MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the significant factors affecting the operating results, financial condition, liquidity and cash flows of our company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with the attached financial statements and the related notes thereto. The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and all other non-historical statements in this discussion are forward-looking statements and are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors, including those discussed below.

Overview

We are a biopharmaceutical company focused on the development, in-licensing, acquisition and eventual commercialization of multiple complementary products and product candidates within franchises that target rare diseases. Our primary focus has been to build our rare endocrine franchise, which includes COR-003 for the treatment of endogenous Cushing's syndrome, and COR-004 and COR-005 for the treatment of acromegaly. Endogenous Cushing's syndrome and acromegaly are two rare diseases with a high unmet need for innovative treatment options. Given the well-identified and concentrated prescriber base addressing our target markets, we believe we can use a small, focused sales force to effectively market our products, if approved, in the United States, the European Union and other key global markets. We believe that our ability to execute on this strategy is enhanced by the significant clinical development and commercial experience of key members of our management team. We also intend to identify and in-license or acquire products or product candidates that would be complementary to our existing rare endocrine franchise or that would form the basis for new rare disease franchises. We believe this approach will enable us to maximize our commercial potential by further leveraging our existing resources and expertise.

We have never been profitable and have incurred net losses since our inception in 1996. Our operations to date have been focused on identifying, in-licensing, acquiring and developing our product candidates, organizing and staffing our company, business planning and raising capital. We have funded our operations primarily through equity offerings. We incurred a net loss of $5.3 million and $9.7 million for the years ended December 31, 2013 and 2014, respectively, and $3.2 million and $23.5 million for the six months ended June 30, 2014 and 2015, respectively. At June 30, 2015, our accumulated deficit was $60.7 million.

On February 10, 2015, following shareholder approval of the share purchase agreement which we entered into on January 12, 2015, we entered into a share purchase agreement with investors whereby we issued 52,371,859 common shares for $25.8 million, net of transaction costs.

On May 13, 2015, we entered into an exclusive license agreement with Antisense Therapeutics Limited, or Antisense Therapeutics, that provides us with development and commercialization rights to Antisense Therapeutics' product candidate, ATL1103, for endocrinology applications. We refer to this product candidate as COR-004. Under the terms of the agreement, we provided Antisense Therapeutics with an initial upfront license payment of $3.0 million in cash, and we also invested $2.0 million in Antisense Therapeutics equity. We may become obligated to make additional payments, contingent upon achieving specific development and commercialization milestones, of up to $105.0 million over the lifetime of the agreement. We may also be required to make royalty payments based on a percentage, ranging from the mid-single digits to the mid-teens, of net sales of COR-004 during the period that we are selling COR-004, if approved. We will be responsible for the future clinical development of

COR-004 in endocrinology applications and for the funding of associated future development, regulatory and drug manufacture costs. Antisense Therapeutics will retain commercialization rights for COR-004 in endocrinology applications in Australia and New Zealand as well as worldwide rights for COR-004 in indications other than endocrinology, and may utilize any new COR-004 data generated by us in pursuing these other indications, subject to specified terms and conditions set forth in our license agreement with Antisense Therapeutics.

On June 29 and 30, 2015, we raised $33.2 million in aggregate gross proceeds in a private placement of common shares, the proceeds of which we expect to use primarily for the continued development of COR-003, along with the planned development of our two new programs, COR-004 and COR-005, and for general corporate purposes. The subscription price was $1.3222 per share and we issued 25,128,559 new shares to the investors.

On June 30, 2015, we acquired from Aspireo Pharmaceuticals Ltd., an Israeli company, its product candidate, DG3173. We refer to this product candidate as COR-005. Under the terms of the acquisition agreement, we issued to Aspireo Pharmaceuticals 22,689,456 common shares, which had a value of $33.2 million on June 30, 2015. In connection with this acquisition, we made a payment to the Office of the Chief Scientist of the Israeli Ministry of Economy, or OCS, in the amount of $3.0 million, which represents the repayment of amounts previously granted by OCS to Aspireo Pharmaceuticals, plus interest, that were used in support of research and development conducted by Aspireo Pharmaceuticals for the development of DG3173.

Financial Operations Overview

The following discussion sets forth certain components of our statements of operations as well as factors that impact those items.

Revenues

We have not generated any revenue during the periods presented. Our ability to generate product revenue and become profitable depends upon our ability to obtain regulatory approval for and to successfully commercialize our product candidates.

Research and Development Expenses

Our research and development expenses consist primarily of costs incurred in connection with the development of our product candidates, including:

- personnel-related costs, such as salaries, bonuses, benefits, travel and other related expenses, including stock-based compensation;
- expenses incurred under our agreements with CROs, clinical sites, contract laboratories, medical institutions and consultants that plan and conduct our preclinical studies and clinical trials, including, in the case of consultants, stock-based compensation;
- costs associated with regulatory filings;
- upfront and milestone payments under in-license agreements with third parties;
- costs of acquiring preclinical study and clinical trial materials, and costs associated with formulation and process development;
- depreciation, maintenance and other facility-related expenses; and
- costs to secure an exclusive license agreement with Antisense Therapeutics.

We expense all research and development costs as incurred. Clinical development expenses for our product candidates are a significant component of our current research and development expenses as we progress our product candidates into and through clinical trials. Product candidates in later stage clinical development generally have higher research and development costs than those in earlier stages of development, primarily due to increased size and duration of the clinical trials. We recognize costs for each grant project, preclinical study or clinical trial that we conduct based on our evaluation of the progress to completion, using information and data provided to us by our external research and development vendors and clinical sites.

We have received funding from research and development grants from the U.S. federal Small Business Innovation Research/Small Business Technology Transfer program. We record such funding as a reduction to our research and development expenses.

Through the first half of 2014, we were focused on product candidates that are now outside the scope of our strategic focus, specifically the development of Crespine, an osteoarthritis program, and a next generation cortisol inhibitor, or NGCI, program. By the end of 2014, we changed our strategic focus to rare endocrine diseases and other rare diseases, specifically the development of COR-003. As a result, we significantly reduced activities to develop the Crespine and NGCI programs. We returned our commercial rights to Crespine to the originator in the first half of 2014. We expect to spend only such amounts as are necessary to maintain our intellectual property on the NGCI program.

We incurred research and development expenses of $2.5 million and $5.8 million for the years ended December 31, 2013 and 2014, respectively, and $2.5 and $10.2 for the six months ended June 30, 2014 and 2015, respectively.

We expect our research and development expenses to increase in absolute dollars in the future as we continue to in-license or acquire product candidates and as we advance our existing and any future product candidates into and through clinical trials and pursue regulatory approval of our product candidates. The process of conducting the necessary clinical research to obtain regulatory approval of a product candidate is costly and time consuming. The probability that any of our product candidates receives regulatory approval and eventually is able to generate revenue depends on a variety of factors, including the quality of our product candidates, early clinical data, investment in our clinical program, competition, manufacturing capability and commercial viability. As a result of these uncertainties, we are unable to determine the duration and completion costs of our research and development projects or if, when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates, if approved. We may never succeed in achieving regulatory approval for any of our product candidates.

We do not allocate personnel-related research and development costs, including stock-based compensation or other indirect costs, to specific programs, as they are deployed across multiple projects under development.

