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MC2 Therapeutics A/S

Agern Alle 24-26
2970 Hørsholm
CVR No. 29526346

Annual report 2021

The Annual General Meeting adopted the annual report on 30.06.2022

Jesper Jørn Lange
Chairman of the General Meeting

Contents

Entity details

Entity

MC2 Therapeutics A/S

Agern Alle 24-26

2970 Hørsholm

Business Registration No.: 29526346

Registered office: Rudersdal

Financial year: 01.01.2021 - 31.12.2021

Board of Directors

Jesper Jørn Lange

Mette Vagner Johannesen

Mads Jørgen Nøhr Clausen

Anders Dahlgaard Hove

Executive Board

Jesper Jørn Lange

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of MC2 Therapeutics A/S for the financial year 01.01.2021 - 31.12.2021.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2021 and of the results of its operations for the financial year 01.01.2021 - 31.12.2021.

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

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

Hørsholm, 30.06.2022

Executive Board

Jesper Jørn Lange

Board of Directors

Jesper Jørn Lange **Mette Vagner Johannesen**

Mads Jørgen Nøhr Clausen **Anders Dahlgaard Hove**

Independent auditor's report

To the shareholders of MC2 Therapeutics A/S

Opinion

We have audited the financial statements of MC2 Therapeutics A/S for the financial year 01.01.2021 - 31.12.2021, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2021 and of the results of its operations for the financial year 01.01.2021 - 31.12.2021 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the management commentary
Management is responsible for the management commentary.

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

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

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

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

Hørsholm, 30.06.2022

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Jens Sejer Pedersen
State Authorised Public Accountant
Identification No (MNE) mne14986

Management commentary

Primary activities

The Company is a commercial stage pharmaceutical company committed to build leadership in therapies for autoimmune and chronic inflammatory skin and eye conditions. The Company is the holding company of the MC2 Therapeutics Group ("Group"), which also comprises the UK subsidiary MC2 Therapeutics Ltd., at which material R&D and commercial activities is conducted.

MC2 is using its proprietary PAD™ Technology and years of research into the pathophysiology of poorly understood diseases to develop first or best-in-class topical therapies and treatment paradigms. PAD™ Technology enables a new type of cream, lotion and eye drops that holds the potential of setting a new standard in topical therapies.

Description of material changes in activities and finances

During the year the Group has achieved significant milestones including:

1. Successfully launched Wynzora® Cream in the US for the treatment of plaque psoriasis in adults. MC2 Therapeutics continues to control Wynzora® in the US and is responsible for material aspects of the launch, marketing and sales of Wynzora® including funding, manufacturing, positioning, market access, pricing, MA holder and co-promotion and has engaged the US company EPI Health LLC, a Novan Inc company to handle the sales force, distribution, detailing, financial reporting and medical affairs. This setup provides economics of scale for both parties.
2. Successfully established commercial manufacturing of Wynzora® in the US;
3. Entering into a License, Collaboration and Commercialization Agreement with Almirall S.A. concerning launch of Wynzora® in EU;
4. Marketing Authorization Approval for Wynzora® in numerous countries in Europe for treatment of plaque psoriasis;
5. Prepared MC2-03 Sjogren keratitis for Ph 3 clinical trial supported by scientific advice from EMA
6. Breakthrough research in urea associated diseases with an initial focus on starting phase 2 clinical trials in CKD-ap 3-5 (Uremic Pruritus) and Lichen Sclerosus - two indications with currently no approved therapies
7. Booked revenues in the amount of (DKK 100,130,000) (~$14m)

The result shows a loss of DKK (25,2) million and shall be seen in context with material market effort for Wynzora® in the US market, development costs defrayed in the group being recognized as expenses on a current basis. The management regards the result as satisfactory.

Events after the balance sheet date

In connection with changes of ownership of its US partner EPI Health Inc. the Group has negotiated an amended Collaboration and Commercialization with EPI Health Inc. in March 2022 and in connection herewith obtains a capital gain equal to approximately DKK 24M. The amount is considered a non-adjusting event and is recognized as gain in the financial year 2022.

