Evaxion Biotech A/S

Annual Report for January 1, 2021 – December 31, 2021

CVR No 31 76 28 63

Dr. Neergaards Vej 5F, DK-2970 Hoersholm

As adopted on the Annual General Meeting on 2022

Lars Lüthjohan Jensen

Lars Lüthjohan Jensen
Chairman of the General Meeting

Contents

Entity details

Entity
Evaxion Biotech A/S
Dr Neergaards Vej 5F
2970 Hørsholm

Central Business Registration No (CVR): 31762863
Registered in: Hørsholm
Financial year: January 1 - December 31

Board of Directors
Marianne Søgaard
Roberto Prego Pineda
Steven J. Projan
Lars Holtug

Executive Board
Lars Aage Staal Wegner
Niels Iversen Møller
Andreas Holm Mattsson

Auditors
EY Godkendt Revisionspartnerselskab
Dirch Passers Alle 36
Postboks 250
2000 Frederiksberg

EY Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Evaxion Biotech A/S for the financial year January 1, 2021 – December 31, 2021.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at December 31, 2021 of the Company and of the results of the Company's operations for 2021.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Hørsholm, March 31, 2022

Executive Board

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Lars Staal Wegner
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Lars Aage Staal Wegner
CEO

DocuSigned by:
Niels Iversen Møller
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Niels Iversen Møller

DocuSigned by:
Andreas Holm Mattsson
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Andreas Holm Mattsson

Board of Directors

DocuSigned by:
Marianne Søgaard
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Marianne Søgaard
Chairman

DocuSigned by:
Roberto Prego
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Roberto Prego Pineda

DocuSigned by:
Steven J. Projan
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Steven J. Projan

DocuSigned by:
Lars Holtug
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Lars Holtug

Independent Auditor's Report

To the Shareholders of Evaxion Biotech A/S

Opinion

We have audited the financial statements of Evaxion Biotech A/S for the financial year January 1, 2021 – December 31, 2021, which comprise statement of profit or loss, balance sheet, statement of changes in equity and notes, including 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 financial position of the Company at December 31, 2021 and of the results of the Company's operations for the financial year January 1, 2021 – December 31, 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 our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company 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 as to 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 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 the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, 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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review 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's review.

Copenhagen, March 31, 2022

EY Godkendt Revisionspartnerselskab
CVR No 30 70 02 28

DocuSigned by:	DocuSigned by:
Christian S Johansen	Henrik Andersen
00792352D19BC4D6...	32267928D6CE409...
Christian Schwenn Johansen	Henrik Andersen
State Authorised Public Accountant	State Authorised Public Accountant
mne33234	mne32084

Management's Review

Primary activities

The activities of Evaxion Biotech consist of the development of human immune system detection platforms utilizing artificial intelligence algorithms for the identification of novel vaccine antigens against infectious diseases and personalized cancer treatments.

Development in activities and finances

Evaxion Biotech develops novel infectious disease vaccines and personalized immuno-oncology therapies for the global market. In recent years, the Company has built and maintained Danish and foreign strategic partnerships. The aim has been to establish a pathway to accelerated therapy development while creating therapeutic synergies with various vaccine technologies.

Evaxion Biotech has invested substantial expertise and resources in the development of human immune system detection platforms, allowing the Company to identify novel vaccine candidates for infectious diseases and personalized patient therapy for cancer. The Company aspires to utilize its expertise to create a broad human immune system detection platform allowing it to expand into other human disorders and diseases including viruses, auto-immune disorders, allergies, parasites and microbiome dysbiosis. The Company has also invested substantially in the creation of novel patents in various jurisdictions, intellectual property, know-how and trade secrets as methods of protecting its novel capabilities in working toward cures in high patient need areas.

Evaxion Biotech delivered net losses of DKK 154,885 thousand due to significant investments in our leading AI platforms, pre-clinical work and the start of a human clinical trial on the leading therapy candidate, which Management believes to be a sound and necessary investment in patient therapy. Management has described the assessment supporting preparing these financial statements based on the going concern assumption in note 1.

On February 5, 2021, the Company completed its initial public offering through which the Company issued and sold 3,000,000 ADSs, with each ADS representing one ordinary share, at a price per ADS of USD 10.00. The Company received aggregate net proceeds of approximately USD 25.4 million from the initial public offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. Upon the completion of the initial public offering, our registered, issued, and outstanding was nominal DKK 19,198,668 divided into 19,198,668 ordinary shares of DKK 1.

