

MC2 Therapeutics A/S

Agern Alle 24-26
2970 Hørsholm
CVR No. 29526346

Annual report 2019

The Annual General Meeting adopted the
annual report on 13.08.2020

Jesper Jørn Lange

Chairman of the General Meeting

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Entity details

Entity

MC2 Therapeutics A/S

Agern Alle 24-26

2970 Hørsholm

CVR No.: 29526346

Registered office: Rudersdal

Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Mads Jørgen Nøhr Clausen, Chairman

Paul Louis Berns

Anders Dahlgaard Hove

Mette Vagner Johannesen

Jesper Jørn Lange

Executive Board

Jesper Jørn Lange

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

P. O. Box 1600

0900 Copenhagen C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of MC2 Therapeutics A/S for the financial year 01.01.2019 - 31.12.2019.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Hørsholm, 12.08.2020

Executive Board

Jesper Jørn Lange

Board of Directors

Mads Jørgen Nøhr Clausen
Chairman

Paul Louis Berns

Anders Dahlgaard Hove

Mette Vagner Johannesen

Jesper Jørn Lange

Independent auditor's report

To the shareholders of MC2 Therapeutics A/S

Opinion

We have audited the financial statements of MC2 Therapeutics A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2019 and of the results of its operations for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 the 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

Copenhagen, 12.08.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Jens Sejer Pedersen

State Authorised Public Accountant
Identification No (MNE) mne14986

Management commentary

Primary activities

The Company's objects are to develop ideas and medical drugs for the medical control of diseases, to produce and sell such medical drugs and ideas, to own shares in companies with the same objects and conduct business in connections herewith.

Description of material changes in activities and finances

The Company serves as the holding-, service and management company for the MC2 Therapeutics Group, which is engaged in the development of topical drugs and skin care products for chronic inflammatory conditions based on its PAD™ Technology.

The results for the year show a loss of DKK (81.401) thousand – which is less than expected - and include significant costs of the successful completion of phase 3 clinical trials in US and EU on its leading drug candidate Wyzora™ Cream for treatment of plaque psoriasis.

The result also include development costs related to its additional pipeline of topical therapies for major conditions as atopic dermatitis, dry eye, uremic pruritus, lichen sclerosus and dry itchy skin.

In the US and EU alone more than 15 million people have been diagnosed with psoriasis and more than 50 million people suffer from atopic dermatitis, which is classified as the most common inflammatory skin disease affecting up to 20% of children and adolescents worldwide. More than 90% of psoriasis and atopic dermatitis patients use topical therapies.

In 2019 the company filed an NDA in the US for Wyzora™ Cream and expect regulatory approval in US in 2020 and in EU in 2021. MC2 Therapeutics Group is building commercialization capabilities aiming to launch Wyzora™ cream in US and EU shortly after approvals.

The result shall be seen in context with development costs defrayed in the Group being recognized as expenses on a current basis.

Events after the balance sheet date

The company concluded its large clinical trial before the break-out of COVID-19 and currently has no products in the market. Accordingly, the company is not significantly negatively impacted by COVID-19.

No other events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2019

	Notes	2019 DKK	2018 DKK
Gross profit/loss		13,678,382	13,341,217
Staff costs	2	(14,067,556)	(12,402,450)
Depreciation, amortisation and impairment losses		(216,280)	(93,964)
Operating profit/loss		(605,454)	844,803
Income from investments in group enterprises		(87,231,679)	(119,608,459)
Other financial income	3	6,646,265	8,939,769
Other financial expenses	4	(81,240)	(64,395)
Profit/loss before tax		(81,272,108)	(109,888,282)
Tax on profit/loss for the year	5	(129,076)	(176,097)
Profit/loss for the year		(81,401,184)	(110,064,379)
Proposed distribution of profit and loss			
Retained earnings		(81,401,184)	(110,064,379)
Proposed distribution of profit and loss		(81,401,184)	(110,064,379)

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK	2018 DKK
Acquired intangible assets		57,883	88,083
Intangible assets	6	57,883	88,083
Other fixtures and fittings, tools and equipment		723,155	43,917
Leasehold improvements		44,159	40,067
Property, plant and equipment	7	767,314	83,984
Investments in group enterprises		54,454	0
Other receivables		181,370	116,884
Other financial assets	8	235,824	116,884
Fixed assets		1,061,021	288,951
Receivables from group enterprises		77,730,234	62,057,500
Other receivables		204,897	1,123,946
Prepayments		90,175	140,963
Receivables		78,025,306	63,322,409
Cash		26,641,725	10,758,700
Current assets		104,667,031	74,081,109
Assets		105,728,052	74,370,060

Equity and liabilities

	Notes	2019 DKK	2018 DKK
Contributed capital		6,561,607	6,216,505
Retained earnings		59,270,890	56,036,543
Equity		65,832,497	62,253,048
Provisions for investments in group enterprises		9,372,515	9,406,288
Provisions		9,372,515	9,406,288
Other payables		423,835	0
Non-current liabilities other than provisions	10	423,835	0
Bank loans		33,476	41,222
Trade payables		1,313,677	1,020,515
Payables to group enterprises		26,879,997	0
Joint taxation contribution payable		129,076	176,097
Other payables		1,742,979	1,472,890
Current liabilities other than provisions		30,099,205	2,710,724
Liabilities other than provisions		30,523,040	2,710,724
Equity and liabilities		105,728,052	74,370,060
Uncertainty relating to recognition and measurement	1		
Unrecognised rental and lease commitments	11		
Contingent liabilities	12		

Statement of changes in equity for 2019

	Contributed capital DKK	Retained earnings DKK	Total DKK
Equity beginning of year	6,216,505	56,036,543	62,253,048
Increase of capital	345,102	90,534,924	90,880,026
Exchange rate adjustments	0	(5,899,393)	(5,899,393)
Profit/loss for the year	0	(81,401,184)	(81,401,184)
Equity end of year	6,561,607	59,270,890	65,832,497

Notes

1 Uncertainty relating to recognition and measurement

The Company's investments in subsidiaries are measured in accordance with the equity method, which implies that changes in the result of the subsidiaries are reflected in the measurement in the income statement of MC2 Therapeutics A/S.

