# NOXXON Pharma N.V.
# Amsterdam, The Netherlands

# Annual Report 2019

# Contents

# Forward-looking statements

This Annual Report contains statements that constitute forward-looking statements. Forward-looking statements appear in a number of places in this Annual Report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on management estimates and on management's beliefs and assumptions and on information currently available to the management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to various factors, including, but not limited to, those identified under the section "Risk Management" in this Annual Report.

Such estimates have been made in good faith and represent the current beliefs of management. Management believes that such estimates are founded on reasonable grounds. However, by their nature, estimates may not be correct or complete. These statements reflect the Company's current knowledge and its expectations and projections about future events. Many of these forward-looking statements contained in this Annual Report can be identified by the context of such statements or words such as "anticipate," "believe", "estimate", "expect", "intend", "plan", "project", "target", "may", "will", "would", "could", "might" or "should" or "potential" or similar terminology. By their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Group's control that could cause the Group's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. Forward-looking statements speak only as of the date they are made and the Group does not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

# Management report

Management of NOXXON Pharma N.V. (in the following also the "Company") and its controlled subsidiaries (the "Group") hereby presents its consolidated and company financial statements for the financial year ended on 31 December 2019.

## General information

### *Overview*

NOXXON Pharma N.V. is a Dutch public company with limited liability (*naamloze vennootschap*) and has its corporate seat in Amsterdam, The Netherlands and a branch office in Berlin, Germany. The statutory consolidated financial statements of NOXXON Pharma N.V. as of and for the year ended 31 December 2019 comprise the Company and its wholly owned and / or controlled subsidiaries, NOXXON Pharma AG, Berlin, Germany and NOXXON Pharma Inc., Wilmington, United States. The Company's ordinary shares are listed under the symbol "ALNOX" with ISIN NL0012044762 on Euronext Growth stock exchange Paris, France. NOXXON Pharma N.V. is a management holding providing corporate, legal and administrative services, financial and business advice and asset management.

The Group is a clinical-stage biopharmaceutical group that has generated a proprietary product pipeline and focused on the significant improvement in the effectiveness of cancer therapies. All its product candidates are based on a new class of drug called "Spiegelmers", which are identified and synthesized through a proprietary discovery platform which the Group believes offers specific advantages over other drug classes. In various Phase 1 and 2 clinical trials involving over 3,000 administrations to over 400 human subjects, Spiegelmer drugs have so far shown to be biologically active and generally well tolerated, meaning without relevant side effects and with safety profiles that support further development. In recent years, the Group has transitioned its activities from drug product candidate discovery to product candidate development, more recently focusing on its cancer programs. Currently, the Group has retained all worldwide rights to its clinical-stage product candidates, although it has entered and may continue to enter into licensing agreements, collaborations and partnering discussions on its assets.

In December 2016, the Group signed a collaboration agreement with Merck & Co. Inc./MSD ("Merck") to study the combination of the Group's lead product candidate, NOX-A12, with Merck's immune-oncology checkpoint inhibitor antibody Keytruda®/pembrolizumab in patients with metastatic solid tumors that do not usually respond to checkpoint inhibitor monotherapy. This combination trial has delivered very encouraging top-line data in a colorectal and pancreatic cancer clinical trial in December 2018 in heavily pre-treated metastatic patients, which the Group believes justifies further work in both types of cancer.

The Group has initiated a further study of NOX-A12 in first-line brain cancer patients in combination with radiotherapy in Germany and has been collaborating with US consortia of top university researchers who are seeking their own funding to run additional NOX-A12 brain cancer trials in pediatric and adult patients. The combination of NOX-A12 plus radiotherapy has been granted orphan drug status in the US and EU for certain aggressive forms of brain cancer.

The Group's second clinical stage asset, NOX-E36 is a de-risked clinical stage asset ready for Phase 2 trials that has already been administered in 175 human subjects. NOX-E36 targets tumor microenvironment (TME) by modifying the innate immune system, specifically highly immunosuppressive cells that contribute to the cancer's ability to evade the immune system. NOXXON plans to test NOX-E36 in pancreatic cancer patients both as a monotherapy and in combination.

On 31 December 2019, the Group had cash resources of €1.4 million. The Group succeeded in raising €1.5 million in cash during the financial year 2019 from investors buying shares. Importantly, no warrants or other option-like instruments were attached to the shares issued in these financings. The continued support of investors willing to purchase shares in this manner is key for NOXXON to reduce reliance on instruments that have the potential to create divergent interests between various groups of investors. These financings were essential to allow NOXXON continue follow-up of patients in the NOX-A12/Keytruda® trial in pancreatic and colorectal cancer patients, and to initiate the NOX-A12/radiotherapy combination trial in brain cancer patients. On 31 December 2019, a significant number of warrants linked to previous financings and which are subject to anti-dilution adjustments affecting exercise price and number of shares issued were outstanding. Subsequent to 31 December 2019, Yorkville exercised a portion of its detachable warrants. Before the date of this report, Acutias executed its right to cashless exercise for all of its warrants. With the final conversion of Acuitas' warrants the Company's capital structure becomes less complex. Management is confident that this step will be encouraging to long-term equity investors and NOXXON's shareholders.

The current budget projects a cash need of approximately K€ 400 per month, including all planned activities for the brain cancer trial. Current cash resources are projected to finance the Group into July 2020. Accordingly, the Company will be required to raise additional funds before end of June 2020 in order to continue its operations.

Management is pursuing various financing alternatives in parallel to meet the Group's future cash requirements, including seeking additional investors, pursuing industrial partnerships, or obtaining further funding from existing investors through additional funding rounds, pursuing a merger or an acquisition. While management is confident to be able to raise additional capital and its preference is to do so via private placement of shares to long-term investors or industrial partnerships, market conditions and restrictions on many activities resulting from the coronavirus pandemic have made it more complicated to obtain financing from these preferred sources. As such management has been working in parallel on alternative financing vehicles, such as convertible debt, which could secure the cash needs of the Group until financing from preferred sources is available. The Group assesses alternative financing vehicles by how well they meet the following key criteria, amongst others: 1) potential to meet financial needs of Group through multiple key value inflection points, 2) absence of warrants or option-like instruments creating long-term overhang, 3) flexibility to end plan at any time; 4) whether the timing and decision to take additional money is under control of the Group, 5) ability of Group to buy out any unconverted instruments at a small premium in case it wishes to terminate use of vehicle, 6) extent of restrictions on M&A or asset sales, 7) discount on financing consistent with investment risk, 8) potential for financing vehicle to impact share price.

As of the date of this report, the Group has one member of the Management Board and 11 employees.

# Financial information

## Key Factors Affecting Consolidated Results of Operations and Financial Condition of the Group

The Group believes that the following factors have had and will continue to have a material effect on its consolidated results of operations and financial condition.

### *Revenues*

The Group does not expect to generate any revenues from any product candidates that it develops until the Group either signs a licensing agreement or obtains regulatory approval and commercializes its products or enters into collaborative agreements with third parties.

### *Other operating income*

Other operating income results from the sale of raw materials, the partial waivers of management and supervisory board members concerning their receivables from remunerations due from the Group, and others.
In the future, the Group may receive, other operating income, through grants from several public institutions and state-owned organizations to support specific research and development projects and to support investments in required capital equipment, primarily machinery and laboratory equipment.

### *Research and development expenses*

Research and development expenses consist of costs incurred that are directly attributable to the development of the Group's platform technology and product candidates. Those expenses include:

- salaries for research and development staff and related expenses, including management benefits and expenses for share-based compensation;
- costs for production of drug substances by contract manufacturers;
- service fees and other costs related to the performance of clinical trials and preclinical testing;
- costs of related facilities, materials and equipment;
- costs associated with obtaining and maintaining patents and other intellectual property;
- amortization and depreciation of intangible and tangible assets used to discover and develop the Group's clinical compounds and pipeline candidates; and

- other expenses directly attributable to the development of the Group's product candidates and preclinical pipeline.

Research and development costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

In the opinion of management, due to the regulatory and other uncertainties inherent in the development of NOXXON's new products, the criteria for development costs to be recognized as an asset, as prescribed by IAS 38 (Intangible Assets) are not met until the product has received regulatory approval and when it is probable that future economic benefits will flow to the Group. Accordingly, the Group has not capitalized any development costs.

Research and development activities are the primary focus of the Group's business. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. In general, the Group expects that its research and development expenses will increase in absolute terms in future periods as the Group continues to invest in research and development activities related to developing its pipeline product candidates, and as programs advance into later stages of development and the Group enters into larger clinical trials. The process of conducting the necessary clinical research to obtain regulatory approval is costly and time-consuming and the successful development of the Group's product candidates is highly uncertain.

***General and administrative expenses***

General and administrative expenses consist principally of salaries and related costs for personnel in executive and finance functions, such as salaries, social security contribution, benefits, and share-based compensation. Other general and administrative expenses include legal and consulting expenses related to the preparation of financing transactions, facility costs not otherwise included in research and development expenses, professional fees for legal services, patent portfolio maintenance, consulting, cost associated with maintaining compliance with listing rules and compliance requirements as a result of being a publicly traded company, auditing and accounting services, remuneration for the supervisory board, restructuring costs, benefits settled in cash and equity and travel expenses.

### *Foreign exchange losses*

Foreign exchange losses comprise unrealized and realized foreign exchange losses incurred by purchases of research and development materials and clinical trial services denominated in a currency other than euro.

### *Finance income*

Finance income includes gains from the derecognition of derivative financial liabilities, fair value adjustments of derivative financial instruments in connection with the Group's financing activities, gains from non-substantial modifications of terms and conditions of financing agreements and interest income from interest bearing bank and rental deposits. Interest income is recognized in profit or loss, using the effective interest method.

### *Finance cost*

Finance cost includes effects from the recognition of hybrid instruments in connection with the financing of the Company, the recognition of warrants issued, derecognition of financial liabilities and recognition of equity resulting from substantial modifications made to the terms and conditions of the financial liabilities in accordance with IFRIC 19 and interest expense on these financial liabilities. Interest expense is recognized using the effective interest method.

### *Consolidated Statements of Comprehensive Loss*

The following table provides an overview of the Group's results of operations for the periods presented:

| | For the fiscal year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| | **(in € thousands, unless otherwise indicated) (audited)** | |
| Other operating income | 279 | 378 |
| Research and development expenses | (2,108) | (2,205) |
| General and administrative expenses | (2,115) | (2,492) |
| Foreign exchange losses | (4) | (48) |
| **Loss from operations** | **(3,948)** | **(4,367)** |
| Finance income | 3,091 | 388 |
| Finance cost | (3) | (6,758) |
| **Loss before income tax** | **(860)** | **(10,737)** |
| Income tax | **(1)** | **(1)** |
| **Net loss** | **(861)** | **(10,738)** |
| **Net loss – attributable to:** | | |
| **Owners of the Company** | **(861)** | **(10,734)** |
| **Non-controlling interest** | **(0)** | **(4)** |
| **Loss per share (in €) (basic and diluted)** | **(0.08)** | **(2.70)** |

***Comparison of the Fiscal Years Ended 31 December 2019 and 2018***

*Other operating income*

Other operating income decreased 26% from K€ 378 in the Fiscal Year 2018 to K€ 279 in the Fiscal Year 2019.

| in thousands of € | **2019** | **2018** |
|---|---|---|
| Sale of raw materials | 154 | 0 |
| Derecognition of benefits waived | 119 | 296 |
| Other income | 6 | 82 |
| **Total** | **279** | **378** |

Other operating income decreased on an overall basis and results from sale of raw materials and a partial waiver of management and supervisory board members concerning their receivables from remunerations due from the Group in 2019 being lower than the partial waiver of management and supervisory members concerning their receivables from remunerations due from the Company and NOXXON Pharma AG and other income in 2018.

*Research and development expenses*

Research and development expenses decreased 4% from K€ 2,205 in the Fiscal Year 2018 to K€ 2,108 in the Fiscal Year 2019. The decrease in research and development expenses in 2019 compared to 2018 is mainly due to lower personnel expenses, partly offset by higher costs for production of drug substances, service fees and other costs related to clinical trials and preclinical testing as well as higher patent costs and consulting services. Personnel expenses include non-cash share-based payment expenses amounting to K€ 53 in 2019 and K€ 119 in 2018. When such non-cash share-based payment expenses are not taken into account, the remaining personnel expenses are K€ 530 in 2019 and K€ 625 in 2018.

*General and administrative expenses*

General and administrative expenses decreased 15% from K€ 2,492 in the Fiscal Year 2018 to K€ 2,115 in the Fiscal Year 2019. The decrease in general and administrative expenses in 2019 is mainly driven by lower personnel as well as public and investor relations expenses compared to 2018, partly offset by higher legal, consulting and audit fees and other expenses. Personnel expenses include non-cash share-based payment expenses amounting to K€ 54 in 2019 and K€ 278 in 2018. When such non-cash share-based payment expenses are not taken into account, the remaining personnel expenses are K€ 741 in 2019 and K€ 922 in 2018.

*Foreign exchange losses*

Foreign exchange losses decreased from K€ 48 in the Fiscal Year 2018 to K€ 4 in the Fiscal Year 2019 due to financing transactions and a higher volume of purchases denominated in currencies other than euro in the Fiscal Year 2018.

*Finance income*

The finance income in the Fiscal Year 2019 and 2018 is non-cash finance income. Finance income increased from K€ 388 in the Fiscal Year 2018 to K€ 3,091 in the Fiscal Year 2019. Finance income in the Fiscal Year 2019 was mainly due to the reduction of the financial liability payable on demand and due to Acuitas of K€ 3,013 that was triggered by the share capital increase through a private placement completed on 15 August 2019 which resulted in a reduction of the exercise price of warrants held by Acuitas to protect against dilution. A further K€ 72 of finance income resulted from the fair value adjustment of warrants issued and outstanding to Yorkville, Kreos and other investors and the remaining K€ 6 resulted from the cashless exercise of warrants by Acuitas. Finance income in the Fiscal Year 2018 was due to fair value adjustments of warrants issued and outstanding to Yorkville, Kreos and other investors of K€ 255, the substantial modification of the terms and conditions of the Group's venture loans of K€ 81, fair value adjustments of conversion derivatives of K€ 43 and the derecognition of derivatives of K€ 9.

*Finance cost*

Finance cost in the Fiscal Year 2019 and 2018 is non-cash finance cost, except for transaction costs of K€ 133 in 2018 borne by the Group in conjunction with its issuance of convertible bonds.

Finance cost decreased from K€ 6,758 in the Fiscal Year 2018 to K€ 3 in the Fiscal Year 2019. Finance costs in the Fiscal Year 2018 resulted from a step-up of K€ 2,593 of a financial liability recognized to its fair value of K€ 4,700 in connection with the equity financing consummated on 16 November 2018 with Acuitas, finance costs of K€ 2,561 incurred for the notes issued to Yorkville (including the day-one loss), transaction costs and the conversions, the consideration incurred of K€ 773 (net of derecognition of cancelled warrants) in connection with the amendment of the Issuance Agreement with Yorkville on 12 March 2018, finance costs of K€ 478 with respect to the issuance and conversion of the convertible bonds and finance costs of K€ 353 (thereof K€ 202 in connection with the debt-for-equity swaps) incurred relating to the venture loans.

*Loss before income tax*

As a result of the above factors, the Group's loss before income tax decreased by K€ 9,877 from K€ 10,737 in the Fiscal Year 2018 to K€ 860 in the Fiscal Year 2019.

*Income Tax*

Income tax expenses remained unchanged K€ 1 in the Fiscal Year 2018 and 2019.

### *Consolidated Statements of Financial Position*

The following table provides an overview of the Group's financial position as of the dates presented:

| | As of 31 December | |
|---|---|---|
| | 2019 | 2018 |
| | (in € thousands (audited) | |
| **ASSETS** | | |
| Intangible assets | 4 | 5 |
| Equipment | 30 | 33 |
| Right-of-use assets | 112 | 0 |
| Deferred tax assets | 0 | 1 |
| Financial assets | 5 | 5 |
| **Total non-current assets** | **151** | **44** |
| Other assets | 168 | 156 |
| Financial assets | 28 | 28 |
| Cash and cash equivalents | 1,385 | 4,290 |
| **Total current assets** | **1,581** | **4,474** |
| **Total assets** | **1,732** | **4,518** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Subscribed capital | **131** | **10,123** |
| Additional paid-in capital | 145,860 | 134,266 |
| Accumulated deficit | (147,645) | (146,784) |
| Treasury shares | (189) | (201) |
| **Equity attributable to owners of the Company** | **(1,843)** | **(2,596)** |
| Non-controlling interest | (11) | (11) |
| **Total equity** | **(1,854)** | **(2,607)** |
| **Liabilities** | | |
| Financial liabilities | 15 | 87 |
| Lease liabilities | 69 | 0 |
| **Total non-current liabilities** | **84** | **87** |
| Financial liabilities | 1,598 | 4,700 |
| Lease liabilities | 45 | 0 |
| Trade accounts payable | 1,196 | 1,375 |
| Other liabilities | 663 | 963 |
| **Total current liabilities** | **3,502** | **7,038** |
| **Total equity and liabilities** | **1,732** | **4,518** |

***Assets***

The Group's total non-current assets include intangible assets, equipment, right-of-use assets, deferred tax assets and financial assets. Total non-current assets increased from K€ 44 as of 31 December 2018 to K€ 151 as of 31 December 2019.

The Group's total current assets consist of its cash and cash equivalents in cash balances, other assets and financial assets. As of 31 December 2019, the Group's cash and cash equivalents amounted to K€ 1,385. Financial assets consist of invested interest-bearing rental deposits related to the Group's operating lease agreements. Other assets correspond to prepaid expenses consisting for insurance and service contracts, the Groups liquidity account, claims against local tax authorities for value added tax (VAT) on supplies and services received.
The movements in total current assets from 31 December 2018 to 31 December 2019 primarily relate to a decrease in cash and cash equivalents by K€ 2,905 from K€ 4,290 to K€ 1,385 as a result of continued research and development activities exceeding financing activities.

***Equity***

The Group's total equity includes its subscribed capital, additional paid-in capital, accumulated deficit and treasury shares.

As of 31 December 2019, the subscribed capital of the Company amounts to K€ 131 (prior year: K€ 10,123) and is divided into 13,102,464 ordinary shares (prior year: 10,122,804) with a nominal value of € 0.01 in 2019 and € 1.00 in 2018, respectively. The change in equity from 31 December 2018 to 31 December 2019 results from the following transactions:

The extraordinary general meeting on 2 January 2019 resolved to reduce the nominal value of each share from € 1.00 to € 0.01. The difference between the aggregate nominal value of all issued and fully paid up shares immediately prior to the capital reduction becoming effective and the aggregate nominal value of all issued and fully paid up shares immediately after the capital reduction becoming effective was not repaid to the shareholders but was added to the Company's share premium reserve. As a matter of Dutch statutory law, the effectiveness of such capital reduction was subject to observing a creditor opposition period of two months and conditional upon the execution of a partial amendment of the articles of association of the Company to reflect the reduced nominal value of each share and consequently the reduced authorized share capital as proposed. The Articles of Association of the Company were amended accordingly on 7 March 2019.

As a result of such capital reduction, additional paid-in capital increased by K€ 10,022.

In addition, the Company issued an aggregate of 2,979,660 ordinary shares in connection with the following financing transactions:

- Issuance of 801,494 ordinary shares at a price of € 0.65 against contribution in cash (cash inflow of K€ 521 less K€ 15 transaction cost, as consideration received for ordinary shares) to investors participating in a capital increase with shareholders' preferential rights,
- Issuance of 1,960,780 ordinary shares at a price of € 0.51 against contribution in cash (cash inflow of K€ 1,000 as consideration received for ordinary shares) through a private placement,

- Issuance of 217,386 ordinary shares at a fair value of € 0.3820 per share to Acuitas through the cashless exercise option at € 0.4456 exercise price per warrant, totaling K€ 83 against the purchase of 200,000 warrants.

As a result, additional subscribed capital of K€ 30 and additional paid-in capital of K€ 1,573 were recognized less issuance costs of K€ 108.

The total equity as of 31 December 2019 amounted to a negative equity of K€ 1,854 and consisted of subscribed capital of K€ 131, additional paid-in capital of K€ 145,860, an accumulated deficit of K€ 147,645, treasury shares amounting to K€ 189 and non-controlling interest of K€ (11). The Group's own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity.

The total equity as of 31 December 2019 amounted to a negative equity of K€ 1,854 compared to a negative equity of K€ 2,607 as of 31 December 2018.

***Liabilities***

Non-current financial liabilities decreased from K€ 87 as of 31 December 2018 to K€ 84 as of 31 December 2019. This movement results from the reduction of the fair value of warrants issued and outstanding from K€ 87 to K€ 15 and the first-time recognition of lease liabilities in conjunction with the recognition of the non-current part of the right-of-use assets in 2019 amounting to K€ 69.

Current financial liabilities decreased from K€ 4,700 as of 31 December 2018 to K€ 1,598 as of 31 December 2019 as a result of the adjustment of the exercise price of the Acuitas warrants resulting in reduction of the fair value of those warrants and the related financial liability by K€ 3,013 and the cashless exercise of 200,000 warrants resulting in a further reduction of K€ 89.

Trade accounts payable decreased from K€ 1,375 as of 31 December 2018 to K€ 1,196 as of 31 December 2019 in the course of the normal research and development activities. Other liabilities decreased from K€ 963 of 31 December 2018 to K€ 663 as of 31 December 2019 and lease liabilities in conjunction with the recognition of right-of-use assets increased from nil as of 31 December 2018 to K€ 45 as of 31 December 2019. The movements in trade accounts payable and other liabilities also include the derecognition of benefits as a result of partial waiver of management board and supervisory board members with respect to bonuses and supervisory board remunerations, respectively.

***Events After the Consolidated Statement of Financial Position Date as of 31 December 2019***

For Events After the Consolidated Statement of Financial Position Date as of 31 December 2019 we refer to Note 20 of the consolidated financial statements of NOXXON Pharma N.V.

***Liquidity and Capital Resources***

***Overview***

The Group's liquidity requirements primarily relate to the funding of research and development expenses, general and administrative expenses, capital expenditures and working capital requirement. To finance its research and development activities the Group raised funds from several sources including its shareholders through the issuance of equity and convertible instruments.

The Group's principal sources of funds are expected to be cash and cash equivalents from financing activities. The Group's primary uses of cash have been to fund research and development and working capital requirements.

***Cash flows***

The following table provides an overview of the Group's cash flows for the periods presented:

| | For the fiscal year ended 31 December | |
|---|---|---|
| | **2019** | **2018** |
| | **(in € thousands) (audited)** | |
| Net cash used in operating activities | (4,286) | (4,000) |
| Net cash used in / provided by investing activities | (16) | 66 |
| Net cash provided by financing activities | 1,397 | 7,602 |
| **Net change in cash and cash equivalents** | **2,905** | **3,668** |
| **Cash at the beginning of the fiscal year** | **4,290** | **622** |
| **Cash at the end of the fiscal year** | **1,385** | **4,290** |

***Net cash used in operating activities***

Net cash used in operating activities reflects the Group's results for the period adjusted for, among other things, depreciation and amortization expense, finance income and finance cost, gain on disposal of equipment, employee stock-based compensation, other non-cash transactions and changes in operating assets and liabilities.

Net cash used in operating activities was mainly derived from the net losses generated in the respective periods, which in turn is mainly driven by the research and development as well as the general and administrative expenses incurred. Research and development expenses vary over time dependent on the development stage of each clinical program and the activities related to those clinical programs.

The increase in net cash used in operating activities from K€ 4,000 in the Fiscal Year 2018 to K€ 4,286 in the Fiscal Year 2019 was mainly a result of the decrease of trade accounts payable and other liabilities, partly offset by reduced loss from operation. The reduction of net loss from K€ 10,738 in the Fiscal Year 2018 to K€ 861 in the Fiscal Year

2019 is predominantly driven by non-cash effects resulting from finance income and finance cost.

***Net cash used in / provided by investing activities***

Net cash used in / provided by investing activities reflects, among other things, cash paid for the purchase of intangible assets and equipment and cash received from sale of equipment.

The decrease in net cash provided by investing activities from K€ 66 in the Fiscal Year 2018 to K€ 16 net cash used in investing activities in the Fiscal Year 2019 is mainly due to proceeds from sale of equipment amounting to K€ 75 in 2018. In 2019 and 2018, the purchase of equipment amounted to K€ 16 and K€ 9, respectively.

***Net cash provided by financing activities***

Net cash provided by financing activities in 2019 reflects proceeds from the issuance of shares and the related transaction costs, partly offset by payments for lease liabilities (including interest paid) recognized in accordance with IFRS 16 which are presented in cash flows used in financing activities.

The decrease in net cash provided by financing activities from K€ 7,602 in the Fiscal Year 2018 to K€ 1,397 in the Fiscal Year 2019 was mainly due to lower proceeds from the issuance of ordinary shares of the Company in the amount of K€ 1,505 in 2019 compared to K€ 4,407 from the issuance of ordinary shares and warrants of the Company and K€ 3,347 convertible bonds in the Fiscal Year 2018.

***Capital expenditures***

The following table sets forth the Group's capital expenditures for the periods presented:

| | For the fiscal year ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| | **(in € thousands) (audited, unless otherwise indicated)** | |
| Purchase of equipment..... | (16) | (9) |
| **Net capital expenditures (unaudited)**..... | **(16)** | **(9)** |

The principal capital expenditures in the relevant period were primarily related to, and future capital expenditures are expected to primarily relate to, investments for office equipment and information technology.

***Commitments and Contingencies***

For Commitments and Contingencies we refer to Note 17 of the consolidated financial statements of NOXXON Pharma N.V.

## Key Factors Affecting Results of Operations and Financial Condition of the Company

The Company believes that the following factors have had and will continue to have a material effect on the Company's results of operations and financial condition.

### *Comparison of the Fiscal Years Ended 31 December 2019 and 2018*

### *Revenues*

The Company has generated revenues from its management holding services since 1 October 2017. For the period through 31 December 2019 and 2018, the Company has generated K€ 1,278 and K€ 1,370 of intra-group revenues related to service agreement in respect of certain management consultancy services, respectively.

### *Research and development expenses*

Research and development expenses consist of costs incurred that are directly attributable to the development of the Group's platform technology and product candidates. Those expenses include salaries for research and development related activities, including management benefits and expenses for share-based compensation; other expenses directly attributable to the development of the Group's product candidates and preclinical pipeline.

Research and development expenses decreased from K€ 179 in the Fiscal Year 2018 to K€ 105 in the Fiscal Year 2019, the Company conducting research and development activities.

### *General and administrative expenses*

General and administrative expenses consist principally of salaries and related costs for personnel in executive and finance functions, such as salaries, social security contribution, benefits, and share-based compensation. Other general and administrative expenses include legal and consulting expenses related to the preparation of financing transactions, professional fees for legal services, consulting, cost associated with maintaining compliance with listing rules and compliance requirements as a result of being a publicly traded company, auditing and accounting services, remuneration for the supervisory board, restructuring costs, benefits settled in cash and equity, facility costs, and travel expenses.

General and administrative expenses decreased from K€ 1,982 in the Fiscal Year 2018 to K€ 1,808 in the Fiscal Year 2019. This decrease in general and administrative expenses is in the regularly course of business.

### *Finance income and finance cost*

The finance income in the Fiscal Year 2019 and 2018 is non-cash finance income. Finance income in the Fiscal Year 2019 was mainly due to the reduction of the financial liability payable on demand and due to Acuitas of K€ 3,013 that was triggered by the share capital increase through a private placement completed on 15 August 2019 which

resulted in a reduction of the exercise price of warrants held by Acuitas to protect against dilution. A further K€ 72 of finance income resulted from the fair value adjustment of warrants issued and outstanding to Yorkville, Kreos and other investors and the remaining K€ 6 resulted from the cashless exercise of warrants by Acuitas. In the Fiscal Year 2018 finance income amounted to K€ 307 due to fair value adjustments of warrants issued and outstanding as of 31 December 2018 and the derecognition of a derivative financial liability in connection with the convertible notes that were converted into equity.

Finance cost in the Fiscal Year 2018 is non-cash finance cost, except for transaction costs of K€ 133 in 2018 borne by the Group in conjunction with its issuance of convertible bonds. Finance cost decreased from K€ 6,625 in the Fiscal Year 2018 to nil in the Fiscal Year 2019. Finance cost in the Fiscal Year 2018 resulted from the step-up of K€ 2,593 of a financial liability recognized to its fair value of K€ 4,700 in connection with the equity financing consummated on 16 November 2018 with Acuitas, finance costs of K€ 2,561 incurred for the notes issued to Yorkville (including the day-one loss), transaction costs and the conversions, the consideration incurred of K€ 773 (net of derecognition of cancelled warrants) in connection with the amendment of the Issuance Agreement with Yorkville on 12 March 2018, finance costs of K€ 478 with respect to the issuance and conversion of the convertible bonds and finance costs of K€ 220 incurred relating to the venture loans.

### *Net result*

As a result of the above factors, the Company's net result decreased by K€ 12,129 from K€ 12,990 (net loss) in the Fiscal Year 2018 to K€ 861 (net loss) in the Fiscal Year 2019. This decrease is mainly due to the decrease of non-cash finance costs by K€ 6,625, the increase of non-cash finance income by K€ 2,784, and a decrease of share in results from participating interests by K€ 2,650.

#### *Assets*

The Company's total fixed assets include office equipment. Total fixed assets decreased from K€ 8 as of 31 December 2018 to K€ 3 as of 31 December 2019.

The Company's total current assets consist of its cash at bank and in hand and other receivables. Cash at bank and in hand include cash balances. As of 31 December 2019, the Company's cash at bank and in hand amounted to K€ 953 (prior year: K€ 3,770). Other assets correspond to prepaid expenses consisting for insurance and service contracts, the Company's liquidity account, claims against local tax authorities for value added tax (VAT) on supplies and services received.

#### *Equity*

The Company's total equity includes its issued capital, share premium (treasury shares deducted), retained earnings and undistributed result.