General and Administrative Expenses

General and administrative expenses include personnel costs, costs for outside professional services and other allocated expenses. Personnel costs consist of salaries, bonuses, benefits, travel and stock-based compensation. Outside professional services consist of legal, accounting and audit services, commercial evaluation and strategy services, and other consulting services. We expect to incur additional general and administrative costs as a result of operating as a public company, should our planned initial public offering in the United States be successfully completed, including expenses related to compliance with the rules and regulations of the SEC and those of any national securities exchange on which our securities are traded, additional insurance expenses, investor relations activities and other administrative and professional services. We also expect to incur additional expenses related to in-licenses, acquisitions or similar transactions that we may pursue as part of our strategy, including legal, accounting and audit services and other consulting fees.

Other Income (Expense), Net

Other income (expense), net, consists of interest income generated from our cash and cash equivalents, gains from the revaluation of foreign currency forward contracts and foreign exchange gains and losses.

Our consolidated financial statements are reported in U.S. dollars, which is also our functional currency. Transactions in foreign currencies are translated into our functional currency at the rate of exchange prevailing at the date of the transaction. Any monetary assets and liabilities arising from these transactions are translated into our functional currency at exchange rates prevailing at the balance sheet date or on settlement. Resulting gains and losses are recorded in foreign currency gain (loss) in other income (expense) in our consolidated statements of operations.

Historically, our cash and cash equivalents have been held primarily in foreign currencies. However, most of our expenses have been U.S. dollar denominated. To reduce our currency exposure, we used a hedging program from the fourth quarter of 2013 through the second quarter of 2015. The foreign currency forward contracts used in our hedging program were not entered into for speculative purposes and, although we believe they served as effective economic hedges, we did not seek to qualify for hedging accounting. In 2014, our operations continued to shift to the United States, but a large portion of our cash and cash equivalents were still held in foreign currencies. As of June 30, 2015, all of our forward contracts have expired.

Critical Accounting Policies and Significant Judgments and Estimates

This management's discussion and analysis of our financial condition and results of operations is based on our interim consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these interim consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The consolidated statements of operations data for the six months ended June 30, 2014 and 2015 are unaudited interim consolidated financial statements. There have been no material changes to our critical accounting policies and estimates from the information provided in our audited consolidated financial statements for the year ended December 31, 2014.

Business Combinations

When acquiring new enterprises over which we obtain control, the acquisition method is applied. Under this method, we identify assets and liabilities of these enterprises and measure them at fair value at the acquisition date. Allowance is made for the tax effect of the adjustments made.

The excess of the consideration transferred, the amount of the non-controlling interest in the acquiree and the acquisition date fair value of previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

In-Process Research and Development

Purchased identifiable intangible assets with indefinite lives, such as our in-process research and development, are evaluated for impairment annually in accordance with our policy and whenever events or changes in circumstances indicate that it is more likely than not that the fair value of these assets has been reduced. To test these assets for impairment, we compare the fair value of the asset to its carrying value. The method we use to estimate the fair value measurements of indefinite-lived intangible assets is based on the income approach. For the impairment analysis for the year ended

December 31, 2014, significant unobservable inputs used in the income approach valuation method included a discount rate of 15.5%, a royalty rate of 10% and various probabilities of product candidate advancement from one clinical trial phase to the next. The probabilities of product candidate advancement we used were based on standalone statistical analysis on a phase-by-phase basis. There is no correlation between the probabilities of advancement in one phase to the probability of advancement in the prior phase. For purposes of our analysis for the year ended December 31, 2014, we applied the following approximate probabilities of product candidate advancement by phase: 67% probability of advancing from Phase 1 to Phase 2, 37% probability of advancing from Phase 2 to Phase 3, and 64% probability of advancing from Phase 3 to regulatory approval. An increase (decrease) in the estimated royalty rate of 2% assuming no change in discount rates or probability of success rates would result in a significantly higher (lower) fair value measurement. Significant increases in the discount rate up to 31%, assuming no changes in royalty rates and probability of success rates, would result in a significantly lower fair value measurement.

During the first half of 2015, as a result of our acquisition of Aspireo Pharmaceuticals Ltd.'s product candidate DG3173, our in-process research and development increased by $31.3 million.

As of June 30, 2015, there were no events or changes in circumstances indicating possible impairment.

Goodwill

We test goodwill for impairment on an annual basis or whenever events occur that may indicate possible impairment. This analysis requires us to make a series of critical assumptions to (1) evaluate whether any impairment exists and (2) measure the amount of impairment.

Because we have one operating segment, when testing for a potential impairment of goodwill, we are required to estimate the fair value of our business as a whole and determine the carrying value. If the estimated fair value is less than the carrying value of our business, then we are required to estimate the fair value of all identifiable assets and liabilities in a manner similar to a purchase price allocation for an acquired business. Only after this process is completed can the goodwill impairment be determined, if any.

To estimate the fair value of the business, a market-based approach is applied, utilizing our share price on the NOTC A-list as well as the price of shares issued in private placements, such as those completed in September 2013 and in October 2014. We did not record a charge for impairment for the years ended December 31, 2013 and 2014.

During the first half of 2015, as a result of our acquisition of Aspireo Pharmaceuticals Ltd.'s product candidate DG3173, our goodwill increased by $5.1 million.

As of June 30, 2015, there were no events or changes in circumstances indicating possible impairment.

Research and Development Costs and Expenses

Research and development costs are expensed as incurred. We recognize costs for certain development activities based on an evaluation of the progress to completion of specific tasks using information and data provided to us by our vendors and our clinical sites. We determine accrual estimates through financial models that take into account discussion with applicable personnel and service providers as to the progress or state of completion of clinical trials. Our preclinical study and clinical trial accrued liabilities and prepaid assets are dependent, in part, upon the receipt of timely and accurate reporting from CROs and other third-party vendors. Although we do not expect our estimates to differ materially from amounts we actually incur, our understanding of the status and timing of services performed relative to the actual status and timing of services performed may vary and may result in our reporting amounts that are too high or too low for any particular period. When contracts for outside research products or testing require advance payment, they are recorded on our consolidated balance sheets as prepaid items and expensed when the service is provided or reaches a

specific milestone outlined in the contract.

Stock-Based Compensation

We account for stock-based compensation awards in accordance with the Financial Accounting Standards Board, or FASB, *ASC Topic 718, Compensation—Stock Compensation (ASC 718)*. ASC 718 requires all stock-based payments, including grants of stock options and restricted stock and modifications to existing stock options, to be recognized in the consolidated statements of operations based on their fair values. The exercise price of stock options is determined by management by taking into account the trading price of our ordinary shares on the NOTC A-list, as well as other factors, including any private placements of our ordinary shares, but in no event has the exercise price of any stock option been less than the market price on the NOTC A-list on the date of grant.

Our stock-based awards are subject to either service-based or performance-based vesting conditions. Vesting of certain awards could also be accelerated upon achievement of defined market-based vesting conditions. We measure employee stock-based awards at grant-date fair value. We measure non-employee stock-based awards at the date the performance is complete. We have also issued several stock options with exercise prices denominated in a foreign currency that are required to be accounted for as liabilities. These options are measured at the date they are settled (exercised). We account for non-employee and liability-classified stock-based awards based on the then-current fair values at each financial reporting date until the relevant measurement date occurs.