On November 9, 2021, the Company completed a follow-on public offering through which we issued and sold 3,942,856 ADSs, each of which represents one ordinary share, at a price to the public of $7.00 per ADS. The shares issued were inclusive of the 514,285 ADSs issued to the underwriters pursuant to the full exercise of their option to purchase additional shares on November 5, 2021. We received aggregate net proceeds of $24.9 million from the follow-on public offering, which includes the funds received for the additional shares issued to the underwriters, after deducting the underwriting discounts and commissions and offering expenses payable by us. Upon the completion of the follow-on public offering, the Company's registered, issued, and outstanding share capital was nominal DKK 23,141,524.

At year end, due to warrant exercise, the outstanding share capital was nominal DKK 23,203,808.

In December 2021, as a result of a tax ruling from the Australian tax authorities, we were forced to reevaluate our Australian tax benefit and transfer pricing setup. This resulted in our Australian subsidiary no longer acting by itself, but acting as an agent of the Parent Company. Therefore, the Australian subsidiary invoiced the Company in 2021 for all incurred cost for 2021 and 2020, including a markup on certain costs. This has been expensed as Research and Development costs in 2021.

We are in the process of finalizing the changes of the transfer pricing setup and the related documentation.

Subsequent events

Refer to note 1.2 for details on significant events after the reporting date.

Update regarding COVID-19

Evaxion continues to monitor the COVID-19 pandemic and take precautions to keep our employees, patients and business and clinical partners safe. The Company maintains compliance with government and health authorities. Additionally, we have adapted the way in which we work to ensure we are doing our part in reducing transmission of COVID-19.

The Company has worked closely with laboratories and investigators to ensure safe continuation and working requirements of our ongoing research activities and human clinical trials. The Company has not experienced a materially negative impact from COVID-19.

While business travel has been limited, the Company has remained active and effective in the process of raising capital with institutional investors by conducting key meetings on a virtual basis.

Russia's Invasion of Ukraine

On February 24, 2022, Russia invaded Ukraine creating a global conflict. The resulting conflict and retaliatory measures by the global community have created global security concerns, including the possibility of expanded regional or global conflict, which have had, and are likely to continue to have, short-term and more likely longer-term adverse impacts on Ukraine and Europe and around the globe. Potential ramifications include disruption of the supply chain including research activities and complications with the conduct of ongoing and future clinical trials of our product candidates, including patient enrollment. We rely on global networks of contract research organizations and clinical trial sites to enroll patients, Delays in research activities or in the conduct of our clinical trials could increase associated costs and, depending upon the duration of any delays, require us to find alternative suppliers at additional expense. In addition, the conflict between Russia and the Ukraine has had significant ramifications on global financial markets, which may adversely impact our ability to raise capital on favorable terms or at all.

Financial statements

Financial Statements - table of contents

Notes to the financial statements

Financial statements January 1 - December 31

Income statement

(DKK in thousands)	Note	Years Ended December 31, 2021	2020
Research and development costs	2,3	(144,358)	(56,193)
General and administrative costs	2,3	(39,049)	(36,654)
Operating loss		**(183,407)**	**(92,847)**
Result from investments in subsidiaries	4	15,862	(10,598)
Finance income	5	9,954	1,436
Finance expenses	5	(2,824)	(1,409)
Net loss before tax		**(160,415)**	**(103,418)**
Income taxes	6	5,530	5,500
Net loss for the year		**(154,885)**	**(97,918)**

Proposed distribution of profit/loss

Accumulated deficit		(154,885)	(97,918)
		(154,885)	**(97,918)**

Financial statements January 1 - December 31

Balance sheet

(DKK in thousands)	Note	December 31, 2021	December 31, 2020
ASSETS			
Non-current assets			
Intangible assets			
Acquired licenses		608	608
	7	**608**	**608**
Property and equipment			
Property		17,059	118
Leasehold improvements		9,897	118
Other equipment		6,985	1,209
	8	**33,941**	**1,327**
Financial assets			
Investments in subsidiaries	*4*	4,602	7,051
Leasehold deposits		1,253	1,443
		5,855	**8,494**
Total non-current assets		**40,404**	**10,429**
Current assets			
Receivables			
Prepayments and other receivables		7,467	9,334
Deferred offering costs		0	10,472
Tax receivables		5,500	5,500
		12,967	**25,306**
Cash		**209,641**	**34,758**
Total current assets		**222,608**	**60,064**
TOTAL ASSETS		**263,012**	**70,493**