Almirall S.A., Spain has successfully launched Wynzora® in first countries in Europe which has triggered milestone payments to MC2 Therapeutics. The Company is continuing a global roll-out of Wynzora® and is expecting significant revenues from these commercial activities in the coming years. The Company is not significantly negatively impacted by COVID-19. No other events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

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

Income statement for 2021

	Notes	2021 DKK	2020 DKK
Gross profit/loss		**27,734,440**	**15,938,167**
Staff costs	3	(26,007,015)	(14,706,092)
Depreciation, amortisation and impairment losses		(275,516)	(244,597)
Operating profit/loss		**1,451,909**	**987,478**
Income from investments in group enterprises		(28,985,945)	(94,965,266)
Other financial income	4	5,488,657	9,524,500
Other financial expenses	5	(3,177,579)	(2,616,442)
Profit/loss before tax		**(25,222,958)**	**(87,069,730)**
Tax on profit/loss for the year	6	0	129,076
Profit/loss for the year		**(25,222,958)**	**(86,940,654)**
Proposed distribution of profit and loss			
Retained earnings		(25,222,958)	(86,940,654)
Proposed distribution of profit and loss		**(25,222,958)**	**(86,940,654)**

Balance sheet at 31.12.2021

Assets

	Notes	2021 DKK	2020 DKK
Acquired intangible assets		0	27,683
Intangible assets	7	**0**	**27,683**
Other fixtures and fittings, tools and equipment		406,706	527,596
Leasehold improvements		146,939	53,321
Property, plant and equipment	8	**553,645**	**580,917**
Investments in group enterprises		46,431,523	82,253
Deposits		271,579	181,370
Financial assets	9	**46,703,102**	**263,623**
Fixed assets		**47,256,747**	**872,223**
Receivables from group enterprises		1,096,655	26,380,740
Other receivables		884,166	929,089
Prepayments		899,124	158,183
Receivables		**2,879,945**	**27,468,012**
Cash		**1,465,818**	**7,804,656**
Current assets		**4,345,763**	**35,272,668**
Assets		**51,602,510**	**36,144,891**

Equity and liabilities

	Notes	2021 DKK	2020 DKK
Contributed capital		6,611,484	6,611,484
Retained earnings		(27,709,070)	7,318,699
Equity		**(21,097,586)**	**13,930,183**
Provisions for investments in group enterprises		0	9,481,992
Provisions		**0**	**9,481,992**
Other payables		914,131	1,058,189
Non-current liabilities other than provisions	10	**914,131**	**1,058,189**
Bank loans		0	111,806
Trade payables		2,360,973	1,912,866
Payables to group enterprises		48,124,134	1,261,494
Payables to shareholders and management		19,131,810	6,057,600
Other payables		2,169,048	2,330,761
Current liabilities other than provisions		**71,785,965**	**11,674,527**
Liabilities other than provisions		**72,700,096**	**12,732,716**
Equity and liabilities		**51,602,510**	**36,144,891**
Going concern	1		
Uncertainty relating to recognition and measurement	2		
Contingent liabilities	11		

Statement of changes in equity for 2021

	Contributed capital DKK	Retained earnings DKK	Total DKK
Equity beginning of year	6,611,484	7,318,699	13,930,183
Exchange rate adjustments	0	(9,804,811)	(9,804,811)
Profit/loss for the year	0	(25,222,958)	(25,222,958)
Equity end of year	**6,611,484**	**(27,709,070)**	**(21,097,586)**

Notes

1 Going concern

The Company have established credit facilities from existing shareholder which are deemed sufficient to finance the Groups activities throughout the financial year 2022.

2 Uncertainty relating to recognition and measurement

In accordance with English tax legislation, the subsidiary, MC2 Therapeutics Ltd, has an option to claim tax relief on research and development costs. At the balance sheet date the tax relief for 2020 has been paid out, and Management has estimated that the tax relief claim for 2021, which has been calculated using the same principles and method as 2020, amounts to GBP 1.100k. The final amount is subject to a detailed calculation and negotiations with the Tax Authorities, and are therefore subject to uncertainty.

3 Staff costs

	2021 DKK	2020 DKK
Wages and salaries	23,553,196	12,514,400
Pension costs	1,736,779	2,060,433
Other social security costs	126,804	107,536
Other staff costs	590,236	23,723
	26,007,015	**14,706,092**

Average number of full-time employees	**19**	**12**

4 Other financial income

	2021 DKK	2020 DKK
Financial income from group enterprises	5,042,653	8,738,676
Other interest income	0	45,667
Exchange rate adjustments	446,004	740,157
	5,488,657	**9,524,500**

5 Other financial expenses

	2021 DKK	2020 DKK
Financial expenses from group enterprises	2,037	0
Other interest expenses	3,113,240	798,267
Exchange rate adjustments	28,440	1,818,175
Other financial expenses	33,862	0
	3,177,579	**2,616,442**

6 Tax on profit/loss for the year

	2021 DKK	2020 DKK
Adjustment concerning previous years	0	(129,076)
	0	**(129,076)**

7 Intangible assets

	Acquired intangible assets DKK
Cost beginning of year	151,000
Cost end of year	**151,000**
Amortisation and impairment losses beginning of year	(123,317)
Amortisation for the year	(27,683)
Amortisation and impairment losses end of year	**(151,000)**
Carrying amount end of year	**0**

