	
		2017	2016
		USD '000	USD '000
Assets			
Equipment	4.3	—	248
Deferred tax, net.....	3.3	—	13,708
Investment in subsidiaries	5.4	103,425	47,360
Total non-current assets		103,425	61,316
Prepayments		454	521
Other receivables.....	4.2	418	368
Intercompany receivables.....		—	113
Available-for-sale financial assets	5.3	—	80,825
Cash and cash equivalents.....		69,513	56,060
Total current assets.....		70,385	137,887
Total assets.....		173,810	199,203
Equity and Liabilities			
Share capital	5.1	151	818
Share premium		—	339,938
Other components of equity:			
Foreign currency translation reserve		90,254	(42,126)
Fair value adjustment available-for-sale financial assets		—	218
Accumulated deficit		(1,015)	(109,191)
Equity attributable to shareholders of the Parent		89,390	189,657
Total equity		89,390	189,657
Non-current liabilities:			
Deferred tax, net.....	3.3	40	—
Total non-current liabilities.....		40	—
Trade payables and accrued expenses	4.4	8,919	5,921
Income tax payable	3.3	792	201
Intercompany payable	5.3	74,669	—
Intercompany loan.....	5.3	—	3,424
Current liabilities		84,380	9,546
Total liabilities		84,420	9,546
Total equity and liabilities.....		173,810	199,203

See accompanying notes to these financial statements

Statement of Profit or Loss
for the years ended 31 December 2017 and 2016

	Notes	2017	2016
		USD '000	USD '000
Revenue from settlement and license agreement	1.2	1,250,000	—
Other operating income		4,947	133
Cost of the Aditech Pharma AG agreement	1.2, 6.2	(25,000)	—
Research and development costs	2.1, 3.1, 3.2	(20,526)	(27,315)
General and administrative costs	2.1, 3.1, 3.2, 6.1	(19,997)	(13,126)
License termination fee	6.2	(52,645)	—
Operating income (loss)		1,136,779	(40,308)
Exchange rate gain, net		74	814
(Impairment loss) recovery gain of investment in subsidiaries	5.4	(1,256)	29,808
Interest income		257	389
Other finance costs		(2,922)	(87)
Income (loss) before tax		1,132,932	(9,384)
Income tax (expense) benefit	3.3	(252,722)	11,416
Net income for the year		<u>880,210</u>	<u>2,032</u>
Net income for the year attributable to: Equity holders of the Parent		<u>880,210</u>	<u>2,032</u>

See accompanying notes to these financial statements

Statement of Other Comprehensive Income (Loss)

for the years ended 31 December 2017 and 2016

	Notes	2017	2016
		USD '000	USD '000
Net income for the year		880,210	2,032
Other comprehensive income (loss)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Change in fair value of available-for-sale financial assets	5.3	(218)	116
Exchange differences on translation of foreign operations		132,380	(6,411)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods		132,162	(6,295)
Other comprehensive income (loss)		132,162	(6,295)
Total comprehensive income (loss)		1,012,372	(4,263)
Attributable to:			
Equity holders of the Parent		1,012,372	(4,263)

See accompanying notes to these financial statements

Statement of Changes in Shareholders' Equity
for the years ended 31 December 2016 and 2017

	Notes	Share capital USD '000	Share premium USD '000	Foreign currency translation reserve USD '000	Fair value adjustment available-for-sale financial assets USD '000	Accumulated deficit USD '000	Total equity USD '000
At 1 January 2016.....		814	339,828	(35,715)	102	(128,334)	176,695
Net income for the year.....		—	—	—	—	2,032	2,032
Other comprehensive income (loss).....		—	—	(6,411)	116	—	(6,295)
Total comprehensive income (loss).....		—	—	(6,411)	116	2,032	(4,263)
Issuance of deferred shares	4.1	2	—	—	—	—	2
Exercise of warrants ..	4.1	2	110	—	—	—	112
Share-based payment costs	2.2	—	—	—	—	14,288	14,288
Tax benefit from share-based payment costs.....	3.3	—	—	—	—	2,823	2,823
Transactions with owners.....		4	110	—	—	17,111	17,225
At 31 December 2016		818	339,938	(42,126)	218	(109,191)	189,657
At 1 January 2017.....		818	339,938	(42,126)	218	(109,191)	189,657
Net income for the year.....		—	—	—	—	880,210	880,210
Other comprehensive income (loss).....		—	—	132,380	(218)	—	132,162
Total comprehensive income (loss).....		—	—	132,380	(218)	880,210	1,012,372
Shareholder distribution	5.1	(668)	(339,986)	—	—	(753,273)	(1,093,927)
Distribution to equity award holders	3.2	—	—	—	—	(32,208)	(32,208)
Exercise of warrants ..	5.1	1	48	—	—	—	49
Share-based payment costs	3.2	—	—	—	—	7,082	7,082
Tax benefit from share-based payment costs.....	3.3	—	—	—	—	6,365	6,365
Transactions with owners.....		(667)	(339,938)	—	—	(772,034)	(1,112,639)
At 31 December 2017		151	—	90,254	—	(1,015)	89,390

See accompanying notes to these financial statements

Statement of Cash Flows
for the years ended 31 December 2017 and 2016

	Notes	2017 USD '000	2016 USD '000
Operating activities:			
Net income (loss) before tax		1,132,932	(9,384)
<i>Adjustments to reconcile income (loss) before tax to net cash flow:</i>			
Other finance costs including foreign exchange rate gain (loss)		4,217	(1,203)
Profit Distribution settled against the Termination Fee	6.2	46,230	—
Depreciation and amortization		218	—
Share-based payment costs	3.2	10,322	9,665
Impairment loss (recovery gain) of investment in subsidiaries	5.4	1,256	(29,808)
Cash inflow interest		571	1,006
Cash inflow taxes		(255,453)	291
(Increase) decrease in other receivables and prepayments		(109)	702
Increase in trade and other payables		(4,790)	6,227
Net cash flows provided by (used in) operating activities		<u>935,394</u>	<u>(22,504)</u>
Investing activities:			
Investment in subsidiary	5.4	(31,600)	(5,538)
Equipment purchases		(3)	
Proceeds from the maturity of available-for-sale financial assets		85,368	41,201
Net cash flows provided by investing activities		<u>53,765</u>	<u>35,663</u>
Financing activities:			
Shareholder distribution	5.1	(1,093,927)	—
Distribution to equity award holders	3.2	(24,813)	—
Repayment of loan from subsidiary		(938)	—
Shares issued for cash	5.1	49	114
Net cash flows from financing activities		<u>(1,119,629)</u>	<u>114</u>
Net increase in cash and cash equivalents		(130,470)	13,273
Net foreign exchange differences		143,923	(1,620)
Cash and cash equivalents at 1 January		56,060	44,407
Cash and cash equivalents at 31 December		<u>69,513</u>	<u>56,060</u>

See accompanying notes to these financial statements

Notes to Financial Statements

Section 1 Corporate Information

1.1 Organization

Forward Pharma A/S, (the “Company” or the “Parent”), is a limited liability company incorporated and domiciled in Denmark. The registered office is located in Copenhagen, Denmark. The financial statements included herein are those of the Company. The Company’s wholly-owned subsidiaries Forward Pharma FA ApS (“FP FA”), Forward Pharma Operations ApS (“Operations”), Forward Pharma GmbH (“FP GmbH”) and Forward Pharma USA, LLC (“US LLC”), respectively, are reflected in the accompanying Parent company financial statements as an investment carried at cost unless the investment has been impaired. As discussed in more detail below, the Parent restructured its operations whereby the Parent, on 30 June 2017, formed Operations and contributed to Operations certain assets and liabilities, including its investment in in FP FA and FP GmbH and the legal and beneficial rights, title and interest to defined intellectual property.

The Company’s Board of Directors authorized the issuance of the Parent financial statements included herein on 14 May 2018.

As discussed in more detail in Note 1.2, effective as of 1 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. As a result of entering into the License Agreement, the future development and sale by the Company of FP187[®] or another DMF-containing formulation (collectively “DMF Formulation”) is uncertain at this time and will be determined based on the outcome of matters discussed further below. The Company announced on 1 March 2017 plans to complete the remaining research and development efforts of FP187[®] and pursue an organizational realignment to reduce personnel and operating expenses by mid-year 2017. The organizational realignment was substantially completed by 30 September 2017. Under certain conditions, the Company may decide to reinstate the development of FP187[®], or initiate the development of another DMF Formulation.

Under the terms of the License Agreement, the Parent restructured its operations (the “Restructuring”) on 30 June 2017 whereby the Parent transferred to Operations (a newly created wholly owned Danish limited liability company) certain assets and liabilities, including its investments in FP FA and FP GmbH, and the legal and beneficial rights, title and interest to defined intellectual property (the “IP”). Operations immediately thereafter transferred the IP to FWP IP, ApS (“FWP IP”) (a newly created wholly owned Danish limited liability company). The final step in the restructuring was completed on 22 November 2017 when the capital stock of FWP IP ApS was sold 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 “Sale”).

On 2 August 2017, the Company’s shareholders approved a 10 for 1 share split (the “Share Split”). Except if disclosed otherwise, all share and per share information contained in the accompanying financial statements has been adjusted to reflect the Share Split as if it had occurred at the beginning of the earliest period presented. Accordingly, share and per share information previously reported will be different from the information reported herein. Subsequent to the Share Split, the nominal value of an ordinary share of the Parent is Danish Kroner 0.01 (“DKK”).

On 2 August 2017, the Company’s shareholders approved a capital reduction with a corresponding shareholder distribution of EUR 917.7 million (USD 1.1 billion) (the “Capital Reduction”). The funds for the Capital Reduction were distributed to shareholders during September 2017. The Capital Reduction was executed through the annulment of 80% of the ordinary shares outstanding post Share Split. See Note 5.1 for additional information.

1.2 Intellectual Property Proceedings and the Settlement and License Agreement

On 1 February 2017, the License Agreement with Biogen and certain additional parties became effective. The License Agreement provides Biogen with a co-exclusive license in the United States, and an exclusive license outside the United States, to the Company’s IP, effective as of 9 February 2017. Biogen also is required, if certain conditions are met within the time period set forth in the License Agreement, including the termination or expiration of any required

waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, ("HSR Act"), to obtain an exclusive license to the Company's IP in the United States.

In accordance with the License Agreement, Biogen paid the Company a non-refundable fee of USD 1.25 billion ("Non-refundable Fee") in February 2017, and could be obligated to pay the Group royalties in the future subject to the outcome of certain matters discussed below.

