Forward Pharma A/S

Annual Report 2014

CVR-nr. 28865880

The Annual Report was presented
and adopted at the Annual General
Meeting of the Company on
20 April 2015

Forward Pharma A/S

Index to Annual Report

Forward Pharma A/S

Index to Annual Report

Managements" statement

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Forward Pharma A/S for the financial year 1 January – 31 December 2014.

The Annual Report is prepared in accordance with International Financial Reporting Standards as adopted by the EU. Moreover, the Annual Report is prepared in accordance with additional Danish disclosure requirements for annual reports.

In our opinion, the Financial Statements give a true and fair view of the financial position at 31 December 2014 of the Company and of the results of the Company operations and cash flows for 2014.

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

Copenhagen, 24 March 2015

Executive Board

Peder Møller Andersen

Joel Sendek

Supervisory Board

Florian Schönharting
Chairman

John Kevin Buchi

Torsten L. Goesch

Jan G J van de Winkel

1

Independent auditors' report

To the shareholders of Forward Pharma A/S

We have audited the financial statements of Forward Pharma A/S for the financial year 2014, which comprise the statement by the supervisory and executive boards on the annual report, the management ́s review, statement of financial position, statement of comprehensive loss, statement of changes in equity, statement of cash flows, a summary of significant accounting policies and notes. The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements in the Danish Financial Statement Act.

Management's responsibility for the annual report

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 Danish disclosure requirements in the Danish Financial Statements Act. Further, management is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility and basis of opinion

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with international standards on auditing and additional requirements according to Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of company financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view. The purpose is to design audit procedures that are appropriate in the circumstances, but not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management as well as the overall presentation of the company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit did not result in any qualification.

Independent auditors’ report

Opinion

In our opinion, the financial statements give a true and fair view of the company’s financial position at 31 December 2014 and of the results of its operations and cash flows for the financial year 2014 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements in the Danish Financial Statements Act.

Statement on the management’s review

Management is responsible for the preparation of a management’s review that includes a fair review in accordance with additional Danish disclosure requirements for annual reports.

Our audit did not include the management’s review. Pursuant to the Danish Financial Statements Act, we have, however, read the management’s review. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information in the management's review is consistent with the financial statements.

Copenhagen, 31 March 2015

Ernst & Young
Godkendt Revisionspartnerselskab

C. Johansen

Christian Schwenn Johansen
State authorised public accountant

Management's review

The overall objective of Forward Pharma A/S is to develop and market pharmaceutical products. The current activities are focused on the development of Forward Pharma's innovative product FP187 for the treatment of immune related diseases such as plaque psoriasis and multiple sclerosis.

Forward Pharma A/S is referred to herein as the "Company." Forward Pharma A/S and its subsidiaries are collectively referred to herein as the "Group."

As disclosed in more details in the Notes to the accompanying financial statements, the Company during 2014 completed the public listing in the United States of approximately 11.7 million American Depositary Shares (each representing one ordinary share of the Company) raising net proceeds, after deducting the underwriters' commission and other out-of-pocket expenses of approximate $215 million.

The financial statements for the year 2014 showed an operating loss of $9.8 million compared to $2.6 million in 2013.

As many of the development activities are carried out through the wholly owned subsidiary in Leipzig the investment in the subsidiary is a major part of the financial statements of this year.

As of December 31, 2014 the Company had cash and cash equivalent of $44 million. Available–for-sale financial assets totaled $178 million including amounts classified as non-current assets.

Development during the year

During 2014 Forward Pharma A/S had cash inflows from financing activities of approximately 238 million USD primarily from the public listing of ordinary shares in the United States and the issuance of convertible debt instruments. As of December 31, 2014 the Company held cash, cash equivalents and available-for-sale financial assets of approximately 222 million USD and accordingly we have the ability to fund our operations beyond the next twelve months. This increase in our liquidity positions the Company to advance our unique formulations of dimethyl fumarate ("DMF"), an immune modulator, as a therapeutic to improve the health and well-being of patients with immune disorders including multiple sclerosis and psoriasis. FP187, our clinical candidate, is a DMF formulation in a delayed and slow release oral dose, which we plan to advance into Phase 3 clinical trials. We continued our focus to strengthen our intellectual property as several additional patent claims were submitted to support FP187 in the United States and Europe and opposition proceedings against two of our European patents are currently pending including an opposition proceeding in Europe against a Biogen patent.

Subsequent events

There have been no material events occurring subsequent to December 31, 2014.

Statement of financial position

Assets

	Notes	December 31, 2014 USD'000	December 31, 2013 USD'000
Equipment	3.1	-	2
Available for sale financial assets	4.3	131,899	-
Investment in subsidiaries	4.4	16,068	11,788
Total non-current assets		**147,967**	**11,790**
Other receivables	3.2	653	77
Income tax receivable	2.3	320	100
Intercompany receivable	5.2	415	331
Prepayments	4.3	676	21
Available for sale financial assets	4.3	46,236	-
Cash and cash equivalents		44,043	2,742
Total current assets		**92,343**	**3,271**
Total assets		**240,310**	**15,061**

Equity and liabilities

	Notes	December 31, 2014 USD'000	December 31, 2013 USD'000
Share capital		809	305
Share premium		339,678	26,680
Foreign currency translation reserve		(11,424)	(944)
Fair value adjustment for available for sale financial assets	4.3	(238)	-
Retained earnings (accumulated deficit)		(90,808)	(40,363)
Equity attributable to equity holders of the parent	4.1	**238,017**	**(14,322)**
Total equity		**238,017**	**(14,322)**
Interest-bearing convertible loans	3.4, 4.3	-	2,613
Trade and other payables	3.3	2,293	646
Net settlement obligation to shareholder warrants	4.3	-	26,124
Current liabilities		**2,293**	**29,383**
Total liabilities		**2,293**	**29,383**
Total equity and liabilities		**240,310**	**15,061**

See accompanying notes to these financial statements

Statement of profit or loss

	Notes	Year ended December 31 2014 USD'000	2013 USD'000
Other operating income	5.2	143	151
Research and development costs	2.1, 2.2	(5,820)	(2,028)
General and administrative costs	2.1, 2.2, 2.4	(4,172)	(699)
Operating loss		**(9,849)**	**(2,576)**
Exchange rate gains		5,652	7
Impairment of investment in subsidiary	4.4	(4,499)	-
Fair value adjustment to net settlement obligations to shareholder warrants	4.3	(968)	(6,676)
Fair value adjustment convertible loans	3.4	(3,823)	-
Other finance costs		(425)	(76)
Net loss before tax		**(13,912)**	**(9,321)**
Income tax benefit	2.3	250	96
Net loss for the year		**(13,662)**	**(9,225)**

See accompanying notes to these financial statements

Statement of other comprehensive loss

	Notes	2014	2013
		Year ended December 31	
		USD'000	USD'000
Net loss for the year		**(13,662)**	**(9,225)**
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation to presentation currency		(10,480)	(660)
Fair value adjustments available-for-sale financial assets	4.3	(238)	-
Other comprehensive loss for the year, net of tax		**(10,718)**	**(660)**
Total comprehensive loss for the year		**(24,380)**	**(9,885)**