Financial statements January 1 - December 31

Balance sheet

(DKK in thousands)	Note	December 31, 2021	December 31, 2020
EQUITY AND LIABILITIES			
Equity			
Share capital		23,204	900
Share premium		514,609	220,466
Foreign currency translation reserve		611	(106)
Net revaluation reserve		4,601	0
Accumulated deficit		(330,207)	(178,645)
Total equity		**212,818**	**42,615**
Non-current liabilities			
Lease liabilities	*9*	14,476	0
Loan from lessor	*9*	6,852	0
Provisions		1,007	0
Total non-current liabilities		**22,335**	**0**
Current liabilities			
Lease liabilities	*9*	2,061	121
Loan from lessor	*9*	825	0
Payables to group enterprises		149	0
Trade payables		18,031	20,287
Other payables		6,793	7,470
Total current liabilities		**27,859**	**27,878**
Total liabilities		**50,194**	**27,878**
TOTAL EQUITY AND LIABILITIES		**263,012**	**70,493**

Financial statements January 1 - December 31

Statements of Changes in Equity

(DKK in thousands)	Note	Share capital	Share premium	Foreign currency translation reserve	Net revaluation reserve	Accumulated deficit	Total equity
Equity at December 31, 2019		844	165,382	—	—	(103,727)	62,499
Net loss for the year		—	—	—	—	(97,918)	(97,918)
Exchange rate adjustment		—	—	(106)	—	—	(106)
Share-based compensation		—	—	—	—	23,001	23,001
Issuance of shares for cash		56	56,795	—	—	—	56,851
Transaction costs		—	(1,712)	—	—	—	(1,712)
Equity at December 31, 2020		900	220,465	(106)	—	(178,644)	42,615
Transfer		—	—	106	(106)	—	—
Net loss for the year*		—	—	—	5,264	(160,149)	(154,885)
Tax on equity movement		—	—	—	—	(30)	(30)
Bonus share issuance	*11*	15,299	(15,299)	—	—	—	—
Exchange rate adjustments		—	—	611	(557)	—	54
Share-based compensation		—	—	—	—	8,616	8,616
Issuance of shares for cash		7,005	356,477	—	—	—	363,482
Transaction costs		—	(47,034)	—	—	—	(47,034)
Equity at December 31, 2021		23,204	514,609	611	4,601	(330,207)	212,818

**DKK 5,264 thousand due to accumulated results in subsidiary. Profit in subsidiary of DKK 15,862 thousand in 2021, and loss in subsidiary of DKK 10,598 thousand in 2020.*

Notes

1 Basis of preparation

The Financial statements of Evaxion Biotech A/S have been prepared in accordance with the Danish Financial statements Act applicable to class B entities entities and elective choice of certain provisions applying to reporting class C entities. The Company has elected to apply the guidance in IFRS 16 as the basis for recognition and measurement of leases, the guidance in IFRS 15 as the basis for recognition and measurement of revenue from contracts with customers and measurement of liabilities and the guidance in IFRS 2 as the basis for recognition and measurement of equity settled sharebased payment.

The balance sheet is presented based on a current/non-current distinction.

The financial statements are presented in Danish Kroner ("DKK"), and rounded to nearest thousand.

All financial assets and liabilities are measured at amortized cost unless otherwise stated.

The financial statements have been prepared on a going concern basis using a historical cost basis.

Pursuant to sections §110, of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

Certain items in prior year financial statements have been reclassified to conform to the current period's presentation.

Basis of Going Concern

The Company's Board of Directors has, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Based on the Company's current cash on hand, proceeds secured through its recent IPO and follow-on public offering, together with access to its EIB loan, of which the Company has already received tranche no. 1 of €7 million on February 17, 2022, will allow the Company to meet its liabilities as they fall due for at least 12 months from December 31, 2021. Thus, the financial statements are prepared on a going concern basis of accounting.

Share-based compensation

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the share awards is determined at the date of grant using generally accepted valuation techniques or valuation based on the Company's fundraising events. Assumptions are made and judgments are used in applying valuation techniques. Prior to the Company's IPO completed in February 2021, these assumptions and judgments include estimating the fair value for the underlying Ordinary share on the warrant grant date, as well as the likelihood of liquidity events such as IPOs. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates as well as the term applied to the expense recognition.

Subsequent to the Company's IPO completed in February 2021, determining the initial fair value and subsequent accounting for equity awards require significant judgment regarding expected life and volatility of an equity award; however, as a public listed company there is objective evidence of the fair value of an ordinary share on the date an equity award is granted. Refer to Note 3 for further detail surrounding share-based compensation.

Leasehold Improvements and Loan from Lessor

A significant judgment was made in respect of determining whether customization of leased premises forms part of the lease or is a leasehold improvement funded by the lessor. See the section "Leasehold improvements and Loan from lessor" in Note 9.