We record compensation expense for service-based awards over the vesting period of the award on a straight-line basis. Compensation expense related to awards with performance-based vesting conditions is recognized over the requisite service period using the accelerated attribution method to the extent achievement of the performance condition is probable. Compensation expense for awards with service- and market-based vesting conditions is recognized using the accelerated attribution method over the shorter of the requisite service period or the implied period associated with achievement of the market-based vesting provisions.

We estimate the fair value of our option awards using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including:

- Expected Volatility. Due to the lack of historical and implied volatility data of our ordinary shares, we based our estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. We selected companies with comparable characteristics to us, including enterprise value, risk profiles and positions within the industry, and with historical share price information sufficient to meet the expected term of the stock-based awards. We compute historical volatility data using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the stock-based awards.
- Expected Term of the Award. We have estimated the expected term of employee service-based stock options using the ''simplified'' method, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option, due to our lack of sufficient historical data. We have estimated the expected term of employee awards with service and market conditions using a Monte-Carlo simulation model. This approach involves generating random stock-price paths through a lattice-type structure. Each path results in a certain financial outcome, such as accelerated vesting or specific option payout. We have estimated the expected term of nonemployee service- and performance-based awards based on the remaining contractual term of such awards.
- Risk-Free Interest Rate. The risk-free interest rates for periods within the expected term of the options are based on the Swedish Government Bond rate with a maturity date commensurate with the expected term of the associated award.
- Expected Dividends. We have never paid, and do not expect to pay, dividends in the

foreseeable future. Therefore, the expected dividend yield was assumed to be zero.

We are also required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from our estimates. We record stock-based compensation expense only for those awards that are expected to vest. To the extent that actual forfeitures differ from our estimates, the differences are recorded as a cumulative adjustment in the period the estimates were revised. Historical forfeitures have been insignificant.

Income Taxes

We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We assess the likelihood that the resulting deferred tax assets will be realized. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

We have evaluated the positive and negative evidence bearing upon the realizability of our deferred tax assets. Based on our history of operating losses, we have concluded that it is more likely than not that the benefit of our deferred tax assets, other than those attributable to BioPancreate, will not be realized. The deferred tax assets primarily comprised of Swedish and U.S. federal and state tax net operating losses and tax credit carryforwards. Utilization of the net operating loss and tax credit carryforwards may be subject to an annual limitation due to historical or future ownership percentage change rules provided by the Internal Review Code of 1986, as amended, and similar state and Swedish provisions. The annual limitation may result in the expiration of net operating loss and tax credit carryforwards before their utilization.

Material Weakness

In connection with the audits of our 2013 and 2014 financial statements, which were completed concurrently, our independent registered public accounting firm identified a material weakness, primarily related to the lack of sufficient and skilled resources with U.S. GAAP and SEC reporting knowledge for the purpose of timely and reliable financial reporting. We are working to remediate the material weakness and are taking numerous steps and plan to take additional steps to remediate the underlying causes of the material weakness. We have recently hired a new full-time chief financial officer, and plan to develop and implement formal policies, processes and documentation procedures relating to our financial reporting of the company. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight.

Results of Operations

Comparison of the Six Months Ended June 30, 2014 and 2015

The following table sets forth our results of operations for the six months ended June 30, 2014 and 2015:

	Six Months Ended June 30,		Change
	2014	2015	$
	(in thousands)		
Operating expenses:			
Research and development	$ 2,460	$ 10,218	$ 7,758
General and administrative	1,298	12,620	11,322
Total operating expenses	3,758	22,838	19,080
Operating loss	(3,758)	(22,838)	(19,080)
Other income (expense), net	331	(857)	(1,188)
Loss before income taxes	(3,427)	(23,695)	(20,268)
Income tax benefit	225	178	(47)
Net loss attributable to Cortendo	$(3,202)	$(23,517)	$(20,315)

Research and Development Expenses

The following table summarizes our research and development expenses during the six months ended June 30, 2014 and 2015:

	Six Months Ended June 30,		Change
	2014	2015	
		$ (in thousands)	
Clinical development	$1,515	$ 3,694	$2,179
Preclinical development	512	258	(254)
License fee	—	3,898	3,898
Compensation and related personnel costs	—	1,548	1,548
Outside professional services and other	433	820	387
Total research and development expenses	$2,460	$10,218	$7,758

Research and development expenses were $10.2 million for the six months ended June 30, 2015, an increase of $7.8 million compared to the six months ended June 30, 2014. The increase was attributed to a $3.9 million increase related to the Antisense Therapeutics license fee, $2.2 million increase in clinical development expenses mainly associated with ongoing clinical trials for COR-003, and a $0.3 million decrease in preclinical costs primarily related to the reduction in activities related to the Crespine and NGCI programs in mid-2014. Compensation and related personnel costs increased by $1.5 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, due to the hiring of research and development personnel. Outside professional services expense increased by $0.4 million due to an increase in the use of consultants in 2015 used for increased research and development activities.

General and Administrative Expenses

The following table summarizes our general and administrative expenses during the six months ended June 30, 2014 and 2015:

	Six Months Ended June 30,		Change
	2014	2015	$
	(in thousands)		
Outside professional services	$ 957	$ 9,055	$ 8,098
Compensation and related personnel costs	60	2,956	2,896
Facility costs	33	126	93
Travel and other	248	483	235
Total general and administrative expenses	$1,298	$12,620	$11,322

General and administrative expenses were $12.6 million for the six months ended June 30, 2015, an increase of $11.3 million compared to the six months ended June 30, 2014. The increase was primarily due to a $8.1 million increase in outside professional services, which consisted of mostly legal, accounting and consulting fees, related to the redomicile of the Company, due diligence expenses for the Asperio asset acquisition and other business development activities, activities related to this offering, general corporate matters, including market analysis, communications and investor relations efforts, as well an increase in other legal and accounting costs. Compensation and related personnel costs increased by $2.9 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, due to increased hiring of administrative personnel. Facility costs, travel and other general and administrative costs increased by $0.3 million for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014, primarily as a result of the Trevose, Pennsylvania facility sublease and the hiring of additional personnel.

Other Income (Expense), Net

The following table summarizes our other income (expense), net, during the six months ended June 30, 2014 and 2015:

	Six Months Ended June 30,		Change
	2014	2015	$
	(in thousands)		
Foreign exchange gain (loss)	$165	$(314)	$ (479)
Other income, net	166	(543)	(709)
Total other income (expense), net	$331	$(857)	$(1,188)

Other income (expense), net, changed from income of $0.3 million in 2014 to expense of $0.9 million in 2015. The change was primarily due to fluctuations in foreign exchange rates against the U.S. dollar, together with losses from expired forward currency contracts. In addition, other income (expense), net included a $0.1 million charge for the impairment of the leased Radnor, Pennsylvania facility.

Income Tax Benefit

We recorded income tax benefit of $0.2 million for the six months ended June 30, 2014 and 2015, due to the generation of U.S. state and federal net operating loss carryforwards and federal tax credit carryforwards. The income tax benefit for U.S. state and federal net operating loss carryforwards and federal tax credit carryforwards has been recognized to the extent it is supported by the deferred tax liability recorded in connection with the acquisition of BioPancreate.

Liquidity and Capital Resources

We do not expect to generate significant revenue from product sales unless and until we obtain regulatory approval of and commercialize our current or any future product candidates. We anticipate

that we will continue to generate losses for the foreseeable future, and we expect the losses to increase as we continue the development of and seek regulatory approvals for our product candidates and begin to commercialize any approved products. We are subject to all of the risks applicable to the development of new products, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may harm our business. Upon the closing of the planned initial public offering in the United States, should it be successfully completed, we expect to incur additional costs associated with operating as a public company and we anticipate that we will need substantial additional funding in connection with our continuing operations.