On 13 April 2015, an administrative patent judge at the United States Patent Trial and Appeal Board ("PTAB") declared Patent Interference No. 106,023 (the "Interference Proceeding") between the Company's United States Patent Application No. 11/567,871 and United States Patent No. 8,399,514B2 held by a subsidiary of Biogen, Inc. The License Agreement does not resolve the Interference Proceeding between the Company and Biogen or the pending opposition proceeding against the Company's European patent EP 2801355 (the "Opposition Proceeding"). The Company and Biogen intend to permit the PTAB and the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"), as applicable, and 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 proceeding before them. Only if the Group is successful in the Interference Proceeding and/or the Opposition Proceeding, as discussed further below, it will be eligible to receive royalties starting as early as 2021 based on Biogen's net sales of DMF-containing products indicated for treating MS as defined in the License Agreement, provided that other conditions of the License Agreement are satisfied within the time period set forth in the License Agreement. As the result of the Restructuring as discussed above, specifically the Company's transfer of the IP to Forward Pharma Operations ApS, any royalties that become payable to the Group will not be remitted to the Company.

If the Group is successful in the Interference Proceeding (i.e., the Group obtains, as a result of the Interference Proceeding and any appeals therefrom to the Federal Circuit (including *en banc* review), a patent with a claim covering oral treatment of MS with 480 mg per day of DMF), and if Biogen obtains an exclusive license in the United States, the Group may be eligible beginning on 1 January 2021 to collect a 10% royalty (increasing to 20% from 1 January 2029) until the earlier of the expiration or invalidation of the patents defined in the License Agreement, on Biogen's net sales in the United States of DMF-containing products indicated for treating MS that, but for the license granted under the License Agreement, would infringe a Group 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 Company is the absence of generic entry having a particular impact as defined in the License Agreement. If Biogen obtains an exclusive license in the United States, the Group would likely permanently discontinue development of a DMF Formulation.

If the Group is successful in the Interference Proceeding, but certain conditions are not met in the United States, including if restraints are placed on Biogen as a result of the process under the HSR Act, and if Biogen does not obtain an exclusive license, the Group could reinstate the development of a DMF Formulation for sale in the United States under a co-exclusive license with Biogen, under which the Group may assign its co-exclusive license, on one occasion only, to a single third party. Under the co-exclusive license, the Group would be eligible beginning on 1 January 2023 to collect royalties of 1% on Biogen's net sales in the United States of DMF-containing products indicated for treating MS that, but for the license granted under the License Agreement, would infringe a Group 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 having a particular impact as defined in the License Agreement. If the Group is unsuccessful in the Interference Proceeding after any appeals, the Group would not be entitled to future royalties on Biogen's net sales in the United States. Moreover, if Biogen prevails in the Interference Proceeding, after any appeals to the Federal Circuit, the group may be prevented from commercializing FP187® for MS in the United States at a 480 mg per day dose. Were this to occur, the Group would consider reviewing opportunities to develop other DMF-containing formulations and products, including generics, consistent with the terms of the License Agreement. If the Group is unable to commercialize FP187® or any other product for sale in the United States, the Group would be unable to generate any revenue from such a product.

If the Group is successful in the Opposition Proceeding (i.e., the Group 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), it would be eligible beginning on 1 January 2021 to collect a 10% royalty (increasing to 20% from 1 January 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 Group 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 Group 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.

The receipt of the Non-refundable Fee triggered a USD 25 million obligation payable to Aditech Pharma AG in accordance with the addendum to the patent transfer agreement between the Company and Aditech Pharma AG. See Note 6.2.

On 31 March 2017, the PTAB issued a decision in the Interference Proceeding in favor of Biogen. The PTAB ruled that the claims of the Group's United States Patent Application No. 11/567,871 are not patentable due to a lack of adequate written description. On 30 May 2017, the Group filed a notice of appeal of the PTAB's decision that ended the Interference Proceeding. The appeal was filed in the Federal Circuit and seeks to have the decision overturned and the Interference Proceeding reinstated. On 21 December 2017, the Group filed the final appeal brief, and the appeal will be heard at an oral hearing on 4 June 2018. The appeal is expected to be decided in the second half of 2018.

On 29 January 2018, the Opposition Division of the EPO concluded the oral proceeding concerning patent EP 2801355 and issued an initial decision in the Opposition Proceeding. The Opposition Division revoked patent EP 2801355 after considering third-party oppositions from several opponents. On 22 March 2018, the Opposition Division issued its written decision with detailed reasons for the decision, and on 7 May 2018, the Company appealed the Opposition Division's decision to the Technical Board of Appeal, with an expected duration of the appeal process of an additional two to three years. The Company has until 2 August 2018 to submit detailed grounds of appeal. If the Group prevails in such appeal, we expect the Technical Board of Appeal to remand the case to the Opposition Division, in order for the Opposition Division to resolve the remaining elements of the original opposition.

1.3 Public listing of American Depositary Shares representing Ordinary Shares

During the fourth quarter of 2014, the Company completed the initial public offering ("IPO") of American Depositary Shares ("ADS") representing ordinary shares of the Company with a nominal value of DKK 0.10 each in the United States and issued 11.2 million ADSs at a price per ADS of USD 21.00 to investors. The IPO proceeds totaled USD 235.2 million before deducting the underwriters' commission (7% of gross proceeds) and other direct and incremental costs associated with the IPO. Subsequent to the Share Split and the Capital Reduction, each ADS represents two ordinary shares with a nominal value of DKK 0.01. Holders of ADSs are not entitled to vote at our general meetings while holders of ordinary shares are entitled to one vote per share.

Section 2 Basis of Presentation

2.1 Accounting policies

Basis of preparation

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in the European Union and include disclosures required for Danish Class B entities. These parent financial statements are those of the Company only and therefore the Company's wholly-owned subsidiaries are reflected herein as investments. As the result of the Company's size, it is exempt from preparing consolidated financial statements under Danish accounting legislation.

The financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets that have been measured at fair value through other comprehensive income. The financial statements are presented in U.S. Dollars ("USD") and all values are rounded to the nearest thousand (USD'000), except when otherwise indicated.

Foreign Currencies

The Company's financial statements are presented in USD which is not the functional currency of the Company. The Company has elected USD as the presentation currency due to the fact that the Company has listed ADSs on the Nasdaq Global Select Exchange, or NASDAQ, in the United States, under the ticker symbol "FWP."

Except for the specific income and expense transactions noted below, the translation to the presentation currency for entities with a functional currency different from the USD, their assets and liabilities are translated to USD using the closing rate as of the date of the statements of financial position while income and expense items for each statement presenting profit or loss and other comprehensive income are translated into USD at the average exchange rates for

the period. Exchange differences arising from such translation are recognized directly in other comprehensive loss and presented in a separate reserve in equity.

As a result of the magnitude of the following transactions combined with the weakening of the USD compared to the DKK during the year ended 31 December 2017, the Parent used the spot rate to translate the Non-refundable Fee, the amounts due per the Amendment (as defined in Note 3.2), and amount due Aditech Pharma AG to the presentation currency (USD.) The spot rate was used to avoid the distortion of operating results that would have been caused had the average exchange rate been used. In addition, for the same reason, the average exchange rate for the three-month period ended 31 March 2017 was used to translate the income tax provision to the presentation currency (USD.)

The Company's functional currency is the DKK. Transactions in foreign currencies are initially recorded by the Company in DKK using the spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at each reporting date. Differences arising on settlement or translation of monetary items denominated in foreign currency are recognized in the statement of profit or loss within "Exchange rate gain (loss), net," which includes gross exchange (gains) losses in the amount of (USD 9.0 million) and USD 1.6 million for each of the years ended 31 December 2017 and 2016 respectively.

Share-based Compensation

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 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 Company has never granted cash settled awards. Generally, equity awards have a term of six years with none exceeding ten years from the date of grant. Equity awards generally vest over a three to five-year service period and certain equity awards vest contingently on the occurrence of defined events.

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. In the event that equity instruments are granted conditionally upon an equal number of equity instruments granted in prior periods not being exercised, they are treated as a new grant for the current period and a modification of the equity instruments granted in the prior period. For equity instruments that are modified or replaced, the incremental value, if any, that results from the modification or replacement is recognized as an expense over the period in which performance and/or service conditions are fulfilled or immediately if there are no performance and/or service conditions to be fulfilled.

The fair value of equity-settled awards is reported as compensation expense pro rata over the service period to the extent such awards are estimated to vest. No cost is recognized for awards that do not ultimately vest.

As discussed in more detail in Note 3.2, in order to mitigate the dilution to warrant, deferred share or share option holders' awards caused by the Capital Reduction, the Parent's shareholders and board of directors approved adjustments to the terms and conditions governing certain warrants, deferred shares and share options. The adjustments resulted in a combination of cash payments to the holders of the equity awards, reductions in the exercise prices of equity awards and a decrease in the total number of ordinary shares that may be subscribed for or purchased pursuant to outstanding equity awards.

The cost of share-based compensation for employees and consultants of FP GmbH and US LLC are recognized as an increase in the carrying value of the Company's investment in subsidiary with a corresponding increase in equity.

Employee benefits

Employee benefits are primarily made up of salaries and share-based payments. These costs are recognized as expenses as services are delivered. Average number of employees of the Company for each of the years ended 31 December 2017 and 2016 were 4 and 5 respectively.

Classification of Operating Expenses in the Statement of Profit or Loss*Research and development costs*

Research and development costs primarily comprise salary and related expenses, including share-based payment expense, license, patent and other intellectual property-related costs incurred in connection with patent claims and other intellectual property rights conducted at the patent registry offices (for example the United States Patent and Trademark Office ("USPTO"), the EPO or other country-specific patent registry offices), manufacturing costs of pre-commercial product used in research, clinical costs, and depreciation of equipment, to the extent that such costs are related to the Company's research and development activities.

If expenses incurred are associated with the Company's intellectual property-related activities carried out in the courts to protect, defend and enforce granted patent rights against third parties (excluding activities and proceeding conducted within the USPTO, EPO or other country-specific patent registry offices) ("Court Expenses") they are classified within general and administrative expenses. Court Expenses incurred for the years ended 31 December 2017 and 2016 totaled USD 427,000 and USD 315,000 respectively.

Capitalized patent and development costs

The Company's research and development activities have concentrated on the development of unique formulations of DMF for the treatment of immune disorders and include all patent office-related activities regarding the Company's patent estate development (e.g., interference proceeding, oppositions and new patent development). For all periods presented herein, the Company did not capitalize patent costs or FPI87® development costs and consequently expensed such costs as incurred given the inherent uncertainty in drug development and commercialization.

General and administrative costs

General and administrative costs relate to the administration of the Company and comprise salaries and related expenses, including share-based payment expense, investor relations, legal and accounting fees, other costs associated with our public listing of ADSs in the United States and depreciation of equipment, to the extent such expenses are related to the Company's administrative functions as well as Court Expenses. For the year ended 31 December 2017, general and administrative costs include the Company's expenses associated with the Restructuring.

Income Taxes*Current income tax*

Tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities within one year from the date of the statement of financial position. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation or "uncertainty" and establishes provisions where appropriate. To date, there have been no provisions established for uncertain tax positions.