There have been no other changes to the application of critical accounting judgments, or estimation uncertainties regarding accounting estimates.

1.1 Accounting policies

Foreign currency translation

Foreign currency transactions are translated into DKK using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as financial income or financial expenses in the statements of comprehensive loss. Non-monetary items in foreign currency which are measured at cost at the statements of financial position date are translated using the exchange rates at the date of the transaction.

Investments in foreign subsidiaries are translated as follows:

Income statement

A proportionate share of the underlying entity's profit/loss after tax is recognised in the income statement according to the equity method. Share of profit/loss after tax in the subsidiary is presented as a separate line item in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries.

Balance sheet

Equity investments in the subsidiary is measured according to the equity method, which is considered a measurement method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see below.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Dividend received is deducted from the carrying amount.

Equity investments in subsidiaries and associates measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Income statement

Research and development expenses

Research and development expenses are primarily intragroup and external costs incurred in the development of the Company's product candidates, including personnel costs, share-based compensation for employees, external research and development expenses, maintenance of the Company's patents, overhead allocation and enhancements and maintenance of the Company's technology platforms.

The research activities are comprised of activities performed before filing an Investigational New Drug Application ("IND") or equivalent and necessary pre-clinical activities for such product candidates. All research expenses are recognized in the period in which they are incurred and payments made prior to the receipt of goods or services to be used in research and development are deferred until the goods or services are received. The Company records accruals for estimated research and development costs, comprising payments for work performed by third-party contractors and others. Payments for these activities are based on the terms of the individual agreements, which may differ from the pattern of costs incurred, in which case, they are reflected in the financial statements as expense, prepaid expense or accrued expense.

The development activities are comprised of the activities performed following the filing of an IND or equivalent clinical-enabling activities for such product candidates, including but not limited to, research and clinical research activities. In line with industry practice, intragroup and subcontracted development costs are expensed as incurred. Due to regulatory uncertainties and other uncertainties inherent in the development of new products, development expenses do not qualify for capitalization as intangible assets until marketing approval by a regulatory authority is obtained or considered highly probable.

Contract Research Organizations expenses and related prepayments and accruals

Substantial portions of the Company's clinical studies are performed by third-party laboratories, medical centers, contract research organizations and other vendors (collectively, the "CROs"). The CROs generally bill monthly or quarterly for services performed. For studies, the Company accrues expenses based upon estimated percentage of work completed.

The Company's estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. The Company evaluates the estimates to determine if adjustments are necessary or appropriate based on information received.

CROs invoice the Company upon the occurrence of predetermined contractual or activity-based milestones; however, the timing of these invoices and the Company's related payments often do not correspond directly to the level of performance of contracted activities. To the extent payments are made by the Company in advance of the related activities performed by the CROs, they are included in prepayments and other receivables and expensed when the activities performed by the CROs. To the extent the payments are made by the Company following the performance of the related activities, the expense is accrued for as trade payables.

Income from government grants

The Company receives grants for certain research and development activities. The grant income is recognized as a reduction of research and development expenses in the period in which the underlying expenditures were incurred and when there is reasonable assurance that the Company will comply with all conditions to receive the grant income. Government grants comprise direct grants.

General and administrative expenses

General and administrative expenses consist primarily of fees paid to external consultants and personnel costs, including share-based compensation for employees. In addition, general and administrative expenses also include depreciation and other expenses for the Company's corporate headquarters as well as other allocated overhead.

Share-based payments

The Company issues warrants as an incentive to employees and non-employees. The fair value of the warrants granted is recognized as an expense with a corresponding credit to accumulated deficit. The fair value is expensed over the requisite service period of the awards. The expense recognition is based on an estimate of the number of warrants expected to vest. The estimate is reassessed regularly, and on a cumulative basis, the expense is equal to the fair value of the number of warrants which actually vest.

For employees and consultants providing services similar to employees of the Company, the fair value of the equity instruments is determined at the date of grant resulting in a fixed fair value at grant date that is not adjusted for future changes in the fair value of the equity awards that may occur over the service period. The grant date is defined as the date at which the parties agree to the contractual terms.

For consultants providing other services that are not similar to employees of the Company, the transactions are measured at the fair value of the services received unless this is not reliably measurable. In such cases, the transactions are measured at fair value of the equity instruments granted at the dates when the services are provided.