Statement of changes in shareholders' equity

	Note	Share capital	Share premium	Foreign currency trans-lation reserve	Fair value adjust-ment financial assets	Accum-ulated deficit	Total equity
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
At January 1, 2013		**283**	**16,633**	**(284)**	**-**	**(31,738)**	**(15,106)**
Net loss for the year		-	-	-	-	(9,225)	(9,225)
Other comprehensive loss		-	-	(660)	-	-	(660)
Total comprehensive loss		**-**	**-**	**(660)**	**-**	**(9,225)**	**(9,885)**
Issue of share capital for cash	4.1	20	7,931	-	-	-	7,951
Conversion of interest-bearing convertible loans to share capital		2	2,126	-	-	-	2,128
Costs related to capital increases		-	(10)	-	-	-	(10)
Share-based payment costs	2.2	-	-	-	-	600	600
Transactions with owners		**22**	**10,047**	**-**	**-**	**600**	**10,669**
At December 31, 2013		**305**	**26,680**	**(944)**	**-**	**(40,363)**	**(14,322)**

2014							
At January 1, 2014		**305**	**26,680**	**(944)**	**-**	**(40,363)**	**(14,322)**
Net loss for the year		-	-	-	-	(13,662)	(13,662)
Other comprehensive income /loss		-	-	(10,480)	(238)	-	(10,718)
Total comprehensive loss		**-**	**-**	**(10,480)**	**(238)**	**(13,662)**	**(24,380)**
Issue of share capital for cash	4.1	3	2,005	-	-	-	2,008
Cost related to capital increase		-	(8)	-	-	-	(8)
Exercise of warrants	4.1	25	29,483	-	-	-	29,508
Class B Award	4.1	3	42,731	-	-	(42,734)	-
Change in nominal value	4.1	262	(262)	-	-	-	-
Proceeds from initial public offering (“IPO”)	4.1	191	235,009	-	-	-	235,200
Cost related to IPO	2.4		(20,489)				(20,489)
Conversion of interest- bearing convertible loans to share capital	3.4	20	24,529	-			24,549
Share-based payment costs	2.2	-	-	-	-	5,951	5,951
Transactions with owners						**(36,783)**	
		504	**312,998**	**-**	**-**		**276,719**
At December 31, 2014		**809**	**339,678**	**(11,424)**	**(238)**	**(90,808)**	**238,017**

See accompanying notes to these statements

Statement of cash flows

	Notes	2014	2013
		Year ended December 31	
		USD'000	USD'000
Net loss before tax		**(13,912)**	**(9,321)**
Adjustments to reconcile loss before tax to net cash flow:			
Fair value adjustment to net settlement obligations to shareholder warrants and convertible loans	3.4, 4.3	4,791	6,676
Other finance costs, net		(1,737)	75
Share-based compensation	2.2	1,442	426
Impairment loss attributable to share-based compensation	4.4	3,864	-
Depreciation charge for the year	3.1	2	2
Change in other receivables and prepayments	3.2	(2,152)	(146)
Change in trade and other payables	3.3	1,647	99
Net cash flows used in operating activities		**(6,055)**	**(2,189)**
Investing activities			
Capital increase in subsidiary		(5,700)	(6,328)
Purchase of securities / bonds	4.3	(191,110)	-
Net cash flows used in investing activities		**(196,810)**	**(6,328)**
Financing activities			
Proceeds from issuance of interest-bearing convertible loan	3.4	21,284	2,456
Shares issued for cash	4.1	1,982	7,951
Transaction costs of capital increase	4.1	(6)	(10)
Proceeds from IPO net of underwriters' commission	4.1	218,736	-
IPO transaction costs other than underwriters' commission	2.4	(4,425)	-
Net cash flows from financing activities		**237,571**	**10,397**
Net increase in cash and cash equivalents		34,706	1,880
Net foreign exchange differences		6,595	100
Cash and cash equivalents at January 1		**2,742**	**762**
Cash and cash equivalents at December 31		**44,043**	**2,742**

See accompanying notes to these financial statements

Corporate Information

Forward Pharma A/S, (the "Company), is a limited liability company incorporated and domiciled in Denmark. The registered office is located in Copenhagen, Denmark. The financial statements include herein are those of the Company. The Company's wholly-owned German and United States of America subsidiaries Forward Pharma GmbH and Forward Pharma USA, LLC, respectively, are reflected in the accompanying financial statements as an investment carried at cost unless the investment has been impaired. The Company's Board of Directors authorized the issuance of the financial statements included herein on March 31, 2015.

The Company is a biopharmaceutical company preparing to initiate a Phase 3 clinical trial using FP187, a proprietary formulation of dimethyl fumarate ("DMF") for the treatment of multiple sclerosis ("MS") patients. Since the Company's founding in 2005, it has worked to advance unique formulations of DMF, an immune modulator, as a therapeutic to improve the health and well-being of patients with immune disorders including MS. FP187, the Company's clinical candidate, is a proprietary formulation of DMF that the Company plans to advance for the treatment of MS and other immune disorders, such as psoriasis.

Public listing of American Depositary Shares representing Ordinary Shares

During October 2014 the Company completed the initial public offering ("IPO") of American Depositary Shares ("ADS") representing ordinary shares of the Company in the United States and issued 10.5 million ADSs at a price per ADS of $21.00 to investors. Each ADS represents one ordinary share with a per share nominal value of 0.10 DKK or Danish Kroner. Each ordinary share is entitled to one vote. Immediately prior to the IPO, Class A shares were issued to the Class B shareholders ("Class B Award") in consideration for amendments to certain contractual rights held by the Class B shareholders, all of the Company's outstanding Class A and Class B shares were converted into ordinary shares on a 1 for 1 basis ("Share Conversion"), and finally additional ordinary shares ("Proportional Shares") were issued to all shareholders in proportion to their respective ownership. (The Class B Award and the Proportional Shares are collectively referred to as the "Bonus Shares.") In addition, a share split of 10 for 1 ("Share Split") was completed immediately prior to the IPO. The Company accounted for the Class B Award as a preferential share issuance that resulted in an increase in the loss attributable to ordinary shareholders of approximately $42.7 million for the year ended December 31, 2014. All share and per share information included herein has been adjusted to reflect the issuance of the Proportional Shares and the Share Split as if they had occurred as of the beginning of the earliest period presented, unless otherwise stated, since the issuance of the Proportional Shares and the Share Split resulted in no additional consideration received by the Company nor did it change the individual ownership percentages of individual shareholders of the Company. The issuance of the Class B Award and the Share Conversion are reflected herein on the dates such issuances occurred. See Note 4.1.

During November 2014, the underwriters exercised a portion of their over-allotment option thereby increasing the number of ADSs issued in the IPO by approximately 700,000 ordinary shares. The underwriters' over-allotment option has now expired.

The aggregate proceeds received by the Company were approximately $235 million before deducting the underwriters' commission (7% of gross proceeds) and other expenses and including the proceeds for the partial exercise by the underwriters' over-allotment option.

Liquidity

As of December 31, 2014 the Company had approximately $222 million in cash and investments. For the years ended December 31, 2014 and 2013 the Group used cash in operations of approximately $9.9 million and $2.2 million respectively. The Group currently has no commercial products or revenue and does not expect any for the foreseeable future. Management believes, based on current estimates, that cash and investments held at December 31, 2014 will be adequate to allow the Company to meet its planned operating activities, including increased levels of research and development activities, in the normal course of business beyond the next twelve months. Should the Company experience unforeseen expenses or other usages of cash the effect could negatively impact management's estimated operating results. The Company may need to raise funds to complete the development and commercialization of FP187. Such funding could be in the form of either additional equity or debt financing or in exchange for product rights in all or certain geographies. There can be no assurances that the Company will be able to obtain additional financing if needed in the future. The long-term success of the Company will be based on successfully commercializing FP187 and defending its intellectual property. There can be no assurance that the Company will commercialize a product, achieve or sustain positive cash flows from operations or become profitable.