Deferred tax

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. Based on the re-assessment performed at 31 December 2016, the Company recognized certain previously unrecognized deferred tax assets to the extent recovery was probable. In reaching this conclusion, Management considered the probability of future taxable profits considering the Licensing Agreement. See Note 1.2.

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

During the period from 19 January 2013 to 31 December 2015, the Company was part of a Danish joint taxation group with Tech Growth Invest ApS and entities under Tech Growth Invest ApS's control (collectively "Tech Growth"). Under the joint taxation, the Company received a refund equal to the tax benefit realized by Tech Growth from Tech Growth's partial utilization of the Company's tax losses at the applicable corporate tax rate to the extent that the tax losses reduced the taxable income of Tech Growth. An entity that was part of Tech Growth experienced a change in ownership on 31 December 2015. As a result of the change in ownership, the year ended 31 December 2015 was the final year in which the Company received a refund equal to the tax benefit realized by Tech Growth from Tech Growth's partial utilization of the Company's tax losses. On 1 January 2016, the Company became part of a new Danish joint taxation group ("2016 Tax Group") with NB FP Investment General Partner ApS and FP FA. For the year ended 31 December 2017, Operations became member of the 2016 Tax Group on 20 June 2017 (inception) and FWP IP became a member of the 2016 Tax Group on 30 June 2017 (inception) through the date of the Sale (22 November 2017.)

Equipment

Equipment, which historically includes computers, office equipment, furniture and manufacturing equipment, is stated at cost, net of accumulated depreciation. Manufacturing equipment that is owned by the Company and placed in service for the use of Company vendors who provide contract manufacturing services to the Company. Except as discussed in Note 4.3, there have been no impairment losses recognized by the Company since the inception of the Company.

Depreciation is calculated on a straight-line basis over the expected useful lives of the underlying assets of two to eight years. The residual values of equipment are not material.

The useful life of and method of depreciation of equipment are reviewed by management at least each year end or more often based on changes in facts or circumstances that may result and are adjusted prospectively as changes in accounting estimates. For all periods presented herein, the effect of changes in accounting estimates for equipment were immaterial.

Investment in subsidiaries

Investments in subsidiaries are carried at cost less impairment. Impairment testing is performed if there is an indication that the Company's investment in a subsidiary is not recoverable such as situations where the subsidiary is experiencing recurring losses and profitability is not anticipated or the Company's investment exceeds the net book value of assets in the subsidiary. If an investment in subsidiary is deemed to be impaired, the carrying value of the investment in subsidiary is written down to the estimated recoverable amount. For investments that have been impaired, Management will reassess recoverability at each subsequent period end and reverse prior impairment loss to the extent that the estimated recoverable amount exceeds the carrying amount, but only to the extent that the recoverable amount does not exceed the original cost. See Note 5.4.

Financial Assets

Initial recognition and measurement

Financial assets that meet certain criteria are classified at initial recognition as either financial assets at fair value through profit or loss, available-for-sale financial assets, held to maturity investments or receivables. The Company's financial assets include cash, cash equivalents, other receivables and available-for-sale financial assets. The Company

does not hold assets that have been classified at fair value through profit or loss or held to maturity. Generally, the Company's financial assets are available to support current operations; however, amounts expected to be realized within twelve months are classified within the statement of financial position as current assets. Certain available-for-sale financial assets have historically been classified within the statement of financial position as non-current assets as management had no intention or business reason to dispose of these financial assets before their maturities which were in excess of twelve months. The Company has no derivative financial assets nor has there been a change in classification of a financial asset after initial recognition and measurements as discussed herein. Financial assets are not acquired for trading or speculative purposes and available-for-sale financial assets are expected to be held until maturity.

The Company's financial assets are recognized initially at fair value plus, in the case of financial assets not carried at fair value through profit and loss, transaction costs that are attributable to the acquisition of the financial asset, if any.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification. After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method. Historically, the Company's receivables are due within a short period of time and therefore the impact of using the effective interest rate method on the Company's financial statements has been immaterial. This category also applies to cash and cash equivalents that comprise cash at banks available on demand.

Available-for-sale financial assets include government issued debt instruments. After initial recognition, they are carried at fair value with changes in fair value from period to period recognized in other comprehensive income. Interest earned from available-for-sale financial assets is reported as interest income using the effective interest rate method with foreign exchange gains or losses recognized in the statement of profit and loss within foreign exchange rate gain (loss).

Financial asset impairment

The Company assesses at the end of each reporting period whether there has been objective evidence that a financial asset or group of financial assets may be impaired. Impairment losses are incurred if there is objective evidence of impairment and the evidence indicates that estimated future cash flows will be negatively impacted. For financial assets held at amortized costs, the amount of loss to be recognized in the financial statements is measured as the difference between the carrying value of the financial asset and the present value of the expected cash flows of the financial asset using the original effective interest rate. For each of the years ended 31 December 2017 and 2016, the Company did not experience an impairment of a financial asset.

Financial Liabilities

The Company's financial liabilities include trade payables related to the Company's purchase of products and services from various vendors in the normal course of business. The Company's trade payables include payment terms that generally do not exceed 30 days. Trade payables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method in the event a vendor has provided extended payment terms to the Company. Historically none of the Company's vendors have provided extended payment terms and therefore the application of the effective interest method did not impact the Company's financial statements.

Other Receivables

Other receivables include value added tax ("VAT") receivables and accrued interest income on available-for-sale financial assets. Other receivables that are not financial assets are recognized and measured at cost less impairment losses, if any. There have been no impairment losses in the financial periods presented. For more information on other receivables see Note 4.2.

Intercompany Receivables and Loans

Intercompany receivables are measured at cost less any impairment losses. Intercompany loans are measured at cost.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks available on demand.

Statement of Cash Flow

The statement of cash flows is presented using the indirect method. The statement of cash flows shows cash flows used in operating activities, cash flows used in investing activities, cash flows from financing activities, and the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows used in operating activities primarily comprise the operating results, before tax, for the year adjusted for non-cash items, such as share-based compensation, foreign exchange gains and losses, depreciation, changes in working capital and cash flows for interest and taxes.

Cash flows from investing activities are comprised primarily of payments relating to equipment purchases and the maturity of available-for-sale financial assets.

Cash flows from financing activities are comprised of cash flows related to the repurchase of equity awards, share issuances and the Capital Reduction see Notes 3.2 and 5.1.

Other Operating Income

Other operating income consists of management fees from subsidiaries. Management fees are recognized on an accrual basis.

2.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, as well as the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments made in applying accounting policies

In the process of applying the Company's accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements:

Income tax including recognition of deferred tax assets	Note 3.3
Revenue recognition of the Non-refundable Fee	Note 2.3
Investment in subsidiary	Note 5.4

There is a significant risk that the judgments used by management to prepare the accompanying financial statements could differ from actual results causing a material adjustment to the carrying amounts of assets and liabilities in future years. The Company based its judgments on information available when the financial statements were prepared.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are listed below. The Company based its assumptions and estimates on information available when the financial statements were prepared.

Management has determined that the following items are subject to a high degree of estimation uncertainty and are significant to the financial statements:

Valuation of share-based payment	Note 3.2
Investment in subsidiary	Note 5.4

2.3 New and Amendments to Accounting Standards

Adoption of IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 addresses the accounting and disclosure requirements for revenue contracts with customers. The mandatory effective date for adopting IFRS 15 is 1 January 2018; however, the Company elected to adopt IFRS 15 early on 1 January 2017. In accordance with IFRS 15, the Company recognizes revenue to reflect the transfer of goods or services to customers in an amount that reflects the consideration to which the Company expects to receive in exchange for such goods or services.

Prior to entering to the License Agreement, the Company did not have revenue from contracts with customers that were within the scope of IFRS 15 and therefore the initial adoption of IFRS 15 had no effect on previously reported financial statements nor was an adjustment made to the Company's accumulated deficit at 1 January 2017.

The only contract that the Company is party to that is within the scope of IFRS 15 is the License Agreement. In concluding when the Non-refundable Fee should be recognized as revenue, various judgments were made, including the identification of the Company's performance obligations within the License Agreement and whether these performance obligations are distinct. Management concluded that the performance obligations in the License Agreement were related to the right granted to Biogen to use the licensed IP both in the United States as well as in the rest of the world and concluded that these performance obligations were met at the time the License Agreement was consummated, as Biogen was granted full use of the licensed IP whether under a co-exclusive license or an exclusive license. The License Agreement requires the Company or Operations (i) to fund the cost to file, prosecute and maintain the Company's United States patents and European patent EP-2801355, (ii) to participate in an intellectual property advisory committee and (iii) to provide the annual funding of DKK 100,000 to FWP IP (collectively "Defense Costs" or "Defend the IP"). The obligation to fund the Defense Costs is defined in the License Agreement and could include the period from the effective date of the License Agreement through the last to expire, or invalidation of, the licensed patents; however, the obligation to fund Defense Costs would be discontinued earlier if certain events, as defined in the License Agreement, occur. Management concluded that the obligation to Defend the IP does not represent a separate performance obligation as such activities are deemed to be costs to protect the value of the license granted to Biogen. Since Biogen has full unrestricted use of the Company's IP at the time the License Agreement was consummated and since the Company and Operations currently have no plans to nor are they obligated to further develop the underlying licensed IP, the License Agreement is deemed to provide Biogen with a right to use the Company's IP upon the consummation of the License Agreement. Based on the facts and circumstance discussed herein, the Non-refundable Fee was recognized as revenue when the performance obligations were satisfied.

The License Agreement provides for Biogen to remit to the Group royalties (as defined in Note 1.2) only if the Group is successful in the Interference Proceeding and/or the Opposition Proceeding, including all appeals, and provided that other conditions of the License Agreement are satisfied. Should the Group be entitled to receive royalties from Biogen in the future, such amounts will be recognized as revenue in the period the underlying sales occur.

Standards effective in 2017:

The IASB issued new standards, amendments to standards and interpretations that are effective in 2017 (collectively "2017 New Standards"). None of the 2017 New Standards effected the Company's financial statements.

Standards issued but not yet effective:

The IASB issued new standards, amendments to standards and interpretations that become effective on or after 1 January 2018 (collectively "New Standards"). None of the New Standards are currently expected to have a material effect on the Company's financial statements; including, as discussed below, the future adoption of IFRS 16 *Leases* ("IFRS 16"). At 31 December 2017 the Company did not hold any financial instruments that would be affected by IFRS 9 *Financial Instruments*. Management's current expectation is that New Standards will be adopted by the Company when mandated.

IFRS 16: This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is

required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 has an effective date of 1 January 2019. The impact on the Company's financial statements from the future adoption of IFRS 16 will be determined based on facts and circumstances that exist at the time of adoption; however, as of 31 December 2017, the Company only has leases with terms of less than twelve months or of low value assets and therefore had the adoption of IFRS 16 occurred at 31 December 2017 the effect on the Company's financial statements would be immaterial.