Modification of warrants which are beneficial are accounted for with their incremental value or over the shorter vesting period. Non-beneficial modifications such as an extension of the vesting period are not accounted for. Consequently, the original terms are deemed to continue to exist. The Company estimates the fair value of warrants using the underlying value of the Company's ordinary shares. Since the warrants granted before December 2020 are exercisable for nominal consideration, the warrants are valued using the fair value of the Company's ordinary shares on grant date less the exercise consideration. Warrants granted during 2021 are valued using a black-scholes share option pricing model. The assumptions used in calculating the fair value of share-based awards represent management's best estimates and involve inherent uncertainties and the application of management's judgment. The key assumption in this estimate is the fair value of the Company's ordinary share on the warrant grant date and estimated volatility of the underlying share.

Result from investments in subsidiaries

The item "Result from investments in subsidiaries" in the income statement includes the proportionate share of the result for the year in the Australian and American subsidiary.

Foreign subsidiaries are considered separate entities. The income statements are translated at the average exchange rates for the quarter, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign entities at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in the net revaluation reserve according to the equity method under equity.

Foreign exchange adjustments of balances with foreign subsidiaries that are considered part of the total investment in the subsidiary are recognised directly the translation reserve under equity. Foreign exchange gains and losses on loans of foreign subsidiaries are also recognised directly in equity, which applied in 2020, before changing the transfer pricing setup.

On recognition of foreign subsidiaries that are integral entities, monetary items are translated at the exchange rates at the balance sheet date. Non-monetary items are translated at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Finance Income

Finance income is comprised primarily of foreign currency gains and is recognized with the amounts relating to the financial year.

Finance Expense

Finance expense is comprised primarily of interest expense determined in accordance with the effective interest method and the effect of reassessment arsing from change in the expected settlement date, foreign currency losses and interest on the Company's lease liability.

Income tax

The income tax for the period comprises current and deferred tax, including prior-year adjustments and changes in provisions for uncertain tax positions. Tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in equity.

Research and development tax credits are available to the Company under the tax laws of Denmark, based on qualifying research and development spend. Such tax credits are recognized as an income tax benefit.

Accruals for uncertain tax positions and/or valuation of government grant receivables require management to make judgments of potential exposures. Accruals for uncertain tax positions and/or valuation of government grant receivables are measured using either the most likely amount or the expected value amount, depending on which method the entity expects to better predict the resolution of the uncertainty. Tax benefits are not recognized unless the tax positions will probably be accepted by the tax authorities. This is based upon management's interpretation of applicable laws and regulations and the expectation of how the tax authority will resolve the matter. Once considered probable of not being accepted, management reviews each material tax benefit and reflects the effect of the uncertainty in determining the related taxable amounts.

Balance sheet

Deferred taxes

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Where the tax value can be determined according to alternative tax rules, deferred tax is measured on the basis of the planned use of the asset or the settlement of the obligation.

Deferred tax assets are measured at the value at which they are expected to be utilized, either through elimination against tax on future earnings or through a set-off against deferred tax liabilities. Deferred tax assets are set of within the same legal tax entity and jurisdiction.

The Company recognizes deferred income tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilized. Management has considered future taxable income in assessing whether deferred income tax assets should be recognized and has concluded that the deferred income tax assets do not meet the criteria for recognition as assets in the statements of financial position.

Tax receivables

Current tax assets for the current and prior periods are measured at the amount expected to be recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred offering costs

Offering costs, consisting of legal, accounting, printer and filing fees directly attributable to the issuance of new shares relating to the Company's planned initial public offering ("IPO"), are deferred and will be offset against proceeds from the IPO upon the effectiveness of the offering.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities for future remaining lease payments and right-of-use assets representing the right to use the underlying assets.

Leasehold improvements and Loan from lessor

The Company's lease contract comprises funding for the customization of the premises to the Company's specific needs. The payment is determined based on the actual costs incurred for the customization, a repayment period of 8 years and an interest rate of 6% per annum.

The Company has assessed whether this is a lease component, or a leasehold improvement funded by the lessor. We have considered the following factors:

1. Which party designed the customization
2. Which party had the right to direct changes to the work
3. Who is taking on the economic risk of the cost price of the work

A third party has designed the project according to the Company's instructions, and the Company had the right to direct changes to the work during the construction period. Further, the Company has the full economic risk of the work due to 1:1 linkage between construction costs and payments to the lessor. Consequently, the Company has assessed that the customization is a leasehold improvement funded by the lessor and accordingly presented a leasehold improvement and a corresponding liability for the loan from the lessor.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of the following payments, when applicable:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments (linked to an index or interest rate);
- expected payments under residual value guarantees;
- the exercise price of purchase options, where exercise is reasonably certain;
- lease payments in optional renewal periods, where exercise of extension options is reasonably certain;
- and penalty payments for the termination of a lease, if the lease term reflects the exercise of the respective termination option.