Section 1 Basis of Presentation

1.1 Accounting policies

Basis of preparation

These separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, or IFRS, as adopted by the European Union or EU and additional Danish disclosure requirement for class B entities. The Company is not subject to the reporting requirements for class D entities because it has listed ADSs in the United States and not in an EU/EOS country as discussed in the Danish Financial Statements Act. These financial statements are separate financial statements of the Company. As the result of the Company's size the Group is exempted from preparing consolidated financial statements under Danish accounting legislation.

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments (net settlement obligation to shareholder warrants and certain loans) that have been measured at fair value. The financial statements are presented in U.S. Dollars, or 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, ticker symbol "FWP."

The Company's functional currency is the DKK.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company in its functional currency 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.

Translation from functional currency to presentation currency

In the translation to the presentation currency from the functional currency, DKK, operating statements such as the Statements of Profit and Loss and comprehensive income are translated into USD at average exchange rates, and the assets and liabilities are translated at the exchange rates at the balance sheet date. Exchange differences arising from such translation are recognized directly in other comprehensive income and presented in a separate reserve in equity.

Share-based payments

Employees, board members of the Group and consultants providing services similar to employees 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 using the Black Scholes model. The Company has never granted cash settled awards.

The cost of share-based payments is recognized as employee compensation 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 award and a modification of the equity instruments granted in the prior period. For equity instruments that are modified, in addition to recognizing any unamortized prior costs, the incremental value, if any, that results from the modification 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.

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

Other employee benefits

Employee benefits are primarily made up of salaries, share-based payments and Company provided health insurance. The cost of these benefits is recognized as expenses as services are delivered.

Other operating income

Other operating income consists of Management fees from the German subsidiary. Management fee is recognized on an accrual basis. There are no Management fees due from our US subsidiary.

Classification of Operating Expenses in the Income Statement

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 by patent registry offices (for example the United States Patent and Trademark Office ("USPTO"), the European Patent Office ("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 are incurred 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 (not residing within the USPTO, EPO or other country-specific patent registry offices) they will be classified within general and administrative expenses ("Court Expenses".) For all periods presented the Company did not incur Court Expenses.

The Company's research and development activities concentrate on the development of unique formulations of DMF, for the treatment of immune disorders such as MS and psoriasis, and all patent office-related activities regarding the Company's patent estate development (i.e., interference proceedings, oppositions and new patent developments). Research and development costs incurred by the Company to date have not been eligible for capitalization, and consequently have been expensed in the period incurred, as it is not probable at this time that the Company's research and development efforts will generate future economic benefit.

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, other costs associated with our ADS listing in the United States in 2014 and depreciation of equipment, to the extent such expenses are related to the Company's administrative functions.

Income tax and deferred tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

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

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The Company is part of a tax group with Tech Growth Invest ApS and its subsidiaries. Under the shareholders' agreement and applicable provisions of the Danish taxation law, the Company will be entitled to obtain refunds at the prevailing tax rate from other entities within the joint taxation scheme who can utilize tax losses. The Company is jointly and severable liable with other entities in the tax group in the event there are unpaid tax obligations of the tax group. The current tax benefit represents the estimated benefit to be derived from the joint taxation scheme.

Equipment

Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Depreciation is based on the residual value and is calculated on a straight-line basis over the expected useful lives of the assets of 3 years

Residual values, the useful life of and method of depreciation of equipment is reviewed at least at each financial year-end.

Investments 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. See Note 4.4.

Other financial assets

Initial recognition and measurement

Financial assets that meet certain criteria are classified at initial recognition as 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 as fair value through profit or loss or held to maturity. Generally the Company's financial assets are available to support current operations; however, amounts we expect to be realized within the next twelve months are classified within the statement of financial position as current assets. Certain available for sale financial assets have been classified within the statement of financial position as non-current assets as Management currently has no intention or business reason to dispose of these financial assets within the next 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.

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, the 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. The Company has no loans. 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

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. 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 available-for-sale financial assets, the amount of loss to be recognized in the event an asset is impaired is measured as the difference between the carrying value of the available-for-sale financial asset and its fair value. For each of the years ended December 31, 2014 and 2013, the Company did not experience an impairment of a financial asset.

Financial Liabilities

The Company's financial liabilities include trade payables, convertible loans and the net settlement obligation shareholder warrants that meet the definition of derivative financial instrument. As discussed further below, generally if a financial instrument is issued that allows for settlement in ordinary shares of the Company and contains provisions whereby settlement can be on a net basis in cash or ordinary shares, for a variable number of ordinary shares or a variable amount of cash, then the financial instrument will be accounted for at fair value through profit and loss.

Trade payables

Trade payables relate to the Company's purchase of products and services from various vendors in the normal course of business with payment terms generally not exceeding 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 impact of the using the effective interest method has had no impact on the Company's financial statements.

Convertible loans

The Company in the past has issued convertible loans that meet certain technical requirements, including (but not limited to) settlement of the conversion option for a fixed number of the Company's ordinary shares, that are initially recognized at fair value, net of transaction costs incurred. Subsequently these convertible loans are measured at amortized cost and accounted for using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss within other finance costs when the convertible loans are derecognized as well as through the effective interest rate amortization process. Amortized cost is calculated by taking into account any discount or premium from the face value of the convertible loan plus direct and incremental transaction costs incurred in connection with issuance of the convertible loan. See Note 4.3.

Convertible loans that do not settle for a fixed number of the Company's ordinary shares are initially and subsequently recognized at fair value. Direct and incremental transactions costs incurred in connection with the issuance of convertible loans that contain such provisions are recognized in profit or loss as incurred. Gains and losses resulting from changes in fair value from period to period are recognized in profit or loss as non-operating gains or losses. See Note 3.4.

Net settlement obligation shareholder warrants

Shareholder warrants were issued by the Company containing terms that allow the holder of the warrant to settle for a variable number of the Company's ordinary shares. Accordingly, this term required that the shareholder warrants be accounted for as financial liability at fair value through profit and loss. Gains and losses resulting from changes in fair value from period to period are recognized in profit or loss as financial gains or losses. See Note 4.3.

Other receivables including intercompany

Other receivables primarily comprise 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 any impairment losses, if any. There have been no impairment losses in the financial periods presented.

Intercompany receivables are measured at cost less any impairment losses, if any. There have been no impairment losses in the financial periods presented.

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 net loss for the year adjusted for non-cash items, such as share based payment expense, fair value revaluations of derivatives, depreciation and changes in working capital.

Cash flows used in investing activities is comprised of payments relating to equipment purchases and the investment of a portion of the IPO proceeds into government issued debt instruments with maturities of 3 years or less.

Cash flows from financing activities is comprised of proceeds from borrowings and proceeds from share issuances net of transaction costs including the proceeds from the IPO.

For each of the years ended December 31, 2014 and 2013 the Company's cash outflows for interest expense totaled approximately $196,000 and $76,000 respectively. For all years presented the Company's cash inflows for interest income were immaterial.

1.2 Significant accounting judgments, 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 judgments, estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgment made in applying accounting policies

In the process of applying the Company's accounting policies, management has made the following judgment, which has the most significant effect on the amounts recognized in the financial statements.

- Research and development costs not eligible for capitalization Note 1.1

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 described below. The Company based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances arising beyond the control of the Company are reflected in the assumptions when they occur.

Management has determined that the following items involve a high degree of estimation uncertainty.