In accordance with English tax legislation, the subsidiary, MC2 Therapeutics Ltd, has an option to claim tax relief on research and development costs. At the time of the signing of the Annual Report for 2019 the tax relief for 2018 has been received by the Company, and Management has estimated a tax relief claim for 2019, which has been calculated using the same principles and method as 2018. The final amount is subject to a detailed calculation as well as and negotiations and approval with the Tax Authorities, and are therefore subject to uncertainty.

2 Staff costs

	2019	2018
	DKK	DKK
Wages and salaries	11,910,600	10,484,554
Pension costs	1,954,644	1,771,450
Other social security costs	80,435	74,344
Other staff costs	121,877	72,102
	14,067,556	12,402,450
Average number of full-time employees	11	10

3 Other financial income

	2019	2018
	DKK	DKK
Financial income from group enterprises	6,637,370	8,874,531
Other interest income	8,895	1,352
Exchange rate adjustments	0	63,886
	6,646,265	8,939,769

4 Other financial expenses

	2019	2018
	DKK	DKK
Other interest expenses	32,764	59,436
Exchange rate adjustments	48,476	4,959
	81,240	64,395

5 Tax on profit/loss for the year

	2019 DKK	2018 DKK
Current tax	129,076	176,097
	129,076	176,097

6 Intangible assets

	Acquired intangible assets DKK
Cost beginning of year	151,000
Cost end of year	151,000
Amortisation and impairment losses beginning of year	(62,917)
Amortisation for the year	(30,200)
Amortisation and impairment losses end of year	(93,117)
Carrying amount end of year	57,883

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK	Leasehold improvements DKK
Cost beginning of year	90,354	72,000
Additions	847,220	22,190
Cost end of year	937,574	94,190
Depreciation and impairment losses beginning of year	(46,437)	(31,933)
Depreciation for the year	(167,982)	(18,098)
Depreciation and impairment losses end of year	(214,419)	(50,031)
Carrying amount end of year	723,155	44,159

8 Financial assets

	Investments in group enterprises DKK	Other receivables DKK
Cost beginning of year	352,135,325	116,884
Additions	204,523,122	64,486
Cost end of year	556,658,447	181,370
Impairment losses beginning of year	(352,135,325)	0
Exchange rate adjustments	(5,899,393)	0
Share of profit/loss for the year	(87,231,679)	0
Impairment losses for the year	(204,523,122)	0
Investments with negative equity value depreciated over receivables	93,219,299	0
Investments with negative equity value transferred to provisions	(33,773)	0
Impairment losses end of year	(556,603,993)	0
Carrying amount end of year	54,454	181,370

Investments in subsidiaries	Registered in	Corporate form	Equity interest %
Drug Delivery Solutions ApS	Hørsholm, Denmark	ApS	100
Zadec ApS	Hørsholm, Denmark	ApS	95%
MC2 Therapeutics Ltd.	Leatherhead, United Kingdom	Ltd.	100
MC2 Therapeutics Inc.	Delaware, USA	Inc.	100

9 Provisions for investments in group enterprises

Provisions consists of expected costs relating to submitted letters of support to subsidiaries.

10 Non-current liabilities other than provisions

	Due after more than 12 months 2019 DKK	Outstanding after 5 years 2019 DKK
Other payables	423,835	423,835
	423,835	423,835

11 Unrecognised rental and lease commitments

	2019 DKK	2018 DKK
Liabilities under rental or lease agreements until maturity in total	181,000	118,000

12 Contingent liabilities

The Company has submitted letter of support to a number of subsidiaries. The Company has accepted an obligation to, once or several times, to supply necessary liquidity to subsidiaries on order for them to continue operations until May 2021.

The Entity serves as the administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for these entities.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are consistent with those applied last year.

Consolidated financial statements

Referring to section 110 of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue and external expenses.

Revenue

Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages, and social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, and gains and losses from the sale of intangible assets and equipment.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of intra-group profits or losses.

Other financial income

Other financial income comprises interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish group enterprises. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet**Intellectual property rights etc**

Intellectual property rights etc comprise acquired intellectual property rights.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised on a straight-line basis over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	5 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits or losses. Refer to the above section on business combinations for more details about the accounting policies used on acquisitions of investments in group enterprises.

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation will involve a loss, a provision is recognised that is measured at present value of the costs necessary to settle the obligations at the balance sheet date.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to reserve for net revaluation according to the equity method in equity.

Goodwill is the positive difference between cost of investments and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. #For one amount of goodwill, #it has not been possible to estimate useful life reliably, for which reason such useful life has been set at 10 years. #For other amounts of goodwill, useful life has been determined based on an assessment of #whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and #whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. Useful lives are reassessed annually. The amortisation periods used are 5-10 years.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value, less writedowns for bad and doubtful debts.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Other provisions

Other provisions comprise provisions for securities for subsidiaries.

Other provisions are recognised and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Joint taxation contributions payable or receivable

Current joint taxation contributions receivable or joint taxation contributions payable are recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.