As of 31 December 2019, the issued capital of the Company amounts to K€ 131 (prior year: K€ 10,123) and is divided into 13,102,464 ordinary shares (prior year: 10,122,804) with a nominal value of € 0.01 in 2019 and € 1.00 in 2018, respectively. The change in equity from 31 December 2018 to 31 December 2019 results from the transactions as described in Note 8 to the consolidated financial statements of NOXXON Pharma N.V.

The total equity as of 31 December 2019 amounted to a negative equity of K€ 1,843 compared to a negative equity of K€ 2,596 as of 31 December 2018.

***Liabilities***

The Company's total liabilities comprise non-current liabilities in the amount of K€ 15 representing the fair value of warrants issued. Current liabilities include financial liabilities of K€ 1,598 reflecting the Acuitas financing, since the number of shares to be issued upon cashless exercise is variable upon issuance, these warrants are considered liability financial instruments resulting in a minimum fixed amount payable to Acuitas of € 1.6 million, trade payables of K€ 435, liabilities due to group companies of K€ 154 and other liabilities of K€ 403.

## *Events After the Company Statements of Financial Position Date as of 31 December 2019*

For Events After the Company Statements of Financial Position Date as of 31 December 2019 we refer to Note 16 of the Company financial statements of NOXXON Pharma N.V.

## *Commitments and Contingencies*

For Commitments and Contingencies we refer to Note 17 of the consolidated financial statements of NOXXON Pharma N.V.

# Significant risks and uncertainties

### *Risk Management*

The Group's business is exposed to specific industry risks, as well as general business risks. This risk management section provides an overview of some of the main risks and uncertainties the Group currently faces. The risk appetite of the Group is aligned with its strategy and priorities. Some of the risks and uncertainties the Group faces are outside its control, others may be influenced or mitigated. The Group has, with regards to certain of these risks, implemented or started implementing risk management procedures and protocols.

The Group's management analyses in a continuous process the potential risks, evaluating impact and likelihood, and determining appropriate measures to mitigate and minimize these risks. The risk appetite is different for various risk categories.

The risks and unpredictability of research and development are an intrinsic aspect of the biopharmaceutical business. These risks cannot be avoided without compromising the innovative strength and the development opportunities of the Group and its programs. Therefore, the Group – as a clinical-stage biopharmaceutical company - has to accept these strategic and operational risks related to the pharmaceutical business and its novel substance class Spiegelmers® in order to secure the entrepreneurial chances of the Group. As these risks and uncertainties are outside of the control of the Group, the options to mitigate or to implement risk avoiding mechanisms are limited. NOXXON acts with the full awareness that it can justify and manage these risks and – where possible and meaningful – protect itself against them. Only in this way is it possible to achieve the Group's objectives. In 2019, the risks with significant impact on the Group relate to raising additional capital to fund the Group's clinical development. The financing instruments associated with financing transactions, such as notes or warrants, caused and may continue to cause dilution to the Group's shareholders.

| Risk Area | Description of Risk | Mitigation and Control |
|---|---|---|
| Strategic risks | Biopharmaceutical product development is a lengthy, high-risk undertaking and involves a substantial degree of uncertainty relating to the success of a therapeutic approach and also the rapidly changing competitive environment. | The Group plans to develop and commercialize those product candidates that the Group believes have a clear clinical and regulatory approval pathway and that the Group believes it can commercialize successfully, if approved. The Group also remains in contact with a wide range of relevant experts to optimize its chance of success and remain up to date with potentially competitive approaches. |
| | The regulatory approval processes of the FDA, EMA and comparable foreign authorities are time consuming, expensive and unpredictable, and the Group ultimately may be unable to obtain regulatory approval for its product candidates. | The Group seeks to develop a broad pipeline of indications and combination partners for its product candidates to allow the Group to potentially avoid being too dependent on the success of one indication. |
| | The limited pipeline of two early-stage product candidates may lead to increased risks for the Group in the event of project failures. | The Group was granted with orphan drug designations and as such can benefit from an improved interaction with regulators in the US and EU potentially reducing regulatory approval risk. |
| Operational risks | The Group's product candidates may suffer from insufficient safety and/or efficacy profiles to enable their further development, registration and commercialization. | The Group has adopted a business model to spread risks of its product candidates by developing a broad pipeline of indications and combinations. |
| | The Group relies and expects to continue to rely on third parties, in relation to the manufacturing, storage and shipment of drug product and Clinical Research Organizations to conduct its clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, the Group's research and development efforts and business, financial condition and results of operations could be materially adversely affected. | The Group endeavors to build and maintain relationships with service providers, medical experts in fields related to the Group's product candidates in order to increase awareness around the existence of the Group's product candidates and its clinical trials. Third party contractor selection and management are subject to the Group's quality management system. |
| | The Group's future growth and ability to compete depends on retaining its key personnel and recruiting additional qualified personnel. The loss of key managers and senior scientists could delay the Group's research and development activities. | The Group offers competitive remuneration packages and share based incentives in the form of its employee stock option plan. |
| | The Group relies on patents and other intellectual property rights to protect its product candidates the enforcement, defense and maintenance of which may be challenging and costly. Certain of the Group's patents are limited to certain jurisdictions. Failure to enforce or protect these rights adequately could harm the Group's ability to compete and impair its business. | The Group files and prosecutes patent applications to protect its product candidates and technologies. In order to protect trade secrets, the Group maintains strict confidentiality standards and agreements for collaborating parties.<br><br>The Group regularly monitors third party intellectual property |

| | | |
|---|---|---|
| | | rights within its relevant fields and jurisdictions to avoid violating any third-party rights and secures licenses to such third party rights on an as-needed basis. |
| | Public health crises may limit access to facilities and impair ability of Group to advance R&D | Group enables remote working capabilities of all key staff and assesses ability of R&D programs to advance on an ongoing basis |
| Financial risks | The Group expects to incur losses for the foreseeable future and will need substantial additional funding in order to complete the development and commercialization of its product candidates, which may not be available on acceptable terms when needed, if at all.<br><br>Raising additional capital may restrict the Group's operations or require it to relinquish rights to its technologies or product candidates.<br><br>Raising additional capital may cause dilution to the Group's shareholders. | Due to the unpredictability of the Group's business, the Group's aim is to secure a solid mid-term cash position. Its aim is to actively develop a shareholder base of mainly long-term expert investors and to diversify its non-dilutive income base via industrial collaborations and government grants. To mitigate the financial risks the Group also maintains disciplined cash management. |
| | Financial risks also relate to tax, accounting and reporting. | The Group aims for full compliance with financial reporting rules and regulations. |
| | Public health crises may negatively affect markets and limit communication with investors | Group enables remote working capabilities of all key staff and collaborates with multiple outside consultants to enable ongoing interaction with investors |
| Compliance risks | Compliance risks relate to unintentional or unanticipated failures to comply with applicable laws and regulations. | The Group's aim is to be fully compliant with these laws and regulations with the assistance of experienced external support. |

The risk appetite of the Group is different for the various risk categories the Group is exposed to. The risk appetite for each of the risk categories is summarized as follows:

Strategic risk: Strategic risks and opportunities may affect the Group's strategic ambitions. Strategic risks include economic and political developments and the effects of actions taken to anticipate and respond to market circumstances. The Group is prepared to take some strategic risks, balancing the need to capture return from opportunities and manage risks. This may include investing in certain markets, in R&D in certain areas and managing the portfolio of products, in acquisitions and divestments in a highly uncertain global political and economic environment.

Operational risk: Operational risks include adverse unexpected developments resulting from internal processes, people and systems, or from external events that are linked to the actual running of each business. The Group aims to minimize downside risks to maintain the high quality of its products, systems and services, reliable IT systems and sustainability commitments.

Compliance risk: The Company has a zero-tolerance policy towards non-compliance in relation to breaches of regulations and its code of conduct.

Financial risk: The Group recognizes financial risks outside its control related to treasury, accounting and reporting, pensions and tax. To minimize their impact, the Group follows a conservative risk management approach in these areas. Furthermore, the Company strives to ensure transparent and truthful accounting and reporting to enable financial statement users to make informed decisions which take the effect of these risks into consideration.

Listed below are the detailed description of the risks perceived by management to be the most significant. The risks faced by the Group during 2019 are not limited to this list. Risks have not been ranked in order of importance. There may be other risks which the Group currently does not consider to be significant but which at a later stage may manifest themselves as such. Where possible, the specific measures in place to help mitigate these risks are indicated. Subsequent to balance sheet date, the Group was impacted by the Corona virus pandemic. Risks related to this event have been described below.

### *Risks Relating to the Group's Business and Industry*

The Group heavily depends on the future success of its clinical stage lead product candidate, NOX-A12, on whose development the Group is currently focusing, as well as NOX-E36. Any failure to successfully develop, obtain regulatory approval for or commercialize the Group's product candidates, independently or in cooperation with a third-party collaborator, or any significant delays in doing so, would compromise the Group's ability to generate revenues and become profitable.

Fully exploiting the potential of some of the Group's product candidates will require partnerships or collaborations, including with other pharmaceutical or biotechnology companies, and if the Group is unable to enter into or realize such partnerships or collaborations, this would compromise its ability to advance its programs.

The potential of the Group's product candidates may be compromised because its product candidates incorporate a mirror-image oligonucleotide connected site-specifically to polyethylene glycol ("**PEG**"). There have been some therapeutic agents developed by other companies containing PEG that have experienced safety issues and the Group's product candidates may experience similar or other safety issues, as a result of which the potential of the Spiegelmer technology platform may be compromised.

It may be difficult to identify and enroll patients in clinical trials, and patients could discontinue their participation in clinical trials, which could delay or otherwise adversely affect clinical trials of the Group's product candidates.

Success in early clinical trials may not be indicative of results obtained in later trials.

In addition to the level of commercial success of current product candidates, if approved, future prospects are also dependent on the Group's ability to successfully develop a pipeline of additional product candidates. The Group may not have sufficient financing to develop additional Spiegelmers, and even if it does, it may not be successful in its efforts to use its technology platform to identify or discover additional product candidates and may choose or be forced to abandon its development efforts for a program or programs.

### *Risks Relating to Commercialization of Product Candidates*

Even if the Group eventually gains approval for any of its product candidates, it may be unable to commercialize them. In addition, engaging in international business involves a number of difficulties and risks.

The Group faces intense competition and rapid technological change. The Group's competitors may develop therapies that are more advanced or effective, which could impair the Group's ability to successfully develop or commercialize its product candidates.

If the Group fails to maintain orphan drug status for its lead product candidate NOX-A12 for the treatment of glioblastoma, to obtain orphan drug status for NOX-A12 for the treatment of other cancers or to obtain and maintain orphan drug status for any of its other product candidates for which it may apply for an orphan drug status, the Group would likely have limited or shortened protection or market exclusivity for NOX-A12 or any of its product candidates.

The commercial success of any current or future product candidate, if approved, will depend upon the degree of market acceptance by physicians. The Group may suffer from physician prescription of its products for off-label uses to the extent such off-label uses become pervasive and produce results such as reduced efficacy or other adverse effects.

The insurance coverage, pricing and reimbursement status of newly approved products is uncertain. Failure to obtain or maintain adequate coverage, pricing and reimbursement for any of the Group's product candidates that receive approval could limit its ability to market those products and compromise the ability to generate revenues.

### *Risks Relating to the Regulatory Environment*

Nearly all aspects of the Group's activities are subject to substantial regulation. No assurance can be given that any of the Group's product candidates will fulfil regulatory compliance. Failure to comply with such regulations could result in delays, suspension, refusals and withdrawal of approvals as well as fines.

The Group's product candidates are based on novel technology, which makes it difficult to predict the time and cost of product candidate development and potential regulatory approvals. Any delay or failure to obtain the regulatory approvals necessary to bring the Group's product candidates to market could impair the ability to generate product revenues and to become profitable.

The Group may encounter substantial delays in clinical trials or fail to demonstrate safety and efficacy to the satisfaction of the Food and Drug Administration ("**FDA**"), the European Medicine Agency ("**EMA**") or another government body ("**Competent Authority**"), which may impair the ability to commercialize product candidates.

The results from clinical trials may not be sufficiently robust to support the submission for marketing approval for product candidates. Before the Group submits its product candidates for marketing approval, the FDA, the EMA or another Competent Authority

may require additional clinical trials or evaluate subjects for an additional follow-up period.

Adverse events in the Group's clinical trials for any product candidate, whether as a result of the treatment with the Group's product candidates or as a result of other therapies administered in combination with the Group's product candidates, may force it to stop or delay development of that product candidate, or may prevent or delay regulatory approval of that product candidate.

Even if the necessary preclinical studies and clinical trials are completed, the Group cannot predict when or if it will obtain regulatory approval to commercialize a product candidate or the approval may be for a narrower indication than expected.

Even if the Group obtains regulatory approval for a product candidate, the product will remain subject to ongoing regulatory obligations. The Group may be subject to significant restrictions on the indicated uses or marketing of the product candidates, which could lead to the withdrawal, restriction on use or suspension of approval, and the Group may be subject to government investigations of alleged violations which could require the Group to expend significant time and resources and could generate negative publicity.

### *Risks Relating to the Group's Business Operations*

The Group's future success depends on the ability to retain qualified personnel, including but not limited to employees, consultants and advisors and to attract, retain and motivate qualified personnel.

The Group has been subject to restructurings and might be subject to restructurings and/or expansion of its organization in the future. The Group may experience difficulties in managing the restructuring or expansion of its organization, which could disrupt operations and could require significant additional capital.

The Group's employees, principal investigators, consultants and commercial partners may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which may result in the imposition of significant fines or other sanctions and significantly impact the business.

The Group faces potential product liability, and, if successful claims are brought against the Group, it may incur substantial liability and costs. If the use of the Group's product candidates harms patients, or is perceived to harm patients even when such harm is unrelated to its product candidates, regulatory approvals could be revoked or otherwise negatively impacted and the Group could be subject to costly and damaging product liability claims.

If the Group fails to comply with environmental, health and safety laws and regulations, it could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of its business.

Exchange rate fluctuations may adversely affect the Group's results of operations and financial condition.

### *Risks Relating to the Group's Financial Position and Capital Requirements*

The Group has incurred significant losses and anticipates that it will continue to incur significant losses for the foreseeable future.

The Group has never generated material revenues from product sales and may never be profitable.

The Group's financing agreement with Yorkville as well as its securities purchase agreement and warrant agreement with Acuitas contain operating covenants that may restrict its business and financing activities. The warrant instruments associated with these financing transactions, may when exercised result in increased future dilution of an amount that varies inversely with the quoted share price of the Company's shares.

The Group will need to raise additional funding in the future, which may not be available on acceptable terms, or at all, or which may restrict the Group's operations or require it to relinquish substantial rights. Failure to obtain this necessary capital when needed may force the Group to delay, limit or terminate its product development efforts or other operations and may affect the Group's ability to continue as a going concern. Obtaining the financing needed to advance the Group's programs may result in significant dilution of existing shareholders. As is not uncommon in the biotech sector, financing transactions may be associated with instruments, such as notes or warrants, which may result in increased future dilution of an amount that varies inversely with the quoted share price of the Group's shares.

### *Risks Relating to Reliance on Third Parties*

The Group has only limited experience in regulatory affairs and intends to rely on consultants and other third parties for regulatory matters, which may affect its ability or the time required to obtain necessary regulatory approvals.

The Group relies, and expects to continue to rely, on third parties to conduct some or all aspects of its product manufacturing, protocol development, research and preclinical and clinical testing, and these third parties may not perform satisfactorily.

One of the components used in the manufacture of the Group's product candidates is currently acquired from a single-source supplier. The loss of this supplier, or its failure to supply the Group this component, could materially and adversely affect the Group's business.

The Group relies, and expects to continue to rely on third parties to conduct, supervise and monitor its clinical trials, and if these third parties perform in an unsatisfactory manner, it may harm the Group's business.

The Group intends to rely on third-party manufacturers to produce commercial quantities of any of its product candidates that receives regulatory approval, but has not entered into binding agreements with any such manufacturers to support commercialization. Additionally, these manufacturers do not have experience producing the Group's product candidates at commercial levels and may not pass pre-approval inspections or achieve

the necessary regulatory approvals or produce its product candidates at the quality, quantities, locations and timing needed to support commercialization.

The Group's collaborations with outside scientists and consultants may be subject to restriction and change.

### *Risks Relating to the Group's Intellectual Property*

If the Group is unable to obtain and maintain sufficient patent protection for its product candidates, or if the scope of the patent protection is not sufficiently broad, the Group's competitors could develop and commercialize similar or identical products, and the Group's ability to commercialize its product candidates successfully may be adversely affected.

The Group may not be able to protect and/or enforce its intellectual property rights throughout the world.

The patent term may be inadequate to protect the Group's competitive position on its products for an adequate amount of time.

The Group may become involved in legal proceedings in relation to intellectual property rights, which may result in costly litigation and could result in the Group having to pay substantial damages or limit the Group's ability to commercialize its product candidates.

If the Group fails to comply with its obligations in the agreements under which it licenses intellectual property rights from third parties, or if the license agreements are terminated for other reasons, the Group could lose license rights that are important to its business and have to delay or cease further development of the relevant program or product or be required to spend significant time and resources to modify the program or product or develop or license replacement technology so as not to use the rights under the terminated agreement.

If the Group is not able to prevent disclosure of its trade secrets, know-how or other proprietary information, the value of its technology and product candidates could be significantly diminished. Also, the Group's reliance on third parties requires it to share trade secrets, which increases the possibility that a competitor will discover them or that its trade secrets will be misappropriated or disclosed.

The Group may be subject to claims that its employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties or that its employees have wrongfully used or disclosed alleged trade secrets of their former employers or that its patents and other intellectual property are owned by its employees, consultants or other third parties.

Obtaining and maintaining patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and the Group's or its licensors' patent protection could be reduced or eliminated for non-compliance with these requirements.

Certain of the Group's employees and patents are subject to the German Act on Employees' Inventions, and the Group may be subject to claims under this Act.

### *Risks Resulting from Infectious Disease Outbreaks*

NOXXON's business and financial condition may be adversely affected by infectious disease pandemics such as the recent COVID-19 outbreak, particularly if located in regions in which we conduct our research and development activities, drug manufacturing, or conduct our clinical trials, all of which may be subject to delays or compromise the quality of the work done. Several major pharmaceutical companies have had to suspend patient recruitment in major clinical trials as a result of the COVID-19 outbreak. If the hospitals with which NOXXON collaborates require this as well, then NOXXON would have to implement such measures resulting in potentially significant delays in recruitment. If hospitals decide to stop treating already enrolled patients, then the study itself could be compromised since patients' treatment would not comply with the approved protocol.

NOXXON's financial condition and financing opportunities could be adversely affected to the extent that COVID-19 or any other epidemic or infectious disease outbreak harms the global economy or makes investors more reluctant to invest in stock market listed companies. At times of crisis, small-cap European biotech companies such as NOXXON may experience reduced liquidity in their shares and may also be subject to additional selling of their shares and accompanying price decreases as investors shift their holdings to cash or other less volatile investments. A trend of decreasing share price and volumes would reduce the attractiveness of NOXXON's shares for multiple types of investors and could make it more difficult for the Group to obtain financing on acceptable conditions, if at all.

### *NOXXON Risk management system*

The risks and unpredictability of research and development are an intrinsic aspect of the pharmaceutical business which cannot be avoided without compromising the innovative strength and the development opportunities of the company. In such cases NOXXON acts with the full awareness that it can justify and manage these risks and – where possible and meaningful – protect itself against them, reducing the exposure to risk. Only in this way it is possible to achieve the Company's goals.

The monitoring and control of business risks constitutes a major part of the responsibilities of the Company's senior management. NOXXON, as a company engaged in intensive research and committed to growth, takes into account existing or potential opportunities and risks in its business activities as a matter of course. Management regularly goes to great lengths to develop a well organised product portfolio within the *Spiegelmer* substance class in order to ensure an attractive opportunity/risk profile.

The overriding aim of risk management is to support the Company's management in securing the continued existence of the Company. Risk management promotes a conscious handling of risks so that situations which threaten the existence of the Company can be identified at an early stage and controlled efficiently.

NOXXON has introduced a monitoring system in order to identify, to analyse, to categorise, to document and to monitor risks to the company. The monitoring system is also intended to ensure that possible measures which serve to minimise risks are initiated and that their implementation and effectiveness are checked.

For this purpose, NOXXON's Management has identified, analysed and assessed existing and potential risks and documented these results and the responsibilities that grow out of them in a risk list. NOXXON updates this list and adds to it on a regular basis. The employees of NOXXON are informed about the risk management system and are required to register new or changed potential risks in their area of activity and to make an active contribution to the further development of the risk management system.

The risk management system at NOXXON includes the following **elements**:

- **documentation** in the form of the risk list, the risk portfolio (risk map) and this risk manual;

- the **internal monitoring system** with a controlling function (planning, checking and control, as well as providing information) and an early warning system;

- the **external monitoring system** with the Supervisory Board the "principles of proper company management" and insurances.

The risk list enables the Management Board and the Supervisory Board to gain an overview of the risk situation of the company and to identify a possible need for action at an early stage. Due to the Group's business, the assessment of the risks is presented qualitatively and provides judgement on the probability of the occurrence and the possible level of potential loss. Quantitative sensitivity analyses are not performed.

Since the identification and assessment of risks is an ongoing process and needs continuous improvement to support the growth of the Company's activities, risk management will continue to have the full attention of the Management Board and will be subject to further and regular discussions with the Supervisory Board. The structure and functioning of our risk management and internal control systems are assessed annually by the Supervisory Board. In its meeting in December 2018 it was confirmed that the risk management system is appropriate for the risk profile, the type and the size of the company. It should however be noted that such systems can never provide absolute assurance regarding achievement of company objectives, nor can they provide an absolute assurance that material errors, losses, fraud, and the violation of laws or regulations will not occur.

## Internal risk management and control system

### *Risk management system*

NOXXON has introduced a monitoring system in order to identify, to analyze, to categorize, to document and to monitor risks to the company. The monitoring system is also intended to ensure that possible measures which serve to minimize risks are

initiated and that their implementation and effectiveness are checked. For this purpose, the Management Board of NOXXON has identified, analyzed and assessed existing and potential risks and documented these results and the responsibilities that grow out of them in a risk list. NOXXON updates this list and adds to it on a regular basis. The employees of NOXXON are informed about the risk management system and are required to register new or changed potential risks in their area of activity and to make an active contribution to the further development of the risk management system. The risk list enables the Management Board, the Supervisory Board to gain an overview of the risk situation of the company and to identify a possible need for action at an early stage.

In addition, the Group has set up an internal control system consisting of various rules and regulations such as policies, standard operating procedures, working practice documents, signatory rules, the dual-control principle, spot checks, self-checks, employee training and emergency planning. These regulations are mandatory for the entire organization. The Group's quality management system and the controlling system serve as important elements of the internal control and the risk management. The quality management provides specification documents which include position descriptions and functional descriptions as well as verification documents.

The Group's projects are analyzed in detail in regular project meetings to provide for close coordination of the project team as well as with the management.

### *Risk management and internal control system in the financial reporting process*

The internal control and risk management system is set up to ensure that the financial reporting and its processes are consistent and in compliance with legal regulations and generally accepted accounting principles for International Financial Reporting Standards (IFRS). This includes adhering to the dual control principle, authorization procedures, spot checks, various measures of plausibility checks for the numbers as well comparison analyzes of actual with budgeted numbers.

The Group's controlling system serves as the basis for the risk management. The controlling is based on strategic planning, budgeting, reporting and deviation analyzes. The available instruments provide the management with the information which are necessary to adequately assess the actual situation, to identify and evaluate opportunities and risks, and following this to make business decisions.

The description of the risk factors and the risk management approach of the Group is described in more detail in section "Risk Management".

## Financial and non-financial performance indicators

The most important financial performance indicator is the cash forecast. We refer to section "liquidity risk" in Note 18 of the consolidated financial statements of NOXXON Pharma N.V.

Further, the following financial and non-financial performance indicators are relevant. The Group uses a number of contract research organisations to perform the clinical studies and the preclinical work as well as production of Spiegelmers® and related

process development. Important performance indicators in this respect are, in addition to compliance with the budget and the timetables, the quality of the work carried out as well as compliance with all applicable regulations. As a safeguard in this area, the Group carries out audits prior to the awarding of contracts as well as during the ongoing work addressing the aforementioned points and potentially deriving recommendations for action. Great emphasis continues to be placed on adherence to timetables for the work contracted and to perform clinical studies within the original timeframe. With respect hereto, the Group has alternative scenarios prepared to potentially be able to limit or compensate delays.

## Research and development information

The Group's goal is to become a leading biopharmaceutical group focused on cancer therapy and create long-term value for its shareholders by developing and commercializing its proprietary class of drugs called Spiegelmers, which are a chemically synthesized, immunologically passive alternative to antibodies. Accordingly, the Group's key strategies and goals are to:

- Make its lead product candidate NOX-A12 a combination partner for a wide range of cancer treatments by leveraging the NOX-A12 mechanism of action on the TME in combination with existing therapy classes, including immune checkpoint inhibitors as well as standard therapies such as chemo- and radio-therapy.

- Continue to leverage NOX-E36, the Group's other potential product candidate at the cutting edge of cancer treatment.

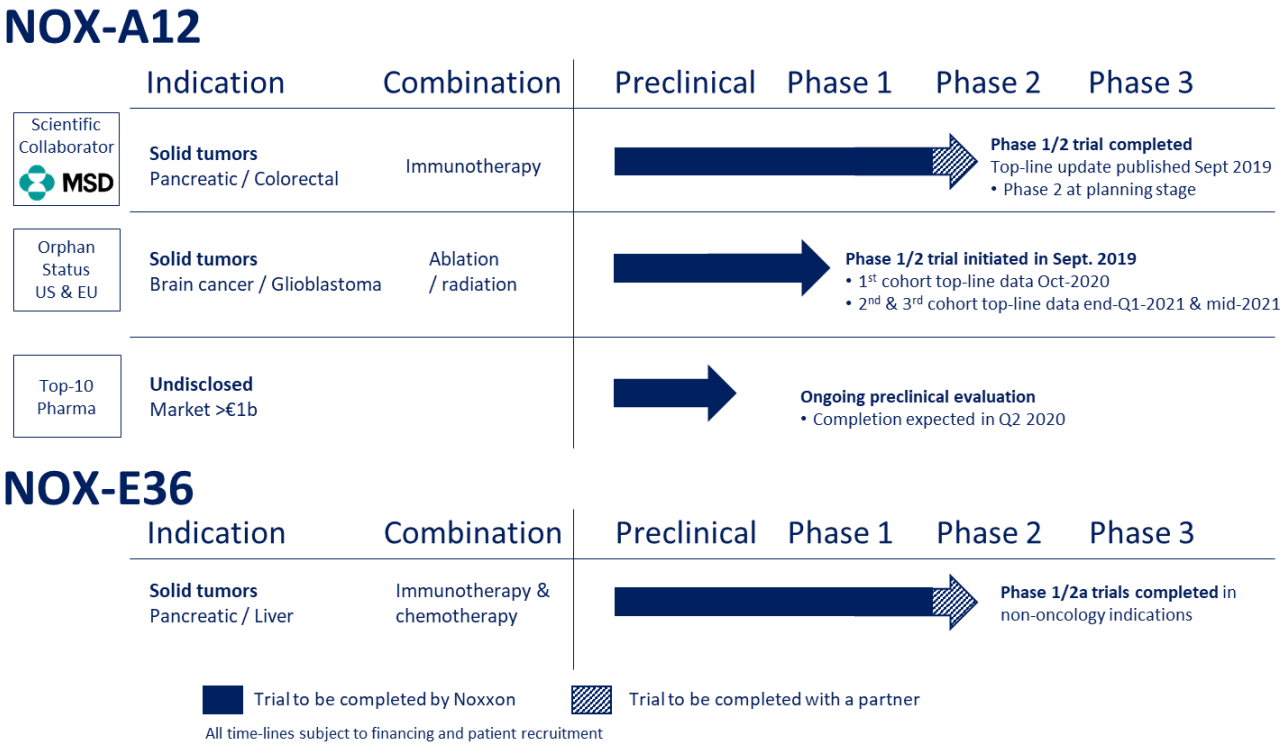
- Partner its product candidates bringing additional expertise and financial resources to development of our products.

- Develop its lead product candidate and find suitable routes to commercialization.

The Group's strategy to create long-term value for its shareholders is based on our commitment to our dynamic business model of investing in clinical programs, which we believe are driven by a solid biological rationale, as well as collaborating with academic and pharmaceutical partners.

It has become more and more clear to the scientific community that chemokines are important, largely unaddressed targets for TME-directed cancer therapy and that neutralizing them could significantly improve efficacy of a broad range of therapies in many cancer types (*Source: Joyce & Fearon, 2015*). The Group believes that this creates a situation of tremendous opportunity to develop a series of successful new products for cancer treatment. In December 2016, the Group signed a collaboration agreement with Merck to study the combination of the Group's lead product candidate, NOX-A12, with Merck's immune-oncology checkpoint inhibitor antibody Keytruda®/ pembrolizumab in patients with metastatic solid tumors that do not usually respond to checkpoint inhibitor monotherapy.

All of the Group's proprietary product candidates were identified and synthesized through its drug discovery platform. The Group's oncology-focused product pipeline consists of two clinical-stage candidates. The primary product candidates that the Group intends to progress, alone or through potential partnerships, include NOX-A12 in various cancer indications and NOX-E36 in solid tumors. The Group's pipeline of product candidates is summarized in the figure below:




In addition to NOXXON's own development plans, a leading international pharmaceutical company amongst the top-10 pharmaceutical companies by worldwide revenue has signed an agreement with NOXXON for the purpose of evaluating NOX-A12 in preclinical studies for use in a new indication which is a serious disease with significant unmet medical need (Source: NOXXON Press Release 24 June 2019).

