

Annual report for 2022

Allarity Therapeutics Europe ApS
Venlighedsvej 1, 2970 Hørsholm
CVR no. 34 62 35 62

Prepared without audit or review

Adopted at the annual general meeting on 30 June
2023

Lars Lüthjohan
chairman

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Statement by management on the annual report

The executive board has today discussed and approved the annual report of Allarity Therapeutics Europe ApS for the financial year 1 January - 31 December 2022.

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 Company's financial position at 31 December 2022 and of the results of the company's operations for the financial year 1 January - 31 December 2022.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

The accompanying financial statements have not been audited. Management considers the criteria for not auditing the financial statements to be met.

Management recommends that the annual report should be approved by the Company in general meeting.

Hørsholm, 30 June 2023

Executive board

James G. Cullem
CEO

Joan Yvonne Brown
CFO

Steen Meier Knudsen
CSO

Company details

The company

Allarity Therapeutics Europe ApS
Venlighedsvej 1
2970 Hørsholm

CVR no.: 34 62 35 62

Reporting period: 1 January - 31 December 2022

Domicile: Rudersdal

The annual report for 2022 is unaudited. Prepared by management.

Executive board

James G. Cullem, CEO
Joan Yvonne Brown, CFO
Steen Meier Knudsen, CSO

General meeting

The annual general meeting is held at the Company's address on 30 June 2023.

Management's review

Business review

The Company is a wholly owned subsidiary of Allarity Therapeutics, Inc., a Delaware, United States incorporated Company listed on NASDAQ, in the United States of America. Allarity Therapeutics, Inc. is the parent company ("Parent Company") which owns 100% of Allarity Therapeutics Europe ApS and 100% of Allarity Therapeutics Denmark ApS (collectively referred to as the "Group" or the "Allarity Group").

The Company's activities comprise drug development dedicated to unlocking the potential of new and failed oncology products in order to improve the efficacy of the drugs increase the response rate in cancer patients, reduce timelines and through this improve success rates in oncology drug development.

Recognition and measurement uncertainties

In the financial statements for the financial year 01.01.22 - 31.12.22, it is important to note the following uncertainty with regard to recognition and measurement, as it has had a significant influence on the assets and liabilities recognised in the financial statements:

On 20 December 2021, the Company acquired DRP technology and IP rights from Allarity Therapeutics A/S together with employees and other assets and liabilities. The acquired business was valued based on the market value of Allarity Therapeutics in December 2021. The market value of Allarity Therapeutics has declined significantly in 2022, which resulted in an impairment charge in 2022.

Financial review

The Company's income statement for the year ended 31 December 2022 shows a loss of kDKK 142.438, and the balance sheet at 31 December 2022 shows equity of kDKK 243.758.

Management's review

Financing

Significant uncertainty as regards going concern

The Company has received a letter of support from Allarity Therapeutics Inc. We refer to note 6 for further information.

The current liquidity of the Allarity Group is expected to last until July 2023. Allarity management is currently working to reduce costs in 2023 and defer payments into 2024.

The Company's ability to continue its operations is dependent upon the Allarity Group's ability to obtain additional capital in the future.

Allarity Management is working to ensure financing from investors in order to secure the necessary liquidity to continue operations. Allarity Management expects that a solution will be reached and the necessary funds will become available during 2023.

The Company's financial statements for the year ended 31 December 2022 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future.

These financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue as a going concern.

Significant events occurring after the end of the financial year

No events have occurred after the balance sheet date which could significantly affect the Company's financial position.

Income statement 1 January - 31 December

	<u>Note</u>	<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
Gross profit		-42.967	-79.617
Staff costs	2	<u>-8.775</u>	<u>-24</u>
Profit/loss before amortisation/depreciation and impairment losses		-51.742	-79.641
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		<u>-118.683</u>	<u>-333</u>
Profit/loss before net financials		-170.425	-79.974
Income from investments in subsidiaries	3	0	37.201
Financial income		0	3.735
Financial costs	5	<u>-3.222</u>	<u>-4.616</u>
Profit/loss before tax		-173.647	-43.654
Tax on profit/loss for the year		<u>31.209</u>	<u>-32.625</u>
Profit/loss for the year		<u>-142.438</u>	<u>-76.279</u>
 Distribution of profit			
		<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
Recommended appropriation of profit/loss			
Retained earnings		<u>-142.438</u>	<u>-76.279</u>
		<u>-142.438</u>	<u>-76.279</u>