The lease payments are discounted using the interest rate implicit in the lease if this rate can be readily determined. Otherwise, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease liabilities are subsequently measured at amortized cost using the effective interest method. In addition, the carrying amount of the lease liabilities are remeasured if there is a modification, a change in the lease term, or a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

Intangible assets

The Company recognized intangible assets for licenses. Licenses are measured at cost less cumulative amortization and impairment. Cost is measured at fair value of the consideration transferred with addition of transactions costs. If additional consideration is transferred to the seller due to meeting certain milestones, these payments are added to the cost price once the conditions for making the payments are met.

The capitalized assets are amortized over their useful lives, which are determined on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the license or similar development agreement. Amortization commences only once the necessary regulatory and marketing approval has been received for the product candidates to which they relate. To date, the Company has not received any regulatory and marketing approval for any of its product candidates. Consequently, the Company did not recognize any amortization expense for its intangible assets.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

Assets	**Useful life**
Properties	10 years
Leasehold improvements	11 years
Other equipment	5 – 10 years

Impairment of non-financial assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Provisions

Provisions are recognized when we have an existing legal or constructive obligation as a result of events occurring prior to or on the balance sheet date, and it is probable that the utilization of economic resources will be required to settle the obligation. Provisions are measured as the best estimate of the expense necessary to settle the obligation at the balance sheet date. Provisions that are estimated to mature after more than one year after the balance sheet date are measured at their present values.

Right-of-use assets

The Company recognizes a right-of-use asset at the lease commencement date (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and restoration costs.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the right-of-use asset using the straight-line method. In addition, right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements.

Investments in subsidiaries

Investments in subsidiaries are recorded under the equity method, using the respective share of the net asset values in subsidiaries. Net profit/loss of subsidiaries less unrealised intra-group profits is recorded in the income statement of the parent company. Profits/loss in subsidiaries are recognized as profit/loss after tax.

Intragroup receivables which were neither likely planned nor likely to be paid within a foreseeable future were treated as part of the net investment in 2020.

The total net revaluation of investments in subsidiaries is allocated via the profit allocation to a "Net revaluation reserve" under equity.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are classified at initial recognition, including on the basis of the purpose for which the instrument was acquired and managed. This classification determines the valuation of the instruments.

(i) Non-derivative financial assets

Non-derivative financial assets are recognized initially on the date they are originated. The Company derecognizes non-derivative financial assets when the contractual rights to cash flows expire or it transfers the right to receive cash flows in a transaction which transfers substantially all the risks and rewards of ownership of the asset. The Company's financial assets are initially recognized at fair value and subsequently measured at amortized cost less accumulated impairment losses.

The Company holds the following categories of non-derivative financial assets:

Prepayments and Other receivables

Receivables (including lease deposits, receivables and receivables from unpaid capital) represent the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). They are measured at amortized cost less impairment.

Prepayments include expenditures related to future financial periods and are measured at amortized cost

Cash and cash equivalents

Cash and cash equivalents are entirely comprised of cash held in banks.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities comprise other payables which are measured initially at fair value and subsequently at amortized cost.

Trade Payables

Trade payables and accruals relate to the Group's purchase of products and services from various vendors in the normal course of business.

Other Payables

Other payables are comprised of payables to clinical research organizations, employee liabilities and other liabilities. The contract liabilities consist of CROs and vendor accruals. Employee cost liabilities are comprised of provision for holiday allowance, provision for salaries and other employee related provisions. Other liabilities consist of commitments and liabilities related to government grants received in advance.

Debt

Debt is comprised of debt agreements that are carried at amortized cost using the effective interest method.

Equity

The share capital comprises the nominal amount of the company's ordinary shares, each at a nominal value of DKK 1 (Reduction from DKK 2 following a stock split of 2-1 ordinary share that came into effect on January 4, 2021).

Share Premium includes the share premium comprising the amount received, attributable to shareholders' equity, in excess of the nominal amount of the shares issued at the company's capital increases, reduced by any expenses directly attributable to the capital increases as well as translation reserves.

Translation reserves include exchange rate adjustments of equity investments in our group enterprises.

Net valuation reserve include the accumulated profit in group enterprises as wel as the exchange rate adjustments of equity investments in our group enterprises.

Accumulated Deficit include the accumulated profit or loss as well as well as the reserve for share-based payment represents the corresponding entries to the share-based payment recognized in the profit or loss, arising from our warrant programs.

1.2 Subsequent events

EIB Loan Drawdown

As of December 31, 2021, the Company initiated the draw down of the first tranche of the EIB Loan Agreement amounting to €7.0 million. The Company received the first tranche of €7.0 million on February 17, 2022.