- Valuation of share-based payment — Note 2.2
- Deferred tax assets — Note 2.3
- Valuation of net settlement obligation to shareholder warrants — Note 4.3
- Valuation of investment in subsidiary — Note 4.4

These areas involving a high degree of estimation that are significant to the financial statements are described in more detail in the related notes.

1.3 Standards issued but not yet effective

Standards effective in 2014:

A number of new standards and amendments to standards and interpretations were issued by the IASB that became effective during 2014. None of these new or amended standards had an effect on the Company's financial statements. The Company has historically adopted relevant standards when they become effective.

Standards issued but not yet effective:

A number of new standards and amendments to standards and interpretations were issued by the IASB that become effective on or after January 1, 2015. Except for *IFRS 9 Financial Instruments ("IFRS 9")* and *IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*, which are discussed below, the future adoption of these new or amended standards are currently not expected to have an effect on the Company's financial statements.

IFRS 9 Financial Instruments: This standard addresses the accounting for financial assets and liabilities including their classification and measurement, impairment and hedge accounting. The effective date is January 1, 2018. The impact on the Company's financial statements of the future adoption of *IFRS 9* cannot currently be estimated as the impact will be determined based on facts and circumstances that exist at the time of adoption that cannot be predicted currently.

IFRS 15 Revenues from Contracts with Customers: This standard addresses the accounting and disclosure requirements for revenue contracts with customers. The effective date is January 1, 2018. The impact on the Company's financial statements of the future adoption of *IFRS 15* cannot currently be estimated as the Company currently does not have revenue from customers and the impact can only be determined based on facts and circumstances that exist at the time of adoption.

Section 2 Results for the Year

2.1 Staff Costs

	Year ended December 31,	
	2014	**2013**
	USD'000	USD'000
Wages and salaries	173	178
Social security costs	1	1
Share-based payment costs (note 2.2)	1,442	426
Total	**1,616**	**605**
Staff costs are included in the income statement as follows:		
Research and development costs	1,113	426
General and administrative costs	503	179
Total	**1,616**	**605**
Compensation to key management personnel of the Company		
Short-term employee benefits	287	325
Share-based payment transactions	28	96
Total compensation paid to key management personnel	**315**	**421**

The amounts disclosed in the table above are the amounts recognized as an expense during the reporting period related to key management personnel. Key management consists of executive officers.

For each the years ended December 31, 2014 and 2013 the Company had one full-time employee.

2.2 Share-based payment

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 to employees, consultants and members of the Board of Directors.

The 2014 Omnibus Equity Incentive Compensation Plan

During July 2014 the Company's Board of Directors approved the 2014 Omnibus Equity Incentive Compensation Plan (the "Equity Plan".) The Equity Plan was amended in August 2014. Under the Equity Plan the Board of Directors, or a committee appointed by the Board of Directors (collectively the "Committee"), may grant awards (as defined below) to employees, consultants and directors. At the inception of the Equity Plan there were approximately 3.1 million ordinary shares available for grant under the Equity Plan. Awards can be in the form of ordinary shares, deferred shares, restricted shares or share options with terms and vesting conditions determined by the Committee. The Equity Plan contains anti-dilution provisions in the event of a stock split or similar corporate transaction. Since the inception of the Equity Plan the Committee awarded approximately 569,000 deferred shares

("Deferred Shares") to the Company's Chief Financial Officer. The Deferred Shares give the holder no rights as a shareholder until the Deferred Shares vest except for certain dividend rights. In addition, approximately 471,000 share options ("Share Options") were awarded to employees, including approximately 379,000 awarded to the Company's Chief Financial Officer, that allow the holder to purchase an equal number of ordinary shares at an exercise price per ordinary share of $21.00. In addition, approximately 89,000 warrants were granted to a Director at an exercise price of $11.02 per share. The Deferred Shares, the Share Options and the warrants vest incrementally over four years with accelerated vesting under certain situations including a change in control as defined. The aggregate fair value of the Deferred Shares, the Share Options and the warrants on the date of award totaled approximately $9.2 million, $6.0 million and $1.1 million respectively and will be expensed over four years unless the accelerated vesting provisions are triggered. As of December 31, 2014 all the Deferred Shares remain outstanding and none have vested.

Warrants

Prior to July 2014 when the Equity Plan became effective, the Company awarded warrants to employees, consultants and key members of management ("Non-plan Awards"). Each warrant entitles the holder to purchase one ordinary share. During June 2014, approximately 89,000 warrants were granted to a consultant at an exercise price of $0.67 per share. Approximately 53,000 of the warrants vested immediately and the remaining balance vest over 18 months with accelerated vesting under certain situations including a change in control as defined. In addition, approximately 1.6 million warrants were modified to extend the expiration date or similar by two, six or seven months that have a weighted average exercise price of $1.21. The aggregate fair value of the warrants granted during the year ended December 31, 2014 was approximately $169,000 and the financial statement impact of the warrants modified was immaterial. In addition approximately 135,000 warrants, after the Share Split and the Bonus Share adjustments, were exercised during July 2014 yielding gross proceeds to the Company of approximately $92,000 (the "Exercise".) The per share estimated fair value of an ordinary share of the Company on the date of the Exercise was approximately $11.00.

During 2013, the Company's Chief Executive Officer was granted approximately 334,000 warrants, with an exercise price of $1.43 per share, which replaced an equal number of warrants that expired during the year. In addition, employees and consultants were granted approximately 938,000 warrants including 751,000 warrants, with exercise prices ranging between $0.67 and $1.43 per share, that were granted as replacement awards for warrants that expired during the year. Of the remaining 187,000 warrants granted in 2013, the exercise price of 125,000 warrants is $8.76 per share and the exercise price of the remaining 62,000 warrants is $0.67 per share. The aggregate fair value of warrants granted during the year ended December 31, 2013, including warrants replaced, was approximately $579,000. Warrants granted during 2013 generally vest over either a 1 or 2 year period.

The aggregate share-based compensation expense included in operating results from awards granted under the Equity Plan and the Non-plan Awards for each of the years ended December 31, 2014 and 2013 was approximately $1.4 million and $426,000, respectively.

The table below summaries the activity for each of the years ended December 31, 2014 and 2013 for Share Options, warrants and the weighted average exercise price ("WAEP".) The table below does not include the Deferred Shares discussed above:

	Share Options and Warrants:			
	Key Management Personnel	**Employees and Consultants**	**Total Awards**	**WAEP**
	No. '000	No. '000	No. '000	
Outstanding at December 31, 2012	590	1,972	2,562	$1.03
Granted during the year	334	938	1,272	$0.11
Expired during the year	(334)	(1,050)	(1,384)	$0.06
Outstanding at December 31, 2013	590	1,860	2,450	$1.46
Granted during the year	468	180	648	$16.84
Exercised during the year	-	(135)	(135)	$0.67
Expired during the year	-	(109)	(109)	$0.67
Outstanding at December 31, 2014	**1,058**	**1,796**	**2,854**	**$5.03**
Exercisable at December 31, 2014	599	1,653	2,252	

The weighted average remaining contractual life of Share Options and warrants outstanding as of December 31, 2014 and 2013 was approximately 2.6 years and 1.3 years respectively.