Our operations have been financed primarily by net proceeds from the issuance of ordinary shares. Our primary uses of capital are, and we expect will continue to be, third-party expenses associated with the planning and conduct of clinical trials, costs of process development services and manufacturing of our product candidates, and compensation-related expenses. We also expect our cash needs to increase to fund potential in-licenses, acquisitions or similar transactions as we pursue our strategy.

Cash used to fund operating expenses is affected by the timing of when we pay expenses, as reflected in the change in our outstanding accounts payable and accrued expenses. We believe that our existing cash and cash equivalents, which include net proceeds from the private placements completed in 2015, together with the proceeds we expect to receive from this offering, will be sufficient to meet our projected operating requirements through at least the next 12 months.

Our future funding requirements will depend on many factors, including the following:

- the scope, rate of progress, results and cost of our preclinical studies and clinical trials and other related activities;
- the cost of formulation, development, manufacturing of clinical supplies and establishing commercial supplies of our product candidates and any other product candidates that we may develop, in-license or acquire;
- the cost, timing and outcomes of pursuing regulatory approvals;
- the cost and timing of establishing administrative, sales, marketing and distribution capabilities;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish, including any required milestone and royalty payments thereunder; and
- the emergence of competing technologies and their achieving commercial success before we do or other adverse market developments.

We expect to continue to incur losses. Our ability to achieve and maintain profitability is dependent upon the successful development, regulatory approval and commercialization of our product candidates and achieving a level of revenues adequate to support our cost structure. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional capital. If we need to raise additional capital to fund our operations and complete our ongoing and planned clinical trials, funding may not be available to us on acceptable terms, or at all.

We plan to continue to fund our operations and capital funding needs through equity or debt financing. The sale of additional equity would result in additional dilution to our shareholders. The incurrence of debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. If we are not able to secure adequate additional funding, we may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible or suspend or curtail planned programs. In addition, lack of funding would limit any strategic initiatives to in-license or acquire additional product candidates or programs.

Cash Flows

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2015

	Six Months Ended June 30,	
	2014	2015
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	$(3,724)	$(15,665)
Investing activities	(5)	(3,193)
Financing activities	—	58,298
	(3,729)	39,440
Effect of exchange rate changes on cash and cash equivalents	(10)	(685)
Net (decrease) increase in cash and cash equivalents	$(3,739)	$ 38,755

Operating Activities

Net cash used in operating activities was $15.7 million for the six months ended June 30, 2015, compared to $3.7 million for the six months ended June 30, 2014. The increase in net cash used was primarily due to increased operating expenses due to additional headcount, increase in professional fees related to this offering, redomicile to Ireland, business development activities, increased clinical trial activities and other research activities.

Investing Activities

Net cash used in investing activities was $3.2 million due to the Asperio asset purchase and the result of the purchase of office equipment and furniture.

Financing Activities

Net cash provided by financing activities of $58.3 million for the six months ended June 30, 2015 was the result of private placement equity financings.

Contractual Obligations and Other Commitments

The following table summarizes our future minimum commitments at June 30, 2015:

	Payments due by period				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
			(in thousands)		
Operating leases	$175	$762	$551	$—	$1,488
Total contractual obligations	$175	$762	$551	$—	$1,488

The above table also excludes potential payments due to two individuals who previously served as officers of our company pursuant to consulting agreements. In connection with those agreements, each individual is entitled to a payment in the event of the sale or license by us prior to December 31, 2016 of BioPancreate or major assets derived from the BioPancreate technology. The payment amounts are based on a percentage of the acquisition price or up-front license fee, as applicable. The maximum amount payment per individual in the event of a sale or license is $2.5 million or $1.25 million, respectively. Each individual is entitled to such payments even though each is no longer serving in their respective officer roles.

We enter into agreements in the normal course of business with CROs for clinical trials and with vendors for preclinical studies and other services and products for operating purposes, which are cancelable at any time by us, generally upon 30 days prior written notice. Future payment

obligations under these agreements are not included in this table of contractual obligations.

We are obligated to make future payments to third parties under in-license agreements, including sublicense fees, royalties and payments that become due and payable upon the achievement of development and commercialization milestones. As the amount and timing of sublicense fees and the achievement and timing of these milestones are not probable and estimable, such commitments have not been included on our consolidated balance sheets or in the contractual obligations table above. See footnote 6 of the consolidated financial statements for a description of our license agreements.

Off-Balance Sheet Arrangements

We do not have variable interests in variable interest entities or any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures About Market Risk

At June 30, 2015, we had cash and cash equivalents of $54.4 million, which consisted primarily of bank deposits in the United States, Sweden and Norway. Cash deposits in Sweden and Norway were $6.9 million as of June 30, 2015 and are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. As part of our cash and investment management processes, we perform periodic evaluations of the credit standing of the financial institutions with which we deposit our cash or purchase cash equivalents, and we have not sustained any credit losses from instruments held at these financial institutions.

Recent Accounting Pronouncements

During the quarter ended September 30, 2014, the FASB issued *ASU No. 2014-15, Presentation of Financial Statements—Going Concern (ASU No. 2014-15)*. The new guidance addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. The standard will be effective for the first interim period within annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but we have not elected to do so. We do not expect the adoption of ASU 2014-15 to have an impact on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting For Fees Paid In A Cloud Computing Arrangement*, which provides guidance for a customer's accounting for cloud computing costs. Under ASU 2015-05, if a software cloud computing arrangement contains a software license, customers should account for the license element of the arrangement in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, customers should account for the arrangement as a service contract. This standard may be applied either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. ASU 2015-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

CORTENDO AB
(Predecessor of CORTENDO plc)
Interim Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 31, 2014	June 30, 2015 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,632	$ 54,387
Prepaid expenses and other current assets	598	1,351
Total current assets	16,230	55,738
Property and equipment, net	21	40
In-process research and development	5,228	36,551
Goodwill	2,200	7,256
Other assets	10	1,327
Total assets	$ 23,689	$100,912
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 887	$ 5,395
Accrued liabilities	1,422	3,503
Total current liabilities	2,309	8,898
Stock-based liability awards	1,183	3,529
Deferred tax liabilities	1,376	1,199
Total liabilities	4,868	13,626
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, par value, 175,000,000 and 600,000,000 shares authorized at December 31, 2014 and June 30, 2015; 106,708,863 and 206,898,737 shares issued and outstanding at December 31, 2014 and June 30, 2015	15,681	27,683
Additional paid-in capital	40,363	120,343
Accumulated deficit	(37,223)	(60,740)
Total stockholders' equity	18,821	87,286
Total liabilities and stockholders' equity	$ 23,689	$100,912

The accompanying notes are an integral part of these interim consolidated financial statements.