Section 3 Results for the Year

3.1 Staff Costs

The Company's staff costs, that are expensed as incurred, for each of the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
	USD '000	USD '000
Wages and salaries.....	1,214	981
Social taxes and benefits.....	62	107
Share-based payment (Note 3.2).....	10,322	9,665
Total.....	11,598	10,753

Staff costs are included in the statement of profit or loss as follows:

	2017	2016
	USD '000	USD '000
Research and development costs	5,213	7,121
General and administrative costs	6,385	3,632
Total.....	11,598	10,753

The amounts disclosed in the table below are the amounts recognized as an expense during the reporting periods related to senior management personnel. Senior management consisted of the Company's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. As discussed in more detail in Note 3.2, during the year ended 31 December 2017, certain amounts were paid to warrant and option holders, including senior management, that were deemed to be a partial repurchase of equity awards and accounted for as a reduction to shareholders' equity. The table below excludes USD 7.2 million that was paid to senior management that was deemed to be a partial repurchase of equity awards. See Note 6.1 for compensation paid to the members of the board of directors. The Company's Chief Financial Officer was compensated by the US LLC. Although the Chief Financial Officer was not directly compensated by the Company, and therefore excluded from the above table, the table below includes the compensation paid to the Chief Financial Officer.

	2017	2016
	USD '000	USD '000
Compensation to the Company's senior management		
Short-term employee benefits.....	622	670
Severance benefits	117	—
Share-based compensation (*) (Note 3.2).....	223	3,290
Total compensation paid to senior management personnel	962	3,960

(*) The amount disclosed for the year ended 31 December 2017 includes the effect of the reversal of previously recognized share-based compensation of USD 5.3 million in connection with the termination of certain members of senior management.

3.2 Share-based Compensation

Unless otherwise stated, all amounts disclosed in this Note, including the quoted share prices, have been revised to reflect the Share Split as if it had occurred at the beginning of the earliest period presented. In addition, per share amounts in DKK have been updated as the result of changes in exchange rates. Accordingly, the information reported herein may differ from the amounts previously reported.

The Company has entered into various share-based payment arrangements through the granting of equity awards in the form of warrants, options or deferred shares (collectively “equity awards”) to employees, consultants (who provide services similar to employees), non-employee consultants and members of the board of directors. Equity awards have been granted under either the Company’s 2014 Omnibus Equity Incentive Compensation Plan (the “Equity Plan”) or outside the Equity Plan. Outstanding warrants and options have exercise prices stated in DKK or USD. Options and warrants that have exercise prices in DKK have been translated to USD.

Prior to the Share Split, each ADS represented one ordinary share. At the time of the Share Split and after the subsequent Capital Reduction, each ADS represented ten ordinary shares and two ordinary shares respectively. The per share amounts disclosed herein are based on one ordinary share.

The terms of the Equity Plan provide for the board of directors, or a committee appointed by the board of directors, to grant equity awards (as defined below) to employees, consultants and directors of the Company or its subsidiaries. Subsequent to the Share Split and the Capital Reduction, the Equity Plan currently provides for the granting of an aggregate of 10.1 million ordinary shares. Awards can be in the form of ordinary shares, deferred shares, restricted shares or share options with terms and vesting conditions determined by the board of directors. The Equity Plan contains antidilution provisions in the event of a stock split or certain other corporate transactions. As of 31 December 2017, 3.1 million shares were available for future grant under the Equity Plan. In addition, at 31 December 2017, under Danish Corporate Law, the board of directors has available for the future grant 2.1 million warrants and 17 million deferred shares (inclusive of the shares available for future grant under the Equity Plan).

During March 2017, the Company granted 60,000 options (600,000 after the Share Split) to the Company’s Chief Executive Officer with an exercise price of USD 27.49 (USD 2.75 after the Share Split.) Vesting is monthly over 48 months commencing on 1 March 2017; however, each award contains a provision whereby the Chief Executive Officer cannot exercise prior to a defined date. Vesting and exercise periods are accelerated in the event there is a change in control, as defined in the option award agreement. Stock options expire six years from the date of grant. At the date of grant, the aggregate fair value of options granted in March 2017 totaled USD 913,000.

During June 2017, the Company granted 825,000 options (8.3 million after the Share Split) (the “June 2017 Options”), including 300,000 (3 million after the Share Split) that were granted to the Company’s Chief Executive Officer and 75,000 (750,000 after the Share Split) that were granted to members of the Company’s Board of Directors, that have an exercise price of USD 20.35 (USD 2.04 after the Share Split.) Vesting is monthly over 36 months commencing on 1 June 2017; however, each award contains a provision whereby the option holder cannot exercise prior to a defined date. Vesting and/or exercise periods are accelerated under certain defined situations, including a change in control. The terms of the June 2017 Options include antidilution protection to the holders in the event there is a distribution to the shareholders as defined in the underlying award agreements. As a result of the Capital Reduction and the antidilution protection, the exercise price of the June 2017 Options has been decreased to the nominal value of an ordinary share, the number of shares that may be subscribed for pursuant to the June 2017 Options has been reduced by 80% (6.6 million options after the Share Split) (referred to as the “June 2017 Award Adjustment”) and the holders could be due a total cash payment of EUR 1.9 million (USD 2.2 million based on the 31 December 2017 exchange rate) if all of the June 2017 Options vest. For the year ended 31 December 2017, EUR 361,000 (USD 430,000 based on the 31 December 2017 exchange rate) were paid to the holders of the June 2017 Options in connection with June 2017 Options that vested during the period and the balance, if vesting occurs, is payable semi-annually on a pro rata basis over the remaining vesting period that ends on 31 May 2020. Since the June 2017 Option award agreements contain antidilution terms, payments made to the holders as the result of such terms were treated as a reduction to shareholder equity. The June 2017 Options expire six years from the date of grant. At the date of grant, the aggregate fair value of options granted in June 2017 Options totaled USD 8.9 million.

During June 2017, the Company granted 90,000 deferred shares (900,000 after the Share Split) (the “June 2017 Deferred Shares”), including 45,000 (450,000 after the Share Split) granted to the Company’s Chief Executive Officer. 50,000 of the June 2017 Deferred Shares (500,000 after the Share Split), including 25,000 (250,000 after the Share Split) held by the Company’s Chief Executive Officer, vest in the event there is a favourable conclusion of the Interference Proceeding, as defined in the award agreement, and the balance vest in the event there is a favourable conclusion of the Opposition Proceeding as defined in the award agreement. The award agreements also provide for unvested deferred shares to vest immediately in the event there is a change in control as defined in the award agreement. Deferred shares expire five years from the date of grant. At the date of grant, the aggregate fair value of the deferred shares totaled USD 1.8 million. The fair value of the June 2017 Deferred Shares will be recognized as an expense within the statement of profit and loss statement only if such shares vest. In addition, the award agreements underlying the June 2017 Deferred Shares contain provisions similar to the antidilution provisions included in the June 2017 Options. Accordingly, the number of shares that may be subscribed for pursuant to the June 2017 Deferred Shares has been reduced by 80% (720,000 deferred shares after the Share Split) (referred to as the “Deferred Share Adjustment”) and if the June 2017 Deferred Shares vest the Company will be obligated to remit EUR 1.7 million (USD 2.1 million based on the 31 December 2017 exchange rate) to the holders of the June 2017 Deferred Shares.

During the year ended 31 December 2017, a number of employees, including the Company’s former Chief Executive and Operating Officer, Chief Financial Officer, and two board members terminated roles with the Company (collectively “Former Employees”). At the time of termination, unvested equity awards held by the Former Employees were forfeited resulting in the reversal of previously recognized share-based compensation of USD 7.6 million. The equity awards forfeited included 284,000 deferred shares (2.8 million after the Share Split) and 564,000 options or warrants (5.6 million after the Share Split.) The Company’s board of directors allowed (“Allowance”) the Former Employees to continue to hold 1.1 million vested options or warrants (11.1 million after the Share Split) that would have otherwise been forfeited shortly after each Former Employee’s termination date if not exercised. As the result of the Allowance, the Company, during the year ended 31 December 2017, recognized share-based compensation of USD 2.7 million.

In November 2017, the shareholders of the Company approved an amendment to the Company’s articles of association. The amendment modified the terms of certain outstanding options and warrants granted by the Company before June 2017 to mitigate the dilution to such awards caused by the Capital Reduction. In November 2017, a similar amendment was approved by the board of directors of the Company in respect of certain deferred share awards granted by the Company before June 2017 (the amended options, warrants and deferred shares are collectively referred to as the “Awards” and the amendments of the Awards are collectively referred to as the “Amendment”). For financial reporting purposes, the Amendment was accounted for as a modification whereby any increase in the fair value of an Award resulting from the Amendment is deemed to be additional compensation to the Award holder and accounted for as discussed below. The Amendment was designed to apply a set of principles (the “Principles”) consistently across all Awards; however, since the Awards effected by the Amendment had a wide range of different terms, the Amendment’s effect on individual Awards varied resulting in certain Awards increasing in fair value while others decreased in fair value. The Principles employed were modelled off the Capital Reduction including, but not limited to, the per share cash distributed to shareholders and the 80% annulment of shares (see Note 5.1.) The overall effect of the Amendment provided for cash payments to Award holders of EUR 36.2 million (USD 43.4 million based on the December 31, 2017 exchange rate) and a reduction in the number of outstanding Awards of 28.8 million. In situations where the Amendment favorably affected the fair value of an Award, such effect was deemed to be additional compensation to the Award holder that will be expensed over the remaining vesting period for unvested Awards and expensed immediately in connection with vested Awards. In situations where the fair value of an Award was negatively affected by the Amendment, no expense will be recognized. Cash payments made to Award holders were deemed to be a partial repurchase of the Award and accounted for as a reduction to shareholder equity except in situations where the cash payment to an Award holder increased the fair value of an Award. In situations where the cash payment to an Award holder increased the fair value of an Award, such increase was deemed to be additional compensation and expensed, as discussed above, based on the Award’s vesting status. As a result of the Amendment, the Company recognized compensation of USD 11.7 million and a reduction to shareholder equity of USD 32.2 million. Subsequent to the Amendment, the exercise prices of options and warrants range from 0.01 DKK (or USD 0.0016) to USD 14.13 per share and the holders of deferred shares need to remit 0.01 DKK (or USD 0.0016) per share upon the issuance.

During March 2017, 40,000 warrants (401,000 after the Share Split) were exercised yielding proceeds to the Company of USD 49,000. The quoted fair value of an ordinary share of the Company on the date of exercise was USD 27.95 (USD 2.80 after the Share Split.)