Executive Management Agreements

The Company entered into agreements to hire executives in its Chief Operating Officer and Chief Financial Officer roles subsequent to the date of this annual report. The Chief Operating Officer joined the Company on March 14, 2022 and the Chief Financial Officer is expected to join the Company in August, 2022.

Russia's Invasion of Ukraine

On February 24, 2022, Russia invaded Ukraine creating a global conflict. The resulting conflict and retaliatory measures by the global community have created global security concerns, including the possibility of expanded regional or global conflict, which have had, and are likely to continue to have, short-term and more likely longer-term adverse impacts on Ukraine and Europe and around the globe. Potential ramifications include disruption of the supply chain including research activities and complications with the conduct of ongoing and future clinical trials of our product candidates, including patient enrollment. The Company relies on global networks of contract research organizations and clinical trial sites to enroll patients, Delays in research activities or in the conduct of our clinical trials could increase associated costs and, depending upon the duration of any delays, require us to find alternative suppliers at additional expense. In addition, the conflict between Russia and the Ukraine has had significant ramifications on global financial markets, which may adversely impact our ability to raise capital on favorable terms or at all.

2 Employee benefit expenses

	Years Ended December 31,	
(DKK in thousands)	**2021**	**2020**
Wages and salaries	47,705	26,288
Share-based compensation expenses	8,616	22,103
Defined contribution plans	4,118	1,348
Other social security expenses	175	110
Other staff expenses	2,305	1,287
Total	62,919	51,136

Employee benefit expenses are split in 2021 with DKK 49,470 thousand in Research and development costs (2020: 31,555) and DKK 13,449 thousand in General and administrative costs (2020: 19,581).

The average number of full-time employees was 53 in 2021, and 33 in 2020.

3 Share-based compensation

Warrant Program

The Company's Articles of Association allow for the granting of equity compensation, in the form of equity settled warrants, to employees, consultants and Scientific Advisory Board members who provide services similar to employees, members of executive management, and the board of directors. The warrants granted in 2018 or before become exercisable upon an exit event, which triggers an immediate vesting, or at any time as determined by the board of directors in accordance with the terms of the plan. The warrants granted in 2021 vest gradually over 36 months after grant date or in the case of warrants to the Board of Directors vest immediately. The warrants granted in 2020 vest either gradually over 36 months or vest immediately. Vested warrants granted in 2020 are exercisable in certain exercise windows beginning in the second half of the year of 2021. Warrants granted up until 2019 expire on December 31, 2036. Warrants granted in 2021 and 2020 expire on December 31, 2032 and 2031, respectively. For the years ended December 31, 2021, 2020 and 2019, the number of warrants outstanding as a percentage of outstanding ordinary shares was 11.8%, 13.8% and 13.5%, respectively.

On January 4, 2021, the Company effected its Stock Split which also resulted in a reduction of the nominal value of the Company's ordinary shares from DKK 2 to DKK 1. In accordance with the anti-dilution provisions of the warrant agreements, the number of warrants was increased by a ratio of 36 to 1 and the exercise price was decreased from DKK 2 to DKK 1. Accordingly, information related to the Company's warrants, have been retroactively adjusted to reflect the stock split and the bonus shares for all periods presented.

The following schedule specifies the outstanding warrants as at December 31, 2021:

Outstanding program	**Number of warrants outstanding**	**Exercise price per warrant**
Grant (December 2016)	701,356	DKK 1
Grant (September 2017)	617,184	DKK 1
Grant (December 2017)	122,040	DKK 1
Grant (during 2018)	174,564	DKK 1
Grant (February 2019)	7,956	DKK 1
Grant (September 2019)	54,000	DKK 1
Grant (October 2019)	150,660	DKK 1
Grant (December 2020)	317,457	DKK 1
Grant (April 2021)	1,655	DKK 1
Grant (June 2021)	62,147	DKK 1
Grant (December 2021)........................	523,599	USD 5.38
Granted at December 31, 2021...............	2,732,618	
Warrants exercisable at December 31, 2021	2,072,122	

During 2021, 62,284 warrants were exercised at an exercise price of DKK 1.