The table below summaries the range of exercise prices, after converting where applicable exercise prices stated in DKK to USD, for options and warrants outstanding as of December 31, 2014 and 2013. The table below does not include the Deferred Shares discussed above:

Exercise price (per share)	2014	2013
	No. '000	No. '000
$0.67	780	936
$0.95	220	220
$1.19	54	54
$1.43	1,115	1,115
$8.76	125	125
$11.02	89	-
$21.00	471	-
Total	2,854	2,450

The tables below summarize the inputs to the model used to value options and warrants as well as the average fair value per option or warrant awarded for each of the years ended December 31, 2014 and 2013:

Year ended December 31, 2014	
Dividend yield (%)	0%
Expected volatility (%)	84 – 110
Risk-free interest rate (%)	0.0 to 0.4
Expected life of the equity award (years)	1.5 to 5
Share price	3.62 USD or 21.00 USD
Model used	Black Scholes
Basis for determination of share price *(a) (b)*	DCF-model or IPO price
Average fair value per option or warrant granted	12.28 USD

Year ended December 31, 2013	
Dividend yield (%)	0%
Expected volatility (%)	111 – 117
Risk-free interest rate (%)	0.0 to 0.6
Expected life of the equity award (years)	0.5 to 1.9
Share price ($)	7.68 USD
Model used	Black Scholes
Basis for determination of share price *(a)*	DCF-model
Average fair value per warrant granted	1.05 USD

(a) Discounted cash flow or "DCF."
(b) The IPO price per share was used to value equity awards granted immediately prior to the IPO.

Prior to the IPO, the Company was owned by a limited number of investors who were governed by a shareholders' agreement that restricted the trading of the shares and provided different liquidation preferences rights among share classes. Accordingly, for the year ended December 31, 2013 and part of the year ended December 31, 2014, the trading restrictions combined with preferential rights resulted in no objective evidence of the Company's fair value per share price. Therefore, the fair value per share was established using a discounted cash flow model that is discussed in greater detail below.

The expected life of an equity award at the time of grant was based on an the assumption that the holder will exercise their award on the occurrence of a listing or upon vesting date if subsequent to a listing of the Company's ordinary shares. This assumption may not necessarily be indicative of exercise patterns that may actually occur.

The expected volatility is based on peer group data and reflects the assumption that the historical volatility over a period similar to the life of the equity awards is indicative of future trends, which may not necessarily be the actual outcome. The peer group consists of listed companies which Management believes are similar to the Company in respect to industry and stage of development.

Significant estimation uncertainty regarding share based payments

Prior to the Company's IPO, determining the initial fair value and subsequent accounting for equity awards granted to the Group's employees, consultants and directors required Management to use many subjective assumptions including estimating the fair value of the Company's ordinary shares. The subjective nature of the assumptions required Management to use significant judgment and small changes in any individual assumption or in combination with other assumptions could have yielded significantly different results. The most significant assumptions included, estimated long-term cash flows of the Group discounted for the risk and uncertainty of successfully developing and commercializing FP187, the expected period an equity award would be outstanding and the peer group we used to determine volatility. Before the Company's ADSs were quoted on an active market, the underlying share price applied was determined by applying a discounted cash flow (DCF) model. The expected future cash flows were based on strategic plans up until product launch and projections for the following years. For the valuation as of December 31, 2013 and up until the IPO, a discount rate (WACC) of 12% was applied. In addition, a marketability discount of 25% was applied.

Subsequent to the Company's IPO, determining the initial fair value and subsequent accounting for equity awards will continue to require significant judgment regarding expected life and volatility of an equity award; however, as a public listed company there will be objective evidence of the fair value of an ordinary share and DCF valuations will no longer be used. As a public listed entity, in the future after there has been an extended period of historical trading activity of the Company's ordinary shares, the Company will determine the fair value of an equity award using an option valuation model that incorporates the historical trading attributes of the Company's ordinary shares including the volatility and the expected life of an equity award.

All amounts presented in this Note have been adjusted to reflect the Proportional Share and the Share Split adjustments as if they had occurred at the beginning of earliest period presented. Amounts disclosed herein may be different from amounts previously reported as the result of changes in exchange rates.

2.3 Income tax and deferred tax

	Year ended December 31,	
	2014	2013
Current income tax		
Current income tax benefit	(250)	(96)
Net loss before tax	(13,912)	(9,321)
At the Company's statutory income tax rate of 24.5% (2013: 25%)	(3,408)	(2,330)
Adjustments:		
Non-deductible expenses for tax purposes	936	1,669
Non recognized deferred tax assets	2,222	565
	(250)	(96)
Income tax benefit reported in the consolidated financial statements	(250)	(96)

Deferred tax

	At December 31,	
	2014 USD'000	2013 USD'000
Tax effect of tax loss carry forwards	3,447	2,410
Share-based payment	3,330	1,591
Other deferred taxes	(147)	(4)
Unrecognized deferred tax assets	6,630	3,997

Tax loss carryforwards amount to USD'000 15,667 (2013: 10,555) have no expiry date. However, only 60% of profit in excess of $ 1.4 million can be offset against tax loss carryforwards in one year.

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 positive taxable income within a foreseeable future. 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 on an ongoing basis and is based on budgets and business plans for the coming years, including planned commercial initiatives. The creation and development of therapeutic products within the biopharmaceutical industry—such as the Company's product candidate FP187 (dimethyl fumarate)—is subject to considerable risks and uncertainties. Since its inception, the Company has reported significant losses, and as a consequence, the Company has unused tax losses. Management has concluded that deferred tax assets should not be recognized as of December 31, 2014 or at any other prior date, in accordance with IAS 12, "Income Taxes." The tax assets are currently not deemed to meet the criteria for recognition as management is not able to provide any convincing positive evidence that taxable profit will be available.

Tax uncertainties

In 2010, the Company acquired patent rights related to the development of the Company's product candidate, FP187, from Aditech AG ("Aditech"). Danish tax law requires the Company to calculate the net present value of the future payments to be made to Aditech as remuneration for the rights acquired. The net present value is the basis for the amortization of such intangibles, which may be amortized over a period of 7 years beginning with the year of purchase. In 2010, the Company did not calculate the net present value of the future payments in connection with the acquisition of the rights related to FP187 and the Company has not taken any such amortization deductions as of this date. The Company during 2014 corrected the prior tax position related to this matter with the approval of the Danish Tax Authorities. There were no amounts due the Danish Tax Authorities to resolve this matter. For local Danish tax purposes only, a fair value of $345 million was assigned to the patent rights transferred from Aditech. For financial reporting purposes, the transaction is only reflected when the assets transferred are generating revenue in future periods and when such deferred tax benefits are deemed to be realized. Therefore, no deferred tax has been recognized as of December 31, 2014.

2.4 IPO Costs

During the year ended December 31, 2014, the Company incurred direct and incremental costs associated with its IPO that totaled approximately $4 million (excluding the underwriters' commission of 7% of gross proceeds received from the IPO) that have been accounted for as a reduction of the gross proceeds received from the IPO and recorded through shareholders' equity. In addition, during the year ended December 31, 2014, the Company incurred costs that were directly associated with the IPO but were not incremental and therefore were not eligible to be offset against the gross proceeds and were therefore included in general and administrative expenses. Such amounts totaled approximately $2 million. No costs were incurred in connection with the IPO prior to 2014.

Section 3 Operating Assets and Liabilities

3.1 Equipment

	Equipment
	USD '000
Cost at January 1, 2013	**5**
Additions	-
Disposals	-
At December 31, 2013	5
Additions	-
Disposals	-
At December 31, 2014	**5**
Accumulated Depreciation	
At January 1, 2013	**1**
Depreciation charge for the year	2
Disposals	-
At December 31, 2013	3
Depreciation charge for the year	2
Disposals	-
At December 31, 2014	**5**
Net book value	
At December 31, 2014	-
At December 31, 2013	2

3.2 Other receivables (current)

	December 31,	
	2014	2013
	USD '000	USD '000
Value added tax ("VAT") receivables	274	77
Accrued interest income	365	-
Other receivables	14	-
Total	**653**	77

3.3 Trade payables and other payables (current)

	December 31,	
	2014	2013
	USD '000	USD '000
Trade payables	1,148	592
Accrued expenses	1,145	54
Total	**2,293**	**646**

3.4 Convertible Loans

The Company during 2014 entered into two convertible note agreements borrowing € 8.35 million and $10 million respectively.