During the year ended 31 December 2016, 664,000 stock options (6.6 million after the Share Split) were granted, including 178,000 (1.8 million after the Share Split) that were granted to members of the Company's Board of Directors. The option exercise prices per share range from USD 12.75 to USD 21.95 (USD 1.28 to USD 2.20 after the Share Split.) Vesting terms are pro rata over either a three or four-year term, however, each award contains a provision whereby the option holder cannot exercise prior to a defined date. Vesting and exercise periods are accelerated in the event there is a change in control, as defined in the option award agreements. Stock options expire six years from the date of grant. At the date of grant, the aggregate fair value of options granted in 2016 totaled USD 8.2 million.

In June 2016, 89,000 warrants (891,000 after the Share Split) ("June 2016 Warrants") were granted to a consultant. The June 2016 Warrants replaced an equal number of expiring warrants ("Expiring Warrants"). The exercise price of the June 2016 Warrants is the same as the Expiring Warrants, or USD 0.56 (USD 0.06 after the Share Split.) The June 2016 Warrants were fully vested upon grant and expire on 1 July 2018. For financial reporting purposes, the June 2016 Warrants were accounted for as a modification of the Expiring Warrants to extend the expiration date. The financial statement impact of the modification of the June 2016 Warrants was not material.

During May 2016, 130,000 warrants (1.3 million after the Share Split) were exercised yielding proceeds to the Company of USD 112,000. The quoted fair value of an ordinary share of the Company on the date of exercise was USD 18.60 (USD 1.86 after the Share Split.)

During October 2016, the Company entered into a four-year consulting agreement with a member of the board of directors. The consulting agreement provides for the granting of 12,500 deferred shares (125,000 after the Share Split) shares as full compensation for services to be rendered. The deferred shares vest in equal increments annually over four years. Unvested deferred shares vest immediately in the event there is a change in control as defined in the award agreement. At the date of grant, the aggregate fair value of the deferred shares totaled USD 275,000.

During the year ended 31 December 2015 a total of 500,000 stock options (5 million after the Share Split) were granted to non-employee consultants of the Company ("Non-Employee Consultant Options"). 250,000 Non-Employee Consultant Options (2.5 million after the Share Split) have an exercise price of USD 28.26 (USD 2.83 after the Share Split) and the balance have an exercise price of USD 141.30 (USD 14.13 after the Share Split.) The Non-Employee Consultant Options expire on 15 May 2020 and vesting is over five years; however, the Non-Employee Consultant Options can only be exercised during the period from 2 April 2020 to 15 May 2020. Vesting and exercise are accelerated in the event there is a change in control as defined in the option award agreements. The Company's board of directors holds a unilateral right to terminate the Non-Employee Consultant Options for any reason at any time prior to vesting. The fair value of the Non-Employee Consultant Options is measured using the Black Scholes model with inputs not materially different from those discussed below. The fair value of the Non-Employee Consultant Options is determined as services are rendered. As of 31 December 2017 (after the Share Split), 2 million of the Non-Employee Consultant Options have vested including 1 million with an exercise price of USD 2.83 (after the Share Split.) The fair value of the Non-Employee Consultant Options was computed using the Black Scholes method and not based on the value of the services received. In reaching the decision to use the value of the Non-Employee Consultant Options and not the value of the services, management considered the variability in the nature, timing and extent of services to be provided by the non-employee consultants that will be significantly affected by actions taken by parties who are not under the control of the Company. Accordingly, the value and timing of the services to be received over the service period cannot be estimated reliably and therefore the value of the Non-Employee Consultant Options was deemed to be a more accurate measure of the consideration paid to the non-employee consultants for services rendered. The weighted average fair value per Non-Employee Consultant Option applied for recognition of an expense during each of the years ended 31 December 2017 and 2016 was USD 0.63 and USD 0.60 (after the Share Split) respectively. The total expense recognized during each of the years ended 31 December 2017 and 2016 was USD 615,000 and USD 892,000 respectively.

The table below summarizes the activity for each of the years ended 31 December 2017 and 2016 for equity awards in the form of options and warrants and the weighted average exercise price ("WAEP"):

	Share Options and Warrants Adjusted for the Share Split				
	Key Management Personnel (*)	Employees and Consultants	Non-Employee Consultants	Total Awards	WAEP
	No. '000	No. '000	No. '000	No. '000	USD
Outstanding at 1 January 2016.....	14,731	22,818	4,996	42,545	2.04
Granted.....	1,783	5,743	—	7,526	1.50
Expiring Warrants.....	(891)	—	—	(891)	0.08
Exercised.....	—	(1,300)	—	(1,300)	0.09
Expired and forfeited	—	(985)	—	(985)	0.35
Outstanding at 31 December 2016.....	15,623	26,276	4,996	46,895	2.08
Granted.....	4,350	4,500	—	8,850	2.08
Exercised.....	—	(401)	—	(401)	0.12
Forfeited.....	(2,976)	(2,773)	—	(5,749)	1.86
Effect of the Amendment and the June 2017 Award Adjustment	(12,801)	(22,603)	—	(35,404)	1.33
Outstanding at 31 December 2017	4,196	4,999	4,996	14,191	3.45
Exercisable at 31 December 2017	2,922	3,937	1,998	8,857	

(*) Includes current and former senior management and current and former members of the board of directors.

The weighted average remaining contractual life of equity awards in the form of options and warrants outstanding as of 31 December 2017 and 2016 was 3.2 years and 4.3 years respectively.

The table below summarizes the range of exercise prices, after converting, where applicable, exercise prices that are stated in DKK to USD, for outstanding equity awards in the form of options and warrants as of 31 December 2017 and 2016:

Range of exercise prices (per share)	2017	2016
	No. '000	No. '000
USD 0.0016 to USD 0.12	7,625	17,878
USD 0.75 to USD 0.95	—	2,139
USD 1.26 to USD 1.80	179	4,635
USD 2.09 to USD 2.83	2,618	13,037
USD 3.05 to USD 3.77	674	6,708
USD 4.51 to USD 6.92	597	—
USD 14.13	2,498	2,498
Total.....	14,191	46,895

The tables below summarize the inputs to the model used to value equity awards, including modifications of equity awards, as well as the average fair value per option or warrant awarded or modified for each of the years ended 31 December 2017 and 2016:

Year ended 31 December 2017

Dividend yield (%).....	0
Expected volatility (%)	64 – 79
Risk-free interest rate (%)	(0.7) to 2.1
Expected life of the equity award (years).....	0.5 to 7
Share price	2.04 USD to 2.74 USD
Exercise price.....	0.0016 USD to 6.92 USD
Model used.....	Black Scholes
Basis for determination of share price.....	Quote on Nasdaq
Average fair value per option or warrant granted	10.90 USD

Year ended 31 December 2016

Dividend yield (%).....	0
Expected volatility (%)	73 – 79
Risk-free interest rate (%).....	(1.2) to 1.8
Expected life of the equity award (years).....	4.0 to 5.0
Share price	1.64 USD to 2.20 USD
Exercise price.....	0.06 USD to 2.20 USD
Model used.....	Black Scholes
Basis for determination of share price.....	Quote on Nasdaq
Average fair value per option or warrant granted	1.18 USD

The table below summarizes the deferred share activity for each of the years ended 31 December 2017 and 2016:

	Deferred Shares Adjusted for the Share Split		
	Key Management Personnel (*)	Employees and Consultants	Total Awards
	No. '000	No. '000	No. '000
Outstanding at 1 January 2016 (a).....	4,264	550	4,814
Granted	125	—	125
Transfer (b)	250	(250)	—
Vested and issued (a)	(1,422)	—	(1,422)
Outstanding at 31 December 2016	3,217	300	3,517
Granted.....	450	450	900
Forfeited (a)	(2,842)	—	(2,842)
Effect of the Amendment and the Deferred Share Adjustment ...	(419)	(456)	(875)
Outstanding at 31 December 2017 (c).....	406	294	700
Vested and unissued at 31 December 2017.....	127	107	234

(*) Includes current and former senior management and current and former members of the board of directors.

(a) During 2014, 5.7 million deferred shares were granted to the Company's Chief Financial Officer ("CFO"). The deferred shares vested annual over four years including 1.4 million in each of 2015 and 2016. The CFO was terminated during 2017 and 2.8 million unvested deferred shares were forfeited.

(b) A consultant who was granted deferred shares in 2015 was a member of the Company's board of directors from 6 May 2016 to 3 May 2017.

(c) At 31 December 2017, each deferred share has an exercise price of DKK 0.01 or USD 0.0016 based on the 31 December 2017 exchange rate.

Share-based compensation for each of the years ended 31 December 2017 and 2016 is included in the following accounts:

	31 December 31	
	2017	2016
	USD '000	USD '000
Research and development costs.....	4,593	6,392
General and administrative costs	5,729	3,273
Investment in subsidiaries.....	(3,240)	4,623
Total.....	7,082	14,288

Significant estimation uncertainty regarding share based payments

Determining the fair value, whether at grant date, modification date or the date of the Amendment, and the subsequent accounting for equity awards requires significant judgment regarding expected life and volatility of an equity award; however, as a public listed company there is objective evidence of the fair value of an ordinary share on the date an equity award is granted or modified. The expected life of an equity award is based on the assumption that the holder will not exercise until after the equity award is fully vested and all restrictions on the holders' ability to dispose of the

underlying ordinary shares expire. Actual exercise patterns may differ from the assumption used herein. The volatility rate used to value equity awards has been based on either peer group volatility, where the expected life of an equity award exceeds the Company's historical trading data, or the Company's volatility rate where historical trading activity of the Company equals or exceeds the expected life of an equity award. Using historical volatility rates to project future trends is a highly subjective estimate that may not necessarily be the actual outcome. The peer group consists of listed companies that management believes are similar to the Company in respect to industry and stage of development. Even with objective evidence of the fair value of an ordinary share, small changes in any other individual assumption or in combination with other assumptions could have yielded significantly different results.

3.3 Income Taxes

The major components of income tax for the years ended 31 December 2017 and 2016 are as follows:

	31 December	
	2017	2016
	USD '000	USD '000
Current income tax (expense)	(238,799)	(79)
Deferred income tax (expense) benefit	(13,923)	11,495
Income tax benefit reported in the statement of profit and loss	<u>(252,722)</u>	<u>11,416</u>

The current income tax expense for the year ended 31 December 2016 primarily relates to a change in estimate of the benefit obtained by Tech Growth's utilization of the Company's tax loss (see "Joint Taxation Groups" below for additional information regarding Tech Growth).

Management concluded that at 31 December 2016 it was probable the Company would have taxable profits in 2017, thereby enabling the Company to recognize certain deferred tax assets that historically did not meet the criteria for recognition. In reaching the conclusion to recognize deferred tax assets at 31 December 2016, numerous judgments were made including the close proximity of the date the License Agreement was executed to 31 December 2016 and the magnitude of the Non-refundable Fee compared to the projected total expenses in 2017. The deferred tax benefit recognized during the year ended 31 December 2016 was primarily related to net operating loss carryforwards ("NOLs"). Taxable profits are not assured beyond the year ending 31 December 2017; therefore, temporary differences that will be available to offset taxable profits after 31 December 2017 do not meet the criteria for financial statement recognition and therefore the related deferred tax assets have not been recognized.