## Outlook

The Group believes the future of cancer treatment will rely on so-called "combination therapies", meaning combinations of different drugs that have a synergistic benefit for the patient by fighting the cancer in multiple ways at the same time (*Source: Mahoney et al., 2015*). The Group's lead product candidate and other clinical stage product candidate in its pipeline target the tumor microenvironment (TME) and are designed to be combined with other cancer targeting therapies. The TME is the space in which cancer cells exist in the body, which includes amongst others surrounding blood vessels, immune cells, fibroblasts and signaling molecules. The TME has been shown to have a critical role in almost all aspects of cancer biology (*Source: Guo et al., 2015; Joyce & Fearon, 2015*).

Specific signaling molecules called chemokines are important in the interaction between the cancer and the TME. These chemokines can act as communication bridges between cells and their environment and as signposts for migrating cells when attached to cell surfaces for example on blood vessel walls. The Group's cancer pipeline consists of products that are designed to break this line of communication and isolate tumor cells from their environment so that they can be killed more easily or effectively.

The Group's pipeline consists of one lead clinical-stage product candidate and an additional product candidate that the Group intends to progress alone or through potential partnerships:

***NOX-A12 (olaptesed pegol)***

The Group's lead product candidate, NOX-A12, targets a key chemokine in the TME, CXCL12, also known as stromal cell-derived factor-1 (SDF-1), that is naturally involved in the migration of blood cells and in cancer acts as a communication bridge between tumor cells and their environment (*Source: Guo et al., 2015*). For example, while CXCL12 and other chemokines generally attract cells, it is now understood that under certain conditions of very high local concentrations that can be found in some solid tumors, CXCL12 can act as a repulsive factor for cytotoxic or killer T cells, which are key cells types of the immune system (*Source: Feig, 2013; Joyce & Fearon, 2015; Poznansky et al., 2000 & Lee et al., 2009*). NOX-A12 offers a complementary mode of action to other treatments including the current standard of care and the latest immuno-oncology therapeutics, such as immune checkpoint inhibitors and CAR-T approaches. Thus, the Group believes that NOX-A12 has specific characteristics that make it highly suitable as a partner drug in various cancer combination therapies. The Group believes that combination with NOX-A12 will increase the efficacy of cancer treatments without adding significant side effects. Therefore, the Group believes NOX-A12 is positioned to be a combination partner for a wide range of cancer treatments. The Group has developed plans to develop NOX-A12 therapeutic settings in two distinct ways, based on the financing available:

- In advanced solid tumors, such as metastatic colorectal and pancreatic cancer, in combination with immune checkpoint inhibitors, to destroy tumor immune privilege to unleash the full potential of tumor immunotherapy;
- In brain cancer, in combination with radiotherapy, to block recruitment of bone marrow-derived "repair" cells into the tumor to prevent re-growth.

*Status of NOX-A12 clinical trial in Pancreatic and Colorectal Cancer:*
In September 2019, the Company reported updated data from the clinical trial of the combination of NOX-A12 with Keytruda® in heavily pre-treated metastatic micro-satellite stable pancreatic and colorectal cancer patients. One of the most interesting aspects of this dataset was the updated overall survival data showing that three patients including two receiving their 4th line of therapy for metastatic pancreas cancer had lived more than one year. Overall, data from this study has so far demonstrated that NOX-A12, alone as monotherapy, penetrates the tumor tissue where it neutralizes its target and can stimulate an increased immune response within the tumor, making the tumor microenvironment immunologically "hotter". In the second part of the study, when NOX-A12 was then combined with Merck's anti-PD-1 immunotherapeutic antibody, Keytruda®, 25% of patients achieved stable disease according to the iRECIST criteria, despite 95% of all patients having progressive disease as their best response to their prior anti-cancer treatment. Furthermore, 35% of patients had prolonged time on therapy, relative to their

prior treatment. As such, we believe that further work in both tumor types is warranted for NOX-A12.

*Key insights from the NOX-A12* + Keytruda® *trial in pancreas and colorectal cancer patients and future plans*
It was noted that beyond a certain level of target neutralization in the tumor tissue by NOX-A12 there was a consistently increased immune response whether in colorectal or pancreatic cancer patients. Thus, the NOX-A12 therapy appears to have a similar effect in both tumor types. In future studies, the Group plans to test additional dosing schedules with the goal of obtaining this effect more consistently across all patients. Given the safety profile observed in this study of NOX-A12 alone and combined with Keytruda®, we believe that dose and frequency of administration could be increased.

Based on the data from our and other studies, we believe that patients with unimpaired immune systems will respond better to NOX-A12 + immunotherapy. In general, patients who have experienced less prior anti-cancer therapy will have immune systems that are better able to mount an anti-tumoral response. We are evaluating clinical trial designs that would allow testing of NOX-A12 in such cancer patient populations.

We are now discussing our plans for the next steps of NOX-A12 + immunotherapy development with industrial partners and clinical experts to ensure that key stakeholders have been consulted on our upcoming trial(s). Our goal is to identify a collaboration partner who will financially support the further development of NOX-A12 in colorectal and pancreatic cancer.

*NOX-A12 + radiotherapy in brain cancer: strong support from university researchers*
A second and distinct combination strategy, NOX-A12 + radiotherapy, is supported by strong preclinical data and top-level university researchers in both the US and Europe (see the presentation from the coordinating investigator of NOXXON's brain cancer clinical trial, Frank Giordano, Chairman of the Department of Radiation Oncology at the University Hospital Bonn from September 2019 here: Link).

*Clinical trial of NOX-A12 + radiotherapy in 1st line Brain Cancer Patients*
In September 2019, the Company had initiated a clinical trial testing the combination of NOX-A12 + radiotherapy in brain cancer patients. In December 2019 the Company announced that a planned review by an independent Data Safety Monitoring Board (DSMB) had analyzed safety data from ten weeks of treatment of the first patient enrolled in the NOX-A12 plus radiotherapy brain cancer trial. Based on this assessment, the DSMB confirmed that it was appropriate to continue the recruitment of additional patients according to the study protocol. The clinical trial centers participating in the study therefore initiated the recruitment of the remaining patients in the first of three escalating dose groups (200, 400 and 600mg per week doses). Once each patient in the first cohort has received a four-weeks treatment of NOX-A12 and radiotherapy, the DSMB will reconvene to determine whether it is safe to proceed to the middle dose level of NOX-A12.

*Future Plans for NOX-A12 + radiotherapy*
If the results from this ongoing clinical trial are positive, the Group plans to seek advice from competent authorities under its orphan drug designation in the United States and Europe to identify the most efficient manner to complete development in this indication.

The Company will need to raise additional funds in order to ensure its ability to complete this study, as currently planned, in mid-2021.

*NOX-A12 also has potential in lung cancer*
The Group is part of a consortium together with a group of university clinicians that has applied for EU funding to finance a Phase 1/2 trial in non-small cell lung cancer (NSCLC) patients who have progressed on anti-PD-1/PD-L1 immune checkpoint inhibition. Preliminary work in untreated patients suggests that there are zones of T-cell exclusion in many NSCLC patients which correspond to regions of high CXCL12 expression. Patients could be screened for such zones of exclusion upon failure of anti-PD-1/PD-L1 immune checkpoint inhibition to enrich for potential responders to a NOX-A12 + anti-PD-1/PD-L1 combination. If the results from this study are positive, the Group plans to seek advice from competent authorities to identify the most efficient manner to complete development in this indication.

***NOX-E36 (emapticap pegol) a TME opportunity in oncology targeting the innate immune system***

The Group is investigating the potential for use of this product candidate in the TME since its target (CCL2/MCP-1) is implicated in cancer spread and immune privilege of tumors. NOX-E36 also inhibits related chemokines relevant to TME: CCL8, CCL11 and CCL13 (*Source: Oberthür et al. 2015*). Indeed, a signature called IPRES for Innate PD-1 Resistance Signature has been identified which has been linked to resistance to checkpoint inhibitors (*Source: Bu et al. 2016*). The IPRES contains a monocyte/macrophage component composed of four chemokines, three of which, CCL2, CCL8 and CCL13, are neutralized by NOX-E36. As such, the Group believes that NOX-E36 may be a more effective approach to blocking checkpoint resistance mediated by monocyte/macrophage components of the immune system than competing agents which do not fully block the signaling of all the chemokines neutralized by NOX-E36.

Animal data suggests that NOX-E36 has the potential for monotherapy activity in pancreatic cancer due to its ability to clear immunosuppressive tumor associated macrophages (TAMs) from tumors resulting in increased killer T-cells and reduced tumor volume in an animal model *(Source: Lazarus et al., 2017)*. Further data from another laboratory showing activity in a model of liver cancer supports the use of NOX-E36 in therapy of solid tumors (*Source: Bartneck et al., 2019*).

The Group has significant clinical experience already with NOX-E36 as it was initially developed in diabetic nephropathy. NOX-E36 has completed Phase 1 trials and a Phase 2a trial in diabetic nephropathy which the Group believes significantly de-risks the clinical development in oncology (*Menne, J., et al., 2017*). These studies demonstrated the doses at which NOX-E36 could act on CCR2+ monocytes, the cells believed to become TAMs and established a safety and tolerability profile that supported further development.

NOXXON is currently collaborating with university researchers to further understand the potential of NOX-E36 in pre-clinical models. With the focus of the Group currently on its first clinical compound, clinical development of NOX-E36 will depend upon identifying an industrial partner to finance clinical trials.

### *Business Planning*

The Group expects it will incur operating losses for the foreseeable future due to, among other things, costs related to research funding, development of its product candidates and its preclinical programs, pursuit of strategic alliances and the development of its administrative organization. The Group will be required to raise additional funds, alternative means of financial support or conduct a partnering deal for a compound in order to finance its operations. Management is pursuing various financing alternatives to meet the Group's future cash requirements, including seeking additional investors, pursuing industrial partnerships, or obtaining further funding from existing investors through additional funding rounds, pursuing a merger or an acquisition.

We continue to implement our business plan which includes advancing our clinical pipeline, securing required funding for later stage clinical development, signing collaborations with pharmaceutical companies and the strengthening the Group's shareholder base. As the Group matures and undertakes the activities required to advance product candidates into later stage clinical development, to commercialize product candidates, it expects to further adapt its full-time employee base.

### *Group continues to advance clinical development and investment activities despite Covid-19 outbreak*

Overall, the impact on the operations and finances of the Coronavirus (COVID-19) infectious disease pandemic have been manageable for the Group. As requested by the European Medicines Agency (EMA), NOXXON has critically assessed the risks and benefits of therapy continuation and inclusion of new trial participants in its clinical trial of NOX-A12 combined with radiotherapy in first-line brain cancer patients. Following a thorough evaluation and discussion with the coordinating investigator, as well as other partners involved in the trial, it has been decided to continue both the treatment of enrolled patients and recruitment of additional patients. The safety of patients, hospital staff and employees, as well as the severity of the disease under study and the limited options currently available for treatment were important factors in this decision. All centers will continue treatment of already enrolled patients and two of the three centers are recruiting new patients as planned. As there have been delays due to COVID-19 as well as other factors, NOXXON is now planning to add centers to the trial to increase recruitment capacity in order to guard against future potential for delays. Operationally all NOXXON staff have the capacity to work remotely and are able to carry out their functions.
On the financial front, although outreach to investors is more complex, we continue to be able to engage with interested investors in US, Europe and also Asia. While we continue to prefer equity financing via capital increases, the current market situation increases the likelihood that alternative financing vehicles will need to be considered.

## Remuneration of managing and supervisory directors

We refer to Note 19 in the consolidated financial statements 2019 of NOXXON Pharma N.V. and the section "Remuneration" in the Supervisory Board Report in this Annual Report.

## Information concerning application of code of conduct and additional corporate governance policies

The Company has incorporated a code of conduct, an insider trading policy, a whistle-blower policy and a policy on bilateral contacts with shareholders each of those policies guided by the Group's culture and its cores values of transparency, integrity, collegiality. Each of these documents apply mandatorily to all personnel, Directors and consultants and can be found on the Company's website.

# Corporate Governance Report

## I. General

NOXXON Pharma N.V. (the Company) is a Dutch public limited liability company (naamloze vennootschap) and has its corporate seat in Amsterdam, The Netherlands and a branch office in Berlin, Germany. The Company's ordinary shares are listed under the symbol "ALNOX" with ISIN NL0012044762 on Euronext Growth stock exchange Paris, France. NOXXON Pharma N.V. is a management holding providing corporate and administrative services, financial and business advice and asset management to its German subsidiary.

The Company's business address is in Berlin, Germany with the address of Max-Dohrn-Str. 8-10, 10589 Berlin.

The Company applies a two-tier board structure comprising of the Management Board (bestuur) and the Supervisory Board (raad van commissarissen). Under Dutch law, the Management Board is collectively responsible for the Company's general affairs and is in charge of the day-to-day management, formulating strategies and policies, and setting and achieving the Company's objectives. The Supervisory Board supervises the Management Board and the general affairs in the Company and the business connected with it and provides the Management Board with advice.

Each member of the Management Board and the Supervisory Board has a duty to properly perform the duties assigned to him or her and to act in the corporate interest of the Company and its business. Under Dutch law, the corporate interest extends to the interests of all corporate stakeholders, such as shareholders, creditors, employees, customers, patient populations and suppliers.

## II. Management Board

***Powers, Responsibilities and Functioning of the Management Board***

The Management Board is the executive body of the Company, collectively responsible for the day-to-day management, the Company's general affairs and the Company's representation.

The Management Board shall supply the Supervisory Board in due time with all information required for the performance of the duties the Supervisory Board. The Management Board is required to notify the Supervisory Board in writing of the main features of the Company's strategic policy, general and financial risks and management and control systems, at least once per year. The Management Board must submit certain important decisions to the Supervisory Board and/or the General Meeting for approval.

***Composition of the Management Board***

In 2019, the Management Board was comprised of the following Management Board Director, with a term that will end at the General Meeting to be held in 2020.

| Name | Age | Nationality | Position | Member Since | Term |
|---|---|---|---|---|---|
| Aram Mangasarian, Ph.D..... | 50 | US | Chief Executive Officer | 1 July 2015 | until AGM 2020 |

Dr. Jarl Ulf Jungnelius is in the role of Chief Medical Officer through end-April 2020 and thereafter as Senior Medical Advisor, both roles being on a consulting basis. In consultation with the Nomination and Corporate Governance Committee the Supervisory Board decided that functioning of the CEO as sole member of the management board with the support of Dr. Jungnelius on a consulting basis is adequate and appropriate considering the scale of the Group's business and that there would be no need to appoint an additional management board member.

The following is a brief summary of the business experience of the current member of the Management Board and the Chief Medical Officer.

Aram Mangasarian

Aram Mangasarian was appointed CEO of NOXXON in July 2015 after having served as Chief Business Officer of the company since May 2010. Aram brings over eighteen years' experience in the biotechnology industry to NOXXON. Prior to joining NOXXON, Aram served as Vice-President Business Development for Novexel from October 2005 to March 2010. In this capacity he concluded a €150 million licensing agreement including a €75 million upfront payment with Forest Laboratories (NYSE:FRX) for North American rights to a beta-lactamase inhibitor now known as avibactam. Aram was a member of the management team that negotiated the acquisition of Novexel by AstraZeneca (NYSE:AZN) in March 2010 for up to $505 million. From May 2000 to October 2005, Aram served in a variety of roles at ExonHit Therapeutics (now Diaxonhit, Euronext:ALEHT), eventually heading the business development function as Vice-President. He concluded a number of important agreements for ExonHit, in particular the $30 million strategic alliance with Allergan. Aram received a B.S. from the University of Wisconsin-Madison in biochemistry, molecular biology and English literature, a PhD in Biology from the University of California-San Diego for research carried out at the Salk Institute and an MBA from INSEAD.

Jarl Ulf Jungnelius

Dr. Jarl Ulf Jungnelius is in the role of Chief Medical Officer through end-April 2020 and thereafter as Senior Medical Advisor, both roles being on a consulting basis (not a member of the management board).

Dr. Jungnelius worked at Celgene from 2007 to 2014 where he served as Vice President of Clinical Research and Development, Solid Tumors. Prior to that post Dr. Jungnelius held leadership positions at Takeda, Pfizer and Eli Lilly & Company and VAXIMM, where he was responsible for clinical development of oncology programs as well as involved in business development. Dr. Jungnelius held important responsibilities in the clinical development of several successful oncology drugs, including Abraxane®, Gemzar®, Alimta® and Revlimid®. He is an oncologist with more than 25 years of clinical and research experience at both large pharmaceutical companies and academic organizations. Dr. Jungnelius is currently CEO of Isofol Medical AB, and a Supervisory Board Director at Biovica International AB and Monocl AB and has been a director at Oncopeptides AB since April 2011. He received both a Bachelor of Science degree and his M.D. from the Karolinska Institute in Stockholm Sweden. Dr. Jungnelius has recently been appointed to an executive role at Isofol Medical, and has agreed to continue advising NOXXON under the title of Senior Clinical Medical Advisor.

***Appointment, Term of Appointment and Dismissal of the Management Board***

The Articles provide that the Management Board Directors are appointed by the General Meeting upon a binding nomination by the Supervisory Board. The General Meeting may at all times deprive such nomination of its binding character by a resolution passed by at least two-thirds of the votes cast representing more than one-half of the Company's issued capital, following which the Supervisory Board shall draw up a new binding nomination.
The Management Board Rules provide that the Management Board Director will serve for a term of not more than two years. A Management Board Director may be reappointed for a term of not more than two years at a time.

Under the Articles, the General Meeting and the Supervisory Board may suspend Management Board Directors at any time, and the General Meeting may remove Management Board Directors at any time. A resolution of the General Meeting to remove a Management Board Director may be passed by a simple majority of the votes cast, provided that the resolution is based on a proposal by the Supervisory Board. A resolution of the General Meeting to remove a Management Board Director other than upon proposal of the Supervisory Board shall require a majority of at least two-thirds of the votes cast representing more than one-half of the Company's issued share capital. A suspension of a Management Board Director may be discontinued by the General Meeting at any time. A General Meeting must be held within three months after a suspension of a Management Board Director has taken effect, in which meeting a resolution must be adopted to either terminate or extend the suspension, provided that in the case that such suspension is not terminated, the suspension does not last longer than three months in aggregate. The suspended Management Board Director must be given the opportunity to account for his or her actions at that meeting. If neither such resolution is adopted nor the General Meeting has resolved to dismiss the Management Board Director, the suspension will cease after the period of suspension has expired.

***Decision-making and approvals of the Management Board***

The Management Board adopted internal rules and regulations (the "**Management Board Rules**") that describe, *inter alia*, the procedure for holding meetings of the Management Board, for the decision-making by the Management Board, and the Management Board's operating procedures. Any change to the Management Board Rules requires the approval of the Supervisory Board.

## III. Supervisory Board

***Powers, Responsibilities and Functioning of the Supervisory Board***

The Supervisory Board is an independent corporate body responsible for supervising and advising the Management Board and overseeing the general course of affairs and strategy of the Group.

Further details in respect of the members of the Supervisory Board can be found in the section entitled "Supervisory Board" in this Annual Report.

NOXXON Pharma N.V. recognizes the benefits of diversity, including gender balance. However, NOXXON Pharma N.V. feels that gender is only one part of diversity and future members of the Board of Directors and of the Supervisory Board will continue to be

selected on the basis of wide ranging (technical) experience, backgrounds, skills, knowledge and insights.

## IV. General Meeting

***Annual General Meeting***

An annual General Meeting must be held within six months from the end of the preceding fiscal year of the Company. The purpose of the annual General Meeting is to discuss, amongst other things, the annual report, the adoption of the annual accounts, allocation of profits (including the proposal to distribute dividends), release of the Management Board Directors from liability for their management and the Supervisory Board Directors from liability for their supervision thereon, filling of any vacancies and other proposals brought up for discussion by the Management Board and the Supervisory Board.

***Extraordinary General Meetings***

Extraordinary General Meetings may be held as often as the Management Board or the Supervisory Board deems such necessary. In addition, Shareholders representing alone or in aggregate at least 10% of the issued and outstanding share capital of the Company may request that a General Meeting be convened, the request setting out in detail matters to be considered. If no General Meeting has been held within 42 days of the Shareholder(s) making such request, that/those Shareholder(s) will be authorized to request in summary proceedings a Dutch District Court to convene a General Meeting. In any event, a General Meeting will be held to discuss any requisite measures within three months of it becoming apparent to the Management Board that the shareholders' equity of the Company has decreased to an amount equal to or lower than one-half of the issued and paid-up part of the capital.

***Share capital***

As of balance sheet date, the Articles provided for an authorized share capital in an amount of € 479,502 divided into 47,950,200 Ordinary Shares, each with a nominal value of € 0.01. Further, the Articles of Association provide that as per the moment the Company's issued and paid-up share capital amounts to € 400,000 comprised of 40 million ordinary shares, each share having a nominal value of € 0.01, the authorised capital of the Company shall automatically increase to € 1,000,000, divided into 100,000,000 ordinary shares.

As of balance sheet date, 13,102,464 Ordinary Shares were outstanding, of which 49,540 Ordinary Shares were held by the Company as treasury shares.

***Voting rights***

Each Ordinary Share confers the right on the holder to cast 1 vote at the General Meeting. Under the Articles, blank and invalid votes shall not be counted as votes cast. Further, Ordinary Shares in respect of which a blank or invalid vote has been cast and shares in respect of which the person with meeting rights who is present or represented at the meeting has abstained from voting are counted when determining the part of the issued share capital that is present or represented at a General Meeting. The chairman of the General Meeting shall determine the manner of voting and whether voting may take place by acclamation, subject to certain restrictions under the Articles. Ordinary Shares in respect of which the law determines that no votes may be cast shall be disregarded for the purposes of determining the part of the issued share capital that is

present or represented at a General Meeting. Pursuant to Dutch law, no votes may be cast at a General Meeting in respect of Ordinary Shares which are held by the Company.

Resolutions are passed by an absolute majority of the votes cast, unless Dutch law or the Articles prescribe a larger majority. Under Dutch law, no votes may be cast at a General Meeting in respect of Ordinary Shares which are held by the Company. In accordance with Dutch law, the Articles do not provide quorum requirements generally applicable to General Meetings.

***Amendment of Articles of Association***

The General Meeting may only resolve to amend the Articles upon a proposal made by the Management Board, which proposal requires the prior approval of the Supervisory Board. A resolution adopted by the General Meeting to amend the Articles requires an absolute majority of the votes cast, unless less than half of the Company's issued and outstanding share capital is present or represented at the meeting, in which case a majority of at least two-thirds of the votes cast shall be required.

***Issue of shares***

The General Meeting is authorized to issue Ordinary Shares or to grant rights to subscribe for Ordinary Shares and to restrict and/or exclude statutory pre-emptive rights in relation to the issuance of Ordinary Shares or the granting of rights to subscribe for Ordinary Shares. The General Meeting may designate another body of the Company, such as the Management Board, competent to issue Ordinary Shares (or grant rights to subscribe for Ordinary Shares) and to determine the issue price and other conditions of the issue for a specified period not exceeding five years (which period can be extended from time to time for further periods not exceeding five years) so long as the maximum number of Ordinary Shares which may be issued is specified. A resolution of the General Meeting to issue Ordinary Shares or to designate another body of the Company, such as the Management Board, competent to do so, can only be adopted at the proposal of the Management Board, which proposal requires the prior approval of the Supervisory Board.

The extraordinary General Meeting held on 2 January 2019, and thus effective on balance sheet date, has adopted a resolution pursuant to which the Management Board was designated as the corporate body authorized to, subject to approval of the Supervisory Board, to issue ordinary shares in the capital of the Company and grant rights to subscribe for ordinary shares in the capital of the Company, at any time during a period of 5 years as from the date of the General Meeting and therefore up to and including 1 January 2024 up to the maximum available under the authorized share capital as included in the Company's articles of association from time to time and to limit or exclude pre-emptive rights in connection therewith, provided that such authorization, as to 15,132,804 ordinary shares (the Reserved Number), shall not be used for a purpose other than the issuance of ordinary shares pursuant to the warrants granted under the transaction with Acuitas Capital, LLC announced on 16 November 2018 (save that (1) from 16 November 2019 this restriction shall apply only to one half of the Reserved Number of ordinary shares and (2) the number of ordinary shares as to which the restriction would otherwise persist shall decrease by the number of ordinary shares issued pursuant to such warrants on or after 2 January 2019). Subject to this restriction, the authorization is intended to allow the board of directors to issue new ordinary shares for general purposes, which includes, without limitation, mergers, demergers, acquisitions and other strategic transactions and alliances as well as pursuant to the ESOP.

***Repurchase of own shares***

The Company cannot subscribe for Ordinary Shares in its own capital at the time Ordinary Shares are issued. Subject to the certain provisions of the Articles, the Company may acquire fully paid-up Ordinary Shares provided no consideration is given or provided, (i) its shareholders' equity less the payment required to make the acquisition, does not fall below the sum of called-up and paid-in share capital and any reserves to be maintained by Dutch law and/or the Articles, (ii) the Company and its subsidiaries would thereafter not hold Ordinary Shares or hold a pledge over Ordinary Shares with an aggregate nominal value exceeding 50% of the Company's issued share capital and (iii) the Management Board has been authorized thereto by the General Meeting. Any acquisition by the Company of Ordinary Shares that are not fully paid-up shall be null and void.

The General Meeting's authorization to the Management Board to acquire own Ordinary Shares is valid for a maximum of 18 months. As part of the authorization, the General Meeting must specify the number of Ordinary Shares that may be repurchased, the manner in which the Ordinary Shares may be acquired and the price range within which the Ordinary Shares may be acquired. A resolution of the Management Board to repurchase Ordinary Shares can only be adopted with the prior approval of the Supervisory Board. The authorization is not required for the acquisition of Ordinary Shares for employees of the Company or another member of its Group, under a scheme applicable to such employees.

Ordinary Shares held by the Company in its own share capital do not carry a right to any distribution. Furthermore, no voting rights may be exercised for any of the Ordinary Shares held by the Company or its subsidiaries unless such Ordinary Shares are subject to the right of usufruct or to a pledge in favor of a person other than the Company or its subsidiaries and the voting rights were vested in the pledgee or usufructuary before the Company or its subsidiaries acquired such Ordinary Shares. The Company or its subsidiaries may not exercise voting rights in respect of Ordinary Shares for which the Company or its subsidiaries have a right of usufruct or a pledge.

The General Meeting held on 25 June 2019 designated the Management Board for a period of 18 months to repurchase Ordinary Shares up to 10% of the Company's issued and outstanding share capital against a repurchase price between €0.01 and €50, with the prior approval of the Supervisory Board, for the purpose of supporting the secondary market through a liquidity agreement with an authorized investment services provider, complying with the charter of ethics approved by the French Financial Markets Authority (Autorité des Marchés Financiers (AMF)) and the French Association of the Financial Markets (Association française des marchés financiers (AMAFI)).The General Meeting further designated the Management Board Directors for a period of 5 years, with the prior approval of the Supervisory Board and subject to the above legal restrictions, to repurchase any Ordinary Shares that an employee of the Group is required to, or agrees to, re-transfer to the Company pursuant to an agreement entered into under the Share Participation Model of NOXXON Pharma AG (but no more than 10% of the Company's issued and outstanding share capital immediately following the Listing). Such designation provides for a repurchase price equal to the contribution originally made for each NOXXON Pharma AG share, multiplied by the exchange ratio under the Corporate Reorganization (i.e. 1:2), for each Ordinary Share so to be repurchased.

## V. Related Party Transactions

The Company is not aware of any transaction with any person who could be considered to have a direct relationship with the Company in the Fiscal Years 2019 and in 2020 to date, other than the transactions as set out below, which transactions were conducted at arm's length basis.

***Agreements with Kreos***

Since September 2016, Kreos Jersey has been a shareholder, holding 12.8% of the Ordinary Shares as of the balance sheet date. Kreos participated in a private placement in 2019.

***Acuitas***

Since November 2018, Acuitas Capital LLC has been a shareholder, holding approx. 27.4% of the Ordinary Shares reported as of 18 December 2018 (representing approx. 22.9% of the ordinary shares after the capital increases as described in Note 8 of the consolidated financial statements). Although we requested confirmation of shareholding as of 31 December 2019 from Acuitas, no information was provided.

In the framework of the securities purchase agreement concluded with Acuitas Capital LLC dated 15 November 2018, 3,783,201 ordinary shares at € 1.17 per share, a 10% discount to the closing bid price of NOXXON ordinary shares on November 14, 2018 of € 1.30 per were issued. Furthermore, Acuitas Capital, LLC has been granted warrants to acquire an equivalent number of shares at € 1.4148 per share, 1.2-fold of the purchase price for the ordinary shares. The reduction in the strike price used for cash exercise from € 1.4148 to € 0.51 was triggered by the share capital increase through a private placement completed on 15 August 2019 which also resulted in a reduction of the amount payable to Acuitas in shares on demand as part of the cashless exercise from K€ 4,700 as of 31 December 2018 to K€ 1,687 (see also Notes 8 and 10 of the consolidated financial statements.

***Warrants issued and outstanding to Kreos and certain other investors***

In 2017, the Company issued a total of 135,271 warrants with terms and conditions identical to those issued to Yorkville in connection with the financing agreed on 1 May 2017. Of these warrants 40,321 were issued in connection with capital increases against cash and 94,950 in connection with debt-to equity conversions. Kreos holds majority of these warrant with 98,982, and 36,289 warrants are held by certain other investors (including 2,688 warrants held by DEWB AG which, like Kreos, is represented on the NOXXON Supervisory Board). As of 31 December 2019, 5.1 million ordinary shares would be issued upon exercise against cash contribution amounting to € 2.5 million.

In accordance with best practice provision 2.7.5. of the Dutch Corporate Governance Code all transactions with shareholders holding at least 10% of the shares in the Company were agreed on terms customary in the biotech sector and corresponding Supervisory Board approvals have been obtained.

***Management Board and Supervisory Board***

The members of the Management Board and the Supervisory Board have no personal interest in the investments made by the Group in the Fiscal Years 2019 and 2018.