On May 30, 2014 the Company entered into a convertible loan agreement ("Euro Bridge") with NB FP Investment II K/S a related party. The terms of the Euro Bridge allowed the Company to borrow up to € 8.35 million in installments. Outstanding borrowings accrue interest at an annual rate of 10% payable, with principal, on December 31, 2018. The full € 8.35 million was borrowed during the three months ended September 30, 2014. The Euro Bridge contained an optional conversion provision in the event that the IPO did not occur whereby the lender could have converted the outstanding principal and accrued interest into the Company's Class B shares as defined. There was a mandatory conversion provision that was triggered in October 2014 as the result of the Company successfully completing the IPO whereby the Euro Bridge plus accrued interest converted into approximately 602,000 ordinary shares of the Company. The Euro Bridge conversion rate represented a 15% discount from the fair value of the ordinary shares issued and was accounted for as discussed below. Accrued interest on the Euro Bridge at the time of conversion totaled approximately $177,000.

On August 6, 2014 the Company entered into a convertible loan agreement ("USD Bridge") with BVF Forward Pharma L.P. a related party. The terms of the USD Bridge are similar to the Euro Bridge except that the Company could borrow $10 million. The full $10 million was borrowed during the three months ended September 30, 2014. The USD Bridge plus accrued interest converted into approximately 566,000 ordinary shares of the Company upon the completion of the IPO. The USD Bridge conversion rate represented a 15% discount from the fair value of the ordinary shares issued and was accounted for as discussed below. Accrued interest on the USD Bridge at the time of conversion totaled approximately $118,000.

For financial reporting purposes, the Euro Bridge and the USD Bridge loans were carried to fair value and the change in fair value from issuance date to the date of conversion has been reflected as the fair value adjustment to convertible loans in the consolidated statement of profit or loss for the year ended December 31, 2014. This accounting treatment is the result of the derivative associated with the conversion feature deemed to be not closely related to the debt host. For the year ended December 31, 2014 there was a loss of approximately $3.8 million representing the increase in fair value of the Euro Bridge and the USD Bridge between the time of issuance and the time of conversion. Part of this loss was attributable to the 15% conversion rate discount as it effectively increased the fair value of the Euro Bridge and the USD Bridge. The Euro Bridge and the USD Bridge meet the definition of a Level 2 financial instrument for purposes of determining fair value. The fair value of the loans on the date of conversion was determined based on the number of ordinary shares issued at the quoted price per ordinary share at the time of the IPO ($21.00) adjusted for the 15% discount.

Section 4 Capital Structure and Financial Risk and Related Items

4.1 Equity and capital management

Share capital

The following table summarizes the Company's share activity for each of the years ended December 31, 2014 and 2013:

	Class A ordinary shares	Class B preferred shares	Ordinary shares
	No. '000	**No. '000**	**No. '000**
January 1, 2013	28,502	-	-
Capital increase for cash	-	675	-
Conversion of convertible loans	-	181	-
December 31, 2013	28,502	856	-
Capital increase for cash	-	157	-
Cashless settlement of interest-bearing convertible loans upon exercise of warrants	2,456	-	-
Exercise of investor warrants for cash	5	-	-
Exercise of employee warrants for cash	135	-	-
Class B Award (*)	2,034	-	-
Share Conversion (*)	(33,132)	(1,013)	34,145
Conversion of convertible debt (*)	-	-	1,169
IPO including over-allotment (*)	-	-	11,200
December 31, 2014	**-**	**-**	**46,514**

(*) see Corporate Information and Note 3.4 for additional information.

Class A ordinary shares and Class B preferred shares have a per share nominal value of 0.18 DKK and ordinary shares have a per share nominal value of 0.10 DKK. The adjustment for the change in nominal value of $262,000 within the Statement of Changes in Shareholders' Equity represents the effect of the Share Conversion and the change in the per share nominal value for outstanding shares from 0.18 DKK to 0.10 DKK.

The Company has never paid a dividend on ordinary shares and does not expect to pay dividends for the foreseeable future.

The proceeds received during the year ended December 31, 2014 pursuant to the issuance approximately 157,000 Class B shares for cash totaled approximately $1.9 million. The issuance price per Class B share was approximately $12.11.

During March 2014 a convertible loan that had been accruing interest at a rate of 20% per annum in the amount of approximately $2.5 million that was held by Nordic Biotech Opportunity Fund K/S, as a shareholder, was converted into approximately 2.5 million Class A shares.

During the year ended December 31, 2014, the company issued approximately 5,000 and 135,000 Class A shares at per share prices of approximately $1.07 and $0.68 respectively yielding aggregate proceeds of approximately $5,000 and $92,000 respectively.

In connection with the IPO, including the partial exercise of the underwriters' over-allotment option, the Company sold approximately 11.2 million ordinary shares at $21.00 per share yielding gross proceeds of approximately $235 million. The underwriters commission and other direct and increment cost totaled approximately $16 million and $4 million respectively resulting in net proceeds to the Company of approximately $215 million.

NB FP Investment K/S, a related party, acquired Class B share in 2013 at a per share price of approximately $11.78. The proceeds received pursuant to the issuance of approximately 675,000 Class B shares for cash amounted to an aggregate of $7.9 million.

As of January 1, 2013, the Group's borrowing consisted of an interest- bearing convertible loan held by Nordic Biotech Opportunity Fund K/S, a related party. The principal balance of the convertible loan was approximately $2.1 million and was due on December 31, 2015. The convertible loan accrued interest at a rate of 10%. The convertible loan plus accrued interest converted into approximately 181,000 Class B shares during January 2013.

All amounts presented in this Note have been adjusted to reflect the Proportional Share and the Share Split adjustments as if they had occurred at the beginning of earliest period presented.

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 a strong capital base so as to maintain investor, creditor and market confidence, and a continuous advancement of the Company's product pipeline and business in general. 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 December 31, 2014 the Company held cash, cash equivalents and financial assets totaling over $222 million that will be sufficient to fund operations beyond the next twelve months. The Group currently has no significant planned capital expenditures.

4.2 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 outlook. The known risks include foreign currency, interest 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 maintains 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. In addition, the Company, whose functional currency is the DKK, has invested approximately $178 million in debt instruments issued by the governments of Germany, Great Britain and the United States. 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. As of December 31, 2014 and 2013, 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 EUR, would be as follows.

Currency	Possible change	2014	2013
		USD '000	USD '000
USD	+/−10%	+10,188/-10,188	+21/-21
GBP	+/−10%	+921/−921	+62/-62
EUR	+/−2%	+1,974/−1,974	Not Significant

Interest rate risk

The Company has invested approximately $178 million in debt instruments issued by the governments of Germany (denominated in Euros), Great Britain and the United States (collectively "Bonds") that pay interest at fixed rates. The effective yield on the Bonds is less than 1%. Should market interest rates rise in the future, it would have a negative effect on the fair value of the Bonds, which could be material, and would result in a realized loss if a Bond was sold before maturity. As of December 31, 2014, the impact on the fair value of Company's Bonds of a possible increase or decrease in the interest rates would be as follows. The Company held no Bonds during 2013 and therefore amounts for 2013 have been intentionally omitted.