The compensation expense recognized for 2021 amounts to TDKK 8,616 (2020: TDKK 23,001)

4 Investments in subsidiaries

(DKK in Thousands)	Investments in subsidiaries	2020
Cost at the beginning of the year	17,755	—
Investments during the year*	—	17,755
Repayment of capital during the year	(17,754)	—
Cost at the end of the year	1	17,755
Value adjustments at the beginning of the year	(10,704)	—
Net loss for the year	—	(10,598)
Net gain for the year	15,862	—
Effect of exchange rate adjustments	(557)	(106)
Value adjustments at the end of the year	4,601	(10,704)
Carrying amount at the end of the year	4,602	7,051

**In 2021 we invested in our US entity, with an equity of USD 1.*

Evaxion Biotech A/S is the parent company of the following wholly owned subsidiary:

	Principal activities	Country of incorporation	% equity interest
Evaxion Biotech Australia PTY LTD	Pharmaceutical R&D	Australia	100
Evaxion Biotech Inc.	Pharmaceutical R&D	United States	100

5 Financial income and expenses

(DKK in Thousands)	Years Ended December 31, 2021	2020
Financial income:		
Interest income, other	—	53
Foreign exchange gains	9,954	1,383
Total financial income	9,954	1,436
Financial expenses:		
Interest expenses	(106)	(190)
Interest expenses, leasing	(774)	—
Interest expenses, loan from lessor	(197)	—
Foreign exchange losses	(1,747)	(1,219)
Total financial expenses	(2,824)	(1,409)
Net financial items	7,130	27

6 Taxation

(DKK in Thousands)	Years Ended December 31, 2021	2020
Current tax on net loss	5,530	5,500
Total income tax benefit for the period	5,530	5,500

The income tax benefit arises from tax credits related to research and development costs.

7 Intangible assets

(DKK in Thousands)	Intangible assets	Total
Cost at December 31, 2020	608	608
Additions during the year	—	—
Cost at December 31, 2021	608	608
Amortization at December 31, 2020	—	—
Amortization for the year	—	—
Amortization at December 31, 2021	—	—
Carrying amount at December 31, 2021	608	608

8 Property and Equipment

(DKK in Thousands)	Property	Other Equipment	Leasehold Improvements	Total
Cost at December 31, 2020	1,550	1,597	—	3,147
Additions during the year	18,079	6,445	10,279	34,803
Disposals during the year	(1,550)	—	—	(1,550)
Cost at December 31, 2021	18,079	8,042	10,279	36,400
Depreciation at December 31, 2020	(1,432)	(388)	—	(1,820)
Depreciation for the year	(1,138)	(669)	(382)	(2,188)
Depreciation reversed on disposals during the year	1,550	—	—	1,550
Depreciation at December 31, 2021	(1,020)	(1,057)	(382)	(2,458)
Carrying amount at December 31, 2021	17,059	6,985	9,897	33,941
Carrying amount of right-of-use assets at December 31, 2021	17,059	—	—	17,059

9 Leasing

In October 2020, the Company entered into a lease for approximately 1,356 square meters, which is allocated on 839 square meters of office space, and 518 square meters of laboratory space in Hørsholm, Denmark. The commencement date for the lease of the 839 square meters of office space was February 1, 2021 and the lease continues for a term of 10 years from that date. The commencement date for the additional laboratory space was August 13, 2021 and the lease continues for a term of 10 years with a subsequent 12-month cancellation notice period. In 2021, an amount of DKK 17,059 thousand was recognised (2020: DKK 118 thousand) as a right-of-use asset.

DKK 10,751 thousand is payable after 5 years, relating to the lease liability.

Loan from Lessor

In addition to the ordinary lease payments, the Company obtained financing from DTU Science Park A/S ("DTU") for rebuilding the laboratory facility and engineering building to match the Company's needs. The Company will repay the DKK 8 million financing at a fixed interest rate of 6% over 8 years. If the lease is terminated due to default by the Company before the outstanding balance, including interest accrued, has been repaid, the remaining balance is due immediately. The finance liability is recorded at costs, which approximates fair value at the time of issuance. As of December 31, 2021, the Company is still in discussions with DTU on the actual costs incurred.

DKK 3,014 thousand is payable after 5 years.

10 Contingent liabilities and contractual obligations

Litigations and Investigations

The Company is not involved in any pending litigations, claims and investigations that individually and in the aggregate is expected to have a material impact on the financial position, operating profit or cash flow.

The contractual obligations are similarly individually and, in the aggregate, not material to the future financial position, operating profit or cash flow.

Contingent liabilities

The Company has entered contracts with CROs where different payment schedules apply. The Company has assessed that no bonus payments to CROs should be recognized but there is a contingent liability in regard of the Company's contract with CROs of DKK 0.4 million and DKK 1.1 million as of December 31, 2021 and 2020 respectively.

11 Bonus share issuance

On January 4, 2021, the Company effected a 2:1 share split and a bonus issuance of shares in the ratio of 17:1 of the Company's authorized, issued and outstanding ordinary shares.