CORTENDO AB
(Predecessor of CORTENDO plc)

Interim Consolidated Statements of Operations
(In thousands, except share and per share data)
(unaudited)

	Six Months Ended June 30,	
	2014	2015
Operating expenses:		
Research and development	$ 2,460	$ 10,218
General and administrative	1,298	12,620
Total operating expenses	3,758	22,838
Operating loss	(3,758)	(22,838)
Other income (expense), net:		
Foreign exchange gain (loss)	165	(314)
Other income (expense), net	166	(543)
Total other income (expense), net	331	(857)
Loss before income taxes	(3,427)	(23,695)
Income tax benefit	225	178
Net loss	$ (3,202)	$ (23,517)
Net loss attributable to common stockholders:		
Basic and diluted	$ (3,202)	$ (23,517)
Net loss per share attributable to common stockholders:		
Basic and diluted	$ (0.04)	$ (0.16)
Weighted-average shares used in computing net loss per share attributable to common stockholders:		
Basic and diluted	87,335,863	147,771,018

The accompanying notes are an integral part of these interim consolidated financial statements.

CORTENDO AB
(Predecessor of CORTENDO plc)

Interim Consolidated Statements of Stockholders' Equity
(In thousands except share amounts) (unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance—December 31, 2014	106,708,863	$15,681	$ 40,363	$(37,223)	$ 18,821
Net loss	—	—	—	(23,517)	(23,517)
Stock-based compensation	—	—	473	—	473
Issuance of shares	100,189,874	12,002	79,507	—	91,509
Balance—June 30, 2015	206,898,737	$27,683	$120,343	$(60,740)	$ 87,286

The accompanying notes are an integral part of these interim consolidated financial statements.

CORTENDO AB
(Predecessor of CORTENDO plc)
Interim Consolidated Statements of Cash Flow
(In thousands)
(unaudited)

	Six Months Ended June 30,	
	2014	**2015**
Cash flows from operating activities:		
Net loss	$(3,202)	$(23,517)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2	6
Stock-based compensation	146	2,819
Deferred income tax benefit	(225)	(177)
Foreign exchange loss	10	209
Change in fair value of foreign currency forward contracts	(33)	438
Changes in operating assets and liabilities, net of effect of acquisition:		
Accounts payable and accrued liabilities	(249)	7,065
Prepaid expenses and other current assets	(173)	(2,508)
Net cash used in operating activities	(3,724)	(15,665)
Cash flows from investing activities:		
Payments for acquisitions	—	(3,168)
Purchase of equipment	(5)	(25)
Net cash used in investing activities	(5)	(3,193)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	58,298
Net cash provided by financing activities	—	58,298
Effect of exchange rate changes on cash and cash equivalents	(10)	(685)
Net increase (decrease) in cash and cash equivalents	(3,739)	38,755
Cash and cash equivalents—beginning of period	14,897	15,632
Cash and cash equivalents—end of period	$11,158	$ 54,387
Supplemental non-cash investing and financing activities:		
Common stock issued for acquisition of COR-005	$ —	$ 33,211
Acquisition of in-process research and development	$ —	$(31,323)

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Organization

Cortendo AB is a biopharmaceutical company incorporated in Sweden and based in the United States. We are focused on the development, in-licensing, acquision and eventual commercialization of multiple complementary products and product candidates within the franchises that target rare diseases. Our primary focus to date has been to build our rare endocrine franchise, which includes product candidates for the treatment of Cushing's syndrome and acromegaly, two rare diseases with a high unmet need for innovative treatment options. We also intend to identify and in-license or acquire products or product candidates that will be complementary to our existing rare endocrine franchise or that would form the basis for new rare disease franchises.

Our shares are currently quoted on the Norwegian Over-The-Counter Market, or NOTC,-A list.

Exchange offer

On May 26, 2015, Cortendo plc was incorporated under the laws of Ireland.

On August 7, 2015, Cortendo plc initiated an exchange offer for the outstanding shares of Cortendo AB. The exchange offer was structured as a one-for-one exchange offer in which shareholders of Cortendo AB exchanged their common shares, with a par value of $0.15, for beneficial interests in ordinary shares of Cortendo plc, with a par value of $0.01, in the form of Norwegian depositary receipts and, as the case may be, Swedish depositary receipts (except for non-accredited investors who hold Cortendo AB shares located in the United States, who were offered cash in an amount equivalent to the value of the Cortendo plc shares such investors would otherwise receive for their Cortendo AB shares exchanged).

Liquidity

We believe that our cash resources of $54.4 million at June 30, 2015, will be sufficient to allow us to fund our current operating plan for at least the next 12 months. As we continue to incur losses, our transition to profitability is dependent upon the successful development, approval and commercialization of our product candidates and achieving a level of revenues adequate to support our cost structure. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional capital. Our management intends to fund future operations through additional equity offerings, and may seek additional capital through issuance of debt, arrangements with strategic partners or from other sources. There can be no assurances, however, that additional funding will be available on terms acceptable to us.

2. Summary of significant accounting policies and basis of presentation

Basis of presentation and principles of consolidation

The accompanying interim consolidated financial statements include the accounts of our wholly owned subsidiaries, BioPancreate Inc. (Trevose, Pennsylvania, United States), Cortendo Invest AB (Gothenburg, Sweden) and Cortendo Caymans (Georgetown, Cayman Islands). All intercompany balances and transactions have been eliminated in consolidation. These unaudited interim consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information. Any reference in these notes to applicable guidance is meant to refer to the authoritative U.S. GAAP as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB). In the opinion of management, the accompanying financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of June 30, 2015 and its results of operations and cash flows for the six months ended June 30, 2014 and 2015. Operating results for the six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The interim financial statements presented herein do not contain the required disclosures under U.S. GAAP for annual financial statements.

Foreign currency translation

The interim consolidated financial statements are reported in United States dollars, which is the functional currency of our subsidiaries and Cortendo AB. Transactions in foreign currencies are translated into our functional currency at the rate of exchange prevailing at the date of the transaction. Any monetary assets and liabilities arising from these transactions are translated into our functional currency at exchange rates prevailing at the balance sheet date or on settlement. Resulting gains and losses are recorded in foreign exchange loss in our consolidated statements of operations.

Use of estimates

The preparation of the interim financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. We must apply significant judgment in this process. Actual results could materially differ from those estimates.

Segment information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. We view our operations and manage our business in one operating segment. Our material long-lived assets, which consist of in-process research and development, reside in the United States.

Cash and cash equivalents

We consider all short-term highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents. Cash and cash equivalents consist of account balances at banks and money market accounts, respectively.

Concentration of credit risk and other risks and uncertainties

Cash deposits in Sweden and Norway as of December 31, 2014 and June 30, 2015 of $15.4 million and $6.9 million, respectively, are subject to local banking laws and may bear higher or lower risk than cash deposited in the United States. As part of our cash and investment management processes, we perform periodic evaluations of the credit standing of the financial institutions with which we deposit our cash or purchase cash equivalents, and we have not sustained any credit losses from instruments held at these financial institutions.

We are exposed to concentrations of credit risk through the foreign currency forward contracts into which we enter to the extent we have recorded an asset in relation thereto. The counterparties to the agreements relating to our foreign currency forward contracts consist of financial institutions with high credit standing and accordingly we do not believe there is significant risk related to non-performance by these counterparties due to credit risk.

Fair value of financial instruments

Fair value accounting is applied for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

We are required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. FASB ASC Topic 820, Fair Value Measurements and Disclosures (ASC 820), establishes a hierarchy of inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The three levels of the fair value hierarchy are described as follows:

Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2—Valuations based on quoted prices for similar assets or liabilities, or quoted prices in markets that are not active, and for which all significant inputs are observable, either directly or indirectly.