Until 30 September 2017 NOXXON Pharma AG has had a service agreement with its member of the Management Board Aram Mangasarian, Ph.D. In conjunction with the implementation of NOXXON Pharma N.V. as a management holding, since 01 October 2017 NOXXON Pharma N.V. has entered into a service agreement with this member of the Management Board with main conditions unchanged, except for the Company's obligation to the French social security system. In 2017, NOXXON Pharma NV signed a consulting agreement with Whitecity Consulting ApS, a company controlled by Dr. J. Donald deBethizy. The services are remunerated on a retainer basis in cash amounting to € 6,000 and include an equity component which is served by the Stock Option and Incentive Plan 2016. Whitecity Consulting ApS was granted 12,306 stock options under the Stock Option and Incentive Plan in 2017 and 48,430 stock options in 2019. We refer also to the section "Remuneration" in the Supervisory Board Report in this Annual Report. According to this agreement the Group is entitled to request advice in the field of NOXXON's business, in particular with regard to the interactions with potential new investors, other investor relations activities or activities regarding strategic alliances. No other Supervisory Board Director has a service contract and none of the Supervisory Board Directors have a severance agreement with the Company.

Prior to 31 December 2019 and 2018, management board and supervisory board members partially waived their receivables with respect to bonuses and supervisory board remuneration due from the Group totaling K€ 119 and K€ 296, respectively. The Group derecognized the related other liabilities to other income.

The remuneration paid to the members of the Management Board and the Supervisory Board and the pension arrangements for the sole member of the Management Board are set out in the remuneration section in the Supervisory Board Report.

No other business transactions with the members of the Management Board and the Supervisory Board exist.

## VI. Dutch Corporate Governance Code

The Dutch Corporate Governance Code contains principles and best practice provisions, that regulate relations between the management board, the supervisory board and the shareholders, and is based on a "comply or explain" principle.

The current 2016 version of the Dutch Corporate Governance Code can be found at www.mccg.nl.

NOXXON is not required to report on its compliance with the Dutch Corporate Governance Code but in general acknowledges the importance of good corporate governance. In due consideration of the Company's relatively small size of the company, it endorses and applies the underlying principles of the Dutch Corporate Governance Code where possible and conducive for its operations. Without being conclusive, the main principles of the Dutch Corporate Governance Code 2016 that are not complied with are the following:

- The Company does not comply with best practice provision 2.1.5 of the Dutch Corporate Governance Code, which requires that the Supervisory Board shall draw up a diversity policy for the composition of the Management Board and the Supervisory Board. We aim for a diverse composition with respect to nationality, experience, background, age and gender, which objective has also been included in our profile of the size and composition of the supervisory directors. NOXXON

Pharma N.V. recognizes the benefits of diversity, including gender balance. However, NOXXON Pharma N.V. feels that gender is only one part of diversity and future members of the Board of Directors and of the Supervisory Board will continue to be selected on the basis of wide ranging (technical) experience, backgrounds, skills, knowledge and insights.

- The Company does not comply with best practice provisions 2.1.7, 2.1.9 and 2.3.4, which set independency requirements for the composition of the Supervisory Board and the independency of the chairman of the Supervisory Board. Since 25 June 2019 the Supervisory Board is composed of three members, one of them being independent. Given the Company's business in the biotech field, it is not uncommon to maintain strong ties with long-standing investors who prefer to be represented on the Supervisory Board. Those members have proven to be important for the Company's governance and their continuity as members of the Supervisory Board remains of great importance.
- The Company does not comply with best practice provisions 3.1.2(vii), and 3.3.2 dealing with aspects of remuneration and which require that option rights are exercisable only three years after their grant and that Supervisory Board Directors will not be granted any shares or rights to shares as remuneration, as some of the Supervisory Board Directors will be granted ordinary shares or rights to subscribe for ordinary shares by way of remuneration, in due consideration of the rapid and often short term changes that characterize the industry sector while at the same recognizing the importance of the substantial industry expertise such Supervisory Board Directors bring to the Company.
- The Company does not comply with best practice principle 4.3.3 of the Dutch Corporate Governance Code, which requires that a resolution of the General Meeting to cancel the binding nature of a nomination for the appointment of a Managing Director, or to remove such a Managing Director, be passed with an absolute majority of the votes cast, representing at least one-third of the issued share capital. In line with the Dutch Corporate Governance Code such resolutions can only be adopted by the General Meeting with two-third of the votes cast representing at least half of the Company's issued capital. The Articles provide that these resolutions can only be adopted with at least a two-third majority which must represent more than half of the Company's issued capital, following which a new nomination will be drawn up by the Supervisory Board, because the Company believes that the decision to overrule a nomination for the appointment or dismissal of a member of the Management Board or the Supervisory Board must be widely supported by the Shareholders.

NOXXON Pharma N.V., 21 April 2020

Originally signed by:

**Board of Directors**

Dr. Aram Mangasarian, CEO

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# Supervisory Board report

***Introduction***

The Supervisory Board is an independent corporate body responsible for supervising and advising the Management Board and overseeing the general course of affairs and strategy of the Group. The Supervisory Board is guided by the Articles of Association of the Company, its Rules of Procedure, applicable law, the Dutch Corporate Governance Code and the interests of the Company and the enterprise connected with the Company and will take into consideration the overall good of the enterprise and the relevant interests of all the Group's stakeholders.

***Composition of the Supervisory Board***

In 2019, the Supervisory Board of the Company was comprised as follows:

| Name | Age | Nationality | Position | Member Since | Independent/ Non-independent | Term |
|---|---|---|---|---|---|---|
| Dr. J. Donald deBethizy | 69 | US | Supervisory Board Member, (Chairperson until 3 May 2019) | 2016 | not independent | AGM 2020 |
| Dr. Hubert Birner | 53 | German | Supervisory Board Member | 2016 | independent | Term ended 25 June 2019 |
| Bertram Köhler | 48 | German | Supervisory Board Member | 2016 | independent | AGM 2020 |
| Dr. Maurizio PetitBon | 72 | Italian | Chairperson since 3 May 2019 | 2016 | not independent | AGM 2020 |
| Dr. Walter Wenninger | 82 | German | Supervisory Board Member | 2016 | independent | Term ended 25 June 2019 |

On 25 June 2019, the term of appointment of two Supervisory Board Directors ended. Neither of them was available for re-appointment. In due consideration of the size of the Company and its operations, it was decided not to fulfil the vacancies and to reduce the number of members of the Supervisory Board to align it to the needs of the Company.

The following is a brief summary of the business experience of the current members of the Supervisory Board.

Dr. Maurizio PetitBon

Dr. PetitBon is general partner and co-founder of Kreos Capital where he focuses on healthcare investments. Prior to co-founding Kreos, Maurizio was managing partner of PMA Europe, London, a consulting partnership focused on assisting private equity firms and corporate clients in evaluating investment opportunities in technology companies. Prior to that, he was principal consultant at SRI International, in Menlo Park, California and London where he advised a number of U.S., European and Japanese technology companies on business development and M&A strategies. He also held a number of managerial positions at Emerson Electric, Digital Equipment and Xerox. Dr. PetitBon

holds a doctor's degree in mechanical engineering from the University of Rome and a Master in Business Administration from INSEAD in Fontainebleau, France.

Dr. J. Donald deBethizy

Dr. J. Donald deBethizy has more than thirty years of life science experience in the biotechnology and consumer products industry. Don was co-founder and chief executive officer of Targacept, Inc., U.S., a public biotechnology company they listed on NASDAQ. He has served as president and chief executive officer of Santaris Pharma A/S, Denmark and U.S., until September 2014, when the company was sold to Roche. He served as executive chairman of Contera Pharma ApS until it was sold to Bukwang Pharma in November 2014. He also served as Chairman of the Board of immuno-oncology company Rigontec GmbH until its acquisition by MSD in September 2017 and Board member of Serendex Pharmaceuticals A/S (Oslo Stock Exchange) until its acquisition by Savara Pharmaceuticals. Don has served on the board of argenx since 2015 during which time the company developed into one of the most valuable companies in Belgium. He completed a postdoctoral fellowship at the Chemical Industry Institute of Toxicology at Research Triangle Park, NC. Dr. deBethizy has held adjunct appointments at Wake Forest University Babcock School of Management, Wake Forest University School of Medicine and Duke University. He is currently President of White City Consulting ApS in Denmark and serves on the supervisory Boards of Albumedix Ltd, argenx NV (Euronext Brussels/NASDAQ), Newron Pharmaceuticals S.P.A. (SIX Swiss Exchange), Proterris Inc., and Saniona AB (Stockholm NASDAQ).

Bertram Köhler

Mr. Köhler joined DEWB Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG in August 2000 and has served as member of the board of directors of DEWB Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG since June 2005. Since 2012, Mr. Köhler has served as chief executive officer of DEWB Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG. Prior to his activity at DEWB Deutsche Effecten- und Wechsel-Beteiligungsgesellschaft AG, Mr. Köhler was a risk management consultant at Commerzbank AG, where he led projects in the area of company reorganizations, mergers and acquisitions and turnaround-situations. He began his career as a management consultant at KPMG in the field of financial services. He holds a university diploma in economics as "*Diplom-Kaufmann*".

***Supervisory Board Committees***

In September 2016, the Supervisory Board established three committees to cover key areas in greater detail: an audit committee, a compensation committee and a nomination and corporate governance committee consisting of Supervisory Board Directors. Each of the committees has a preparatory and/or advisory role to the Supervisory Board. They report their findings to the Supervisory Board, which is ultimately responsible for all decision-making. In accordance with the Supervisory Board rules, the Supervisory Board has drawn up rules on each committee's role, responsibilities and functioning.

Since 25 June 2019 the Supervisory Board is composed of three members. During its meeting on 25 June 2019 Supervisory Board members came to the conclusion that it would not be efficient to have all three committees in place. Best practice provision 2.3 of the Dutch Corporate Governance Code also only requires the establishment of

committees if the Supervisory Board consists of more than four members. Therefore, and in deviation of the Articles of Association of the Company, the Supervisory Board members decided to cancel the audit committee, the remuneration committee and the nomination and corporate governance committee and to consider the re-instatement of such committees once the Supervisory Board is composed of more than four members.

Until 25 June 2019, the composition of each committee is detailed in the following table.

| | **Audit Committee** | **Compensation Committee** | **Nomination and Corporate Governance Committee** |
|---|---|---|---|
| Dr. Hubert Birner | Member | | member |
| Dr. J. Donald de Bethizy | | Chairman | chairman |
| Bertram Köhler | Chairman | | |
| Dr. Maurizio Petitbon | | Member | member |
| Dr. Walther Wenninger | Member | Member | |

***Audit Committee (in place until 25 June 2019)***

While in place, the Audit Committee assisted the Supervisory Board in supervising the activities of the Management Board with respect to, inter alia the operation of the internal risk-management and control systems; the provision of financial information by the Company (including the choice of accounting policies, application and assessment of the effects of new rules, and the treatment of estimated items in the Company's annual accounts); compliance with recommendations and observations of the Company's internal and external auditors; the role and functioning of the Company's internal auditors; the Company's tax planning policy; the Company's relationship with its external auditor, including the independence and remuneration of the external auditor; the financing of the Company; and matters relating to information and communication technology.

The Audit Committee also advised the Supervisory Board on its nomination to the General Meeting of persons for appointment as the Company's external auditor, and prepares meetings of the Supervisory Board where the Company's annual report, the Company's annual financial statements, and the Company's half-yearly figures and quarterly trading updates are to be discussed.

The Audit Committee met as often as was required for its proper functioning, but at least two times a year, such meetings to be held to coincide with key dates in the financial reporting and audit cycle. The Audit Committee had to meet at least once a year with the Company's external auditor. The Audit Committee met once in the reporting period until 25 June 2019. Attendance rate at the meeting was 100%.

The main topics discussed by the Audit Committee were the preparation of recommendations to the Supervisory Board regarding the presentation of the consolidated financial statements of financial position as well as the Company statements of financial position as of 31 December 2018, the Annual Report 2018, the appointment of the independent auditor for 2018, as well as the review of tax and insurance matters. During its meeting with the Company's external auditor Baker Tilly (Netherlands) N.V. the Audit Committee discussed the audit plan for the 2018 financial statements, including the audit strategy, the audit scope and audit committee responsibilities based on the Dutch Corporate Governance Code as well as changes in IFRS reporting standards.

***Compensation Committee (in place until 25 June 2019)***

While in place, the Compensation Committee, inter alia, had the following duties: preparing proposals to the Supervisory Board for the remuneration policy to be pursued; recommending to and preparing proposals for the Supervisory Board to determine the remuneration of the individual members of the Management Board; any such proposal shall, in any event, deal with: (i) the remuneration structure and (ii) the amount of the fixed remuneration, the Ordinary Shares and/or options to be granted and/or other variable remuneration components, pension rights, redundancy pay and other forms of compensation to be awarded, as well as the performance criteria and their application; reviewing and supervising corporate goals and objectives relevant to the remuneration of all members of the Management Board, evaluating the performance of members of the Management Board in light of those goals and objectives; reviewing and making proposals for the General Meeting to approve equity plans for the issuance of ordinary shares, rights to subscribe for ordinary shares and other awards; being responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Compensation Committee within any budgetary restraints imposed by the Supervisory Board and considering any other connection that they may have with the Company; and preparing the remuneration report.

The Compensation Committee met as often as was required for its proper functioning, but at least two times a year. The Compensation Committee met once in the reporting period until 25 June 2019. Attendance rate at the meeting was 100%.

The main topics discussed by the Compensation Committee were the preparation of recommendations to the Supervisory Board regarding the corporate goals and objectives relevant to the remuneration of the members of the Board of Directors for 2019, the amendment of the 2016 Stock Option and Incentive Plan, the potential issuance of new options and the review of the remuneration of the Group’s staff.

***Nomination and Corporate Governance Committee (in place until 25 June 2019)***

While in place, the Nomination and Corporate Governance Committee inter alia, had the following duties: drawing up selection criteria and appointment procedures for Supervisory Board Directors and Management Board Director; periodically assessing the size and composition of the Supervisory Board, and preparing a proposal for a composition profile of the Supervisory Board Directors; periodically assessing the functioning of individual Supervisory Board Directors and Management Board Director, and reporting on this to the Supervisory Board; preparing proposals for appointments and reappointments; supervising the policy of the Management Board on the selection

criteria and appointment procedures for senior management; and overseeing the corporate governance policies of the Company, reporting and making recommendations to the Management Board and Supervisory Board concerning governance matters and oversight of the evaluation of the Management Board and Supervisory Board.

The Nomination and Corporate Governance Committee met as often as was required for its proper functioning, but at least two times a year. The Nomination and Corporate Governance Committee did not meet in the reporting period until 25 June 2019.

All topics which otherwise would have been discussed by the Nomination and Corporate Governance Committee were discussed within the Supervisory Board.

***Activities, meetings and discussed topics***

During 2019, the Supervisory Board convened formally five times, thereof four as physical meetings and one meeting by telephone conference. All meetings were attended by the Management Board. At the end of each meeting a closed session was held without the Management Board being present to discuss performance of the Management Board. Attendance rate at all meetings was 100%, except for one meeting where one Supervisory Board member did not attend.

During the reporting period, the Supervisory Board regularly monitored the Management Board and acted in an advisory capacity. For this purpose, the Management Board informed the Supervisory Board at regular intervals, both orally and in writing, of the Group’s situation and essential business transactions. These consultations ensure that the Supervisory Board remains well-informed about the Group’s operations.

The Supervisory Board is in charge of advising and overseeing the strategy and business of the Group. The Supervisory Board discussed the Management Board’s reports during one meeting. The Supervisory Board and in particular its Chairman also discussed the Group's development with the Management Board on an ongoing basis.

During the reporting period, the Management Board asked the Supervisory Board for approval of transactions requiring Supervisory Board approval. The Supervisory Board granted all necessary approvals.

Furthermore, the Supervisory Board discussed with the Management Board the Group’s further strategic development, the status and progress of its clinical programs, the main risks of the business, the financial situation and further financing of the Group as well as matters of the Management Board. The discussions especially focused on

- the clinical development strategy,
- the financing from several sources, including equity financing via rights issue and private placements,
- the discussion and approval of the Annual Report 2018 and the Half-Year 2019 Financial Report,
- the composition of the Supervisory Board and corporate governance matters,
- the preparation and recommendations of the resolutions to be proposed for adoption at the EGM held on 2 January 2019 and the AGM on 25 June 2019,
- and the maintenance of the Company as strategic management holding.

As part of the meetings, the Supervisory Board also discussed the corporate strategy and the main risks of the business. All these risks were discussed with the Management Board and where possible actions were undertaken to minimize the Company's

exposure. In addition, the Company manages and controls its risks, insofar as possible, by means of a risk management and internal control system. The Management Board reports regularly to and discusses with the Supervisory Board on the Company's risk management and internal control system and the compliance therewith.

From 25 June 2019 onwards, the Supervisory Board covered the duties of the Audit Committee, the Compensation Committee and of the Nomination and Corporate Governance Committee and applied the best practices in accordance with the Dutch Corporate Governance Code with the exceptions disclosed in paragraph VI of the management report.

The Supervisory Board established that all of its members are committed to allocating sufficient time and attention to the Supervisory Board's duties of supervising and advising the Management Board.

## Remuneration

### *Remuneration policy for the Management Board*

The remuneration policy for the Management Board was adopted by the General Meeting on 22 September 2016. In 2019 and 2018 the remuneration was applied in accordance with the remuneration policy. The full text of the remuneration policy can be found on the Company's corporate website.

### *Management Board Remuneration for the Fiscal Years 2019 and 2018*

The table below shows the remuneration for the members of the Management Board of NOXXON Pharma N.V., for the Fiscal Years 2019 and 2018, respectively.

| **2019**[1] | **Base salary** | **Cash bonus**[2] | **Share-based compen-sation** | **Others/ Pension contri-butions** | **Fringe benefits** [3] | **Total**[4] |
|---|---|---|---|---|---|---|
| Aram Mangasarian, Ph.D. .. | €250,000 | €75,000 | €50,700 | N/A | €7,699 | €383,399 |
| **Total .....** | **€250,000** | **€75,000** | **€50,700** | **N/A** | **€7,699** | **€383,399** |

(1) Aram Mangasarian is member of the Management Board and of the Board of Directors of both, NOXXON Pharma N.V. and NOXXON Pharma AG. Aram Mangasarian is the only statutory director of NOXXON Pharma N.V.
(2) Cash bonuses relate to goal achievements during 2019, not paid yet.
(3) Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).
(4) Without social security contributions to the French social security system.

| **2018**[1] | **Base salary** | **Cash bonus**[2] | **Share-based compen-sation** | **Others/ Pension contri-butions** | **Fringe benefits** [3] | **Total**[4] |
|---|---|---|---|---|---|---|
| Aram Mangasarian, Ph.D. .. | €250,000 | €162,500 | €142,800 | N/A | €5,378 | €560,678 |
| **Total .....** | **€250,000** | **€162,500** | **€142,800** | **N/A** | **€5,378** | **€560,678** |

(1) Aram Mangasarian is member of the Management Board and of the Board of Directors of both, NOXXON Pharma N.V. and NOXXON Pharma AG. Aram Mangasarian is the only statutory director of NOXXON Pharma N.V.
(2) Cash bonuses relate to goal achievements during 2018, not paid yet.
(3) Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).
(4) Without social security contributions to the French social security system.

The cash bonus relates to company goals for advancing the development pipeline of the company and its lead compound NOX-A12 as well as securing the respective funding.

In 2019, company goals have been agreed for securing financing through 2020 (50%), advancing the development pipeline (30%) and share performance / investor relations and public relations (20%). Goal achievement has been assessed at a level of 30 % due primarily to inability to meet financing goals. In 2018, company goals have been agreed for securing financing through 2019 (50%), advancing the development pipeline (40%) and improving the share performance (10%). The majority of these goals have been achieved with 65 %.

Members of the Management Board are eligible participants in the 2016 Stock Option and Incentive Plan as approved by the General Meeting on 22 September 2016. Pursuant to and in accordance with the terms of 2016 Stock Option and Incentive Plan, in 2017, 46,149 options with an exercise price of €11.70 out of the above mentioned Stock Option and Incentive Plan were issued to Aram Mangasarian, resulting in a share-based compensation of K€ 43 and K€ 143 for fiscal year 2019 and 2018, respectively. In 2019, 181,614 options with an exercise price of €0.65 out of the above mentioned Stock Option and Incentive Plan were issued to Aram Mangasarian, resulting in a share-based compensation of K€ 8 for the fiscal year 2019. Relating the terms and conditions governing this grant we refer to Note 9 “Share-based compensation” of the consolidated financial statements.

In 2019 and 2018, no stock options or shares from Share Participation Model that the Group has had in place since 2008 were granted to the members of the Management Board of NOXXON Pharma AG. Under the Share Participation Model, the share-based payment transactions recognized as an expense in the Fiscal Years 2019 and 2018 according to IFRS amounted to none for the members of the Management Board of NOXXON Pharma AG.

At the date of this Report, there are no amounts reserved or accrued by the Group to provide pension, benefit, retirement or similar benefits for the members of the Management Board of NOXXON Pharma N.V..

***Remuneration for the Supervisory Board***

The remuneration policy for the Supervisory Board was adopted by the General Meeting on 22 September 2016. In 2019 and 2018 the remuneration was applied in accordance with the remuneration policy and the shareholders resolution adopted on 27 June 2017. The full text of the remuneration policy can be found on the Company's corporate website.

***Supervisory Board Remuneration***

In connection with the Corporate Reorganization, the General Meeting has resolved to determine the remuneration of the Supervisory Board Directors.

Remuneration Components Supervisory Board Directors

In order to motivate the right balance of short-term and long-term practices and pursuant to the remuneration policy, the remuneration of the Supervisory Board Directors consists of the following fixed and variable components:

- a fixed annual cash compensation;
- an additional cash compensation for members of the Audit Committee, the Compensation Committee and/or the Nomination and Corporate Governance Committee; and
- a long-term incentive plan in the form of stock options.

Fixed fee

Supervisory Board Directors are entitled to an annual cash compensation retainer of EUR 35,000 subject to attending or participating in at least 75% of the duly convened board meetings. There will be no separate meeting fees. Supervisory Board Directors attending or participating in less than 75% of the convened board meetings will be eligible to receive an annual cash compensation pro rata temporis.

The chairman of the Supervisory Board will be eligible to receive twice the aforementioned cash compensation.

Committee Members Compensation

Committee members will be entitled to additional cash compensation as follows:

(i) Audit Committee members shall receive an annual compensation of €6,500; the chairman of the Audit Committee shall receive an annual compensation of €12,500.

(ii) Compensation Committee members shall receive an annual compensation of €4,000; the chairman of the Compensation Committee shall receive an annual compensation of €8,000.

(iii) Nomination and Corporate Governance Committee members shall receive an annual compensation of €3,000; the chairman of the Nomination and Corporate Governance Committee shall receive an annual compensation of €6,000.

Long-term incentive plan

According to the remuneration policy, the equity compensation will be structured as (i) an initial appointment grant vesting annually over three years of options in an amount of approximately 0.076% of the Company's outstanding Ordinary Shares with (ii) subsequent annual awards with a cliff vest after one year of options in an amount of approximately 0.038% of the Company's outstanding Ordinary Shares. However, in deviation of the remuneration policy where a vesting period would start as of the day of the grant of the right, in light of the listing on Alternext which took place on 30 September 2016, on 27 June 2017 the shareholders have approved an equity compensation for only those members of the supervisory board who were in office on 30 September 2016, consisting of a one-time appointment grant vesting annually over three years of options retroactively as of 30 September 2016 in an amount of approximately 0.40% of the Company's outstanding ordinary shares instead.

Adjustments to variable remuneration

Pursuant to Dutch law and the Dutch Corporate Governance Code the remuneration of Management Board Directors may be reduced or Management Board Directors may be obliged to repay (part of) their variable remuneration to the Company if certain circumstances apply. Pursuant to the Dutch Corporate Governance Code, any variable remuneration component conditionally awarded to a Management Board Director in a previous fiscal year which would, in the opinion of the Supervisory Board, produce an unfair result due to extraordinary circumstances during the period in which the predetermined performance criteria have been or should have been applied, the Supervisory Board will have the power to adjust the value downwards or upwards. In addition, the Supervisory Board will have the authority under the Dutch Corporate Governance Code and Dutch law to recover from a Management Board Director any variable remuneration awarded on the basis of incorrect financial or other data (claw back).

Pursuant to Dutch law, the Supervisory Board may furthermore adjust the variable remuneration (to the extent that it is subject to reaching certain targets and the occurrence of certain events) to an appropriate level if payment of the variable remuneration were to be unacceptable according to requirements of reasonableness and fairness.

***Supervisory Board Remuneration for the Fiscal Years 2019 and 2018***

The table below shows the remuneration for the Supervisory Board Directors of the NOXXON Pharma N.V. for the Fiscal Year 2019 and 2018:

| **2019** | **Fixed fee**[2] | **Share-based compensation** | **Total** |
|---|---|---|---|
| Dr. Hubert Birner[1] | N/A | N/A | N/A |
| Dr. J. Donald deBethizy | €50,750 | €24,900 | €75,650 |
| Bertram Köhler[1] | N/A | N/A | N/A |
| Dr. Maurizio PetitBon[1] | N/A | N/A | N/A |
| Dr. Walter Wenninger[3] | €22,750 | €(13,200) | €9,550 |
| **Total** | **€73,500** | **€11,700** | **€85,200** |

(1) Supervisory Board Director of the Company has waived his right for a fee.
(2) Fixed fees have not yet been paid. Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).
(3) Share-based compensation including (non-cash) true-up for 2,736 options forfeited which had not been vested when Mr. Wenninger resigned on 25 June 2019 as he will not be able further to meet service conditions.

| **2018** | **Fixed fee**[2] | **Share-based compensation** | **Total** |
|---|---|---|---|
| Dr. Hubert Birner[1] | N/A | N/A | N/A |
| Dr. J. Donald deBethizy | €84,000 | €61,900 | €145,900 |
| Bertram Köhler[1] | N/A | N/A | N/A |
| Dr. Maurizio PetitBon[1] | N/A | N/A | N/A |
| Dr. Walter Wenninger | €45,500 | €25,400 | €70,900 |
| **Total** | **€129,500** | **€87,300** | **€216,800** |

(1) Supervisory Board Director of the Company has waived his right for a fee.
(2) Fixed fees have not yet been paid. Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).

Members of the Supervisory Board are eligible participants in the 2016 Stock Option and Incentive Plan as approved by the General Meeting on 22 September 2016. Pursuant to and in accordance with the terms of the 2016 Stock Option and Incentive Plan, in 2017, 8,204 options with an exercise price of €11.70 out of this plan were issued to Dr. Walter Wenninger, resulting in a share-based compensation of K€ (13) for fiscal year 2019 (including a true-up for 2,736 options forfeited which had not been vested when Mr. Wenninger resigned on 25 June 2019 as he will not be able to further meet the service conditions) and K€ 25 for the fiscal year 2018. In 2017, 8,204 options with an exercise price of €11.70 to Donald deBethizy and 12,306 options with an exercise price of €6.80 to Donald deBethizy, partly via Whitecity Consulting ApS, a company under his control, were issued resulting in a share-based compensation of K€ 23 and K€ 62 for fiscal year 2019 and 2018, respectively. In 2019, 48,430 options with an exercise price of €0.65 out of the above mentioned Stock Option and Incentive Plan were issued to Donald deBethizy, via Whitecity Consulting ApS, resulting in a share-based compensation of K€ 2 for the fiscal year 2019. Relating the terms and conditions governing this grant we refer to Note 9 “Share-based compensation” of the consolidated financial statements.

Long-term incentive plan

Apart from Dr. J. Donald deBethizy, no Supervisory Board Director has a service or severance contract with the Company.

***Independence of the Supervisory Board and its members***

The Supervisory Board is a separate corporate body that is independent of the Management Board of the Company. Members of the Supervisory Board can neither be a member of the Management Board nor an employee of NOXXON.

The Company's shareholder base is currently to a certain extent still made up of the investors that were shareholders in NOXXON Pharma AG prior to the first listing on the Alternext (now Euronext Growth) stock exchange in Paris. One of our Supervisory Board members, Dr. Maurizio PetitBon has ties with a certain investor who still hold more than 10% of the issued share capital and therefore are considered non-independent (in the meaning of the Dutch Corporate Governance Code). A second Supervisory Board member, Dr. J. Donald deBethizy, has entered into a consulting agreement with the Company to advice the Company potential new investors, other investor relations activities or activities regarding strategic alliances. On that ground also Dr. J. Donald deBethizy, is considered non-independent in the meaning of the Dutch Corporate Governance Code.

***Performance assessment***

The Supervisory Board is responsible for the quality of its own performance. It discusses, once a year, without the presence of the members of the Management Board, its own performance, as well as the performance of its individual members, its committees, if any, the Management Board and its individual members. In 2019 the Supervisory Board conducted an evaluation through a self-assessment which resulted in a positive assessment of the Supervisory Board and its individual members, its performance towards the audit, compensation and corporate governance and nominating tasks taken over by the Supervisory Board (given the absence of such committees) and also the performance of the Management Board. Further the Supervisory Board was satisfied with the performance of the Supervisory Board and determined that it works well together, with all members fully contributing to discussions.

***Appreciation***

The members of the Supervisory Board would like to express their gratitude and appreciation to the Management Board and employees of NOXXON for their efforts and performance in 2019. In particular, the Supervisory Board would very much like to thank the shareholders for their continued support.