8 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK	Leasehold improvements DKK
Cost beginning of year	937,574	122,190
Additions	89,406	131,155
Cost end of year	**1,026,980**	**253,345**
Depreciation and impairment losses beginning of year	(409,978)	(68,869)
Depreciation for the year	(210,296)	(37,537)
Depreciation and impairment losses end of year	**(620,274)**	**(106,406)**
Carrying amount end of year	**406,706**	**146,939**

9 Financial assets

	Investments in group enterprises DKK	Deposits DKK
Cost beginning of year	556,658,447	181,370
Additions	301,626,319	90,209
Cost end of year	**858,284,766**	**271,579**
Impairment losses beginning of year	(556,576,194)	0
Exchange rate adjustments	(9,804,811)	0
Share of profit/loss for the year	(28,985,945)	0
Investments with negative equity value depreciated over receivables	(207,004,301)	0
Investments with negative equity value transferred to provisions	(9,481,992)	0
Impairment losses end of year	**(811,853,243)**	**0**
Carrying amount end of year	**46,431,523**	**271,579**

Investments with negative equity value depreciated over receivables and transferred to provisions comprise reversal of prior years off-setting of losses over receivables and provisions.

Investments in subsidiaries	Registered in	Corporate form	Equity interest %	Equity DKK	Profit/loss DKK
MC2 Therapeutics Ltd.	Guildford	Ltd.	100.00	46,108,000	(36,526,000)
Biomee ApS	Hørsholm	ApS	100.00	208,000	7,786,000
Zadec ApS	Hørsholm	ApS	100.00	(1,419,000)	(273,000)
MC2 Therapeutics Inc.	Delaware	Inc.	100.00	116,000	26,000

10 Non-current liabilities other than provisions

	Due after more than 12 months 2021 DKK
Other payables	914,131
	914,131

11 Contingent liabilities

	2021 DKK	2020 DKK
Other contingent liabilities	340,000	340,000
Contingent liabilities	**340,000**	**340,000**

The Company has submitted letter of support to a number of subsidiaries. The Company has accepted an obligation to, once or several times, to supply necessary liquidity to subsidiaries on order for them to continue operations until May 2023.

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

Accounting policies

Reporting class

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

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

Consolidated financial statements

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

Recognition and measurement

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

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

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

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

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

Income statement

Gross profit or loss

Gross profit or loss comprises revenue and external expenses.

Revenue

Revenue from commercial sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred, or to be incurred, in respect of the transaction, can be measured reliably and is recognized in accordance with the terms of sales contracts.

Revenue is measured at the contractual sales price, reflecting the consideration received or receivable from customers, net of any value added or sales taxes, and provisions for a variety of sales deductions including; managed healthcare organizations, and government programs and co-pay arrangements. In addition, goods may be sold principally sold under a "sale-or-return" basis, where customers may return products in line with the

Group's return policy. Sales deductions and product returns are considered variable consideration and are estimated at the time of sale using the expected value method.

Unsettled sales rebates and product returns are recognized as provisions when timing or amount is uncertain. Payable amounts that are absolute are recognized as other liabilities. Sales discounts and rebates that are payable to customers are off-set in trade receivables.

The Group has used the guidance under IAS18 as interpretation on the general principles in the Danish Financial Statements Act to determine which part are seen as Principal in promotion and collaboration agreement with EPI Health, LCC. Management has concluded that the Group are seen as Principal, and has decided to recognize revenue Gross of cost of sales, distribution, sales and staff costs initially held by EPI Health, LLC.

Other revenue

Other revenue is primarily generated from license and commercialization agreements as well as intercompany recharge of administrative costs.

Royalty income is recognized on an accruals basis when the sale is made, and the company becomes entitled to the royalty receipt. Milestone income is recognized upfront on completion of the milestone in accordance with the terms of the contract.

Milestone income is recognised upfront on completion of the milestone in accordance with the terms of the contract.

License fee income is recognized when the performance obligation is fulfilled, when customer acceptance is obtained, and the license meets the agreed contract specifications.

Intercompany recharge of costs are recognized as costs are incurred. Revenue from intercompany recharges is measured at cost held plus a mark-up.

Other revenue is stated net of value added taxes and discounts.

Other external expenses

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

Staff costs

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

Depreciation, amortisation and impairment losses

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

Income from investments in group enterprises

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

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

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

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

Balance sheet

Intellectual property rights etc
Intellectual property rights etc comprise acquired intellectual property rights.

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

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

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

Cost comprises the acquisition price.

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

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

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

Estimated useful lives and residual values are reassessed annually.

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

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

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

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

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

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

Receivables
Receivables are measured at amortised cost, usually equaling nominal value less write-downs for bad and doubtful debts.

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

Cash
Cash comprises cash in hand and bank deposits.

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

Operating leases
Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

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