The tax benefit recorded for the years ended 31 December 2017 and 2016 is reconciled as follows:

	31 December	
	2017	2016
	USD '000	USD '000
Net income (loss) before tax	1,132,932	(9,384)
Income tax (expense) benefit at the Company's statutory income tax rate (*).....	(249,245)	2,064
<i>Adjustments:</i>		
(Non-deductible) non-taxable items for tax purposes	(3,091)	4,738
(Unrecognized) recognized deferred tax assets	(386)	4,614
Income tax (expense) benefit	<u>(252,722)</u>	<u>11,416</u>
Effective income tax rate	<u>22.3%</u>	<u>121.7%</u>

(*) The statutory tax rate for 2017 and 2016 was 22%.

Deferred tax

The recognized deferred tax assets at 31 December 2017 and 2016 are as follows:

	31 December	
	2017	2016
	USD '000	USD '000
Net operating loss carryforwards.....	—	22,642
Share-based payment.....	—	502
Acquired Patents (see below)	—	55,870
Payment Obligation (see below)	—	(65,181)
Other.....	(40)	(125)
Total deferred income tax (liability) benefit.....	(40)	13,708

The table above for 2016 includes the tax effect of the patents and associated know-how acquired from Aditech Pharma AG (collectively “Acquired Patents”) and the corresponding obligation to remit payments (“Payment Obligation”) in accordance with the patent transfer agreement with Aditech Pharma AG. See Note 6.2. As the result of the Restructuring, the Acquired Patents and the Payment Obligation were recognized in the current tax provision.

During each of the years ended 31 December 2017 and 2016, the Company recognized tax benefits within the statement of changes in shareholders’ equity of USD 6.4 million and USD 2.8 million respectively. The tax benefits were related to equity awards where the Company’s tax filing provided a benefit in excess of the corresponding share-based compensation recognized within reported operating results.

The unrecognized deferred tax assets at 31 December 2017 and 2016 are as follows:

	31 December	
	2017	2016
	USD '000	USD '000
Share-based payment (*).....	2,304	4,876
Unrecognized deferred tax assets, net.....	2,304	4,876

(*) The amount for 2016 has been revised to conform with the 2017 presentation.

The Company has the following unrecognized deductible temporary differences as of 31 December 2017, and 2016 respectively:

	31 December	
	2017	2016
	USD '000	USD '000
Deductible temporary differences regarding share-based payment (*)	10,474	22,163
Unrecognized deferred tax assets, net.....	10,474	22,163

(*) The amount for 2016 has been revised to conform with the 2017 presentation.

Joint Taxation Groups

During the period from 19 January 2013 to 31 December 2015, the Company was part of the Tech Growth joint tax group. Under applicable provisions of the Danish taxation law, the Company was entitled to obtain refunds at the prevailing tax rate from other entities within the Tech Growth joint taxation group who utilized tax losses of the Company. A subsidiary of Tech Growth Invest ApS experienced a change in ownership on 31 December 2015. The effect of the change in ownership resulted in the year ended 31 December 2015 being the final year in which the Company is a member of the Tech Growth joint tax group. On 1 January 2016, the joint taxation group with Tech Growth ceased and the Company became part of a new Danish joint taxation group with NB FP Investment General Partner ApS and FP FA (the new joint tax group is referred to as the “2016 Tax Group”). Operations and FWP IP joined the 2016 Tax Group upon their inception (30 June 2017) and FWP IP exited the 2016 Tax Group on 22

November 2017 when Operations sold its ownership interest in FWP IP. The Company remains jointly and severally liable with other entities in the Tech Growth joint taxation group for Tech Growth's Danish tax liabilities during each of the years ended 31 December 2015, 2014 and 2013. The Company is jointly and severally liable under the 2016 Tax Group for Danish tax liabilities incurred by members of the 2016 Tax Group while being a member of the 2016 Tax Group.

Significant accounting judgments, estimates and assumptions

The Company recognizes deferred tax assets, including the tax base of tax loss carry-forwards, if management assesses that these tax assets can be offset against future positive taxable income. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. This judgment is made periodically after considering current facts, circumstances, budgets and business plans as well as the risks and uncertainty associated with the operations of the Company. As facts and circumstances change, adjustments to previously made estimates will be made that could result in volatility in reported operating results and the occurrence of unforeseen events could have a material favorable or unfavorable effect on the financial statements of the Company.

As discussed herein, during the year ended 31 December 2016 the Company determined that previously unrecognized deferred tax assets should be recognized as it is probable that the Company will have sufficient taxable income in the year ending 31 December 2017 to utilize deferred tax assets recognized at 31 December 2016.

Tax uncertainties

The Company exercises judgment when determining the Company's tax position. As discussed in more detail below, significant judgments were made when determining the tax treatment of the USA LLC, transfer pricing and in determining tax deductibility of certain transactions.

The Company's tax returns are subject to periodic audit by the local tax authorities. Such audits could result in the tax authorities disagreeing with the tax filing positions taken by the Company which would expose the Company to additional taxes being assessed, including interest and penalties, that could be material. There are numerous transactions between the Company, Operations, FWP IP, FP GmbH and the US LLC where the tax authorities could challenge whether pricing of such transactions were at arm's length. Management believes that appropriate tax filing provisions have been taken by the Company and its subsidiaries; however, there is always a risk that the tax authorities could disagree with the tax filing positions taken resulting in additional taxes, interest and penalty becoming due and such amount could be material.

The Company has taken the position that the US LLC is not subject to U.S. federal or state income tax. In reaching this conclusion, significant judgment was used in evaluating the nature of the operations in the U.S., the interpretation of the U.S. and Danish tax laws, and the income tax treaty between the U.S. and Denmark. Management believes that the tax filing provisions taken in the U.S. and Denmark regarding the US LLC are correct; however, there is always a risk that the U.S. or Danish tax authorities could disagree with the tax filing positions taken resulting in additional taxes, interest and penalty becoming due and such amount could be material.

As a result of the receipt of the Non-refundable Fee and the resulting taxable income, Management expects that the tax authorities in Denmark will conduct audits of the tax returns of the Tech Growth joint tax group and the 2016 Tax Group. The German tax authorities have recently commenced tax audits of FP GmbH's tax returns for each of the four years ended 31 December 2016 and the German tax authorities have indicated that they will audit FP GmbH's tax return, when filed, for the year ended 31 December 2017. Any audits conducted by the tax authorities will focus on the intercompany recognition of revenue and expense to ensure that such transactions were conducted at arm's length. There is also a risk that the tax authorities could impose additional taxable income or disallow the deductibility of expenses on intercompany cross-border transactions resulting in higher tax obligations in one or more tax jurisdictions. Management's experience has been that the taxing authorities can be aggressive in taking positions that would increase taxable income and/or disallow deductible expenses reported. If the local tax authorities are successful in increasing taxable income and/or disallowing deductible expenses in one or more localities, it would result in the Company experiencing a higher effective tax rate that could be material. Management believes that the tax positions taken with regards to intercompany transactions are in accordance with tax regulations and that appropriate tax provisions have been made in the accompanying financial statements; however, there is always a risk that the Danish and/or the German tax authorities could disagree with the tax filing positions taken resulting in additional taxes, interest and penalty becoming due and such amount could be material.

Based on recent communications with the Danish and German tax authorities, Management anticipates that the Danish and German tax authorities will conduct a joint tax audit of the Company's and FP GmbH's Danish and German tax returns. Conducting a joint tax audit is expected to reduce the burden and cost to the Company and FP GmbH of undergoing two audits that address similar transactions and to accelerate the resolution of disagreements through the mutual agreement process ("MAP") by early involvement of Competent Authorities if necessary. There is no assurance that a joint audit will be conducted and even if a joint audit is conducted there is no assurances that the Company will achieve expected benefits.

As discussed in Note 3.2, the Company made certain cash payments ("Deduction") to equity awards holders during the year ended 31 December 2017 as provided for by the Amendment. The Company believes the Deduction, that totaled EUR 36.2 million (USD 43.4 million based on the 31 December 2017 exchange rate), represents compensation for services rendered to the Company and is tax deductible for Danish tax purposes. Management believes that the tax positions taken with regards to the Deduction is in accordance with tax regulations and that appropriate tax provisions have been made in the accompanying financial statements; however, there is always a risk that the Danish authorities could disagree with the tax filing positions taken resulting in additional taxes, interest and penalty becoming due and such amount could be material

As of 31 December 2017, the tax years that remain open for audit by the Danish, German and United States tax authorities include 2013 through 2017.

Section 4 Operating Assets and Liabilities

4.1 Prepaid Expenses

	31 December	
	2017	2016
	USD '000	USD '000
Insurance.....	409	450
Other	45	71
Total	<u>454</u>	<u>521</u>

4.2 Other Receivables

	31 December	
	2017	2016
	USD '000	USD '000
VAT receivables	418	250
Accrued interest income	—	118
Total	<u>418</u>	<u>368</u>

4.3 Equipment

	Equipment USD '000
Cost:	
At 1 January 2016	5
Intercompany transfer (see 1 below)	345
Additions.....	—
At 31 December 2016	350
Additions	—
Disposal	(350)
At 31 December 2017	—
Accumulated Depreciation:	
At 1 January 2016	5
Intercompany transfer (see 1 below)	97
Depreciation charge for the year.....	—
At 31 December 2016	102
Depreciation charge for the year.....	21
Impairment (see 2 below)	208
Disposal	(331)
At 31 December 2017	—
Net book value:	
At 31 December 2016	248
At 31 December 2017	—

1. On 31 December 2016, FP GmbH transferred ownership of equipment ("Equipment") to the Company. FP GmbH's cost and accumulated depreciation of the Equipment, on the date of transfer, was USD 345,000 and USD 97,000 respectively. Since the transfer of ownership of the Equipment occurred on 31 December 2016, the Company did not recognize depreciation expense during the year ended 31 December 2016.
2. As discussed in Note 1.1, the Company announced on 1 March 2017 a plan to reduce costs and wind-down research and development efforts of FP187®. In connection with winding down of research and development efforts, certain equipment that had been used in the development of FP187® was deemed impaired. Accordingly, during the year ended 31 December 2017, the Company recognized an impairment expense of USD 208,000. The impairment expense is included in research and development costs.

4.4 Trade Payables and Accrued Expenses

	31 December	
	2017	2016
	USD '000	USD '000
Trade payables	724	1,367
Accrued expenses	8,195	4,554
Total.....	8,919	5,921

Section 5 Capital Structure, Financial Risks and Related Items

5.1 Equity and Capital Management

The following table summarizes the Company's share activity for each of the years ended 31 December 2017 and 2016:

	Ordinary shares
	No. '000
	Revised (*)
31 December 2015.....	468,717
Issuance of deferred shares.....	1,422
Exercise of warrants for cash.....	1,300
31 December 2016.....	471,439
Exercise of warrants for cash.....	401
Capital Reduction.....	(377,472)
31 December 2017.....	94,368

(*) Amounts have been revised to reflect the Share Split as if it had occurred at the beginning of the earliest period presented. Accordingly, share information previously reported has been revised. Subsequent to the Share Split, the nominal value of an ordinary share of the Parent is DKK 0.01.