Level 3—Valuations that require inputs that reflect our own assumptions that are both significant to the fair value measurement and unobservable. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment we exercise in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We entered into foreign currency forward contracts to offset some of the foreign exchange risks we bear on operating expenses that are not denominated in U.S. dollars. These instruments are not

entered into for speculative purposes and, although we believe they serve as effective economic hedges, we do not seek to qualify for hedge accounting.

These forward contracts are recorded at fair value on the accompanying interim consolidated balance sheets as prepaid expenses and other current assets. These forward contracts are measured using observable quoted prices for similar instruments. The outstanding notional amount of our unsettled foreign currency forward contracts as of December 31, 2014 and June 30, 2015 was $2.3 million and $0, respectively, and the fair values of those assets were $438,000 and $0, respectively. The forward contracts were settled during the period ended June 30, 2015. The gain and loss recognized in other income, net, for these forward contracts was $33,000 and $(438,000) for the six months ended June 30, 2014 and 2015, respectively. These amounts represent the net gain or loss on the forward contracts and do not include changes in the related exposures, which generally offset a portion of the gain or loss on the forward contracts.

Counterparties to these instruments are major financial institutions with credit ratings of investment grade or better and no collateral is required. We believe the risk of incurring any losses on these forward contracts related to credit risk is remote.

On May 13, 2015, as part of our agreement to acquire an exclusive license agreement from Antisense Therapeutics Limited AB (ATL), we purchased 15,025,075 shares of ATLs common stock that had a fair value $0.095 per share, which was the quoted market price of the ATL common stock on the ASX (Australian Securities Exchange). As we may not contractually sell ATL's common shares for 24 months from the date of purchase, we estimated a discount for the lack of marketability of $0.022 per share using an option pricing model that estimated the value of a protective put option using inputs that included quoted market prices and observable inputs other than quoted market prices. We recorded the net fair value amount of $1.1 million as a non-current asset in our interim consolidated balance sheet.

Property and equipment, net

Property and equipment, net, consists of office equipment such as furniture, fixtures and computers. Depreciation expense for the six months ended June 30, 2014 and 2015 was not significant. The following amortization periods were used for the various classifications of property and equipment, net:

	Amortization Periods
Computer hardware	3-5 years
Computer software	2-5 years
Furniture and fixtures	2-5 years

Business combinations

When acquiring new enterprises over which we obtain control, the acquisition method is applied. Under this method, we identify assets and liabilities of these enterprises and measure them at fair value at the acquisition date. Allowance is made for the tax effect of the adjustments made.

The acquisition consideration for an enterprise consists of the fair value of the consideration paid for the acquired enterprise. Costs that are attributable to the acquisition of the enterprise are recognized in our statements of operations when incurred.

In-process research and development

Purchased identifiable intangible assets with indefinite lives, such as our in-process research and development, are evaluated for impairment annually in accordance with our policy and whenever events or changes in circumstances indicate that it is more likely than not that the fair value of these assets has been reduced.

To test these assets for impairment, we compare the fair value of the asset to its carrying value. The method we use to estimate the fair value measurements of indefinite-lived intangible assets is based on the income approach.

Goodwill

We test goodwill for impairment on an annual basis or whenever events occur that may indicate possible impairment. This analysis requires us to make a series of critical assumptions to (1) evaluate whether any impairment exists and (2) measure the amount of impairment.

Because we have one operating segment, when testing for a potential impairment of goodwill, we are required to estimate the fair value of our business and determine the carrying value. If the estimated fair value is less than the carrying value of our business, then we are required to estimate the fair value of all identifiable assets and liabilities in a manner similar to a purchase price allocation for an acquired business. Only after this process is completed can the goodwill impairment be determined, if any.

When estimating the fair value of our business for the purposes of our annual analysis, we make estimates and judgments about the future cash flows of our businesses. Our cash flow forecasts are based on assumptions that are consistent with the plans and estimates we are using to manage the underlying business.

Research and development expenses

Research and development costs are expensed as incurred. Research and development expenses consist of internal and external expenses. Internal expenses include compensation and related expenses. External expenses include development, clinical trials, report writing and regulatory compliance costs incurred with clinical research organizations and other third-party vendors. At the end of the reporting period, we compare payments made to third-party service providers to the estimated progress toward completion of the research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that we estimate has been made as a result of the service provided, we may record net prepaid or accrued expense relating to these costs. Upfront and milestone payments made to third parties who perform research and development services on our behalf are expensed as services are rendered.

Stock-based compensation

We account for stock-based compensation awards in accordance with FASB ASC Topic 718, Compensation—Stock Compensation (ASC 718). ASC 718 requires all stock-based payments including grants of stock options and restricted stock and modifications to existing stock options, to be recognized in the consolidated statements of operations based on their fair values.

Our stock-based awards are subject to either service-based or performance-based vesting conditions. Vesting of certain awards could also be accelerated upon achievement of defined market-

based vesting conditions. We also have issued several stock options with exercise prices denominated in a foreign currency that are required to be accounted for as liabilities. We account for employee stock-based awards at grant-date fair value. We account for non-employee and liability-classified stock-based awards based on the then-current fair values at each financial reporting date until the performance is complete for non-employee awards, or until the award is settled (exercised) for liability-classified awards. Changes in the amounts attributed to these awards between the reporting dates are included in stock-based compensation expense (credit) in our statements of operations. We include liability-classified stock options into non-current liabilities in our balance sheets as their settlement (exercise) does not require use of cash, cash equivalents or other current assets.

We record compensation expense for service-based awards over the vesting period of the award on a straight-line basis. Compensation expense related to awards with performance-based vesting conditions is recognized over the requisite service period using the accelerated attribution method to the extent achievement of the performance condition is probable. Compensation expense for awards with service- and market-based vesting conditions is recognized using the accelerated attribution method over the shorter of the requisite service period or the implied period associated with achievement of the market-based vesting provisions.

We estimate the fair value of our option awards using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including (i) the expected stock price volatility, (ii) the expected term of the award, (iii) the risk-free interest rate and (iv) expected dividends. Due to the lack of historical and implied volatility data of our common stock, we based our estimate of expected volatility on the historical volatility of a group of similar companies that are publicly traded. We selected companies with comparable characteristics to us, including enterprise value, risk profiles and position within the industry, and with historical share price information sufficient to meet the expected term of the stock-based awards. We compute historical volatility data using the daily closing prices for the selected companies' shares during the equivalent period of the calculated expected term of the stock-based awards.

We have estimated the expected term of employee service-based stock options using the ''simplified'' method, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the option, due to our lack of sufficient historical data. We have estimated the expected term of employee awards with service and market conditions using a Monte-Carlo simulation model. This approach involves generating random stock-price paths through a lattice-type structure. Each path results in a certain financial outcome, such as accelerated vesting or specific option payout. We have estimated the expected term of nonemployee service- and performance-based awards based on the remaining contractual term of such awards.

The risk-free interest rates for periods within the expected term of the option are based on the Swedish Government Bond rate with a maturity date commensurate with the expected term of the associated award. We have never paid dividends, and do not expect to pay dividends in the foreseeable future.

We are also required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from estimates. We record stock-based compensation expense only for those awards that are expected to vest. To the extent that actual forfeitures differ from our estimates, the differences are recorded as a cumulative adjustment in the period the estimates were revised. Historical forfeitures have been insignificant.