21 April 2020

On behalf of the Supervisory Board

Dr. Maurizio Petitbon,

Chairman of the Supervisory Board

# Consolidated financial statements as of 31 December 2019

Consolidated statements of financial position as of 31 December 2019

Consolidated statement of comprehensive loss for the year ended 31 December 2019

Consolidated cash-flow statements for the year ended 31 December 2019

Consolidated statements of changes in shareholder's equity for the year ended 31 December 2019

Notes to the consolidated financial statements 2019

**NOXXON Pharma N.V., Amsterdam, Netherlands**
**Consolidated Statements of Financial Position as of 31 December 2019**

(in thousands of €)

| **Assets** | Note | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | (3) | 4 | 5 |
| Equipment | (4) | 30 | 33 |
| Right-of-use assets | (2) | 112 | 0 |
| Deferred tax assets | (12) | 0 | 1 |
| Financial assets | | 5 | 5 |
| | | **151** | **44** |
| **Current assets** | | | |
| Other assets | (5) | 168 | 156 |
| Financial assets | (6) | 28 | 28 |
| Cash and cash equivalents | (7) | 1,385 | 4,290 |
| | | **1,581** | **4,474** |
| | | **1,732** | **4,518** |

| **Equity and liabilities** | Note | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| **Equity** | | | |
| Share capital | (8) | 131 | 10,123 |
| Additional paid-in capital | (8) | 145,860 | 134,266 |
| Accumulated deficit | (8) | -147,645 | -146,784 |
| Treasury shares | (8) | -189 | -201 |
| **Equity attributable to owners of the Company** | | **- 1,843** | **-2,596** |
| Non controlling interest | | -11 | -11 |
| **Total equity** | | **- 1,854** | **-2,607** |
| **Non-current liabilities** | | | |
| Financial liabilities | (10) | 15 | 87 |
| Lease Liabilities | | 69 | 0 |
| | | **84** | **87** |
| **Current liabilities** | | | |
| Financial liabilities | (10) | 1,598 | 4,700 |
| Lease Liabilities | | 45 | 0 |
| Trade accounts payable | | 1,196 | 1,375 |
| Other liabilities | (11) | 663 | 963 |
| | | **3,502** | **7,038** |
| | | **1,732** | **4,518** |

**NOXXON Pharma N.V., Amsterdam, Netherlands**
**Consolidated Statements of Comprehensive Loss for the Year Ended 31 December 2019**

| (in thousands of €) | Note | For the years 2019 | 2018 |
|---|---|---|---|
| Other operating income | (13) | 279 | 378 |
| Research and development expenses | (13) | -2,108 | -2,205 |
| General and administrative expenses | (13) | -2,115 | -2,492 |
| Foreign exchange losses | | -4 | -48 |
| **Loss from operations** | | **-3,948** | **-4,367** |
| Finance income | (10) | 3,091 | 388 |
| Finance cost | (10) | -3 | -6,758 |
| **Loss before income tax** | | **-860** | **-10,737** |
| Income tax | (12) | -1 | -1 |
| **Net loss** | | **-861** | **-10,738** |
| Other comprehensive income | | 0 | 0 |
| **Total comprehensive loss** | | **-861** | **-10,738** |
| Net loss attributable to: | | | |
| Owners of the Company | | -861 | -10,734 |
| Non-controlling interests | | 0 | -4 |
| | | **-861** | **-10,738** |
| Total comprehensive loss attributable to: | | | |
| Owners of the Company | | -861 | -10,734 |
| Non-controlling interests | | 0 | -4 |
| | | **-861** | **-10,738** |
| Loss per share in EUR per share (basic and diluted) | (15) | -0.08 | -2.70 |

**NOXXON Pharma N.V., Amsterdam, Netherlands**
**Consolidated Cash-Flow Statements for the Year Ended 31 December 2019**

(in thousands of €)

| | Note | For the years ended 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss before income tax | | -860 | -10,737 |
| Income taxes paid | | 0 | -1 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amorization expense | (3, 4) | 47 | 23 |
| Finance income | (10) | -3,093 | -388 |
| Finance cost | (10) | 3 | 6,758 |
| Gain on disposal of equipment | | 0 | -75 |
| Share-based compensation | (9) | 107 | 396 |
| Other non-cash transactions | | -119 | -296 |
| Changes in operating assets and liabilities: | | | |
| Other current assets and other financial assets | | -11 | 25 |
| Trade accounts payable and other liabilities | | -360 | 295 |
| **Net cash used in operating activities** | | **-4,286** | **-4,000** |
| **Investing activities** | | | |
| Purchase of equipment | | -16 | -9 |
| Proceeds from sale of equipment | | 0 | 75 |
| **Net cash used in / provided by investing activities** | | **-16** | **66** |
| **Financing activities** | | | |
| Proceeds from issuance of shares and warrants | (8) | 1,506 | 4,407 |
| Transaction costs for issuance of shares and warrants | | -93 | -26 |
| Sale of treasury shares | | 12 | 7 |
| Proceeds from issuance of convertible bonds | (10) | 0 | 3,347 |
| Transaction costs for issuance of convertible bonds | | 0 | -133 |
| Payment of lease liabilities | | -25 | 0 |
| Interest paid | | -3 | 0 |
| **Net cash provided by financing activities** | | **1,397** | **7,602** |
| Net change in cash and cash equivalents | | -2,905 | 3,668 |
| Cash at the beginning of period | | 4,290 | 622 |
| Cash at the end of the period | | 1,385 | 4,290 |

**NOXXON Pharma N.V., Amsterdam, Netherlands**

**Consolidated Statements of Changes in Shareholders' Equity for the Year Ended 31 December 2019**

| (in thousands of €) | Note | Ordinary shares | | Treasury Shares | Additional Paid-In Capital | Accumulated Deficit | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Number of shares | Subscribed capital | | | | | | |
| **1 January 2018** | | 2,293,230 | 2,293 | -208 | 128,523 | -134,520 | **-3,912** | **-7** | **-3,919** |
| Total comprehensive loss | | | | | | -10,734 | -10,734 | -4 | -10,738 |
| Share-based compensation | (9) | | | | 396 | | 396 | | 396 |
| Capital increases | (8, 10) | 3,950,823 | 3,951 | | 833 | -1,530 | 3,254 | | 3,254 |
| Issuance costs of capital increases | | | | | -54 | | -54 | | -54 |
| Capital increases as a result from debt-for equity swaps | (8, 10) | 718,869 | 719 | | 302 | | 1,021 | | 1,021 |
| Capital increases as a result from note conversions | (8, 10) | 3,159,882 | 3,160 | | 4,289 | | 7,449 | | 7,449 |
| Issuance costs related to conversions | | | | | -23 | | -23 | | -23 |
| Sale of treasury shares | | | | 7 | | | 7 | | 7 |
| **31 December 2018** | | 10,122,804 | 10,123 | -201 | 134,266 | -146,784 | **-2,596** | **-11** | **-2,607** |
| **1 January 2019** | | 10,122,804 | 10,123 | -201 | 134,266 | -146,784 | **-2,596** | **-11** | **-2,607** |
| Total comprehensive loss | | | | | | -861 | -861 | 0 | -861 |
| Share-based compensation | (9) | | | | 107 | | 107 | | 107 |
| Capital reduction | (8) | | -10,022 | | 10,022 | | 0 | | 0 |
| Capital increases | (8) | 2,762,274 | 28 | | 1,492 | | 1,520 | | 1,520 |
| Issuance costs of capital increases | (8) | | | | -108 | | -108 | | -108 |
| Capital increases as a result from warrant exercises (Acuitas) | (8, 10) | 217,386 | 2 | | 81 | | 83 | | 83 |
| Sale of treasury shares | | | | 12 | | | 12 | | 12 |
| **31 December 2019** | | 13,102,464 | 131 | -189 | 145,860 | -147,645 | **-1,843** | **-11** | **-1,854** |

## 1. Corporate information

NOXXON Pharma N.V. (in the following also the Company) is a Dutch public company with limited liability (naamloze vennootschap) and has its corporate seat in Amsterdam, the Netherlands and a branch office in Berlin, Germany. The Company's ordinary shares are listed under the symbol "ALNOX" with ISIN NL0012044762 on Euronext Growth stock exchange Paris, France. NOXXON Pharma N.V. is a management holding providing corporate and administrative services, financial and business advice and asset management to its German subsidiary NOXXON Pharma AG.

The Company's business address is in Berlin, Germany, with the address of Max-Dohrn-Str. 8-10, 10589 Berlin.

The consolidated financial statements of NOXXON Pharma N.V. as of and for the year ended 31 December 2019 comprise the Company and its wholly owned and / or controlled subsidiaries, NOXXON Pharma AG, Berlin, Germany and NOXXON Pharma Inc., Wilmington, DE, United States (the three companies together in the following also the Group).

NOXXON Pharma N.V. is a clinical-stage biopharmaceutical company focused on cancer treatment. NOXXON's goal is to significantly enhance the effectiveness of cancer treatments including immuno-oncology approaches (such as immune checkpoint inhibitors) and current standards of care (such as chemotherapy and radiotherapy). NOXXON's Spiegelmer® platform has generated a proprietary pipeline of clinical-stage product candidates including its lead cancer drug candidate NOX-A12 and its second asset, NOX-E36 targeting the innate immune system.

The consolidated financial statements for the years ended 31 December 2019 of NOXXON were authorized by the Management Board for issuance on 21 April 2020.

## 2. Summary of significant accounting policies

### Basis of preparation

### Going concern

The accompanying consolidated financial statements have been prepared on the basis that the Group will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Group's ability to continue as a going concern is dependent on its ability to raise additional funds to continue its research and development programs and meet its obligations.

As a clinical stage biopharmaceutical company, the Group has incurred operating losses since inception. For the 12 months ended 31 December 2019 the Group incurred a net loss of € 0.9 million. As of 31 December 2019, the Group had generated an accumulated deficit of € 147.6 million as well as a net capital deficiency of € 1.9 million.

To finance its research and development activities through 31 December 2019 the Group raised a total of € 1.5 million gross proceeds via two capital increases in 2019, in each case issuing ordinary shares of the Company directly to investors without any additional financial instruments such as warrants or convertible debt associated with the equity financing.

In prior periods funds were raised from several sources including its shareholders through the issuance of equity, venture loans, equity line financing, convertible bonds and government grants.

The Group expects it will incur operating losses for the foreseeable future due to, among other things, costs related to research funding, development of its product candidates and its preclinical programs, strategic alliances and its administrative organization.

Subsequent to 31 December 2019, the Company raised financing in the gross amount totaling € 1.2 million comprising of capital increases through a private placement amounting to € 1.0 million and € 0.2 million through exercises of detachable warrants.

Based on its present requirements resulting from the Group's updated business plan focusing on clinical development of its lead product candidate NOX-A12 for the treatment of advanced solid tumors, the Group will require additional cash resources of approximately € 3.8 million, to provide the Group with sufficient working capital for the twelve months following the date of these financial statements.

Current cash resources are projected to finance the Group into July 2020. Accordingly, the Group will be required to raise these additional funds, alternative means of financial support or conduct a partnering deal for one of its product candidates with a cash inflow available before the end of June 2020 in order to continue its operations. Management is pursuing various financing alternatives to meet the Group's future cash requirements, including seeking additional investors, pursuing industrial partnerships, or obtaining further funding from existing investors through additional funding rounds, pursuing a merger or an acquisition. The management of NOXXON is pursuing all of these avenues in parallel with the assistance of experienced external support. Based on the options available and a past history of timely funding the operations of the Group, management is confident to be able to raise additional capital, preferably in the form of equity or an industrial partnership.

Management has given consideration to the ability of the Group to continue as a going concern and acknowledges the need for additional funds. Based on management's going concern assessment, the consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties. While management is confident of raising funds, if the Group is not successful in obtaining the additional funds required to maintain its operational activities, there is a substantial doubt that the Group will be able to continue as a going concern. No further financing commitments beyond those disclosed herein were received by the Company as of today.

## Statement of compliance

The consolidated financial statements of NOXXON Pharma N.V. and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and title 9 of Book 2 of the Dutch Civil Code.

The Group has adopted all of the International Financial Reporting Standards that became effective for accounting periods beginning on or after 1 January 2019, and that are relevant to its operations. Additionally, the Group takes into consideration all Interpretations of the IFRS Interpretations Committee.

## New standards and interpretations applied for the first time

The following new and amended standards were effective for annual periods beginning on or after 1 January 2019 and have been applied in preparing these consolidated financial statements.

| STANDARD/INTERPRETATION | |
|---|---|
| IFRS 16 Leases | 1 January 2019 |
| Amendments to IFRS 9 Prepayment Features with Negative Compensation | 1 January 2019 |
| Improvements to IFRSs 2015-2017 with respect to IFRS 3, IFRS 11, IAS 12 and IAS 23 | 1 January 2019 |
| IFRIC 23 Uncertainty over Income tax Treatments | 1 January 2019 |
| Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures | 1 January 2019 |
| Amendments to IAS 19 Plan Amendment, Curtailment or Settlement | 1 January 2019 |

The Group adopted IFRS 16 Leases on 1 January 2019. The Group assessed the impact that the initial application of IFRS 16 had on its consolidated financial statements.

***IFRS 16 - Leases***

Nature of change

IFRS 16 Leases replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Significant accounting policies

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee or a change in the lease term.

The Group has applied judgement to determine the lease term for lease contracts in which it is a lessee that include termination options. The assessment of whether the Company is reasonably certain not to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Impact on financial statements

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

As of 1 January 2019, the Group did not recognise any new "right-of-use"-assets and related lease liabilities for its leases, because the Group has made use of the practical expedients of IFRS 16 for short remaining term and low value leases. As of 1 January 2019, the Group's future minimum lease payments for such leases amounted to K€ 42 on an undiscounted basis.

| | **1 January** |
|---|---|
| in thousands of € | **2019** |
| Operating lease commitments disclosed at December 31, 2018 | 42 |
| Discounted using the incremental borrowing rate at the date of initial application | 42 |
| Short-term and low value leases recognized on a straight-line basis as expense | (42) |
| Adjustments as a result of different treatment of extension and termination options | - |
| **Lease liabilities (current and non-current)** | **0** |

During the fiscal year 31 December 2019, NOXXON entered into a new lease contract for premises, predominantly office space. This contract runs for an undetermined period of time and can be cancelled by both parties with two months' notice. Based on the consideration of economic disadvantages (i.e. penalties) of cancelling the lease, management expects that it is reasonably certain not to exercise the cancellation option for a term of 36 months (lease term). The incremental borrowing rate is assumed to be 3.82%. As of 31 December 2019, the right-of-use asset and the related lease liability amounted to K€ 112 and K€ 114, respectively. In the financial year 2019, the interest expenses related to lease liabilities amounted to K€ 3.

The following tables present movements of the right-of-use asset and the related lease liability during 2019:

| | **1 January** |
|---|---|
| in thousands of € | **2019** |
| Balance at 1 January 2019 | 0 |
| Additions | 139 |
| Depreciation | 27 |
| **Balance at 31 December 2019** | **112** |

| | **1 January** |
|---|---|
| in thousands of € | **2019** |
| Balance at 1 January 2019 | 0 |
| Additions | 139 |
| Interest expense | 3 |
| Interest paid | 3 |
| Payment of lease liabilities | 25 |
| **Balance at 31 December 2019** | **114** |
| *Thereof non-current* | *69* |
| *Thereof current* | *45* |

The other standards, amendments to standards and new or amended interpretations had no significant effect on the interim financial statements of the Group.

### New standards and interpretations not yet adopted

The following new standards, amendments to standards and interpretations are effective and will be applied in annual periods beginning on or after 1 January 2020, respectively.

| STANDARD/INTERPRETATION | EFFECTIVE DATE |
|---|---|
| Amendments References to the Conceptual Framework in IFRS Standards | 1 January 2020 |
| Amendment to IFRS 3 Definition of a business* | 1 January 2020 |
| Amendments to IAS 1, IAS 8: Definition of material | 1 January 2020 |
| Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform | 1 January 2020 |
| IAS 1 Amendments classification of liabilities as current or non-current* | 1 January 2022 |
| IFRS 17 Insurance Contracts* | 1 January 2023 |
| Amendments to IFRS 10, IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | undetermined |

*not yet endorsed by European Union

The above mentioned new standards, amendments to standards and interpretations not yet effective, will not have a material impact on the group's consolidated financial statements.

### Financial statement presentation

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, which are carried at fair value. The consolidated financial statements are presented in Euros.

The Group presents current and non-current assets, and current and non-current liabilities as separate classifications in the statement of financial position. The Group classifies all amounts expected to be recovered or settled within twelve months after the reporting period as current and all other amounts as non-current.

### Basis of consolidation

The consolidated financial statements are comprised of the financial statements of NOXXON Pharma N.V. and its wholly owned and/ or controlled subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Generally, there is a presumption that a majority of voting rights results in control. The financial statements of the subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-group balances, transactions, income, expenses, and profits and losses resulting from intra-group transactions that are recognized in assets are eliminated on consolidation.

The Group's subsidiary, NOXXON Pharma Inc., and the parent company NOXXON Pharma N.V. have been consolidated from the date of incorporation. NOXXON Pharma Inc. has no significant operations as at 31 December 2019.

The consolidated Group is comprised of the following entities:

| Name | Registered seat | Shareholding (%) |
|---|---|---|
| NOXXON Pharma N.V. | Amsterdam, Netherlands | parent company |
| NOXXON Pharma AG | Berlin, Germany | 99.99 % |
| --- NOXXON Pharma Inc. | Wilmington, DE, USA | 100.0 % |

## Summary of significant accounting policies

### Foreign currency transactions

The consolidated financial statements are presented in Euros, which is the Group presentation currency and is the currency of the primary economic environment in which NOXXON operates. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the balance sheet date. All differences are recorded in profit and loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

### Intangible assets

#### *Intangible assets acquired*

Intangible assets acquired are measured on initial recognition at cost and primarily include intellectual property rights consisting of patents and license agreements purchased from other companies. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed, at a minimum, at each year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive loss in the expense category consistent with the function of the intangible asset.

The Group-wide useful lives are as follows:

- Licenses: 7 years
- Others (primarily software): 3 to 5 years.

All of NOXXON's intangible assets have finite lives.

## Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment. Such cost includes the cost of replacing part of such equipment when that cost is incurred if the recognition criteria are met. Maintenance and repair costs are expensed as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Equipment: 5 to 11 years
- Furniture and Fixtures: 2 to 14 years
- Others: 5 years.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The asset's residual values, useful lives, and methods are reviewed and adjusted, if appropriate, at each year-end.

## Impairment of non-financial assets

Assets that are subject to depreciation/amortization are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date. Any reversal of impairment is limited to the carrying value of the asset based on the depreciated historical cost had the initial impairment loss not been recognized.

## Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group classifies non-derivative financial assets into the following category: amortised cost. The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at FVTPL and other financial liabilities.

### *Non-derivative financial assets*

The Group's only classes of non-derivative financial assets are short-term invested interest bearing rental deposits, fixed-term bank deposits with original terms of three to twelve months that are held-to-maturity, other receivables and cash and cash equivalents.

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently carried at carrying value less allowances for uncollectable amounts.

Cash and cash equivalents include cash balances and call deposits with original maturities of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

### *Non-derivative financial liabilities*

The Group's classes of financial liabilities are trade payables and other liabilities. The Group initially recognizes non-derivative financial liabilities on the date that they are originated and measures them initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The carrying amount of trade payables is a reasonable approximation of fair value.

### *Compound instruments*

In prior years, NOXXON Pharma AG has issued two compound financial instruments which arose from the loan agreements with detachable share purchase warrants (for further information refer to Note 10).

The liability component of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The liability component is derecognized, if payment is made to the lender, the Group is legally released from its responsibilities for the liability or the terms and conditions have been substantially modified. The equity component of a compound financial instrument is not re-measured. Interest related to the financial liability is recognized in profit or loss.

### *Hybrid instruments*

In 2018, the Company has issued a series of hybrid instruments both i) consisting of a series of debenture loans in tranches with embedded conversion options, non-standard loan commitments and detachable share purchase warrants and ii) consisting of a series of convertible loan agreements with embedded conversion options (for further information refer to Note 10).

The carrying amount of the host contract on initial recognition is in general the difference between the transaction price received upon issuance of the hybrid instrument and the fair value of the free standing detachable share purchase warrants and embedded derivatives to be bifurcated. However, due to the features of the debenture loan, the financial liability is repayable on demand at any time and accordingly recognized at its amount payable. Subsequent to initial recognition, the liability component is continued to be measured at the amount payable. The difference between the transaction price less amounts to be recognized for the derivative instruments upon issuance and the amount payable of the loan is recognized as day-one loss.

The convertible loan agreements are classified as financial liabilities in their entirety due to their terms and conditions. The carrying amount of the host contract is measured at the amount payable plus accrued interest, if any.

The liability component is derecognized, if payment is made to the lender, the Group is legally released from its responsibilities for the liability or the terms and conditions have been substantially modified. In case of a non-substantial modification of the terms and conditions the difference between the carrying amount of the existing liability is adjusted in profit or loss to the new carrying amount resulting from the modified terms and conditions.

The separately accounted derivative financial instruments are measured subsequently at fair value and changes therein, including any interest expense, are recognised in profit or loss.

### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### *Derivative financial instruments*

The Group holds derivative financial instruments in connection with its financing activities. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

### Impairment of financial assets

At each reporting date, the Group assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. No impairments or reversals of impairments were recognized in 2019 and 2018.

### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. Any gains or losses on the purchase, sale, issue or cancellation of the Company’s treasury shares are recognized in equity.

### Loss per share

The Group presents loss per share data for its only class of ordinary shares. Loss per share is calculated by dividing the loss of the period by the weighted average number of ordinary shares outstanding during the period.

### Share-based payments

Employees (including management) of the Group receive remuneration from share-based payment transactions in the form of share awards and options ("equity-settled transactions").

### *Equity-settled transactions*

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. With respect to option awards granted by NOXXON Pharma NV under the 2016 Stock Option and Incentive Plan (SOIP), the fair value is determined by using a Black-Scholes model. The fair value of share awards granted under share participation models is determined by the Group using also a Black-Scholes model (see Note 9 for further details).

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are

fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

### Leases - Group as lessee

A lessee applies a single lease accounting model under which it recognizes all leases on-balance sheet at the commencement date, unless it elects to apply the recognition exemptions. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

At the commencement date, a lessee measures the lease liability at the present value of the future lease payments using the interest rate implicit in the lease if it is readily determinable. If the lessee cannot readily determine the interest rate implicit in the lease, then it uses its incremental borrowing rate at the commencement date. After initial recognition, the lease liability is measured at amortised cost using the effective interest method.

### Income taxes

Income taxes include current and deferred taxes. Current tax and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable related to previous years.

Deferred tax is recognized for temporary differences in the carrying amounts of assets and liabilities for financial reporting purposes and taxation purposes. Deferred tax is not recognized for temporary differences associated with assets and liabilities if the transaction which led to their initial recognition is a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are presented net if there is a legally enforceable right to offset.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is not probable that the related tax benefit will be realized.

### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding VAT.

### *Research and development costs*

Research and development expenses consist of costs incurred that are directly attributable to the development of the Group's platform technology and product candidates. Those expenses include:

- salaries for research and development staff and related expenses, including management benefits and expenses for share-based compensation;
- costs for production of drug substances by contract manufacturers;
- service fees and other costs related to the performance of clinical trials and preclinical testing;
- costs of related facilities, materials and equipment;
- costs associated with obtaining and maintaining patents and other intellectual property;
- amortization and depreciation of intangible and tangible fixed assets used to discover and develop the Group's clinical compounds and pipeline candidates;
- other expenses directly attributable to the development of the Group's product candidates and pre-clinical pipeline.

Research costs are expensed as incurred. Development expenditures on an individual project are recognized as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

In the opinion of management, due to the regulatory and other uncertainties inherent in the development of NOXXON's new products, the criteria for development costs to be recognized as an asset, as prescribed by IAS 38, Intangible Assets, are not met until the product has received regulatory approval and when it is probable that future economic benefits will flow to the Group. Accordingly, the Group has not capitalized any development costs.

### *General and administrative expenses*

General and administrative expenses consist principally of salaries and related costs for personnel in executive and finance functions, such as salaries, social security contribution, benefits, and share-based compensation. Other general and administrative expenses include legal and consulting expenses related to the preparation of financing transactions, facility costs not otherwise included in research and development expenses, professional fees for legal services, patent portfolio maintenance, consulting, cost associated with maintaining compliance with listing rules and compliance requirements as a result of being a publicly traded company, auditing and accounting services, remuneration for the supervisory board, restructuring costs, benefits settled in cash and equity and travel expenses.

### Finance income

Finance income includes gains from the derecognition of derivative financial liabilities, fair value adjustments of derivative financial instruments in connection with the Group's financing activities, gains from non-substantial modifications of terms and conditions of financing agreements and interest income from interest bearing bank and rental deposits. Interest income is recognized in profit or loss, using the effective interest method.

### Finance cost

Finance cost includes effects from the recognition of hybrid instruments in connection with the financing of the Company, the recognition of warrants issued, derecognition of financial liabilities and recognition of equity resulting from substantial modifications made to the terms and conditions of the financial liabilities in accordance with IFRIC 19 and interest expense on these financial liabilities. Interest expense is recognized using the effective interest method.

### Significant accounting judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making management judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an on-going basis. Actual results may differ from those estimates. The key assumptions with estimation uncertainty at the balance sheet 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 discussed below.

#### Determining probability of achievement of performance conditions of stock options

For the performance based stock options that are based on the non-market performance condition of an effective raise of additional capital for NOXXON, management assessed probabilities and points in time for a successful capital raise, which impacts the fair value of the options granted. For the performance based stock options that are based on the non-market performance condition of a successful licensing or collaboration agreement the probability of a transaction depends both on the success of completed studies and on the success to initiate and close the transaction. As the initiation and closing of a respective transaction takes some additional time, management assessed the probability and point in time for such a transaction to occur and assessed further the uncertainty and the discretion of NOXXON's compensation committee to ultimately issue these options (refer to Note 9).

#### Determining substantial modification of terms and conditions of loan facilities

Management assessed that the terms and conditions of existing loan facilities were substantially modified, if one of the following modifications occurred:

- a modification of the repayment schedule, the timing of cash flows, the nominal or interest rate to the extent, that the cash flows prior and after such modifications differ by more than 10% (quantitative modification); or
- an equity conversion feature was introduced to the terms and conditions (qualitative modification).

If the terms and conditions were not substantially modified, the loan facility is continued to be accounted for at amortised cost with an adjustment to profit and loss of the carrying amount reflecting the results of the modification. If the terms and conditions were substantially modified, the carrying amount of the existing loan facility is derecognized and the consideration paid, i.e. the present value of the modified loan facility is recognized with the difference recognized in profit or loss (refer to Note 10).

An equity conversion or debt-for equity-swap is accounted for in accordance with IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”. Management’s assessment included, whether the creditor was acting in its capacity as lender in order to apply IFRIC 19. Upon such substantial modification, the loan facility is derecognized to finance income. The equity instruments issued to a creditor or lender to extinguish part or all of the financial liability are recognized as finance cost and are measured at the fair value of the equity instruments issued.

**Determining classification of detachable warrants issued in 2018**

Detachable warrants issued include certain terms and conditions to protect the holders of the warrants from dilution. However, for specific transactions, the anti-dilution clauses are altered in a way so that holders of warrants become preferred in that they are protected against losses from the value of the warrants and equity holders become subordinated. As a result, such detachable warrants are classified as liabilities because they do not fully comply with the definition of equity in accordance with IAS 32 (refer to Note 10).

**Treatment of internally developed intangible assets**

Research and development costs from internal drug development projects are expensed as incurred. Management considers that due to regulatory and other uncertainties inherent in the development of pharmaceutical products, the development expenses incurred for its product candidates do not meet all of the criteria for capitalization as required in IAS 38, Intangible Assets.

NOXXON’s product candidates must undergo extensive preclinical and clinical testing to demonstrate the product’s safety and efficacy. The results of such trials are unpredictable and uncertain and may be substantially delayed or may prevent the Group from bringing these products to market.

New drugs are subject to significant regulatory approval requirements, which could prevent or limit the Group’s ability to market its product candidates. A delay or denial or regulatory approval could significantly delay the Group’s ability to generate product revenues and to achieve profitability. Additionally, changes in regulatory approval policies during the development period of any of its product candidates, or changes in regulatory review practices for a submitted product application, may cause a delay in obtaining approval or may result in the rejection of an application for regulatory approval.

**Volatility used in measurement of derivative financial instruments**

The historical volatility of NOXXON’s ordinary shares since its listing at the end of September 2016 does not result in sufficient data points for use in measurement of derivative financial instruments. Therefore, the Group has determined a peer group of listed companies similar to NOXXON regarding their business model, targeted indication as well as the length of being listed. The average of the 1- and 3-year historical volatility of the peers is 40% and was applied in the financial instrument valuation models consistently.

**Deferred tax assets**

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

Given the amount of operating losses accumulated and the significant uncertainty of future taxable income, deferred tax assets were recognized only to the extent that deferred tax liabilities were recognized.

Disclosures regarding capitalized deferred tax assets resulting from loss carry-forwards can be found in Note 12.

## 3. Intangible assets

During the fiscal years 2019 and 2018, intangible assets developed as follows:

| in thousands of € **31 December 2019** | **Licenses** | **Other** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 January 2019 | 4 | 54 | 58 |
| Disposals | - | - | - |
| Balance at 31 December 2019 | 4 | 54 | 58 |
| **Amortization** | | | |
| Balance at 1 January 2019 | 0 | 54 | 54 |
| Amortization expense | - | 0 | 0 |
| Disposals | - | - | - |
| Balance at 31 December 2019 | 0 | 54 | 54 |
| **Carrying amounts** | | | |
| At 1 January 2019 | 4 | 0 | 4 |
| At 31 December 2019 | 4 | 0 | 4 |

| in thousands of € **31 December 2018** | **Licenses** | **Other** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 January 2018 | 4 | 54 | 58 |
| Disposals | - | - | - |
| Balance at 31 December 2018 | 4 | 54 | 58 |
| **Amortization** | | | |
| Balance at 1 January 2018 | 0 | 53 | 53 |
| Amortization expense | - | 0 | - |
| Disposals | - | - | - |
| Balance at 31 December 2018 | 0 | 53 | 53 |
| **Carrying amounts** | | | |
| At 1 January 2018 | 4 | 1 | 5 |
| At 31 December 2018 | 4 | 1 | 5 |

## 4. Equipment

During the fiscal years 2019 and 2018 the equipment developed as follows:

| in thousands of € **31 December 2019** | Other Equipment | Furniture and Fixtures | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2019 | 107 | 215 | 4 | 326 |
| Additions | 14 | 0 | 2 | 16 |
| Disposals | 0 | 30 | 2 | 32 |
| Balance at 31 December 2019 | 121 | 185 | 4 | 310 |
| **Depreciation** | | | | |
| Balance at 1 January 2019 | 89 | 199 | 4 | 292 |
| Depreciation expense | 9 | 9 | 2 | 20 |
| Disposals | 0 | 30 | 2 | 32 |
| Balance at 31 December 2019 | 98 | 178 | 4 | 280 |
| **Carrying amounts** | | | | |
| At 1 January 2019 | 18 | 15 | 0 | 33 |
| At 31 December 2019 | 23 | 7 | 0 | 30 |

| in thousands of € **31 December 2018** | Other Equipment | Furniture and Fixtures | Other | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2018 | 105 | 222 | 5 | 333 |
| Additions | 2 | 3 | 5 | 10 |
| Disposals | 0 | 10 | 7 | 17 |
| Balance at 31 December 2018 | 107 | 215 | 4 | 326 |
| **Depreciation** | | | | |
| Balance at 1 January 2018 | 82 | 199 | 5 | 286 |
| Depreciation expense | 7 | 10 | 6 | 23 |
| Disposals | 0 | 10 | 7 | 17 |
| Balance at 31 December 2018 | 89 | 199 | 4 | 291 |
| **Carrying amounts** | | | | |
| At 1 January 2018 | 24 | 23 | 0 | 47 |
| At 31 December 2018 | 18 | 15 | 0 | 33 |

The carrying amount of all financial assets is a reasonable approximation of the fair value.