On 2 August 2017, the Company's shareholders approved the Capital Reduction of EUR 917.7 million (USD 1.1 billion). The funds for the Capital Reduction were distributed to shareholders during September 2017. The Capital Reduction was executed through the annulment of 80% of the ordinary shares outstanding post Share Split or 377.5 million ordinary shares. The Capital Reduction resulted in a payment of EUR 2.43125 per annulled share (post Share Split.)

Except for the Capital Reduction, the Company has never distributed funds to shareholders in any form, including dividends, and currently there are no plans to distribute funds to shareholders in the future.

During March 2017, 401,000 warrants (post Share Split) were exercised yielding proceeds to the Company of USD 49,000. See Note 3.2.

During the year ended 31 December 2016 1.4 million ordinary shares (post Share Split) were issued upon the vesting of deferred shares, and the receipt of the per share nominal value of USD 2,000, and 1.3 million ordinary shares (post Share Split) were issued in connection with the exercise of warrants and the receipt of USD 112,000. See Note 3.2.

Capital Management

For the purpose of the Company's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the Company. The primary objective of the Company's capital management is to maximize shareholder value. The board of directors' policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence that the Company will continue as a going concern. Cash, cash equivalents and financial assets are monitored on a regular basis by management and the board of directors in assessing current and long-term capital needs. As of 31 December 2017, the Company held cash and cash equivalents totaling USD 69.5 million that will be sufficient to provide adequate funding to allow the Company to meet its planned operating activities in the normal course of business beyond the year ending 31 December 2018. The Company currently has no significant planned capital expenditures.

5.2 Financial Risk Factors

The Company's activities expose it to a number of financial risks whereby future events, which can be outside the control of the Company, could have a material effect on the Company's financial position and operating results. The known risks include foreign currency and credit risk and there could be other risks currently unknown to management. The Company historically has not hedged its financial risks.

Foreign Currency

The Company and its subsidiaries maintain operations in Denmark, Germany and the United States that use the DKK, the Euro and the USD as their functional currencies respectively. The Company conducts cross border transactions where the functional currency is not always used, including purchases from major vendors in the United Kingdom where the British Pound ("GBP") is used. Accordingly, future changes in the exchange rates of the DKK, the Euro, the USD and/or the GBP will expose the Company to currency gains or losses that will impact the reported amounts of assets, liabilities, income and expenses and the impact could be material. For each of the years ended 31 December 2017 and 2016, the impact on the Company's statement of profit or loss of possible changes in the USD, GBP and Euro exchange rates against the Company's functional currencies, USD, DKK and Euro, would be as follows.

Currency	Possible change	2017 USD '000	2016 USD '000
USD	+/-10%	+5,625/-5,625	+7,124/-7,124
GBP	+/-10%	+128/-128	+430/-430
Euro	+/-2%	+506/-506	+1,212/-1,212

Credit Risk

The Company's credit risk is associated with cash held in banks. The Company does not trade financial assets for speculative purposes and invests with the objective of preserving capital by investing in a diversified group of highly rated debt instruments.

Historically, the Company's cash and cash equivalents were held primarily at one bank in Denmark (the "Bank") with a Moody's long-term credit rating of Aa3. Subsequent to the receipt of the Non-refundable Fee, the Company's cash and cash equivalents were diversified into three banks each with a Moody's long-term credit rating of A1 or better. At 31 December 2017, the Company had USD 60.3 million in cash and cash equivalents on deposit at the Bank.

5.3 Financial Assets and Liabilities

Recognized financial instruments

The Company has recognized the following categories of financial assets and liabilities.

Financial assets:

Other receivables as of 31 December 2017 and 2016

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Other receivables	418	418	368	368
Total	418	418	368	368

Intercompany receivables as of 31 December 2017 and 2016

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Intercompany receivables	—	—	113	113
Total	—	—	113	113

Available-for-Sale Financial Assets as of 31 December 2017 and 2016

The Company's available-for-sale financial assets include debt instruments issued by the governments of Germany, the United Kingdom and the United States.

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Included in current assets (Level 1)				
Germany	—	—	41,821	41,821
United Kingdom	—	—	1,545	1,545
United States	—	—	37,459	37,459
Total	—	—	80,825	80,825

At 31 December 2017, the Company did not hold available-for-sale financial assets. At 31 December 2016 the face values of the German, United Kingdom and United States available-for-sale financial assets were EUR 39.3 million, GBP 1.2 million and USD 37.5 million, respectively.

Financial Liabilities:

Financial liabilities at amortized cost as of 31 December 2017 and 2016

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	USD '000	USD '000	USD '000	USD '000
Trade payables	724	724	1,367	1,367
Intercompany payable	74,669	74,669	—	—
Intercompany loan	—	—	3,424	3,424
Total	75,393	75,393	4,791	4,791

Fair value of trade payables is deemed to be their carrying amount based on payment terms that are generally 30 days.

During the year ended 31 December 2016, the Company entered into a loan agreement (the "2016 Loan") with FP GmbH. The 2016 Loan and any accrued interest is due on demand. Interest accrues at an annual rate of 2%. The 2016 Loan is uncollateralized. In connection with the Restructuring, the 2016 Loan was transferred to Operations. Interest expense recognized during each of the years ended 31 December 2017 and 2016 totaled USD 29,000 and 1,000 respectively.

During December 2017, the Company entered into a loan agreement (the "2017 Loan") with FP GmbH. The 2017 Loan and accrued interest is due on demand. Interest accrues at an annual rate of 2%. The 2017 Loan was paid in full during December 2017. Interest expense recognized during the year ended 31 December 2017 was not material.

Financial instrument valuation hierarchy

Financial instruments recognized at fair value are allocated to one of the following valuation hierarchy levels:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. The Company's available-for-sale financial assets meet the definition of Level 1. The Company did not have any financial instruments allocated to this level as of 31 December 2017.
- Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly. The Company did not have financial instruments allocated to this level as of 31 December 2017 or 2016.
- Level 3: Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data. The Company did not have financial instruments allocated to this level as of 31 December 2017 or 2016.

For all periods presented there were no transfers of financial instruments between Levels 1, 2 or 3.

5.4 Investment in Subsidiaries

The Company's investment in Operations, FP GmbH, US LLC and FP FA are reflected in the accompanying financial statements as an investment carried at cost unless the investment has been impaired.

The investment account activity for each of the Company's wholly-owned subsidiary for the years ended 31 December 2017 and 2016 is as follows:

	Operations USD '000	FP GmbH USD '000	US LLC USD '000	FP FA USD '000	Total USD '000
Balance 1 January 2016	—	8,128	945	73	9,146
Capital contribution	—	4,217	1,090	231	5,538
Share-based compensation	—	1,592	3,031	—	4,623
Translation adjustment	—	(1,784)	20	9	(1,755)
Recovery gain (impairment loss)	—	34,253	(4,191)	(254)	29,808
Balance 31 December 2016	—	46,406	895	59	47,360
Capital contribution (reduction)	99,068	(46,317)	(38)	—	52,713
Share-based compensation	279	—	(3,520)	—	(3,241)
Translation adjustment	4,872	2,882	90	5	7,849
(Impairment loss) recovery gain	(4,132)	—	2,876	—	(1,256)
Restructuring	3,035	(2,971)	—	(64)	—
Balance 31 December 2017	103,122	—	303	—	103,425

As discussed above, the Restructuring was effective on 30 June 2017 and included the Company transferring its investment in FP GmbH and FP FA to Operations. Accordingly, the Company's investment in FP GmbH and FP FA were among the net assets transferred to Operations under the Restructuring and have been accounted for as part the Company's investment in Operations. In addition, the Company contributed cash, totaling USD 31.1million, as part of the capital contribution to Operations which is included within the cash flow statement as investing activities

The Company has reciprocal agreements with Operations whereby services are performed by one for the benefit of the other. The agreements were effective on 30 June 2017 and provide for services to be invoiced at cost plus a 5% markup. For the year ended 31 December 2017, the Company recognized management fee income of USD 528,000 and operating costs of USD 252,000 in connection with these agreements. Such amounts include the 5% markup.

Operations supports the Company by providing administrative services primarily overseeing the Company's interest in the IP that was transferred to FWP IP. Operations currently has no revenues or profits and Operation's ability to generate revenues or profits in the future is highly uncertain. Accordingly, management has determined that its

investment in Operations was impaired and recognized an impairment loss of USD 4.0 million in the year ended 31 December 2017.

Prior to 2016, the Company's subsidiary in Germany experienced net losses and it was uncertain at that time whether the FP GmbH would have revenues or profits in the future. Accordingly, the Company impaired its investment. At 31 December 2016, Management performed an analysis of FP GmbH's projected operating results and based on the analysis Management concluded that the Company's investment in the German subsidiary has a recoverable value above the carrying value and as such reversed part of the impairment recognized prior to 2016. In reaching this conclusion, the primary factor that was considered was FP GmbH's estimated earnings in 2017 that will be sufficient to recover a significant part of the impairment loss taken in prior to 2016. Accordingly, the carrying value of the Company's investment in Forward Pharma GmbH was increased to USD 46.4 million.

The US LLC supports the Company's operations by providing administrative services such as accounting and financial reporting services. The US LLC has no revenues and does not expect revenues in the future. For the year ended 31 December 2016, the US LLC incurred a net loss. Accordingly, management determined that its investment in the US LLC was impaired and recognized an impairment loss of USD 4.2 million in the year ended 31 December 2016. For the year ended 31 December 2017, the US LLC benefited from the favorable allocation of share-based compensation associated with terminated employees as provided for by the Allowance that is discussed in Note 3.2. Based on the favorable allocation of share-based compensation, management determined that a portion of impairment loss recognized in 2016 could be adjusted resulting in a recovery gain of USD 2.9 million.

FP FA's operations historically were limited to conducting research and development in an effort to develop and commercialize a DMF Formulation for the treatment of Frederic's ataxia. FP FA does not have a commercialized product or revenues. For the year ended 31 December 2016, FP FA incurred a net loss and was expected to incur net losses for the foreseeable future. Accordingly, management determined that its investment in FP FA was impaired and recognized an impairment loss USD 254,000 for the year ended 31 December 2016.

The registered office of Operations is Copenhagen, Denmark. As of 31 December 2017, Operations had a shareholder's equity of USD 103.1 million. The net loss of Operations for the year ended 31 December 2017 was USD 3.9 million.

FP GmbH's registered office is Leipzig, Germany. As of 31 December 2016, FP GmbH had a shareholder's equity of USD 12.6. The net income of FP GmbH for the year ended 31 December 2016 was USD 516,000.