Income taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, Income Taxes. Under this method, income tax expense is recognized for the amount of (1) taxes payable or refundable for the current year and (2) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if, based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized. ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We have no material uncertain tax positions for any of the reporting periods presented.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2014 and June 30, 2015, we had no accrued interest or penalties related to uncertain tax positions and no amounts have been recognized in our interim statements of operations for the period ended June 30, 2014 and 2015.

Initial Public Offering (IPO) Costs

Incremental costs incurred that are directly attributable to a proposed or actual offering of securities are deferred and deducted from the related proceeds of the offering pursuant to ASC 340-10-s99-1 (SAB Topic 5A) ''Expenses of the Offering.'' The net proceeds received are recorded as contributed shareholders' equity in the period when such shares are issued. As of June 30, 2015, the Company had deferred initial offering costs of $1.3 million that are included in prepaid expenses and other current assets in the Company's interim consolidated balance sheet. These deferred costs will be charged to Cortendo plc and applied against the proceeds from Cortendo plc's initial public offering, when received.

Net loss per share

Basic net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common equivalent stock outstanding for the period, including any dilutive effect from outstanding stock options. Shares used in the diluted net loss per share calculations exclude anti-dilutive common equivalent shares, which consist of stock options. These anti-dilutive shares of common stock totaled 5.2 million shares and 21.9 million shares for the six months ended June 30, 2014 and 2015, respectively. While these common equivalent shares are currently anti-dilutive, they could be dilutive in the future.

Subsequent events

We consider events or transactions that occur after the balances sheet date, but prior to the issuance of the financial statements to provided additional evidence relative to certain estimates or to identify matters that require additional disclosure.

Recently adopted accounting pronouncements

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting For Fees Paid In A Cloud Computing Arrangement*, which provides guidance for a customer's accounting for cloud computing costs. Under ASU 2015-05, if a software cloud computing arrangement contains a software license, customers should account for the license element of the arrangement in a manner consistent with the acquisition of other software licenses. If the arrangement does not contain a software license, customers should account for the arrangement as a service contract. This standard may be applied either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. ASU 2015-05 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. Fair value measurement

The following table sets forth the fair value of our financial assets by level within the fair value hierarchy. Our foreign currency forward contracts are classified within Level II because of the use of observable inputs for similar derivative instruments in active markets, or quoted prices for identical or similar instruments in markets that are not active, and are directly or indirectly observable, and are classified as prepaid expenses and other current assets. The noncurrent receivable comprising of our investment in ATL common stock is classified as Level II as we discounted the active market quoted price of the security to reflect our contractual restriction on selling the investment. Our financial assets are as follows (in thousands):

	As of December 31, 2014			
	Level I	**Level II**	**Level III**	**Total**
Financial assets:				
Cash and cash equivalents	$15,632	$ —	$—	$15,632
Foreign currency forward contracts	$ —	$438	$—	$ 438
Total financial assets	$15,632	$438	$—	$16,070

	As of June 30, 2015			
	Level I	**Level II**	**Level III**	**Total**
Financial assets:				
Cash and cash equivalents	$54,387	$ —	$—	$54,387
Noncurrent receivable	$ —	$1,101	$—	$ 1,011
Total financial assets	$54,387	$1,101	$—	$55,398

4. In-process research and development and goodwill

The following table presents in-process research and development and goodwill as of and during the six months ended June 30, 2015 (in thousands):

	Balance at December 31, 2014	Additions	Disposals	Balance at June 30, 2015
In-process research and development	$5,228	$31,323	$—	$36,551
Goodwill	2,200	5,056	—	7,256
Total	$7,428	$36,379	$—	$43,807

Goodwill and in-process research and development as of December 31, 2014 and June 30, 2015, resulted from our acquisition of BioPancreate and our 2015 acquisition of product candidate DG3173 from Aspireo Pharmaceuticals, Ltd. (see also Note 7). In-process research and development is initially measured at its fair value and is not amortized until commercialization. Once commercialization occurs, in-process research and development will be amortized over its estimated useful life. We did not identify any indicators of impairment of our goodwill or in-process research and development as of June 30, 2015.

5. Accrued liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2014	June 30, 2015
Consulting and professional fees	$ 516	$2,855
Employee compensation	804	531
Other	102	117
Total accrued liabilities	$1,422	$3,503

6. Commitments and contingencies

(a) Leases

On April 22, 2014, we entered into a 48-month building lease for approximately 3,000 square feet of space in Radnor, Pennsylvania. The lease has annual rent escalations. We obtained access to the newly leased space on August 1, 2014, and this was considered the lease commencement date for accounting purposes. Thus, rent expense began on this date and is recognized on a straight-line basis over the term of the lease.

In March 2015, the Company entered into a 52-month building sublease agreement for 14,743 square feet of office space in Trevose, Pennsylvania. As a result of this lease, we vacated the previously leased Radnor, Pennsylvania facility as of April 13, 2015 and determined that the facility was not likely to be utilized during the remaining lease term and as such we commenced efforts to sublease the facility. The Company recorded a liability as of the April 13, 2015 cease-use date of $0.1 million for the estimated fair value of its obligations under the lease. The most significant assumptions used in determining the amount of the estimated liability are the potential sublease revenues and the credit-adjusted risk-free rate utilized to discount the estimated future cash flows.

As of June 30, 2015, future minimum commitments under facility operating leases were as follows (in thousands):

	Operating leases
2015	$ 175
2016	368
2017	394
2018	367
2019	184
Total minimum lease payments	$1,488

Rent expense recognized under our operating lease, including additional charges for utilities, parking, maintenance and real estate taxes, was $29 and $111 for the six months ended June 30, 2014 and 2015, respectively.

(b) License Agreements

Our exclusive license agreement with ATL provides us with development and commercialization rights to ATLs' product candidate, ATL1103, for endocrinology applications. We refer to this product candidate as COR-004. Under the terms of the agreement, we paid ATL an initial upfront license fee of $3.0 million in cash, and we also paid $2.0 million for 15,025,075 shares of ATL common stock. On May 13, 2015, the date of the agreement, ATLs common stock had a fair value of $0.095 per share, which was the quoted market price of the ATL common stock on the ASX (Australian Securities Exchange). As ATL is a publicly listed entity and under the terms of the agreement, we may not contractually sell ATL's common shares for 24 months from the date of purchase, we fair valued our investment and determined an estimated discount rate for the lack of marketability of $0.022 per share using an option pricing model that estimated the value of a protective put option using inputs that included quoted market prices and observable inputs other than quoted market prices. We recorded the net amount of the ATL common stock of $1.1 million as a non- current asset in our consolidated balance sheet as at June 30, 2015. The difference between the amount paid for the ATL common stock of $2.0 million and the fair value of the ATL common stock on the date of transaction of, $1.1 million, has been recorded as research and development expense as of June 30, 2015, as we determined that the difference constitutes part of the cost of the license.

We may become obligated to make additional payments, contingent upon achieving specific development and commercialization milestones, of up to $105.0 million over the lifetime of the agreement. We may also be required to make royalty payments based on a percentage, ranging from the mid-single digits to the mid-teens, of net sales of COR-004, if approved.