Denomination Currency	Possible change	2014
		USD '000
EUR	+/−1%-point	+1,491/−1,491
GBP	+/−1%-point	+119/-119
USD	+/−1%-point	+1,319/−1319

Credit Risk

The Company's credit risk is associated with cash held in banks and the Bonds. 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.

The Company's cash is held in demand accounts that generate an immaterial amount of interest income. The banks and financial institutions who hold the Company's cash are independently rated with a minimum rating of 'A'. The independent rating of the Bonds are Aa1 or higher with maturities not exceeding three years.

4.3 Financial assets and liabilities

Recognized financial instruments

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

Financial assets:

Loans and receivables as of December 31, 2014 and 2013

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	USD '000	USD '000	USD '000	USD '000
Other receivables	653	653	77	77
Intercompany receivable	415	415	331	331
Prepayments	676	676	21	21
Total	**1,744**	**1,744**	**429**	**429**

Available-for-Sale Financial Assets as of December 31, 2014 and 2013

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Included in current assets (Level 1)	USD '000	USD '000	USD '000	USD '000
Germany	19,351	19,351	-	-
United Kingdom	1,915	1,915	-	-
United States	24,970	24,970	-	-
Total	**46,236**	**46,236**	**-**	**-**

The face values of the German, United Kingdom and United States debt securities are approximately 15.7 million Euros, 1.2 million British Pounds and 25 million US Dollars.

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Included in non-current assets (Level 1)	USD '000	USD '000	USD '000	USD '000
Germany	67,862	67,862	-	-
United Kingdom	6,769	6,769	-	-
United States	57,268	57,268	-	-
Total	**131,899**	**131,899**	**-**	**-**

The face values of the German, United Kingdom and United States debt securities are approximately 54.9 million Euros, 4.1 million British Pounds and 57.5 million US Dollars.

Financial Liabilities:

Financial liabilities at amortized cost as of December 31, 2014 and 2013

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	USD ‘000	USD ‘000	USD ‘000	USD ‘000
Interest-bearing convertible loans	-	-	2,613	2,613
Trade payables	2,293	2,293	646	646
Total	**2,293**	**2,293**	**3,259**	**3,259**

Financial Liability at fair value through profit and loss as of December 31, 2014 and 2013

	2014		2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	USD ‘000	USD ‘000	USD ‘000	USD ‘000
Net settlement obligation shareholder warrants (Level 3)	**-**	**-**	**26,124**	**26,124**

The Company’s cash and cash equivalents are held primarily at one bank in Denmark with a Moody’s credit rating of A1. The Company’s available for sale financial assets are invested in government issued debt instruments that are carried at fair value with maturities not exceeding three years. Moody’s credit rating of each of the individual governments is Aa1 or better.

Fair value of trade payables is deemed to be their carrying amount based on payment terms that are generally 30 days. Fair value of the convertible loans is determined on the basis of the DKK zero coupon yield curve and a credit spread reflecting the credit risk of the Company over the term of the loans.

Financial instruments recognized at fair value are allocated to one of the following valuation hierarchy levels of IFRS 7:

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.

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 does not have financial instruments allocated to this level as of December 31, 2014 or 2013.

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 financial instruments that the Company has allocated to this level comprise net settlement obligations to shareholders warrants.

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

Interest bearing convertible loan

As of December 31, 2013, the Company’s borrowing consisted of a convertible loan denominated in DKK held by Nordic Biotech Opportunity Fund K/S, a related party. The loan was due on October 31, 2018 and was carried at amortized cost. Interest accrued at an annual rate of 20%. The convertible loan contained various terms and conditions including provisions for mandatory conversion, under certain defined circumstances, as well as optional conversion provisions into Company shares. The Lender had a put option that provided for immediate repayment of the convertible loan that was exercisable based on conditions that were not within the control of the Company and therefore the convertible loan was classified as a current liability at December 31, 2013. On March 17, 2014 the convertible loan was cancelled in consideration for exercising shareholder warrants that are discussed below. Interest expense recognized during each of the years ended December 31, 2014 and 2013 totaled approximately $100,000 and $120,000 respectively.

Net settlement obligation to shareholder warrants

On May 31, 2011, Nordic Biotech Opportunity Fund K/S, one of the Company's shareholders was granted approximately 138,000 shareholder warrants that entitled the holder to acquire an equal number of Class A ordinary shares (or approximately 2.5 million ordinary shares after the Proportional Shares and the Share Split adjustments) at an exercise price of approximately $1.07 per ordinary share after the Proportional Share and Share Split adjustments. The terms of the shareholder warrants allowed the holder to net settle in shares whereby the holder could exercise all the shareholder warrants and receive fewer Class A shares with a fair value equal to the intrinsic value of the shareholder warrants without remitting the exercise price.

The shareholder warrants were classified as a derivative financial instrument due to the fact that the holder could elect net share settlement and were recorded within current liabilities in the statement of financial position at December 31, 2013. All the warrants were exercised on March 17, 2014 in a single transaction in which approximately 5,000 Class A shares (after the issuance of Proportional Shares and the Share Split adjustments) were issued for cash consideration of approximately $5,000 and the balance in consideration for the cancellation of a convertible loan discussed above. The fair value of the shareholder warrants as of the exercise date was approximately $27 million and was transferred from liability classification to share premium within shareholder' equity as of that date. The fair value of the shareholder warrants as of December 31, 2013 was approximately $26 million.

The fair value of the shareholder warrants was based on unobservable inputs (level 3). The most significant assumptions applied in determining fair value are as of March 17, 2014 (date of exercise) and December 31, 2013 were:

	March 17, 2014	**December 31, 2013**
Expected life in years	0.2	0.4
Expected volatility (%)	66	78
Underlying share price (USD)	12	12

Expected volatility and underlying share-price are determined as set out in Note 2.2 in respect of share-based payment.

Reconciliation of fair value measurement (USD '000):

	Year ended December 31,	
	2014	**2013**
	USD '000	**USD '000**
Carrying amount at January 1	26,124	18,370
Fair value adjustment recognized in financial expense	968	6,676
Exchange differences	(123)	1,078
Exercise	(26,969)	-
Carrying amount at December 31	**-**	**26,124**

Significant estimation uncertainty regarding valuation of net settlement obligation shareholder warrants

Determination of fair value of the net settlement obligation related to shareholder warrants is associated with significant estimation uncertainty due to the fact that the shares of the Company were not traded in an active market during the period the shareholder warrants were outstanding. Therefore, the Company used a complex discounted cash flow valuation model ("DCF Model") to value the shareholder warrants. The DCF Model required numerous subjective inputs be used where small changes in any one input could have resulted in significantly different outcome. The expected future cash flows used in the DCF Model were based on long-term strategic plans to develop and commercialize FP 187. Important considerations included the uncertainty associated with long-term forecasts, likelihood of product approval and commercialization, timing of product launches, market uptake, underlying prices and implications of various healthcare reforms, health insurance reimbursement assumptions, and working capital and growth assumptions.

A reasonable possible change in the below assumptions would impact the underlying share price and have the following impact on the fair value of the net settlement obligation (USD '000).