## 5. Other assets

Other current assets consist of the following:

| | 31 December | |
|---|---|---|
| in thousands of € | **2019** | **2018** |
| Prepaid expenses | 50 | 85 |
| Liquidity account | 31 | 19 |
| Value added tax | 79 | 48 |
| Other | 8 | 4 |
| Total | **168** | **156** |

Prepaid expenses consist of prepaid and other expenses, annual fees for insurance and service contracts, which are deferred over the term of respective agreements.

VAT ("Value added tax") reflects claims of the Group against local tax authorities for VAT on supplies and services received. The net amount of VAT receivable and VAT payable is non-interest bearing and is remitted to the appropriate taxation authorities on a monthly basis.

The carrying amount of other receivables is a reasonable approximation of their fair value.

## 6. Financial assets

Current financial assets consist of rental deposits.

## 7. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As of 31 December 2019, 98.9 % of cash and cash equivalents are denominated in euro and 1.14 % in dollars. As of 31 December 2018, 99.9 % of cash and cash equivalents are denominated in euro and 0.1% % in dollars.

During 2019 and 2018 the Group placed its available funds in current accounts. The net book value represents the maximum amount that is at risk.

The carrying amount of cash and cash equivalents is a reasonable approximation of their fair value.

## 8. Equity

The following table serves as a summary for transactions as described in Note 8 and 11.

| | No. of shares | Share capital | Additional paid-in capital | Accumul. deficit | No. of notes | No. of warrants | Financial liabilities | | Finance income | Finance cost | Financing cash flow |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Non-current | Current | | | |
| **31 December 2017** | **2,293,230** | **2,293** | **128,523** | **-134,520** | **150** | **295,823** | **932** | **1,673** | **-** | **-** | **-** |
| Issuance of notes, warrants and convert bonds: | | | | | | | | | | | |
| *- Yorkville regular issuances* | - | - | - | - | *90* | *225,314* | *208* | *978* | - | *-349* | *837* |
| *- Yorkville 1st amendment March 2019* | - | - | - | - | *100* | - | - | *1,087* | - | *-177* | *910* |
| *- Yorkville 2nd amendment August 2019* | - | - | - | - | *100* | *492,610* | *241* | *1,087* | - | *-705* | *600* |
| - Yorkville (total) | - | - | - | - | 290 | 717,924 | 449 | 3,152 | - | -1,231 | 2,347 |
| - Convertible bonds | - | - | - | - | 100 | - | - | 1,000 | - | -30 | 1,000 |
| Modifications of agreements: | | | | | | | | | | | |
| - Yorkville 1st amendment March 2019 | - | - | - | - | - | -235,739 | -227 | - | - | -773 | - |
| - Kreos venture loans | - | - | - | - | - | - | -81 | - | 81 | - | - |
| Capital increases: | | | | | | | | | | | |
| - Issuance of shares and warrants to Acuitas | 3,783,201 | 3,783 | - | -1,530 | - | 3,783,201 | - | 4,700 | - | -2,593 | 4,407 |
| - Issuance of shares to Yorkville | 167,622 | 168 | 833 | - | - | - | - | - | - | - | - |
| - Issuance of shares to Kreos (debt convers.)* | 718,869 | 719 | 302 | - | - | - | -731 | - | - | -353 | - |
| - Issuance of shares to Yorkville (note convers.) | 2,321,663 | 2,322 | 3,792 | - | -440 | - | - | -4,825 | 43 | -1,330 | - |
| - Issuance of shares to investors (convertible bonds conversions) | 838,219 | 838 | 497 | - | -100 | - | - | -1,000 | 9 | -315 | - |
| Transactions costs for issuance of shares | - | - | -77 | - | - | - | - | - | - | - | -26 |
| Transactions costs for issuance of conv. bonds | - | - | - | - | - | - | - | - | - | -133 | -133 |
| Sale of treasury shares | - | - | - | - | - | - | - | - | - | - | 7 |
| Share-based payment expenses | - | - | 396 | - | - | - | - | - | - | - | - |
| Fair value adjustment of detachable warrants | - | - | - | - | - | - | -255 | - | 255 | - | - |
| Net loss | - | - | - | -10,734 | - | - | - | - | - | - | - |
| **31 December 2018** | **10,122,804** | **10,123** | **134,266** | **-146,784** | **0** | **4,561,209** | **87** | **4,700** | **388** | **-6,758** | **7,602** |

*net of effective interest of K€ 112 and derivatives derecognized of K€ 40 upon conversion into equity

| | No. of shares | Share capital | Additional paid-in capital | Accumul. deficit | No. of notes | No. of warrants | Financial liabilities | | Finance income | Finance cost | Financing cash flow |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Non-current | Current | | | |
| **31 December 2018** | **10,122,804** | **10,123** | **134,266** | **-146,784** | **0** | **4,561,209** | **87** | **4,700** | | | |
| Capital reduction: | | | | | | | | | | | |
| Resolution extraordinary general meeting 2 January, 2019 | | -10,022 | 10,022 | | | | | | | | - |
| Capital increases: | | | | | | | | | | | |
| - Issuance of shares to investors | 801,494 | 8 | 513 | - | - | - | - | - | - | - | 506 |
| - Issuance of shares to investors | 1,960,780 | 20 | 980 | - | - | - | - | - | - | - | 1,000 |
| - Issuance of shares to Acuitas | 217,386 | 2 | 81 | 6 | - | -200,000 | - | -89 | 6 | - | - |
| Transactions costs for issuance of shares | - | - | -108 | - | - | - | - | - | - | - | -93 |
| Sale of treasury shares | - | - | - | - | - | - | - | - | - | - | 12 |
| Share-based payment expenses | - | - | 107 | - | - | - | - | - | - | - | - |
| Fair value adjustment of Acuitas warrant liability on demand | - | - | - | 3,013 | - | - | - | -3,013 | 3,013 | - | - |
| Fair value adjustment of detachable warrants | - | - | - | 72 | - | - | -72 | - | 74 | -2 | - |
| Net loss | - | - | - | -3,952 | - | - | - | - | - | - | - |
| **31 December 2019** | **13,102,464** | **131** | **145,860** | **-147,645** | **0** | **4,361,209** | **15** | **1,598** | **3,093** | **-2** | **1,425** |

## Subscribed capital

As of 31 December 2019, the subscribed capital of the Company amounts to K€ 131 (prior year: K€ 10,123) and is divided into 13,102,464 ordinary shares (prior year: 10,122,804) with a nominal value of € 0.01 in 2019 and € 1.00 in 2018, respectively. As of 31 December 2019, authorized share capital amounts to € 479,502 (prior year: € 25,000,000) and is divided into 47,950,200 ordinary shares (prior year: 25,000,000), each share with a nominal value of € 0.01 (prior year: € 1.00).

The extraordinary general meeting on 2 January 2019 resolved to reduce the nominal value of each share from € 1.00 to € 0.01. The difference between the aggregate nominal value of all issued and fully paid up shares immediately prior to the capital reduction becoming effective and the aggregate nominal value of all issued and fully paid up shares immediately after the capital reduction becoming effective was not to be repaid to the shareholders but to be added to the Company's share premium reserve. As a matter of Dutch statutory law, the effectiveness of such capital reduction was subject to observing a statutory creditor opposition period of two months and conditional upon the execution of a partial amendment of the articles of association of the Company to reflect the reduced nominal value of each share and consequently the reduced authorized share capital as proposed. The Articles of Association of the Company were amended accordingly on 7 March 2019.

As a result of such capital reduction, additional paid-in capital increased by K€ 10,022.

In 2019, the Company issued an aggregate of 2,979,660 ordinary shares in connection with the following financing transactions:

- Issuance of 801,494 ordinary shares at a price of € 0.65 against contribution in cash (cash inflow of K€ 521 less K€ 15 transaction cost as consideration received for ordinary shares) to investors participating in a capital increase with shareholders' preferential rights,
- Issuance of 1,960,780 ordinary shares at a price of € 0.51 against contribution in cash (cash inflow of K€ 1,000 as consideration received for ordinary shares) through a private placement,
- Issuance of 217,386 ordinary shares at a fair value of € 0.3820 per share to Acuitas through the cashless exercise option at € 0.4456 exercise price per warrant, totaling K€ 83 against the purchase of 200,000 warrants.

As a result, additional subscribed capital of K€ 30 and additional paid-in capital of K€ 1,572 were recognized less issuance costs of K€ 108.

In 2018, the Company issued an aggregate of 7,829,574 ordinary shares in connection with the following financing transactions:

- Issuance of 3,783,201 ordinary shares at a price of € 1.17 against contribution in cash (cash inflow of K€ 4,407 as consideration received for ordinary shares) to Acuitas Capital, LLC (in the following also Acuitas), refer to Note 10),
- Issuance of 167,622 ordinary shares at a price of € 5.97 against contribution in cash (receivable was settled against payable to Yorkville for modification of unrelated financing agreements),
- Issuance of 718,869 ordinary shares to Kreos against contribution of all remaining financial liabilities in connection with the venture loan facilities in a nominal amount of K€ 841,
- Issuance of 2,321,663 ordinary shares from the conversion of all outstanding notes in a nominal amount of K€ 4,400 issued in 2017 and 2018 to Yorkville,

- Issuance of 838,219 ordinary shares from the conversion of all outstanding cash convertible loans in a nominal amount of K€ 1,000 issued in 2018 to existing and new investors.

As a result, additional subscribed capital of K€ 7,830 and additional paid-in capital of K€ 5,424 were recognized less issuance costs of K€ 77.

All debt conversions in 2018 were accounted for in accordance with IFRIC 19.

The extraordinary general meeting on 2 January 2019 resolved to increase the authorised capital of the Company to € 47,950,200, divided into 47,950,200 ordinary shares with a nominal value of € 1.00 each. It further resolved that as per the moment the Company's issued and paid-up share capital amounts to € 40,000,000 comprised of 40,000,000 ordinary shares, each share having a nominal value of €1.00, the authorised capital of the Company amounts to € 100,000,000 divided into 100,000,000 ordinary shares, each share with a nominal value of € 1.00 (Art. 37 of the Articles of Association).

As a result of the reduction of the nominal value as described above the Articles of Association provide for an authorized share capital in an amount of € 479,502 divided into 47,950,200 ordinary shares, each share with a nominal value of € 0.01. As a further result, Article 37 of the Articles of Association was amended accordingly such that as per the moment the Company's issued and paid-up share capital amounts to € 400,000 comprised of 40 million ordinary shares, each share having a nominal value of € 0.01, the authorised capital of the Company shall automatically increase to € 1,000,000, divided into 100,000,000 ordinary shares.

No share certificates shall be issued.

### Additional paid-in capital

As of 31 December 2019, the additional paid-in capital of the Company amounts to K€ 145,860 (prior year: K€ 134,266).

In 2019, additional paid-in capital increased by K€ 11,487 as a result of the capital reduction and capital increases described above. Further, share-based compensation of K€ 107 in 2019 and K€ 396 in 2018 were recorded in additional paid-in capital, respectively.

In 2018, additional paid-in capital increased by K€ 5,347 as a result of the capital increases described above.

Thus, the total increase of additional paid-in capital in 2018 amounts to K€ 5,743.

In accordance with Dutch law and in absence of any reserves NOXXON Pharma N.V. is required to maintain its shareholders' equity pursuant to Dutch law. The Company may make distributions insofar the shareholders' equity exceeds the sum of paid-in and called-up share capital.

Additional paid-in capital of the subsidiary NOXXON Pharma AG may only be released and distributed to shareholders to the extent that the additional paid-in capital as reported in that subsidiary's statutory financial statements is available for release and exceeds the accumulated deficit, including current year losses, as reported in those statutory financial statements.

### Treasury shares

As of 31 December 2019, the Company held 49,540 (prior year: 65,716) ordinary shares as treasury shares.

## 9. Share-based compensation

### 2016 Stock option and incentive plan ("SOIP")

The 2016 Stock Option and Incentive Plan allows the Management Board, with the approval of the Supervisory Board, to make equity-based incentive awards to directors (including Management Board Directors provided that the Supervisory Board will decide when it concerns a person elected to the Management Board), officers, employees and consultants. In 2017 and 2019 the Company granted time based stock options and performance based stock options based on this SOIP.

The time based stock options vest in equal installments over three years following the grant date. The options granted to each beneficiary are hence split into three annual instalments of one-third of the options granted. This results in a graded vesting of the options granted.

The performance based stock options include non-market performance conditions, which are required to be achieved. Upon achievement of the non-market performance condition the stock options will formally be granted and fully vest. Hence any expense related to these performance based options is recognized over the variable period when the event is expected to occur.

Under the terms and conditions of the plan, the exercise price per ordinary share covered by a stock option granted shall be determined by the Board at the time of grant but shall not be less than 100 percent of the fair market value on the date of grant (not be less than 110 percent of the fair market value on the date of grant of incentive stock options to a Ten percent Owner of the Company). Stock options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of ordinary shares to be acquired and payment of the exercise price or, upon the Company's consent, by a net exercise arrangement resulting in net settlement in shares.

The plan allows the Company further to issue restricted stock awards, restricted stock units, unrestricted stock awards, cash-based awards or performance based awards, none of which was granted to date.

Accelerated vesting will occur upon the following events (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person, entity or group of unrelated persons and/or entities acting in concert, (ii) a (statutory) merger, reorganization or consolidation pursuant to which the holders of the Company's outstanding voting power and outstanding shares immediately prior to such transaction do not own a majority of the outstanding voting power and outstanding shares or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Shares of the Company to an unrelated person, entity or group thereof acting in concert, or (iv) any other transaction in which the owners of the Company's outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company.

The term of each stock option shall be fixed by the Board, but no stock option shall be exercisable more than ten years after the date the stock option is granted. In the case of a stock option that is granted to a Ten Percent Owner of the Company, the term of such stock option shall be no more than five years from the date of grant. To the extent that a stock option is not exercised within the applicable option term, the stock option shall lapse.

Based on this plan, the Company granted 129,624 stock options in 2017, nil in 2018 and 466,369 in 2019 to members of the Management Board, the Supervisory Board,

employees and consultants. Furthermore, the Company granted 20,510 performance based stock options in 2017, nil in 2018 and 81,160 in 2019 to consultants.

For the performance based stock options granted in 2017 that are based on the non-market performance condition of an effective raise of additional capital for NOXXON, the probabilities were estimated at 90% for mid 2018 and 65% for mid 2019 for a successful capital raise. As of 31 December 2019 and 2018 that estimate was revised with respect to the financing transactions consummated in 2019 and 2018 and expected to be consummated in 2020. As a result of the revised estimate and the revision of the valuation parameters as of 31 December 2019 and 2018, the current stock price, volatility and risk free interest rate, the cumulative stock option expense was reduced to K€ 0 and an adjustment of K€ 66 was recognized for the full year 2019. For the performance based stock options that are based on the non-market performance condition of a successful licensing or collaboration agreement, the probability of a transaction depends both on the success of completed studies and on the success to initiate and close the transaction. As the initiation and closing of a respective transaction takes some additional time, management assumes the performance condition could not be fulfilled by end of 2019. Furthermore, management assumed that the fulfillment of the performance condition is not more likely than not.

For the performance based stock options granted in October 2019 that are based on the non-market performance condition of an effective raise of additional capital for NOXXON, the probabilities were estimated at 90% for an amount of € 1.5 million and 10% for an amount of € 2.5 million to be raised until February 2020, in line with the financing needs to continue as a going concern (refer to Note 2). As a result of the estimate and the valuation parameters as of 31 December 2019, the current stock price, volatility and risk free interest rate, stock option expense of K€ 10 was recognized.

The movements in the number of time based stock options outstanding and their related weighted average exercise prices (in €) are as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of stock options | Weighted average exercise price | Number of stock options |
| Outstanding at 1 January | € 10.85 | 129,624 | €10.85 | 129,624 |
| Granted during the year | € 0.65 | 466,369 | - | - |
| Forfeited during the year | € 11.70 | 6,157 | - | - |
| **Outstanding at 31 December** | **€ 2.78** | **589,836** | **€10.85** | **129,624** |

In the table above, time based stock options are presented as granted in the period that the service commencement and expense recognition have started. As of 31 December 2019, 115,125 of the outstanding stock options are vested and exercisable (31 December 2018: 78,876: stock options), thereof 100,085 stock options with an exercise price of € 11.70 are exercisable and 15,040 stock options with an exercise price of € 6.80 (31 December 2018: 71,356 stock options with an exercise price of € 11.70 and 7,520 stock options at € 6.80). No stock options have been exercised during the period.

A total of 5,468 stock options outstanding at the end of the period have an expiry date on 24 June 2020, 6,834 stock options outstanding at the end of the period have an expiry date on 30 June 2020, 88,604 stock options outstanding at the end of the period have an expiry date on 30 September 2026 and an exercise price of € 11.70, 22,561 stock options outstanding at the end of the period have an expiry date on 13 December 2027 and an exercise price of € 6.80 and the remaining 466,369 stock options outstanding at the end of the period have an expiry date on 9 October 2029 and an exercise price of € 0.65.

In determining the fair values of its listed ordinary shares as of each grant date, the published share price at closing for NOXXON's ordinary shares at the Euronext Growth stock exchange was used. The fair value of the stock options issued was calculated using a Black Scholes option valuation model.

Options at the date of grant on 19 September and 13 December 2017 are summarized below:

| | 19 Sept. 2017 | 13 Dec. 2017 | 9 Oct. 2019 |
|---|---|---|---|
| Share price (in €) | 11.70 | 6.80 | 0.39 |
| Option exercise price (in €) | 11.70 | 6.80 | 0.65 |
| Volatility | 62% | 66% | 85% |
| Expected life | 9.03 years | 10.00 years | 10.00 years |
| Dividend yield | 0.00% | 0.00% | 0.00% |
| Risk-free rate | 0.33% | 0.38% | -0.59% |
| Probabilities of occurrence of non-market performance conditions | n/a | 90% and 65% | 90% and 10% |
| Fair value per option (in €) | 7.62 | 4.81 | 0.30-0.47 |

The fair value of the time based stock options granted is expensed based on a graded vesting schedule. During the years ended 31 December 2019 and 2018, the total share-based payment expense recognized for the stock options issued under the SOIP amounted to K€ 107 and K€ 396, respectively.

**Other share-based compensation**

As of 31 December 2019 and 2018, the number of outstanding and vested shares of the Company under the share participation model for employees (held by a trustee), members of the management and supervisory board was unchanged at 74,162. Upon payment of the share premium by the beneficiaries, the shares become available to the beneficiaries. For the share participation model, no share-based payment expense was recognised in 2019 and 2018, respectively.

Furthermore, in 2015, the Company had agreed to grant to a former managing director of NOXXON Pharma Inc. a warrant to purchase such number of ordinary shares as corresponds to 3,106 common shares in NOXXON Pharma AG as outstanding on 15 March 2015, i.e., 6,212 ordinary shares, in the event of an initial public offering or a change of control of the Company. The strike price under the warrant, if the warrant will have to be granted, will be the offer price under the initial public offering or the strike price under the options granted to employees most recently before the change of control, respectively. In 2017, the warrants have been formally issued in the form of 6,212 stock options under the SOIP at an exercise price of € 16.00 and an expiry date on 13 July 2020. All related expenses were incurred in 2015 and accordingly, no further expense was recognized upon formally issuing the 6,212 stock options in 2017.

## 10. Financial liabilities

In prior years, the Group entered into various financing arrangements in the form of venture loans, equity line financing and convertible bonds, all of which were issued and predominantly converted into equity of the Company prior to 31 December 2018. For the 12 months ended 31 December 2019 and 2018, non-cash finance costs of nil and K€ 4,165, respectively, were incurred with respect to the issuance, conversion into equity, effective interest and derecognition of derivative financial assets in relation to these financing arrangements. For the 12 months ended 31 December 2019 and 2018, non-cash finance income of nil and K€ 81 were recognized with respect to the non-substantial modification of one of these financing arrangements.

As of 31 December 2019 and 31 December 2018, 778,008 detachable warrants issued to Kreos, Yorkville and certain other investors, partly in connection with the above mentioned financing arrangements, are outstanding. Based on an option pricing model, the fair value of these warrants outstanding (non-current derivative financial liability) as of 31 December 2019 and 31 December 2018 amounted to K€ 15 and K€ 87, respectively. For the 12 months ended 31 December 2019 and 2018, non-cash finance income relating to fair value adjustments of warrants outstanding of K€ 72 and K€ 255 were recognized, and non-cash finance costs relating to the recognition of warrants issued and fair value adjustments of warrants outstanding of nil and K€ 426 were incurred, respectively. The share capital increase through a private placement completed on 15 August 2019 (refer to Note 8) triggered anti-dilution protection with respect to the detachable warrants issued to Kreos, Yorkville and certain other investors. The cashless exercise by Acuitas in December 2019 (refer below) further triggered anti-dilution protection with respect to the detachable warrants issued to Kreos, Yorkville and certain other investors. The conversation ratio was adjusted to protect the holders of the warrants against dilution and would upon exercise against cash contribution amounting to € 3.9 million result in issuance of 8.0 million ordinary shares as of 31 December 2019 and 2.8 million ordinary shares as of 31 December 2018.

As of 31 December 2019 and 2018, 6,312 bonds are outstanding that were issued concurrently with entering into venture loan arrangements in 2014 and 2015.

In connection with the warrants issued and outstanding for an equity financing in November 2018 with Acuitas, the financial liability resulting from the amount payable to Acuitas in shares on demand as part of the cashless exercise was reduced from K€ 4,700 as of 31 December 2018 to K€ 1,687 and represented also the fair value of that liability as of 31 December 2019. This reduction was triggered by the share capital increase through a private placement completed on 15 August 2019 (see Note 8) which resulted in a reduction of the exercise price of warrants held by Acuitas to protect against dilution. With the adjustment of the exercise price of the Acuitas warrants to € 0.51, pursuant to the warrant agreement, the fair value of the liability to Acuitas linked to the cashless exercise was lowered.

In December 2019 Acuitas exercised cashless 200,000 warrants against issuance of 217,386 ordinary shares (refer to Note 8) at a fair value of € 0.3820 per share at a fair value of € 0.4456 per warrant, resulting in a derecognition of K€ 89 from financial liabilities and recognition of subscribed capital (K€ 2) and additional paid-in capital (K€ 81). Following the conversion of the warrants into equity (refer to Note 8), the fair value of the liability linked to the cashless exercise of the Acuitas warrants is further reduced to K€ 1,598 as of 31 December 2019. As of 31 December 2019, a total of 3,583,201 warrants are outstanding. The Acuitas cash exercise option and the NOXXON option are accounted for as a compound derivative that was bifurcated from the host contract (the financial

liability payable on demand). Based on an option pricing model, combining the two options, the fair values at issuance and as of 31 December 2019 and 2018 are K€ 0.

The share capital increase with shareholders' preferential rights announced on 26 June 2019 and completed on 19 July 2019 triggered an anti-dilution protection with respect to the warrants held by Acuitas. As a result, Acuitas is entitled to acquire additional ordinary shares upon the terms applicable to such preferential rights at the time when it exercises its warrants and acquires ordinary shares. The aggregate preferential rights that Acuitas will receive is linked to the number of ordinary shares Acuitas shall hold upon such exercise of the warrants. As of 31 December 2019, the anti-dilution protection does not result in an additional financial liability to be recognized by NOXXON in its consolidated financial statements.

For the 12 months ended 31 December 2019 and 2018 non-cash finance income of K€ 3,013 and nil and non-cash finance cost of nil and K€ 2,593 were recognised with respect to the financing arrangements with Acuitas.

For the 12 months ended 31 December 2019 and 2018, total finance income (all non-cash) of K€ 3,091 and K€ 388, respectively as well as total finance cost (all non-cash) of nil and K€ 6,758, respectively was recognized for the financial instruments of the Group.

The following tables summarize quantitative disclosures of the Group's financial liabilities measured at their fair value.

| | Mandatorily at FVTPL - others | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| 31 December 2019<br>in thousands of € | | | | |
| Detachable warrants | 15 | - | - | 15 |
| Acuitas warrants | 1,598 | - | - | 1,598 |
| **Total** | **1,613** | **-** | **-** | **1,613** |

| | Mandatorily at FVTPL - others | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| 31 December 2018<br>in thousands of € | | | | |
| Detachable warrants | 87 | - | - | 87 |
| Acuitas warrants | 4,700 | - | - | 4,700 |
| **Total** | **4,787** | **-** | **-** | **4,787** |

## 11. Other liabilities

Current other liabilities are comprised of the following:

| | **31 December** | |
|---|---|---|
| in thousands of € | **2019** | **2018** |
| Employee benefits | 454 | 655 |
| Restructuring expenses and settlement benefits | 0 | 138 |
| Other | 209 | 170 |
| Total | **663** | **963** |

Restructuring expenses and settlement benefits in 2018 are related to termination benefits, recognized in 2015. Due to the conditions that trigger the payment of such restructuring expenses and settlement benefits, all amounts were current.

## 12. Income taxes

### Netherlands

In 2019 and 2018, in general the applicable tax rates employed for Dutch companies is 20.0 % corporate income tax up to a taxable profit of € 200,000 and 25.0 % corporate tax for taxable profits exceeding € 200,000. However, the Dutch parent NOXXON Pharma N.V. is fully taxable in Germany and hence the German tax regulations and tax rates for corporations apply as described in the following paragraph.

### Germany

Deferred taxes of the German NOXXON Pharma AG and NOXXON Pharma N.V. were calculated with a combined income tax rate charge of 30.18 % for the years ended 31 December 2019 and 2018. The corporation income tax applicable to domestic companies is 15.00 % plus solidarity surcharge thereon of 5.5 %. The average trade tax rate is 14.35 %.

In general, the net operating loss (NOL) of NOXXON Pharma AG and NOXXON Pharma N.V. carry forwards do not expire. They are subject to review and possible adjustment by the German tax authorities. Furthermore, under current German tax laws, certain substantial changes in the Company's ownership and business may further limit the amount of net operating loss carry forwards, which could be utilized annually to offset future taxable income.

According to German tax provisions, in years of tax profits, any tax loss carry forward can fully be used up to an amount of € 1 million. Any excess tax profit will be reduced with remaining tax loss carry forwards by 60 %. Thus, 40 % of all tax profits exceeding € 1 million will be subject to taxation.

### USA

In 2019 and 2018, the applicable tax rates employed for the US subsidiary is 27.44 %, is comprised of the state corporate income tax of 8.0 % and the federal corporate income tax of 21.0 %. The US tax reform, enacted on 1 January 2018, did not have a material impact on the income taxes in connection with the subsidiary in the US.

The below table shows a breakdown of income tax expense and deferred income tax income:

| in thousands of € | **2019** | **2018** |
|---|---|---|
| Current income tax expense | 1 | 1 |
| Deferred income tax expense / (income) | 0 | 0 |
| **Income tax expense** | **1** | **1** |

With respect to the Group, neither the parent nor the Germany subsidiary paid income taxes in the years ended 31 December 2019 and 2018. A deferred tax asset arising from unused tax losses of NOXXON Pharma AG was not recognized in the year ended

31 December 2019 and 2018, since it was not probable that future taxable profit would be available against which they can be utilized.

The deferred income tax income results from reversal of NOXXON Inc.'s temporary differences (deferred payments for accrued expenses, capitalization of business start-up cost and organizational cost for US tax purposes).

Deferred tax assets and liabilities are comprised of the following:

| | 31 December | |
|---|---|---|
| in thousands of € | **2019** | **2018** |
| **Deferred tax assets** | | |
| 1. Deferred payments for accrued expenses (US) | 0 | 1 |
| 2. Derivative financial liabilities on warrants and conversion feature and financial liability at amortized cost (Germany) | 4 | 26 |
| 3. Allowance on deferred tax assets relating to temporary differences (Germany) | (4) | (26) |
| 4. Deferred tax asset relating to Right-of-Use asset (Germany) | 34 | -- |
| **Deferred tax liabilities** | - | - |
| 5. Lease liabilities (Germany) | (34) | - |
| | | - |
| **Deferred tax assets** | **0** | **1** |

Deferred tax assets have not been recognized i) in respect of temporary differences on derivative financial instruments and a conversion feature and on financial liabilities at amortized cost and ii) other temporary differences. The non-recognized deferred tax asset amounts to K€ 4 in 2019 and K€ 26 in 2018, respectively.