7. Business combinations

On June 30, 2015, we acquired from Aspireo Pharmaceuticals Ltd. (''Aspireo''), an Israeli company, its product candidate, DG3173, and the rights and obligations to the on-going research and development contracts, the combination of which represented ''substantially all'' of the Aspireo business. We refer to this product candidate as COR-005. Under the terms of the acquisition agreement, we issued to Aspireo 22,689,456 common shares, which had a value of $33.2 million on June 30, 2015. In connection with this acquisition, we also made a payment to the Office of the Chief

Scientist of the Israeli Ministry of Economy, or OCS, in the amount of $3.0 million, which represents the repayment of amounts granted by the OCS to Aspireo, plus interest, that were used in support of research and development conducted by Aspireo for the development of DG3173.

The acquisition was accounted for using the acquisition method of accounting for business combinations. The total consideration transferred was allocated to the assets acquired and liabilities assumed based on their respective fair values. The fair value of $1.46 per common share of the 22,689,456 common shares issued was determined based on the closing market price on the NOTC of our common shares on the acquisition date. To determine the fair value of the acquired in-process research and development intangible asset, we applied the income approach using the multi-period excess earnings method. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed (in thousands):

In process research and development	$ 31,323
Liabilities assumed:	
Other liabilities (net)	(195)
OCS liability	(2,973)
Total fair values of assets and liabilities	28,155
Fair value of total consideration transferred	(33,211)
Goodwill	$ 5,056

The excess of the consideration transferred over net assets acquired was assigned to goodwill in an amount of $5.1 million and is primarily related to expected synergies. A deferred tax liability was not recorded for the difference between the book and cost basis of the in-process research and development intangible asset because this will be domiciled in the Cayman Islands and therefore we do not expect to pay income tax. The goodwill is not deductible for income tax purposes.

We incurred $2.6 million in acquisition-related transaction costs for the period ended June 30, 2015, which is included as general and administration expense in the accompanying unaudited interim consolidated statements of operations.

8. Income taxes

For the six month periods ended June 30, 2014 and 2015, we recorded income tax benefits of $225,000 and $178,000, respectively. We recorded tax benefits for the federal and state net operating loss carry forwards and federal tax credit carryforwards attributable to BioPancreate. These deferred benefits are realizable as they offset the non-current deferred tax liability recorded in connection with the acquisition of BioPancreate.

We have incurred net operating losses since inception. We have not reflected any benefit of net operating loss carryforwards (NOLs), other than those attributable to BioPancreate, in the accompanying financial statements. We have established a valuation allowance against the remaining deferred tax assets due to the uncertainty surrounding the realization of such assets.

9. Common stock

Voting rights and privileges

The holders of shares of our common stock are entitled to one vote for each share of common stock held at all meetings of stockholders without limitation and written actions in lieu of meetings. The holders are entitled to receive dividends if and when declared by our Board of Directors. No dividends have been declared or paid since our inception. The holders are entitled to share ratably in our assets available for distribution to stockholders, in the event of any voluntary or involuntary liquidation.

Equity financings

In December 2014, we issued 19,315,000 shares of common stock for $10.2 million, net of transaction costs.

On February 10, 2015, following shareholder approval of the share purchase agreement which we entered into on January 12, 2015, we issued 52,371,859 shares of our common stock for $25.8 million, net of transaction costs.

On June 29 and 30, 2015, following shareholder approval of the share purchase agreement which we entered into on May 14, 2015, we issued 25,128,559 new shares to the investors. The subscription price was $1.3222 per share and proceeds net of transaction costs were $32.6 million.

Shares reserved for issuance

There were 10,176,000 and 22,029,000 shares of common stock reserved for future issuance upon exercise of stock options as of December 31, 2014 and June 30, 2015, respectively.

10. Stock-based compensation

Our Board of Directors and our shareholders approve the granting of stock options to our officers, directors, other key employees and third party-consultants. Under these grants, the beneficiaries are given the right to acquire new shares of common stock at a pre-determined option price. The purpose of the grants is to assist us in attracting, retaining and motivating officers, employees, directors and consultants. In addition, these awards provide us with the ability to provide incentives that are directly linked to the performance of our business and the related increase in shareholder value.

Stock options grants have a maximum term of five years. As determined by our Board of Directors, our stock-based awards vest over periods ranging up to four years or upon achievement of defined performance criteria. In addition, vesting of certain awards could be accelerated when the fair value of our stock reaches defined targets.

The exercise price for each stock option is determined by the Board of Directors based upon considerations such as the fair value of the underlying common stock and certain market conditions. The determination of the fair value of our common stock takes into account the price at which our shares are being traded on the NOTC, recent equity financings and third-party valuations.

A summary of the outstanding stock options as of June 30, 2015 is as follows:

		Options Outstanding		
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
				(in thousands)
Outstanding—December 31, 2014	10,176,000	$0.74	3.72	$1,011
Granted	11,878,000	$1.64		
Forfeited	(25,000)	$0.73		
Exercised				
Outstanding—June 30, 2015	22,029,000	$1.06	$4.72	$6,904
Vested and exercisable—June 30, 2015	5,360,991	$0.34	2.22	$5,298
Vested and expected to vest—June 30, 2015	22,029,000	$1.06	4.72	$6,904

Included in the options outstanding at June 30, 2015 are stock options to purchase 3,300,000 shares at an average exercise price of $0.31 per share accounted for as liabilities, which were fully vested as of June 30, 2015, and stock options to purchase 2,000,000 shares at an average exercise price of $1.05 per share which are subject to acceleration if the fair value per share of our stock reaches 12 Norwegian Kroner ($1.46 at June 30, 2015), and 800,000 shares at an average exercise $1.24 per share which are subject to acceleration if the fair value per share of our stock reaches 15 Norwegian Kroner ($1.82 at June 30, 2015) of which were all unvested as of June 30, 2015. In addition, the options outstanding include 2,348,333 options that will vest when we begin trading on Nasdaq, provided that such trading date occurs prior to May 26, 2017, 1,174,167 shares that vest upon a market appreciation event so long as it occurs prior to May 26, 2019 and 1,174,167 shares that will vest upon the one year anniversary of the market appreciation event. The market appreciation event is defined as the last trading day in the period in which the closing stock price on each of 20 consecutive trading days reported on NASDAQ has been at least $3.06.

The aggregate intrinsic values of options outstanding, vested and exercisable, and vested and expected to vest were calculated as the difference between the exercise price of the options and the estimated fair value of our common stock as of December 31, 2014 and June 30, 2015, respectively.

Stock-based compensation expense

We recognized stock-based compensation expense for employees and non-employees in the accompanying consolidated statements of operations as follows (in thousands):

	Six Months Ended June 30,	
	2014	2015
Research and development	$ 58	$ 947
General and administrative	88	1,872
Total stock-based compensation	$146	$2,819

Included in these amounts was stock compensation expense (credit) attributed to liability-classified awards of $(0.0) and $ 2.3 million, for the six months ended June 30, 2014 and 2015, respectively. As of June 30, 2015, the total unrecognized compensation expense related to unvested options, net of estimated forfeitures, was $3.4 million, which we expect to recognize over an estimated weighted-average period of 1.75 years.

In determining the estimated fair value of the stock-based awards, we use the Black-Scholes option-pricing model and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

The fair value of stock option awards was estimated with the following assumptions:

	Six Months Ended June 30,	
	2014	2015
Expected term (in years)	3.23	5.92 (0.2)%-
Risk-free interest rate	0.0%-0.6%	0.6%
Expected volatility	68.3%-80.7%	70.9%-73.4%
Dividend rate	0%	0%