	Base Case	**December 31, 2013**	
Probability of product launch +/−1%	6%	6,915	(6,912)
Sales price +/−10%	*	5,044	(5,056)
Marketability discount +/−5%	25%	(2,037)	2,037
Discount rate +/−1%	12.0%	(4,694)	5,646

* Multiple sclerosis $23 - 60 thousand. Psoriasis $7 - 15 thousand

On an overall basis, the estimation uncertainties are impacted by the fact that Group is an emerging growth entity focused on bringing FP187 through the development and to regulatory approval and subsequent commercialization. The Group does not have a long operational history with multiple developments and have not yet taken any products to the market. The Group's expertise is around formulation and tablet technology, pre-clinical and clinical development and consequently the Group's ability to assess and evaluate future market projections and financial success may be limited compared to other companies with a longer and broader commercial history.

Probability of product launch is the combined probability for successful Phase 3 completion, sale and regulatory approval. Several different factors may impact the successful outcome of the activities leading to commercialization of FP187, including:

- The successful performance of clinical trials that generate the regulatory data for the New Drug Application (NDA) and the approval may not be completed in a timely manner leading to delays, non-completion of the trial or the data may not come out as successful as expected. There may be high competition for patients to enter our trials or the required regulatory trial approvals may not come or be delayed.

- There is considerable uncertainty in the regulatory approval process. The agency reviews may bring up issues that may not be resolvable without new data or the response to such agency review and questions may delay the process or result in non-approval and materially impact the possibility for generating revenues from the product without further investment and time.

Sales price is the average annual price for treatment of one patient.

- For the future sales of the Group's product there is considerable uncertainty with regards to price setting and reimbursement. The governments' politics varies from country to country however generally there are constraints on medication cost and the processes for the determination/negotiation of drug prices may change. Third-party payers may also use listings of approved products for certain diseases that are fully reimbursable in which the Group's products may not be included. Such actions or regulations make future sales predictions highly uncertain.

Marketability discount is a deduction in the net present value of the future cash flows due to the fact that the shares of the Company were not traded in an active market.

The discount rate is the rate applied on discounting the future cash flows to their present value.

4.4 Investment in subsidiaries

US and German Subsidiaries

	US USD'000	German USD'000
Cost at January 1, 2013	-	4,852
Translation to presentation currency	-	221
Capital contributions	-	6,557
Share based payment costs related to subsidiary	-	158
Cost at December 31, 2013	-	11,788
Translation to presentation currency	(65)	(1,365)
Capital contributions	700	5,000
Share based payment costs related to subsidiary	3,864	645
Impairment	(4,499)	-
Carrying value at December 31, 2014	-	16,068

The carrying amount of the Company's investment in the German subsidiary exceeds the carrying amount of the net assets of the subsidiary as of December 31, 2014 and 2013. Consequently, Management has performed an impairment test. Recoverable amount of the investment is determined on the basis of expected earning in Germany and the expected cash inflow under the royalty agreement entered into between the Company and the subsidiary. Refer to Note 4.3 for a discussion of the valuation of the Company which is the basis for determining cash flows used in the impairment test. According to the impairment test, the investment is not impaired.

During 2014 the Company established a subsidiary in the United States. The US subsidiary supports the activities of the Company by providing administrative support such as investor relations, accounting and financial reporting services. The US subsidiary has no current or anticipated sources of revenues and therefore the US subsidiary incurred a loss in 2014 and it is estimated that such losses will continue for the foreseeable future. Accordingly, the Company's investment in the US subsidiary was deemed to be impaired resulting the Company recognizing an impairment loss for the year ended December 31, 2014 in the amount of approximately $4.5 million that is included as non-operating expense within the Statement of Profit and Loss. The impairment loss included capital contributions of $700,000 and the balance of approximately $3.9 million was attributable to share based compensation allocated to the US subsidiary.

Section 5 Other Disclosures

5.1 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.

Lease payments under operating leases are recognized in the statement of profit and loss over the lease term. The Company's remaining non-cancellable operating lease commitment as of December 31, 2014 was not material. Operating lease payments recognized as an expense amounted to $77,000 and $60,000 for each of the years ended December 31, 2014 and 2013 respectively.

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 Groups' control.

As of January 19, 2013, the Company became part of a tax group with its parent company Tech Growth Invest ApS and its subsidiaries and is jointly and severable liable for the tax liabilities in those entities. See Note 2.3.

Please also refer to the note below regarding the Patent Transfer Agreement between Aditech Pharma AG and the Company.

5.2 Related party disclosures

Controlling party

The Company is controlled by Nordic Biotech K/S and affiliates (collectively "NB".) The ultimate controlling party of the Company is Mr. Florian Schönharting who controls NB. Through Tech Growth Invest ApS as of January 19, 2013, the Company became part of the tax group of Tech Growth Invest ApS for purposes of Danish law. Danish law provides for joint income taxation for all Danish entities in the same tax group, with the result that losses by one entity would be offset by gains by another. However, Danish law requires entities in the same tax group to pay each other for the use of each other's tax losses. Therefore, any use of the Group's losses by other members of the Tech Growth tax group will result in compensation to the Company. Tech Growth ApS does not prepare consolidated financial statements. All members of a Danish tax group are jointly and severally liable for the group's Danish tax liabilities. Refer to note 2.3.

Shares in subsidiaries

Forward Pharma A/S holds the following interests in subsidiaries:

Name	Registered office	Shares owned	Equity USD '000	Result for the year USD '000
Forward Pharma GmbH	Leipzig, Germany	100%	391	(4,696)
Forward Pharma USA LLC	New York, USA	100%	56	(644)

Related party transactions

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

	2014 USD '000	2013 USD '000
Purchase of services	64	62
Amounts owed to related parties	-	2,613
Amounts owed by related parties	-	6
Forward Pharma GmbH:		
Management fees	143	151
Intercompany receivable	415	331

The above table excludes the related party transactions disclosed in Notes 2.3, 3.4, 4.1 and 4.3.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. For the years ended December 31, 2014 and 2013, the Company has not recorded any impairment of receivables relating to amounts owed by related parties.

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 key management personnel.

Other than the remuneration including share-based payment relating to key management personnel described in Note 2.2, no other significant transactions have taken place with key management personnel during the years ended December 31, 2014 and 2013.

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

Patent transfer agreement between Aditech Pharma AG and the Company

Aditech Pharma AG is considered to be a related party of the Company due to control over Aditech Pharma AG held by one of the Company's major shareholders, Nordic Biotech K/S.

In 2004, a private Swedish company Aditech Pharma AB (collectively with its successor-in-interest, a Swiss company Aditech Pharma AG, or Aditech), controlled by Nordic Biotech Advisors, an affiliate of one of the Company's largest shareholders, began developing and filing patents for, among other things, an innovative delayed and slow release formulation for DMF. In 2005 the Company entered into a patent license agreement with Aditech to license this patent family from Aditech, and in 2010 the Company acquired this patent family from Aditech pursuant to a patent transfer agreement. Under the Company's agreements with Aditech, the Company obtained, among other things, Aditech's patents and associated know-how related to DMF formulations and delivery systems, subject to both diligence obligations and minimum annual research and development expenditure (€1 million per year) related to the continued development of DMF formulations on the part of the Company (with an option for Aditech to receive back, for no consideration, all of the Company's DMF related assets should it fail to satisfy these obligations). The Company did not pay any up front or milestone consideration and instead shall make royalty payments to Aditech of up to 2% of net sales generated from the Group's DMF products and processes, regardless of whether such net sales are generated by us or our affiliates or licensees. Further, the Company's agreement with Aditech gives Aditech a 90-day right of first offer to acquire non-DMF related intellectual property assets that the Company might choose to sell.

5.3 Events after the reporting period

Subsequent to December 31, 2014 there were no events that were required to be reported.