### Unused net operating loss carry-forwards

The amount of net operation loss (NOL) carry-forwards for German corporate and trade tax for the years ended 31 December amount to:

| in thousands of € | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | Gross amount | Tax rate | Tax amount | Gross amount | Tax rate | Tax amount |
| Trade tax | 174,916 | 14.35% | 25,100 | 171,078 | 14.35% | 24,550 |
| Corporate income tax / solidarity surcharge | 176,601 | 15.83% | 27,956 | 172,776 | 15.83% | 27,350 |
| **Unused tax losses for which no deferred tax asset is recognized** | | | **53,056** | | | **51,900** |

On 16 January 2015, NOXXON Pharma N.V. was incorporated as a subsidiary of the Company with the purpose to consummate a corporate reorganization, whereby substantially all of the equity interests in NOXXON Pharma AG was exchanged for newly issued equity interests in NOXXON Pharma N.V. with NOXXON Pharma AG becoming

an almost wholly-owned subsidiary of NOXXON Pharma N.V. There is a risk that the tax loss carry forwards of NOXXON Pharma AG would be forfeited due to the reorganization. However, provisions in German tax law permit the carry-forward of these tax losses after such reorganization, if and to the extent that NOXXON Pharma AG has continued its business without changes of the business purpose. As of 31 December 2019, NOXXON Pharma N.V. has unused corporate income tax losses of K€ 4,264 and trade tax losses of K€ 4,027 (prior year: for corporate income taxes K€ 3,773, for trade taxes K€ 3,524) for which no deferred tax assets were recognized. As of 31 December 2019, NOXXON Pharma AG, has unused corporate income tax losses of K€ 172,337 and trade tax losses of K€ 170,889 (prior year: for corporate income taxes K€ 169,003 for trade taxes K€ 167,554) for which no deferred tax assets were recognized.

The reconciliation of income tax computed at the statutory rate applicable to the Company's income tax expense (income) for the years ended 31 December is as follows:

| in thousands of € | **2019** | **2018** |
|---|---|---|
| Loss before income tax | (860) | (10,737) |
| Group tax rate in % (p/y: %) | 30.18 | 30.18 |
| Theoretical tax benefit | (260) | (3,240) |
| Non-deductible expenses | 11 | 10 |
| Costs associated with equity offering | - | (23) |
| Share-based payments | 32 | 120 |
| Additions to / reductions in trade tax | - | 26 |
| Debt-for-equity swap related effects | (2) | 520 |
| Financial instrument related effects | (931) | 761 |
| Changes in tax loss carry forwards in prior years | (37) | - |
| Change in deferred tax assets not recognized for loss carry forwards | 1,199 | 1,832 |
| Other | (11) | (5) |
| **Income tax expense** | **1** | **1** |
| **Effective tax rate** | **-0.12%** | **-0.01%** |

## 13. Income and expenses

### Other operating income

| in thousands of € | **2019** | **2018** |
|---|---|---|
| Sale of raw materials | 154 | 0 |
| Derecognition of benefits waived | 119 | 296 |
| Other income | 6 | 82 |
| **Total** | **279** | **378** |

For the derecognition of benefits waived we refer to Note 19. Other income includes foreign exchange differences amounting to K€ 1 in 2019 and K€ 1 in 2018.

### Research and development expenses

| in thousands of € | 2019 | 2018 |
|---|---|---|
| Costs for production of drug substances, service fees and other costs related to clinical trials and preclinical testing | 1,029 | 982 |
| Personnel expenses | 583 | 744 |
| Patent costs and consulting services | 391 | 365 |
| Other | 105 | 114 |
| **Total** | **2,108** | **2,205** |

The decrease in research and development expenses in 2019 compared to 2018 is mainly due to lower personnel expenses, partly offset by higher costs for production of drug substances, service fees and other costs related to clinical trials and preclinical testing as well as higher patent costs and consulting services. Personnel expenses include non-cash share-based payment expenses amounting to K€ 53 in 2019 and K€ 119 in 2018. When such non-cash share-based payment expenses are not taken into account, the remaining personnel expenses are K€ 530 in 2019 and K€ 625 in 2018.

### General and administrative expenses

| in thousands of € | 2019 | 2018 |
|---|---|---|
| Personnel expenses | 795 | 1,200 |
| Legal, consulting and audit fees | 778 | 669 |
| Public and investor relations and related expenses | 280 | 374 |
| Other | 262 | 249 |
| **Total** | **2,115** | **2,492** |

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

The decrease in general and administrative expenses in 2019 is mainly driven by lower personnel as well as public and investor relations expenses compared to 2018, partly offset by higher legal, consulting and audit fees and other expenses Personnel expenses include non-cash share-based payment expenses amounting to K€ 54 in 2019 and K€ 278 in 2018. When such non-cash share-based payment expenses are not taken into account, the remaining personnel expenses are K€ 741 in 2019 and K€ 922 in 2018.

### Personnel expenses

| in thousands of € | 2019 | 2018 |
|---|---|---|
| Regular salary | 889 | 975 |
| Benefits | 135 | 237 |
| Share-based compensation | 107 | 396 |
| Social security contribution | 237 | 324 |
| Release/Increase of accrued holidays | (2) | 8 |
| Other | 12 | 4 |
| Total | **1,378** | **1,944** |

Social security contributions include contributions for statutory pension insurance in the amount of K€ 123 in 2019 and K€ 115 in 2018.

## 14. Segment reporting

### Information about reportable segment

The Group has one Segment. The Group is active in pioneering the development of a new class of proprietary therapeutics called Spiegelmers. These activities are conducted as own project development. The Management Board is the chief operating decision maker. Management of resources and reporting to the decision maker is based on the Group as a whole.

### Geographic information

All operational activities are conducted in Berlin. No revenues are generated in 2019 and 2018.

## 15. Loss per share

The loss per share is calculated by dividing the loss attributable to shareholders of the Company by the weighted average number of outstanding ordinary shares.

| in thousands of € | 2019 | 2018 |
|---|---|---|
| Net loss | (861) | (10,734) |
| Weighted number of ordinary shares outstanding | 11,158,317 | 3,979,098 |
| **Loss per share, basic and diluted in € per share** | **(0.08)** | **(2.70)** |

For the purposes of the loss per share calculation no dilutive instruments are taken into account. Share options under the share-based payment plans as well as warrants issued for an equity financing and detachable warrants were excluded because the effect would be anti-dilutive.

## 16. Notes to the cash flow statement

*Non-cash transactions*

In 2019 and in 2018, certain related parties partly waived employee benefits payable to those parties in an amount of K€ 119 and K€ 296, respectively. We refer to Note 19 for further details.

The following tables reconcile the financial liabilities for the years ended 31 December 2019 and 2018, respectively:

| in thousands of € | 1 January 2019 | Cash flows | Non-cash movements | 31 December 2019 |
|---|---|---|---|---|
| Financial liabilities | | | | |
| Non-current | 87 | 0 | (72) | 15 |
| Current | 4,700 | 0 | (3,102) | 1,598 |
| **Total** | **4,787** | **0** | **(3,174)** | **1,613** |

| in thousands of € | 1 January 2018 | Cash flows | Non-cash movements | 31 December 2018 |
|---|---|---|---|---|
| Financial liabilities | | | | |
| Non-current | 932 | 0 | (845) | 87 |
| Current | 1,673 | 5,500* | (2,473) | 4,700 |
| **Total** | **2,605** | **5,500** | **(3,318)** | **4,787** |

* includes K€ 3,347 of proceeds from issuance of convertible bonds and K€ 2,153 allocation from consideration received for issuance of shares and warrants to Acuitas (we refer to Note 10).

Non-cash changes in 2019 include the fair value true-up adjustment for the warrants issued to Acuitas of K€ 3,013 and the non-cash debt for equity swap related to the exercise of warrants by Acuitas of K€ 89 as well as fair value adjustments related to embedded derivatives that were bifurcated for accounting purposes, totaling K€ 72 net (for details refer to Note 10).

Non-cash changes in 2018 include the non-cash debt for equity swap related to KREOS, totaling K€ 789, conversions of 440 notes in connection with the equity line financing, totaling K€ 3,977, the fair value true-up adjustment for the warrants issued to Acuitas, totaling K€ 2,593 as well as fair value adjustments related to embedded derivatives that were bifurcated for accounting purposes, totaling K€ 73 (for details refer to Note 10).

## 17. Commitments and contingencies

### German Law pertaining to inventions *(Arbeitnehmererfindungsgesetz)*

The Group has patents and has filed for various patent applications which also result from inventions made by its employees. In case of use or other circumstances specified in German Law pertaining to inventions *(Arbeitnehmererfindungsgesetz),* the Group is obliged to allow the respective inventor a fee in accordance with German Law pertaining to inventions by employees (*Arbeitnehmererfindungsgesetz*).

### Commitments

During the years ended 31 December 2019 and 2018 the Group entered into several research, development and service agreements for its business operations as well as maintenance agreements for the laboratory equipment to run the ordinary course of business. The Group has entered into such agreements with third parties for services which amounted to K€ 1,375 in 2019 and K€ 706 in 2018.

### Contingencies

There are no current claims or litigation against the Group. However, due to the inherent nature of intellectual property rights, there remains the possibility of unasserted claims related to intellectual property that the Group is not yet aware of.

## 18. Financial risk management objectives and policies

### Financial instruments

The Group's principal financial instruments comprise bank balances, and financial liabilities. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments, such as trade debtors and trade creditors, as well as other current non-interest bearing assets, which arise directly from its operations.

The Group places its available funds during the year in cash at banks to ensure both liquidity and security of principal in accordance with Group policy. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks, as summarized below.

### Credit risk

Financial instruments that potentially expose NOXXON to credit risk consist primarily of cash at banks. The maximum exposure to credit risk is equal to the carrying amount of these instruments. The credit risk is minimized by the investment policy, which limits investments to those that have relatively short maturities and that are placed with highly rated issuers.

The Group's accounts receivables are unsecured and the Group is at risk to the extent such amounts become uncollectible. The Group has historically not experienced substantial losses related to individual customers or groups of customers.

### Foreign currency risk

NOXXON conducts business in countries outside the Euro-zone and is therefore subjected to foreign exchange risks. Future business may be conducted to a higher extent in other currencies, namely the dollar and pound sterling. NOXXON is aware of the foreign exchange risks and investigates with every foreign exchange related transaction if a corresponding hedge is favorable and necessary.

As a result of purchases denominated in dollars and pound sterling, the Group's balance sheet can be affected by movements in the dollar/euro and pound sterling/euro exchange rates. These transactions are generally short term in nature, thus the Group's exposure to currency risk is immaterial.

The following table demonstrates the sensitivity to a reasonably possible change in the dollar exchange rate, with all other variables held constant, of the Group's loss before tax.

| | Increase/decrease in USD/EUR rate (in %) | Effect on loss before tax (in thousands €) |
|---|---|---|
| **2019** | (10) | (22) |
| | + 10 | 18 |
| **2018** | (10) | (10) |
| | + 10 | 8 |

The following table demonstrates the sensitivity to a reasonably possible change in the pound sterling exchange rate, with all other variables held constant, of the Group's loss before tax.

| | Increase/decrease in GBP/EUR rate (in %) | Effect on loss before tax (in thousands €) |
|---|---|---|
| **2019** | (10) | (13) |
| | + 10 | 11 |
| **2018** | (10) | (12) |
| | + 10 | 10 |

### Liquidity risk

The Group monitors its risk to a shortage of funds using a cash forecast. This tool considers the maturity of both, the Group’s financial investments, i.e. financial assets (e.g. accounts receivable, other financial assets) and financial liabilities (e.g. accounts payable as well as other payable) and projected cash flows from operations. Due to the inherent nature of the Group being a biopharmaceutical company, the operations of the business are cash intensive. The Group maintains detailed budgets to accurately predict the timing of cash flows, to ensure that sufficient funding can be made available or appropriate measures to minimize expenditures are implemented to avoid any anticipated cash shortfalls. To achieve this objective, the Group would pursue various alternatives, including entering into collaboration or licensing agreements, seeking additional investors, obtaining further funding from existing investors through an additional funding round and/or delaying, reducing the scope of, eliminating or divesting clinical programs and considering other cost reduction initiatives, such as reducing the amount of space being

rented by the Group, postponing hiring new personnel and/or reducing the size of the current workforce.

### *Maturity profile of financial liabilities*

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted payments.

in thousands of €

| Year ended 31 December 2019 | **Total** | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years |
|---|---|---|---|---|---|---|
| Financial liabilities | 1,613 | 1,598 | 0 | 0 | 15 | 0 |
| Trade accounts payable | 1,196 | 1,196 | 0 | 0 | 0 | 0 |

in thousands of €

| Year ended 31 December 2018 | **Total** | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | > 5 years |
|---|---|---|---|---|---|---|
| Financial liabilities | 4,787 | 4,700 | 0 | 0 | 87 | 0 |
| Trade accounts payable | 1,375 | 1,375 | 0 | 0 | 0 | 0 |

### Capital management

The Group regards its total equity as capital. The primary objective of the Group’s capital management is to obtain sufficient funds to support its research and development activities, cover the cash burn and maximize the shareholder’s value while minimizing the financial risks. Historically, the Group financed its operations primarily through the issuance of equity securities to third parties. To assist management in undertaking strategic activities, capital increases and to service the share option plans and warrant exercises, the shareholders of the Company have authorized the future issuance of shares in specific circumstances with approval of the Supervisory Board. The Group has never declared or paid dividends on any of its common and preferred shares and does not expect to do so in the foreseeable future.

No changes were made in the objective, policies or processes for managing capital during the year ending 31 December 2019 and 2018.

### Fair value hierarchy

The Group held financial liabilities for which fair values are disclosed in Note 10. These fair value measurements would be classified as level 2 in the fair value hierarchy. No changes to the measurement method for calculating the fair value have occurred since initial recognition.

The carrying amount, reflecting the fair value of the derivative financial liabilities (refer to Note 10) was calculated using a level 3 valuation and a Black Sholes model using the following main input parameters: time equivalent risk free rate of interest published by the European Central Bank, historic share volatility of a peer group (40%) and contractual volatility (135%). The fair values recognized for the financial liabilities would change significantly, if the volatility measures would change by more than 20%.

## 19. Related party relationships

### Shareholder with significant influence

As of 31 December 2019 and as of 31 December 2018, the Company had one shareholder with significant influence – Acuitas Capital LLC. Acuitas has been a shareholder since November 2018, holding approx. 27.4% of the ordinary shares reported as of 18 December 2018 (representing approx. 22.9% of the ordinary shares after the capital increases as described in Note 8). Although a confirmation of shareholding as of 31 December 2019 from Acuitas was requested, no information was provided.

### Management Board

The sole member of the Management Board is:

Dr. Aram Mangasarian
Chief Executive Officer

### Supervisory Board

The members of the Supervisory Board:

Dr. J. Donald deBethizy
Chairman of the Supervisory Board (until 3 May 2019)
Consultant, Fredericksberg, Denmark

Dr. Maurizio PetitBon
Chairman of the Supervisory Board (since 3 May 2019), Vice-Chairman of the Supervisory Board (until 3 May 2019)
General Partner of Kreos Capital, London, Great Britain

Dr. Hubert Birner (until 25 June 2019)
Managing Partner of TVM Capital GmbH, Munich

Mr. Bertram Köhler
Member of the Management Board of the DEWB AG, Jena

Dr. Walter Wenninger (until 25 June 2019)
Consultant, Köln

In due consideration of the size of the Company and its operations, the number of members of the Supervisory Board was reduced to align it to the needs of the Company.

*Other transactions*

In December 2017, NOXXON Pharma NV signed a consulting agreement with Whitecity Consulting ApS, a company owned by Dr. J. Donald deBethizy. According to this agreement the Group is entitled to request advice in the field of NOXXON's business, in

particular with regard to the interactions with potential new investors, other investor relations activities or activities regarding strategic alliances. In addition to a remuneration in cash Whitecity Consulting ApS was granted 12,306 stock options under the SOIP in 2017 and 48,430 stock options in 2019 (refer to Note 9).

The transactions with Acuitas Capital LLC in financial years 2018 and 2019 are disclosed in Notes 8 and 10.

*Remuneration*

Remuneration paid to NOXXON's management board members is set by the supervisory board. The current remuneration system provides for fixed basic annual remuneration, due in equal, monthly installments, as well as a variable annual bonus set by the supervisory board at the end of each fiscal year. The bonus constitutes a variable annual remuneration component which is related to Group wide and individual goals.

There are long-term incentives, such as share option plans and share participation models for the members of the management board. Some of the members of the supervisory board received shares of the Company under the share participation model.

The members of the supervisory board received remuneration as approved by the shareholders' meeting (including long-term incentives / share participation model) as well as reimbursements for travel expenses.

In the fiscal years 2019 and 2018, no loans or advances were granted to the members of the management and supervisory boards, nor were any such repaid. There are no postemployment benefits and no contingent liabilities in respect of members of the management board or the supervisory board.

Prior to 31 December 2019 and 2018, management board and supervisory board members partially waived their receivables with respect to bonuses and supervisory board remuneration due from the Company and NOXXON Pharma AG totaling K€ 119 and K€ 296. The Group derecognized the related other liabilities to other income.

The Group did not enter into any significant transactions with members of the supervisory and management boards except for the transactions described above.

In 2019 and 2018, the short-term employee benefits for the key management personnel (management board and chief medical officer on consultancy basis) comprise fixed and variable compensation (K€ 534, thereof accrued expenses K€ 104) and K€ 707, respectively.

As of 31 December 2019, the number of issued and outstanding options for key management personnel under the SOIP was 258,086 with a weighted average exercise price of € 2.87. As of 31 December 2018, the number of issued and outstanding options for key management personnel under the SOIP was 56,404 with a weighted average exercise price of € 10.81. Under the SOIP, the share-based payment transactions recognized as an expense during the reporting period amounted to K€ 71 and K€ 171, respectively. Under the other share participation model, the share-based payment transactions recognized as an expense during the reporting period amounted to nil in both periods.

Thus, the total compensation for the key management personnel for the twelve months ended 31 December 2019 and 2018 was K€ 605 and K€ 878, respectively.

In 2019 and 2018, the remuneration for the supervisory board amounted to K€ 73 (thereof accrued expenses K€ 74), and K€ 130, respectively. As of 31 December 2019, the number of issued and outstanding options for the supervisory board under the SOIP was 74,408 with a weighted average exercise price of € 3.70. As of 31 December 2018, the

number of issued and outstanding options for the supervisory board under the SOIP was 28,714 with a weighted average exercise price of € 9.60. Under the SOIP, the share-based payment transactions recognized as an expense during the reporting period amounted to K€ 12 and K€ 87, respectively. Under the other share participation model, the share-based payment transactions recognized as an expense during the reporting period amounted to nil in both periods.

Thus, the total compensation for the supervisory board members for the twelve months ended 31 December 2019 and 2018, was K€ 85 and K€ 217, respectively.

## 20. Events after the balance sheet date

Subsequent to 31 December 2019, the following financing events and executions of warrants occurred in the months stated:

January 2020:

- Acuitas executed its right to purchase 500,000 warrants via a cashless exercise at a value of € 0.4456 per warrant (totaling K€ 223) representing the issuance of 371,367 ordinary shares.
- The Company raised financing in the gross amount of € 1.0 million through private placements at a price of € 0.51 per share representing the issuance of 1,960,780 ordinary shares.
- Yorkville exercised 33,445 detachable warrants against the payment of K€ 101 representing the issuance of 210,803 ordinary shares.

February 2020:

- Acuitas executed its right to purchase 700,000 warrants via a cashless exercise at a value of € 0.4457 per warrant (totaling K€ 312) representing the issuance of 707,443 ordinary shares.
- Yorkville exercised 33,000 detachable warrants against the payment of K€ 99 representing the issuance of 207,999 ordinary shares.

April 2020:

- Acuitas executed its right to purchase 150,000 warrants via a cashless exercise at a value of € 0.4433 per warrant (totaling K€ 66) representing the issuance of 167,923 ordinary shares.
- Acuitas executed its right to purchase 200,000 warrants via a cashless exercise at a value of € 0.4435 per warrant (totaling K€ 89) representing the issuance of 242,368 ordinary shares.
- Acuitas executed its right to purchase 200,000 warrants via a cashless exercise at a value of € 0.4435 per warrant (totaling K€ 89) representing the issuance of 222,856 ordinary shares.
- Acuitas executed its right to purchase 1,833,201 warrants via a cashless exercise at a value of € 0.4435 per warrant (totaling K€ 813) representing the issuance of 1,820,405 ordinary shares.

As a result of the capital increases described above, the number of ordinary shares increased subsequent to 31 December 2019 from 13,102,464 by 5,911,944 to 19,014,408 ordinary shares. The number of detachable warrants issued and outstanding to Kreos, Yorkville and certain other investors amounts to 711,563. The number of warrants issued and outstanding to Acuitas amounts to nil. The exercise of warrants by Acuitas has

triggered anti-dilution adjustments to the warrants held by Kreos, Yorkville and certain other investors increasing the number of shares to be received upon exercise against cash. Warrant exercises by Yorkville do not trigger adjustments in the Acuitas warrants.

Subsequent to 31 December 2019, the Company issued 30,300 time-based and 3,374 success-based options under the SOIP 2016.

NOXXON's business and financial condition may be adversely affected by infectious disease pandemics such as the recent COVID-19 outbreak, particularly if located in regions in which we conduct our research and development activities, drug manufacturing, or conduct our clinical trials, all of which may be subject to delays or compromise the quality of the work done. Several major pharmaceutical companies have had to suspend patient recruitment in major clinical trials as a result of the COVID-19 outbreak. If the hospitals with which NOXXON collaborates require this as well, then NOXXON would have to implement such measures resulting in potentially significant delays in recruitment. If hospitals decide to stop treating already enrolled patients, then the study itself could be compromised since patients' treatment would not comply with the approved protocol.

NOXXON's financial condition and financing opportunities could be adversely affected to the extent that COVID-19 or any other epidemic or infectious disease outbreak harms the global economy or makes investors more reluctant to invest in stock market listed companies. At times of crisis, small-cap European biotech companies such as NOXXON may experience reduced liquidity in their shares and may also be subject to additional selling of their shares and accompanying price decreases as investors shift their holdings to cash or other less volatile investments. A trend of decreasing share price and volumes would reduce the attractiveness of NOXXON's shares for multiple types of investors and could make it more difficult for the Group to obtain financing on acceptable conditions, if at all.

Amsterdam, 21 April 2020

NOXXON Pharma N.V.

Signing of the financial statements on 21 April 2020

Originally signed by:

**Board of Directors**

Dr. Aram Mangasarian, CEO

**Supervisory Board**

Dr. Maurizio Petitbon, Chairman

Dr. J. Donald deBethizy

Bertram Köhler

# Company financial statements as of 31 December 2019

Company balance sheet as at 31 December 2019

Company income statement for the year ended 31 December 2019

Notes to the company financial statements for the year ended 31 December 2019

# Company balance sheet as at 31 December 2019

*(before profit appropriation)*

| In thousands of € | | 2019 | 2018 |
|---|---|---|---|
| **Fixed assets** | | | |
| Equipment | | 3 | 8 |
| Financial fixed assets | *3* | 0 | 0 |
| **Total fixed assets** | | **8** | **8** |
| **Current assets** | *4* | | |
| Receivables due from group companies | *8* | 0 | 182 |
| Other receivables | | 138 | 83 |
| Cash at bank and in hand | *5* | 953 | 3,770 |
| **Total current assets** | | **1,091** | **4,035** |
| **Total assets** | | **1,094** | **4,043** |
| **Shareholders' equity** | *6* | | |
| Issued capital | | 131 | 10,123 |
| Share premium | | 29,671 | 18,065 |
| Retained earnings | | (30,784) | (17,794) |
| Undistributed result | | (861) | (12,990) |
| **Total equity** | | **(1,843)** | **(2,596)** |
| Financial liabilities | *7* | 15 | 87 |
| **Non-current liabilities** | | **15** | **87** |
| Financial liabilities | *7* | 1,598 | 4,700 |
| Trade payables | | 435 | 438 |
| Liabilities due to group companies | *8* | 154 | 164 |
| Provision for constructive obligation due to group companies | *3* | 332 | 907 |
| Other liabilities | | 403 | 343 |
| **Current liabilities** | | **2,922** | **6,552** |
| **Total equity and liabilities** | | **1,094** | **4,043** |

# Company income statement for the year ended 31 December 2019

| In thousands of € | | 2019 | 2018 |
|---|---|---|---|
| Share in results from participating interests, after taxation | *3* | (3,318) | (5,968) |
| Other result after taxation | | 2,457 | (7,022) |
| **Net result** | | **(861)** | **(12,990)** |

# Notes to the company financial statements for the year ended 31 December 2019

## 1 General

The company financial statements are part of the 2019 statutory financial statements of NOXXON Pharma N.V., Amsterdam, The Netherlands (the 'Company').

With reference to the income statement of the company, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

The Company is registered under number 62425781 in the Business Register with corporate seat in Amsterdam, the Netherlands and has a branch office in Berlin, Germany. NOXXON Pharma N.V. is a management holding providing corporate, legal and administrative services, financial and business advice and asset management.

The company financial statements for the year ended 31 December 2019 were authorized by the Board of Directors on 21 April 2020 and the Supervisory Board on 21 April 2020.

## 2 Basis of preparation

The company financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, the Company makes use of the option provided in section 2:362(8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements. See Note 3 of the consolidated financial statements for a description of these principles.

### Going Concern

For a detailed explanation of the Going Concern of the Company and the Group we refer to Note 2 of the consolidated financial statements.

### Participating interests in group companies

Participating interests in group companies are accounted for in the Company financial statements according to the net asset method. Net asset value is based on the measurement of assets, provisions and liabilities and determination of net result based on the principles applied in the consolidated financial statements. Participations with a negative net asset value are valued at nil. A share of the profits from the participation, in later years, will only be processed if and insofar as the cumulative unrecognized share has compensated the loss. However, if the Company wholly or partly guarantees the debts of a participation, or has the constructive obligation to allow the participation (for its share) to pay its debts, a provision is recognized in the amount of the expected payments by the Company on behalf of the participation. The provision is formed primarily at the expense of long-term unsecured receivables that should actually be seen as part of net investment, and the remainder presented under provisions.

### Result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realised.

The financial information of the Company is included in the consolidated financial statements. For this reason, in accordance with Section 402, Book 2 Netherlands Civil Code, the income statement of the Company exclusively states the share in the result of participating interests after taxation and the other result after taxation.

## 3 Financial fixed assets

Financial assets solely include the investment of the Company in its almost fully owned subsidiary NOXXON Pharma AG, with statutory seat in Berlin, Germany.

| In thousands of € | 2019 | 2018 |
|---|---|---|
| Participating interests in group companies | **0** | **0** |
| Loans due from group companies | **--** | **--** |
| | **0** | **0** |

Movements in financial fixed assets were as follows:

| In thousands of € | Participating interests in group companies | Loans due from group companies | Total |
|---|---|---|---|
| Balance at 1 January 2018: | -- | -- | -- |
| Debt conversion | | 841 | 841 |
| 1 Capital contribution to NOXXON Pharma AG | 4,130 | -- | 4,130 |
| 2 Capital contribution due to debt cancellation of loans and receivables due from NOXXON Pharma AG | 841 | (841) | -- |
| 3 Share in results from participating interests, excluding impairment after taxation | (5,968) | -- | (5,968) |
| 4 Equity-based incentive awards issued to officers and employees of the subsidiary NOXXON Pharma AG | 90 | | 90 |
| **Total changes** | **(907)** | **--** | **(907)** |
| **Carrying amount** | **(907)** | **--** | **(907)** |
| Balance at 1 January 2019: | **(907)** | **--** | **(907)** |
| Changes during the financial year: | | | |
| 1 Capital contributions to NOXXON Pharma AG | 3,850 | | 3,850 |
| 2 Share in results from participating interests, excluding impairment, after taxation | (3,318) | -- | (3,318) |
| 3 Equity-based incentive awards issued to officers and employees of the subsidiary NOXXON Pharma AG | 43 | -- | 43 |
| **Total changes** | **(332)** | **--** | **(332)** |
| **Carrying amount** | **(332)** | **--** | **(332)** |

In 2018, Kreos, a lender of the Company and its subsidiary NOXXON Pharma AG, waived its right for repayment against NOXXON Pharma AG and contributed its receivable amounting to K€ 841 to the Company against issuance of ordinary shares. NOXXON Pharma N.V. then contributed a total amount of K€ 841 to the additional paid-in capital of NOXXON Pharma AG, which resulted in a corresponding increase of the participation in NOXXON Pharma AG. In addition, the Company contributed K€ 4,130 in cash to NOXXON Pharma AG. Equity-based incentive awards issued to officers and employees of the subsidiary NOXXON Pharma AG increased the participation further by K€ 90. Nevertheless, the equity value of the investment remained negative due to continuing research and development activities and accordingly, an impairment loss of K€ 1,344 was recognized resulting in a financial fixed asset of K€ 0.

A provision was recognised, because NOXXON Pharma N.V. had, as of 31 December 2019 and 2018, a constructive obligation to allow the participation (for its share) to pay its debts in an amount of the negative equity of the participation as of 31 December 2019 of K€ 332 and as of 31 December 2018 of K€ 907, respectively.

The loss of NOXXON Pharma AG for the fiscal year 2019 was K€ 3,318 (prior year: K€ 5,968).

The Company, with its statutory seat in Amsterdam, is the holding company and has the following financial interests:

| Name | Location | Share in issued capital % |
|---|---|---|
| **Consolidated participating interests** | | |
| NOXXON Pharma AG | Berlin, Germany | **99.99** |
| NOXXON Pharma Inc. (indirectly held by NOXXON Pharma AG) | Wilmington, DE, USA | **100.0** |

# 4 Current assets

Other receivables include as of 31 December 2019 the cash balance of the liquidity account with the liquidity provider amounting to K€ 31 (prior year: K€ 19) and prepaid expenses of K€ 38 (prior year: K€ 47). All amounts are due within one year. The cash balance of the liquidity account with the liquidity provider is not withdrawable on demand into cash at bank or in hand, because the cash amounts are transferred to the liquidity provider to enable him to increase the liquidity of the NOXXON Pharma N.V. shares by increasing the trading volume.

# 5 Cash at bank and in hand

Cash consist only of cash at bank and in hand. Deposits included under cash at bank and in hand are withdrawable on demand. The net book value represents the maximum amount that is at risk. The carrying amount of cash at bank and in hand is a reasonable approximation of the fair value.