The US LLC's registered office is New York, USA. As of 31 December 2017 and 2016, the US LLC had a shareholder's equity of USD 303,000 and USD 895,000 respectively. The net loss of the US LLC for the years ended 31 December 2017 and 2016 was USD 554,000 and USD 1.2 million respectively.

FP FA's registered office is Copenhagen, Denmark. As of 31 December 2016, FP FA had a shareholder's equity of USD 59,000. The net loss of FP FA for the year ended 31 December 2016 was USD 253,000.

Section 6 Other Disclosures

6.1 Related Party Transactions

The Company is controlled by NB FP Investment K/S and its affiliates (collectively "NB"). The ultimate controlling party of the Company is Mr. Florian Schönharting who controls NB. See Notes 5.4 and 6.2 for additional related party transactions.

A director of the Company is a partner at the law firm that provides Danish legal services to the Company. Remuneration paid to the law firm is referred to below as "Danish Legal Services". The director serves on the Company's board of directors in his individual capacity and not as a representative of the law firm.

Two directors of the Company, who were elected to the board of directors on 6 May 2016, each entered into a four-year consulting agreement with the Company. One of the consulting agreements commenced in September 2015 and the second during October 2016. The consulting agreements provided for the granting of 25,000 (250,000 after the Share Split) and 12,500 (125,000 after the Share Split) deferred shares, respectively, as full compensation for services to be rendered. The deferred shares vest in equal increments annually over four years from the date of grant. Unvested deferred shares vest immediately in the event there is a change in control as defined in the award agreement.

The board member who holds 25,000 deferred shares did not stand for re-election and accordingly the consultant's role as a board member terminated at the time of the Company's annual shareholders meeting on 3 May 2017. Subsequent to the Amendment, the consultant who remains on the Company's board of directors holds 121,000 deferred shares and the consultant whose role as a board member terminated at the time of the Company's annual shareholders meeting on 3 May 2017 holds 194,000 deferred shares. Share-based remuneration paid to the consultants while the consultants were members of the Company's board of directors is referred to in the table below as "Consulting Services."

Beginning in 2013, the Company was part of a Danish joint tax group with Tech Growth Invest ApS and subsidiaries of Tech Growth Invest ApS. The Company's participation in the Tech Growth Invest ApS Danish joint tax group ceased on 31 December 2015. On 1 January 2016, the Company became part of a new Danish joint taxation group with NB FP Investment General Partner ApS, Forward Pharma FA ApS, Operations and FWP IP. See Notes 3.3 and 6.2 for additional information.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant year or as of yearend:

	2017	2016
	USD '000	USD '000
Purchase of services from NB.....	85	85
Danish Legal Services	1,454	1,377
Consulting Services	188	202
Amounts owed to related parties (excluding VAT)	283	723
Amounts owed by related parties.....	—	—

The above table excludes the related party transaction disclosed in Notes 5.3, 5.4 and 6.2.

Terms and conditions of transactions with related parties

Amounts due to related parties are uncollateralized and interest free. There have been no guarantees provided or received for any related party receivables or payables.

Transactions with key management

The Company has not granted any loans, guarantees, or other commitments to or on behalf of any of the members of the board of directors or senior management personnel.

Other than the remuneration including share-based payment relating to key management personnel described in Notes 3.1 and 3.2, no other significant transactions have taken place with key management personnel during the period presented herein.

Compensation paid to the members of the board of directors

Compensation to members of the Company's board of directors, excluding non-cash share-based compensation, for each of the years ended 31 December 2017 and 2016 totaled USD 373,000 and USD 87,000 respectively. Share-based compensation paid to members of the Company's board of directors for each of the years ended 31 December 2017 and 2016 totaled USD 1.3 million and USD 2.2 million respectively. As discussed in more detail in Note 3.2, during the year ended 31 December 2017, certain amounts were paid to warrant and option holders, including members of the board of directors, that were deemed to be a partial repurchase of equity awards and accounted for as a reduction to shareholders' equity. The amounts disclosed above exclude USD 864,000 that was paid to members of the board of directors that were deemed to be a partial repurchase of equity awards.

Patent transfer agreement between Aditech Pharma AG and the Company

The Company has entered into agreements with Aditech Pharma AG, a related party, that are discussed in Note 6.2.

Major Shareholders

The following shareholders are as of the date of adoption of the financial statements registered as major shareholders:

Nordic Biotech K/S, Copenhagen, Denmark
Nordic Biotech Opportunity Fund K/S, Copenhagen, Denmark
NB FP Investment K/S, Copenhagen, Denmark
Rosetta Capital I, LP, Wilmington, DE, USA
The Bank of New York Mellon, New York, NY, USA

6.2 Commitments and Contingent Liabilities

Leased office space

Lease contracts, where the lessor retains the significant risks and rewards associated with the ownership of the asset, are classified as operating leases.

The Company leases office space from NB under an agreement which can be cancelled on short notice. Lease payments under the lease agreement are recognized in the statement of profit and loss over the lease term. The Company's remaining non-cancellable operating lease commitment as of 31 December 2017, was not material. Operating lease payments recognized as an expense are disclosed in Note 6.1 as purchases of services from NB.

The Company has a non-cancellable service agreement that requires annual payments of USD 2,000 through May 2022.

Contingent liabilities

Contingent liabilities are liabilities that arose from past events but whose existence will only be confirmed by the occurrence or non-occurrence of future events that in some situations are beyond the Company's control.

During the period 19 January 2013 to 31 December 2015 ("Joint Taxation Period"), the Company was subject to a Danish joint taxation group with Tech Growth Invest ApS and entities under Tech Growth Invest ApS's control. A subsidiary of Tech Growth Invest ApS experienced a change in ownership on 31 December 2015. The effect of the change in ownership resulted in the year ended 31 December 2015 being the final year that the Company was part of the joint taxation group with Tech Growth. On 1 January 2016, the Company became part of a new Danish joint taxation group with NB FP Investment General Partner ApS, FP FA, upon their inception during 2017, Operations and FWP IP (the 2016 Tax Group). The Company remains liable with other entities in the joint taxation group with Tech Growth Invest ApS for Tech Growth's Danish tax liabilities that can be allocated to the Joint Taxation Period and the Company is liable under the 2016 Tax Group with other entities in the tax group for Danish tax liabilities incurred for the years ending 31 December 2017 and 2016, by members of the 2016 Tax Group while being members of the tax group.

The Parent's and FP GmbH's tax filings are either under audit by the tax authorities or are expected to be under audit in the near-term. There is no assurance that the Parent and/or FP GmbH will successfully defend the tax positions taken and that additional taxes, interest or penalty will not be incurred. There is also the risk that the tax authorities could impose additional taxable income or disallow the deductibility of expenses on intercompany cross-border transactions resulting in higher tax obligations in one or more tax jurisdictions. The imposition of additional taxes resulting from a tax audit would negatively impact the Company's financial position and operating results and the impact could be material. See Note 3.3 for additional information.

In 2004, a private company Aditech Pharma AB (together with its successor-in-interest Aditech Pharma AG, "Aditech"), controlled by NB, began developing and filing patents for, among other things, formulations and dosing regimens of DMF. In 2005, the Company entered into a patent license agreement with Aditech to license this patent family from Aditech. In 2010, the Company acquired this patent family from Aditech pursuant to a patent transfer agreement (the "Transfer Agreement") that replaced the patent license agreement. Under the Transfer Agreement, the Company obtained, among other things, Aditech's patents and associated know-how related to DMF formulations and delivery systems (the "Aditech IP"). In connection with the License Agreement, the Company and Aditech executed an addendum to the Transfer Agreement (the "Addendum"). The Addendum clarified certain ambiguities with respect

to the compensation due to Aditech in the event the Company would enter into the License Agreement and also provided for Aditech to waive certain rights under the Transfer Agreement. The Addendum specifies that Aditech receives 2% of the Non-refundable Fee (or USD 25 million) and is entitled to additional compensation should the Group receive royalties from Biogen under the License Agreement. The additional compensation due to Aditech will be determined based on whether Biogen has an exclusive or a co-exclusive license with the Group (on a country-by-country basis). If royalties are paid to the Group while Biogen has an exclusive license, Aditech will be entitled to receive a cash payment equal to 2% of the same base amount with respect to which the Group's royalty percentage is calculated, accruing from the same period of time as any royalty payment payable by Biogen to the Group (prior to taking into account taxes, duties and VAT, if any). If Biogen has a co-exclusive license, Aditech will receive a cash payment equal to 20% of the royalty remitted to the Group by Biogen and any third party to which the Group may assign its United States co-exclusive license. Should the Group not assign its United States co-exclusive license to a third party but instead utilize the United States co-exclusive license to develop a DMF Formulation, the Company will, as was also the case prior to entering into the Addendum, be required to pay Aditech a royalty of 2% of net sales of such a product. Aditech is considered to be a related party of the Company due to control over Aditech by NB. The USD 25 million due to Aditech in accordance with the Addendum and in connection with the Company's receipt of the Non-refundable Fee was paid during May 2017.

Prior to the execution of the termination agreement discussed below, the Company was party to a patent license agreement with FP GmbH. The terms of the patent license agreement provided for, among other things, the compensation due FP GmbH for the research and development services performed by FP GmbH for the benefit of the Company. The compensation payable to FP GmbH in accordance with the patent license agreement would have included royalties and an exclusive license, limited to the German market, as defined in the patent license agreement. On 14 January 2017, the Company and FP GmbH executed an agreement (the "Termination Agreement") that terminated the patent license agreement. In consideration for terminating the patent license agreement, the parties agreed to negotiate in good faith to determine an amount due FP GmbH that would be based on arm's length principles in accordance with tax transfer pricing rules and methods. Upon finalizing negotiations, the amount due FP GmbH totaled EUR 47.1 million (USD 52.6 million based on the 31 December 2017 exchange rate) (the "Termination Fee") and was expensed during the year ended 31 December 2017. The Company's obligation under the Termination Agreement was settled during the year ended December 31, 2017 by remitting a cash payment of EUR 5.7 million (USD 7.5 million) and a non-cash profit distribution (the "Profit Distribution") for the balance. In addition to the patent license agreement and Termination Agreement discussed above, the Company and FP GmbH entered into a consultancy agreement effective 1 November 2016. In accordance with the consultancy agreement, FP GmbH provided services to the Company in consideration for a fee ("Fee") that is computed based on FP GmbH's costs incurred, as defined in the consultancy agreement, plus a 5% markup. The Fee paid to FP GmbH for the year ended 31 December 2017 totaled USD 13.1 million. The Fee paid to FP GmbH for the year ended 31 December 2016 was not material.

6.3 Events after the reporting period

Subsequent to 31 December 2017, there were no events that were required to be reported except that on 29 January 2018, the Opposition Division of the EPO issued an initial decision in the Opposition Proceeding revoking patent EP 2801355. See Note 1.2.