# 5 Shareholders' equity

## Reconciliation of movements in capital and reserves

| In thousands of € | Issued share capital | Share premium | Retained earnings | Undistributed result | Total |
|---|---|---|---|---|---|
| Balance at 1 January 2018 | 2,293 | 12,315 | (10,768) | (5,496) | (1,656) |
| Result appropriation to retained earnings | -- | -- | (5,496) | 5,496 | -- |
| Changes in financial year 2018: | | | | | |
| • Share-based compensation | -- | 306 | -- | -- | 306 |
| • Group share-based compensation | -- | 90 | -- | -- | 90 |
| • Capital increase | 3,950 | 833 | (1,530) | -- | 3,253 |
| • Issuance costs for capital increases | -- | (54) | -- | -- | (54) |
| • Capital increases debt-for-equity swaps | 719 | 302 | -- | -- | 1,021 |
| • Capital increase from note conversions | 3,160 | 4,289 | -- | -- | 7,449 |
| • Issuance costs related to conversions | -- | (23) | -- | -- | (23) |
| • Sale of own shares | -- | 7 | -- | -- | 7 |
| • Result for the year | -- | -- | -- | (12,990) | (12,990) |
| Balance at 1 January 2019 | 10,123 | 18,065 | (17,794) | (12,990) | (2,596) |
| Result appropriation to retained earnings | -- | -- | (12,990) | 12,990 | -- |
| Changes in financial year 2019: | | | | | |
| • Share-based compensation | -- | 64 | -- | -- | 64 |
| • Group share-based compensation | -- | 43 | -- | -- | 43 |
| • Capital reduction | (10,022) | 10,022 | | | 0 |
| • Capital increase | 28 | 1,492 | -- | -- | 1,520 |
| • Issuance costs for capital increases | -- | (108) | -- | -- | (108) |
| • Capital increase as a result from warrant exercises (Acuitas) | 2 | 81 | -- | -- | 83 |
| • Sale of own shares | -- | 12 | -- | -- | 12 |
| • Result for the year | -- | -- | -- | (861) | (861) |
| **Balance at 31 December** | **131** | **29,671** | **(30,784)** | **(861)** | **(1,843)** |

## Issued capital, Share premium, Own shares

### Issued capital

As of 31 December 2019, the issued capital of the Company amounts to K€ 131 (prior year: K€ 10,123) and is divided into 13,102,464 ordinary shares (prior year: 10,122,804) with a nominal value of € 0.01 in 2019 and € 1.00 in 2018, respectively. As of 31 December 2019, authorized share capital amounts to € 479,502 (prior year: € 25,000,000) and is divided into 47,950,200 ordinary shares (prior year: 25,000,000), each share with a nominal value of € 0.01 (prior year: € 1.00).

The extraordinary general meeting on 2 January 2019 resolved to reduce the nominal value of each share from € 1.00 to € 0.01. The difference between the aggregate nominal value of all issued and fully paid up shares immediately prior to the capital reduction becoming effective and the aggregate nominal value of all issued and fully paid up shares immediately after the capital reduction becoming effective was not to be repaid to the shareholders but to be added to the Company's share premium reserve. As a matter of Dutch statutory law, the effectiveness of such capital reduction was subject to observing a statutory creditor opposition period of two months and conditional upon the execution of a partial amendment of the articles of association of the Company to reflect the reduced nominal value of each share and consequently the reduced authorized share capital as proposed. The Articles of Association of the Company were amended accordingly on 7 March 2019.

As a result of such capital reduction, share premium increased by K€ 10,022.

In 2019, the Company issued an aggregate of 2,979,660 ordinary shares in connection with the following financing transactions:

- Issuance of 801,494 ordinary shares at a price of € 0.65 against contribution in cash (cash inflow of K€ 521 less K€ 15 transaction cost as consideration received for ordinary shares) to investors participating in a capital increase with shareholders' preferential rights,
- Issuance of 1,960,780 ordinary shares at a price of € 0.51 against contribution in cash (cash inflow of K€ 1,000 as consideration received for ordinary shares) through a private placement,
- Issuance of 217,386 ordinary shares at a fair value of € 0.3820 per share to Acuitas through the cashless exercise option at € 0.4456 exercise price per warrant, totaling K€ 83 against the purchase of 200,000 warrants.

As a result, additional issued capital of K€ 30 and share premium of K€ 1,572 were recognized less issuance costs of K€ 108.

As of 31 December 2018, the share capital of the Company of K€ 10,123 (prior year K€ 2,293) is divided into 10,122,804 ordinary shares (prior year: 2,293,230) with a nominal value of € 1.00.

In 2018, the Company issued an aggregate of 7,829,574 ordinary shares in connection with the following financing transactions:

- Issuance of 3,783,201 ordinary shares at a price of € 1.17 against contribution in cash (cash inflow of K€ 4,407 as consideration received for ordinary shares) to Acuitas, refer to Note 11 of the consolidated financial statements),
- Issuance of 167,622 ordinary shares at a price of € 5.97 against contribution in cash (receivable was settled against payable to Yorkville for modification of unrelated financing agreements),

- Issuance of 718,869 ordinary shares to Kreos against contribution of all remaining financial liabilities in connection with the venture loan facilities in a nominal amount of K€ 841,
- Issuance of 2,321,663 ordinary shares from the conversion of all outstanding notes in a nominal amount of K€ 4,400 issued in 2017 and 2018 to Yorkville
- Issuance of 838,219 ordinary shares from the conversion of all outstanding cash convertible loans in a nominal amount of K€ 1,000 issued in 2018 to existing and new investors.

As a result, additional issued capital of K€ 7,830 and share premium of K€ 5,424 were recognized less issuance costs of K€ 77.

The extraordinary general meeting on 2 January 2019 resolved to increase the authorised capital of the Company to € 47,950,200, divided into 47,950,200 ordinary shares with a nominal value of € 1.00 each. It further resolved that as per the moment the Company's issued and paid-up share capital amounts to € 40,000,000 comprised of 40,000,000 ordinary shares, each share having a nominal value of €1.00, the authorised capital of the Company amounts to € 100,000,000 divided into 100,000,000 ordinary shares, each share with a nominal value of € 1.00 (Art. 37 of the Articles of Association).

As a result of the reduction of the nominal value as described above the Articles of Association provide for an authorized share capital in an amount of € 479,502 divided into 47,950,200 ordinary shares, each share with a nominal value of € 0.01. As a further result, Article 37 of the Articles of Association was amended accordingly such that as per the moment the Company's issued and paid-up share capital amounts to € 400,000 comprised of 40 million ordinary shares, each share having a nominal value of € 0.01, the authorised capital of the Company shall automatically increase to € 1,000,000, divided into 100,000,000 ordinary shares.

## Share premium

As of 31 December 2019, the share premium of the Company amounts to K€ 29,671 (prior year K€ 18,065).

In 2019, share premium increased by K€ 11,487 as a result of the capital reduction and capital increases described above. In 2018, share premium increased by K€ 5,437 as a result of the capital increases described above.

Further, share-based compensation of K€ 64 and group share-based compensation of K€ 43 in 2019 and share-based compensation of K€ 306 and group share-based compensation of K€ 90 in 2018 were recorded, respectively.

In accordance with Dutch law and in absence of any reserves NOXXON Pharma N.V. is required to maintain its shareholders' equity pursuant to Dutch law. The Company may make distributions insofar the shareholders' equity exceeds the sum of paid-in and called-up share capital.

## Own shares

At 31 December 2019, the Company held 49,540 own shares (prior year 65,716 own shares).

## Share-based compensation

For details of the 2016 Stock Option and Incentive Plan ("SOIP") we refer to Note 9 of the consolidated financial statements. The share-based payments for each individual

member of the Board of Directors and the Supervisory Board are disclosed in the remuneration report in the supervisory board report.

NOXXON Pharma N.V. issued equity-based incentive awards to directors (including Management Board Directors provided that the Supervisory Board will decide when it concerns a person elected to the Management Board), officers, employees and consultants.

However, some of those beneficiaries provide services only to the subsidiary NOXXON Pharma AG and not directly to NOXXON Pharma N.V. Accordingly, the Company receives services indirectly through the subsidiary NOXXON Pharma AG in the form of an increased investment in the subsidiary - i.e. the subsidiary receives services from officers and employees that are paid for by the Company - thereby increasing the value of the subsidiary. Therefore, the Company recognizes in share premium the equity-based incentive awards, with a corresponding increase in its investment in NOXXON Pharma AG in its separate financial statements. The amount recognised as an additional investment for the financial year 2018 of K€ 90 (prior year: K€ 269) is based on the grant-date fair value of the share-based payment. We refer to note 3.

For beneficiaries that directly provide services to the Company, the equity-based incentive awards are recognized in other result after taxation, with a corresponding increase in share premium. In the financial year 2019, an amount of K€ 64 (prior year: K€ 306) was recognized.

## Reconciliation of shareholders' equity and net result to the consolidated financial statements

Shareholders' equity and net result according to the Company financial statements are not identical to the corresponding figures in the consolidated financial statements.

| In thousands of € | 2019 Shareholder's equity | 2019 Net Result | 2018 Shareholder's equity | 2018 Net Result |
|---|---|---|---|---|
| Company financial statements | (1,843) | (861) | (2,596) | (12,990) |
| --Impairment of financial fixed asset in Company's financial statements | -- | -- | -- | 1,344 |
| -- Constructive obligation to finance negative equity of participating interest | -- | -- | -- | 907 |
| -- Other | -- | -- | -- | 1 |
| **Consolidated financial statements** | **(1,843)** | **(861)** | **(2,596)** | **(10,738)** |

The carrying amount of the group company NOXXON Pharma AG is nil in the Company's financial statements. The equity deficit of this group company is recognized in full in the consolidated financial statements and in the Company's financial statements by recognising a provision for the constructive obligation of K€ 332 as of 31 December 2019 and of K€ 907 as of 31 December 2018 to finance the group company NOXXON Pharma AG. There is no share of the loss not recognized in the company financial statements for the year 31 December 2019 and 2018, respectively, please refer to the Note 3 on financial fixed assets.

### Proposal for result appropriation for the financial year 2019

The General Meeting of Shareholders will be asked to approve the following appropriation of the 2019 loss for the period amounting to K€ 861 to be added to the accumulated losses in retained earnings.

## 6 Financial liabilities

For a detailed explanation of the Company's financial liabilities we refer to Note 10 of the consolidated financial statements.

The financial liability resulting from the amount payable to Acuitas in shares on demand as part of the cashless exercise was reduced from K€ 4,700 as of 31 December 2018 to K€ 1,598 and represented also the fair value of that liability as of 31 December 2019. The fair value of the warrants (non-current derivative financial liability) as of 31 December 2019 and 2018 amounted to K€ 15 and K€ 87, respectively.

## 7 Receivables due from and liabilities due to group companies

| In thousands of € | 2019 | 2018 |
|---|---|---|
| Accounts receivable from group companies | 0 | 182 |
| **Receivables due from group companies** | **0** | **182** |
| Accounts payable to group companies | 94 | 156 |
| Value added tax payables to group companies (tax group) | 60 | 8 |
| **Liabilities due to group companies** | **154** | **164** |

## 8 Financial instruments

### General

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the company financial statements of the Company.

### Fair value

The fair values of the financial instruments stated on the balance sheet, including accounts receivable, cash at bank and in hand and current liabilities, are close to their carrying amounts.

The fair value of the derivative financial liabilities (see Note 7) is calculated based on level 3 input factors using a Black Scholes option model. The fair value of the warrants amounts to K€ 15 as at 31 December 2019 (prior year K€ 87).

## 9 Employee benefits and number of employees

As of balance sheet date, the Company employs one member of the Board of Directors and four employees, all working abroad.

As of balance sheet date, the Group employs one member of the Board of Directors and ten employees, all working abroad.

## 10 Share in results from participating interests

A loss of K€ 3,318 (prior year: K€ 5,968) of share in results from participating interests relates to group companies.

## 11 Fees of the auditor

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees (excluding surcharges, expenses and VAT) for the financial year have been charged by Baker Tilly (Netherlands) or have been accrued for the audit of the financial statements 2019 and 2018 to the Company, its subsidiaries and other consolidated entities, and were expensed in the Company's and consolidated financial statements in the respective years:

| In thousands of € | Baker Tilly (Netherlands) 2019 | Other BT network 2019 | Total Baker Tilly 2019 |
|---|---|---|---|
| Audit of the financial statements | 67 | -- | 67 |
| Other audit engagements | -- | -- | |
| | | | -- |

| In thousands of € | Baker Tilly (Netherlands) 2018 | Other BT network 2018 | Total Baker Tilly 2018 |
|---|---|---|---|
| Audit of the financial statements | 55 | -- | 55 |
| Other audit engagements | -- | -- | |
| | **55** | **--** | **55** |

## 12 Remuneration of managing and supervisory directors

The tables below show remuneration for the managing directors in the fiscal years 2019 and 2018:

| **2019**(1) | **Base salary** | **Cash bonus**(2) | **Share-based compen-sation** | **Others/ Pension contri-butions** | **Fringe benefits** (3) | **Total**(4) |
|---|---|---|---|---|---|---|
| Aram Mangasarian, Ph.D. .. | €250,000 | €75,000 | €50,700 | N/A | €7,699 | €383,399 |
| **Total .....** | **€250,000** | **€75,000** | **€50,700** | **N/A** | **€7,699** | **€383,399** |

(1) Aram Mangasarian is member of the Management Board and of the Board of Directors of both, NOXXON Pharma N.V. and NOXXON Pharma AG. Aram Mangasarian is the only statutory director of NOXXON Pharma N.V.
(2) Cash bonuses relate to goal achievements during 2019, not paid yet.
(3) Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).
(4) Without social security contributions to the French social security system.

| **2018**(1) | **Base salary** | **Cash bonus**(2) | **Share-based compen-sation** | **Others/ Pension contri-butions** | **Fringe benefits** (3) | **Total**(4) |
|---|---|---|---|---|---|---|
| Aram Mangasarian, Ph.D. .. | €250,000 | €162,500 | €142,800 | N/A | €5,378 | €560,678 |
| **Total .....** | **€250,000** | **€162,500** | **€142,800** | **N/A** | **€5,378** | **€560,678** |

(1) Aram Mangasarian is member of the Management Board and of the Board of Directors of both, NOXXON Pharma N.V. and NOXXON Pharma AG. Aram Mangasarian is the only statutory director of NOXXON Pharma N.V.
(2) Cash bonuses relate to goal achievements during 2018, not paid yet.
(3) Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).
(4) Without social security contributions to the French social security system.

The tables below show the remuneration for the supervisory board directors of the NOXXON Pharma N.V. for the fiscal years 2019 and 2018:

| 2019 | Fixed fee[2] | Share-based compensation | Total |
|---|---|---|---|
| Dr. Hubert Birner[1] | N/A | N/A | N/A |
| Dr. J. Donald deBethizy | €50,750 | €24,900 | €75,650 |
| Bertram Köhler[1] | N/A | N/A | N/A |
| Dr. Maurizio PetitBon[1] | N/A | N/A | N/A |
| Dr. Walter Wenninger[3] | €22,750 | €(13,200) | €9,550 |
| **Total** | **€73,500** | **€11,700** | **€85,200** |

(1) Supervisory Board Director of the Company has waived his right for a fee.
(2) Fixed fees have not yet been paid. Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).
(3) Share-based compensation including (non-cash) true-up for 2,736 options forfeited which had not been vested when Mr. Wenninger resigned on 25 June 2019 as he will not be able further to meet service conditions.

| 2018 | Fixed fee[2] | Share-based compensation | Total |
|---|---|---|---|
| Dr. Hubert Birner[1] | N/A | N/A | N/A |
| Dr. J. Donald deBethizy | €84,000 | €61,900 | €145,900 |
| Bertram Köhler[1] | N/A | N/A | N/A |
| Dr. Maurizio PetitBon[1] | N/A | N/A | N/A |
| Dr. Walter Wenninger | €45,500 | €25,400 | €70,900 |
| **Total** | **€129,500** | **€87,300** | **€216,800** |

(1) Supervisory Board Director of the Company has waived his right for a fee.
(2) Fixed fees have not yet been paid. Without contribution to directors and officers insurance and other insurances and expenses (such as mobile phones etc.).

For remuneration policies and further information concerning the members of the management board and the supervisory board of NOXXON Pharma N.V. see also section “Remuneration” of the Supervisory Board report of the Annual Report 2019.

## 13 Related party transactions

For related party transactions we refer to Note 19 of the consolidated financial statements. For transactions between the Company and its subsidiaries we refer to Notes 3 and 8 of the Company’s financial statements.

## 14 Commitments and contingencies

Commitments of K€ 80 (prior year: K€ 60) exist in relation to the listing agent agreement, the sponsor bank and agent agreement and other services. There are no further commitments or contingencies.

The Company is part of a tax group for value added tax and is therefore jointly and severally liable for the tax payable by the tax group as a whole.

# 15 Events after the balance sheet date

Subsequent to 31 December 2019, the following events occurred in the months stated:

January 2020:

- Acuitas executed its right to purchase 500,000 warrants via a cashless exercise at a value of € 0.4456 per warrant (totaling K€ 223) representing the issuance of 371,367 ordinary shares.
- The Company raised financing in the gross amount of € 1.0 million through private placements at a price of € 0.51 per share representing the issuance of 1,960,780 ordinary shares.
- Yorkville exercised 33,445 detachable warrants against the payment of K€ 101 representing the issuance of 210,803 ordinary shares.

February 2020:

- Acuitas executed its right to purchase 700,000 warrants via a cashless exercise at a value of € 0.4457 per warrant (totaling K€ 312) representing the issuance of 707,443 ordinary shares.
- Yorkville exercised 33,000 detachable warrants against the payment of K€ 99 representing the issuance of 207,999 ordinary shares.

April 2020:

- Acuitas executed its right to purchase 150,000 warrants via a cashless exercise at a value of € 0.4433 per warrant (totaling K€ 66) representing the issuance of 167,923 ordinary shares.
- Acuitas executed its right to purchase 200,000 warrants via a cashless exercise at a value of € 0.4435 per warrant (totaling K€ 89) representing the issuance of 242,368 ordinary shares.
- Acuitas executed its right to purchase 200,000 warrants via a cashless exercise at a value of € 0.4435 per warrant (totaling K€ 89) representing the issuance of 222,856 ordinary shares.
- Acuitas executed its right to purchase 1,833,201 warrants via a cashless exercise at a value of € 0.4435 per warrant (totaling K€ 813) representing the issuance of 1,820,405 ordinary shares.

As a result of the capital increases described above, the number of ordinary shares increased subsequent to 31 December 2019 from 13,102,464 by 5,911,944 to19,014,408 ordinary shares. The number of detachable warrants issued and outstanding to Kreos, Yorkville and certain other investors amounts to 711,563. The number of warrants issued and outstanding to Acuitas amounts to nil. The exercise of warrants by Acuitas has triggered anti-dilution adjustments to the warrants held by Kreos, Yorkville and certain other investors increasing the number of shares to be received upon exercise against cash. Warrant exercises by Yorkville do not trigger adjustments in the Acuitas warrants.

Subsequent to 31 December 2019, the Company issued 30,300 time-based and 3,374 success-based options under the SOIP 2016.

NOXXON's business and financial condition may be adversely affected by infectious disease pandemics such as the recent COVID-19 outbreak, particularly if located in regions in which we conduct our research and development activities, drug manufacturing, or conduct our clinical trials, all of which may be subject to delays or

compromise the quality of the work done. Several major pharmaceutical companies have had to suspend patient recruitment in major clinical trials as a result of the COVID-19 outbreak. If the hospitals with which NOXXON collaborates require this as well, then NOXXON would have to implement such measures resulting in potentially significant delays in recruitment. If hospitals decide to stop treating already enrolled patients, then the study itself could be compromised since patients' treatment would not comply with the approved protocol.

NOXXON's financial condition and financing opportunities could be adversely affected to the extent that COVID-19 or any other epidemic or infectious disease outbreak harms the global economy or makes investors more reluctant to invest in stock market listed companies. At times of crisis, small-cap European biotech companies such as NOXXON may experience reduced liquidity in their shares and may also be subject to additional selling of their shares and accompanying price decreases as investors shift their holdings to cash or other less volatile investments. A trend of decreasing share price and volumes would reduce the attractiveness of NOXXON's shares for multiple types of investors and could make it more difficult for the Group to obtain financing on acceptable conditions, if at all.

Amsterdam, 21 April 2020

NOXXON Pharma N.V.

Signing of the financial statements on 21 April 2020

Originally signed by:

**Board of Directors**

Dr. Aram Mangasarian, CEO

**Supervisory Board**

Dr. Maurizio Petitbon, Chairman

Dr. J. Donald deBethizy

Bertram Köhler

# Other information

## Provisions in the Articles of Association governing the appropriation of profit

The company's Articles of Association provide under chapter X, Article 29 provisions about the appropriation of profits, distributions and losses as follows:

**CHAPTER X. Financial year and annual accounts. Profits and distributions.**

**Article 29. Profits, distributions and losses.**

1. The company shall have a policy on reserves and dividends, which shall be determined and may be amended by the board of directors. The adoption and thereafter each material change of the policy on reserves and dividends shall be discussed at the general meeting under a separate agenda item.
2. From the profits, if any, shown in the annual accounts, as adopted, the Management Board shall determine which part shall be reserved. Any profits remaining thereafter shall be at the disposal of the general meeting. The board of directors shall make a proposal for that purpose. A proposal to pay a dividend shall be dealt with as a separate agenda item at the general meeting.
3. Distribution of dividends on the shares shall be made in proportion to the nominal value of each share.
4. Distributions may be made only insofar as the company's equity exceeds the amount of the paid in and called up part of the issued capital, increased by the reserves which must be kept by virtue of the law.
5. If a loss was suffered during any one year, the board of directors may resolve to offset such loss by writing it off against a reserve which the company is not required to keep by virtue of the law.
6. The distribution of profits shall be made after the adoption of the annual accounts, from which it appears that the same is permitted.
7. The board of directors may, subject to due observance of the policy of the company on reserves and dividends, resolve to make an interim distribution, provided the requirement of paragraph 4 of this article has been complied with, as shown by interim accounts. Such interim accounts shall show the financial position of the company not earlier than on the first day of the third month before the month in which the resolution to make the interim distribution is announced. Such interim accounts shall be signed by all members of the board of directors. If the signature of one or more of them is missing, this shall be stated and reasons for this omission shall be given. The interim accounts shall be deposited in the offices of the trade register within eight days after the day on which the resolution to make the interim distribution has been announced.
8. At the proposal of the board of directors, the general meeting may resolve to make a distribution on shares wholly or partly not in cash but in shares. At the proposal of the board of directors, the general meeting may resolve that distributions are made in another currency than Euro.

9. The board of directors may, subject to due observance of the policy of the company on reserves and dividends, resolve that distributions shall be made to holders of shares out of one or more reserves.

10. Dividends and other distributions of profit shall be made payable in the manner and at such date(s) - within four (4) weeks after declaration thereof - and notice thereof shall be given, as the board of directors shall determine. The board of directors may determine that entitled to dividends and other distributions of profits shall be, the shareholders, usufructuaries and pledgees, as the case may be, at a record date within four (4) weeks after notification thereof. A claim of a shareholder for payment of a distribution shall be barred after five (5) years have elapsed.

## Profit-sharing certificates and similar rights

The Company has no preference shares, which give priority over part of the distributable profit.

## Branch offices

NOXXON Pharma N.V. operates through the following branch offices (direct or indirect owned subsidiaries:

| Name | Registered seat | Shareholding (%) |
|---|---|---|
| NOXXON Pharma N.V. | Amsterdam, Netherlands | parent company |
| NOXXON Pharma AG | Berlin, Germany | 99.99 % |
| --- NOXXON Pharma Inc. | Wilmington, DE, USA | 100.0 % |

The Company has a branch office in Berlin, Germany.

To the shareholders, supervisory board, and management of NOXXON Pharma N.V

# INDEPENDENT AUDITOR'S REPORT

## INDEPENDENT AUDITOR'S REPORT

**Report on the audit of the financial statements included in the annual report.**

**Our opinion**

We have audited the financial statements 2019 of NOXXON Pharma N.V. (the company) based in Amsterdam, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of NOXXON Pharma N.V. as at 31 December 2019 and of its results and cash flows for 2019 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.
- the accompanying company financial statements give a true and fair view of the financial position of NOXXON Pharma N.V. as at 31 December 2019 and of its results for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2019;
- the following statements for 2019: consolidated statement of comprehensive loss, consolidated cash-flow statement and the consolidated statement of changes in shareholders' equity;
- the notes to the consolidated financial statements comprising of a summary of the accounting policies and other explanatory information.

The company financial statements comprise:
- the company balance sheet as at 31 December 2019;
- the company income statement for the year ended 31 December 2019;
- the notes to the company financial statements comprising a summary of the accounting policies and other explanatory information

**Basis for our opinion**

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of NOXXON Pharma N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

**Material uncertainty related to going concern**

We draw attention to the going concern paragraph included in note 2 of the notes to the consolidated financial statements which indicates that the company is dependent upon raising additional finance in order to continue operations. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Materiality**

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 85.000. The materiality is based on 2% of total expenses. We consider this basis to be appropriate as NOXXON Pharma N.V. is a biotechnology company in a research and development phase, not generating any revenues and only incurring costs.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Board of Directors that misstatements in excess of EUR 4.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

**Scope of the Group Audit**

NOXXON Pharma N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of NOXXON Pharma N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our audit mainly focused on the significant group entities NOXXON Pharma N.V., NOXXON Pharma AG and NOXXON Pharma Inc.

We have made use of the work of other auditors. We have send audit instructions, have been involved in determining the audit plan of the other auditors and we have reviewed the work performed by the local auditor.

By performing the procedures mentioned above, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

**Our Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We selected the following key audit matters:

**1. Complexity of financial instruments**

| Description of key audit matter | How did our audit approach address the matter |
|---|---|
| During 2019 the Company entered into, and amended financing agreements with other financers. These financing agreements have been disclosed in note 8 to the consolidated financial statements.<br><br>We identified the risk that due to the technical and/or contractual complexity of the financing agreements and conversions, combined with the first time adoption of IFRS 9, these financial instruments and transactions may not be accounted for in accordance with the applicable accounting framework. | We have read the terms and conditions in the financing agreements and have taken notice of the accounting treatment of these agreements as proposed by management.<br><br>We have assessed the characteristics of a sample of financial instruments and tested whether the classification of these instruments as financial liability or equity is in accordance with EU-IFRS.<br><br>Furthermore, we assessed the key inputs and assumptions as well as sensitivities to key factors in determining the value of these instruments.<br><br>We assessed whether the disclosures in the financial statements appropriately reflects the Group's exposure to financial instrument valuation risk resulting from the financing agreements, with reference to the requirements of the prevailing accounting standards.<br><br>We are satisfied that the financial instruments and relevant transactions resulting from the agreements, amendments, and conversions are accounted for in accordance with the applicable accounting framework.<br><br>Furthermore we are satisfied that the disclosure on financial instruments is in line with the requirements under EU-IFRS. |

**2. Going concern**

| Description of key audit matter | How did our audit approach address the matter |
|---|---|
| We draw attention to the going concern paragraph included in note 2 of the notes to the consolidated financial statements which indicates that the Group has incurred significant losses and anticipates that it will continue to incur significant losses for the foreseeable future. The Group has never generated material revenues from product sales.<br><br>The Group will need to raise additional funding in the future, which may not be available on acceptable terms, or at all, or which may restrict the Group's operations or require it to relinquish substantial rights. Failure to obtain this necessary capital when needed may force the Group to delay, limit or terminate its product development efforts or other operations and may affect the Group's ability to continue as a going concern.<br><br>Subsequent to 31 December 2019, the Group raised financing totaling € 1.2 million. Based on its present requirements resulting from the Group's updated business plan focusing on clinical development of its lead product candidate NOX-A12 for the treatment of advanced solid tumors, the Group will require additional cash resources of approximately € 3.8 million, to provide the Group with sufficient working capital for the twelve months following the date of these financial statements.<br><br>The Group's financing agreements, especially with Acuitas and Yorkville contain operating covenants that may restrict its business and financing activities.<br><br>Management is pursuing various financing alternatives to meet the Group's future cash requirements, including seeking additional investors, pursuing industrial partnerships, or obtaining further funding from existing investors through additional funding rounds, pursuing a merger or an acquisition. | Our procedures in relation to the evaluation of the going concern included:<br><br>• We obtained and reviewed management's going concern assessment;<br>• We obtained an understanding of the Group's position with respect to the assumption used in preparing the going concern assessment;<br>• We discussed the going concern assessment with management;<br>• We obtained and inspected the business plans, budgets, term sheets and other available supporting information.<br><br>Due to the above described situation our auditor's report includes an emphasis of matter paragraph noting the material uncertainty related to going concern. Our auditor's report refers to the note in the consolidated financial statements detailing the uncertainty related to going concern and how the group is addressing the situation. |

**Report on the other information included in the annual report**

In addition to the consolidated financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Management Report;
- Supervisory Board Report;
- other information as required by Part 9 of Book 2 of the Dutch Civil Code;
- Declaration by the Person Responsible for Annual Report 2019.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

**Report on other legal and regulatory requirements**

We were re-appointed by the supervisory board as auditor of NOXXON Pharma N.V. on 4 February 2020. The year 2019 is the second year for which we have operated as the statutory auditor.

**Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company’s financial reporting process.

**Our responsibilities for the audit of the financial statements**

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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
- obtaining 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
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

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

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, April 21, 2020

Baker Tilly (Netherlands) N.V.

*Original has been signed by*

Harry van den Burg
Partner Audit

# Declaration by the Person Responsible for Annual Report 2019

"I declare that, to the best of my knowledge, the Consolidated and Company's financial statements as of 31 December 2019 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and profit and loss of the Group and the Company and all the other companies included in the scope of consolidation, and that this Annual Report includes a fair view of the important events which occurred during the Fiscal Year 2019, their impact on the financial statements and the main transactions between related parties, together with a description of the principal risks and uncertainties that they face in the upcoming twelve months."

Amsterdam, 21 April 2020

NOXXON Pharma N.V.

Dr. Aram Mangasarian, CEO