Balance sheet 31 December

	<u>Note</u>	<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
Assets			
Acquired patents		396	526
Development projects in progress		<u>348.431</u>	<u>466.974</u>
Intangible assets		<u>348.827</u>	<u>467.500</u>
Plant and machinery		144	52
Right-of-use assets		<u>41</u>	<u>0</u>
Tangible assets		<u>185</u>	<u>52</u>
Deposits		<u>951</u>	<u>349</u>
Fixed asset investments		<u>951</u>	<u>349</u>
Total non-current assets		<u>349.963</u>	<u>467.901</u>
Receivables from group enterprises		5.799	6.179
Other receivables		568	3.299
Corporation tax		5.500	5.500
Prepayments		<u>1.797</u>	<u>898</u>
Receivables		<u>13.664</u>	<u>15.876</u>
Current asset investments		<u>0</u>	<u>2.298</u>
Securities		<u>0</u>	<u>2.298</u>
Cash		<u>2.316</u>	<u>12.717</u>
Total current assets		<u>15.980</u>	<u>30.891</u>
Total assets		<u><u>365.943</u></u>	<u><u>498.792</u></u>

Balance sheet 31 December

	<u>Note</u>	<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
Equity and liabilities			
Share capital		2.207	2.207
Share premium account		436.526	436.526
Retained earnings		<u>-194.975</u>	<u>-52.449</u>
Equity		<u>243.758</u>	<u>386.284</u>
Provision for deferred tax		<u>12.415</u>	<u>38.522</u>
Total provisions		<u>12.415</u>	<u>38.522</u>
Payables to group enterprises		<u>0</u>	<u>6.423</u>
Total non-current liabilities		<u>0</u>	<u>6.423</u>
Trade payables		39.433	52.378
Payables to group enterprises		68.861	13.596
Other payables		1.419	1.589
Contract liabilities		<u>57</u>	<u>0</u>
Total current liabilities		<u>109.770</u>	<u>67.563</u>
Total liabilities		<u>109.770</u>	<u>73.986</u>
Total equity and liabilities		<u><u>365.943</u></u>	<u><u>498.792</u></u>
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Notes

1 Accounting policies

The annual report of Allarity Therapeutics Europe ApS for 2022 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B and the Accounting Standard on small enterprises.

The accounting policies applied are consistent with those of last year.

The annual report for 2022 is presented in DKK.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the Company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any installments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit

In pursuance of section 32 of the Danish Financial Statements Act, the Company does not disclose its revenue.

Gross profit reflects an aggregation of revenue, other income, costs of raw materials and consumables and other external expenses.

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Notes

1 Accounting policies

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Income from services, comprising service contracts and extended warranties relating to products and contracts sold is recognised on a straight-line basis as the services are provided.

Raw materials and consumables

Costs of raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other external expenses

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, etc.

Other external expenses also comprise research and development costs that do not qualify for capitalisation.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial year. Net financials include interest income and expenses, financial expenses relating to realised and unrealised capital/exchange gains and losses on liabilities and foreign currency transactions, amortisation of financial assets and liabilities.

Income from investments in subsidiaries

The proportionate share of the profit/loss for the year of subsidiaries is recognised in the company's income statement after full elimination of intra-group profits/losses.

Tax on profit/loss for the year

The Company is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. Subsidiaries participate in the joint taxation arrangement from the time when they are included in the consolidated financial statements and until the time when they withdraw from the consolidation.

Notes

1 Accounting policies

The Company acts as management company for all jointly taxed entities and, in its capacity as such, pays all income taxes to the Danish tax authorities.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects, patents and licences

Development costs comprise costs, wages/salaries and amortisation losses that are directly and indirectly attributable to the Company's development activities.

Development projects recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually five years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period, and licences are amortised over the term of the licence, however not more than 8 years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Tangible assets

Items of plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Notes

1 Accounting policies

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life	Residual value
Plant and machinery	5 years	0 %
Other plant, fixtures and fittings, tools and equipment	5 years	0 %

Gains and losses on the sale of items of property, plant and equipment are calculated as the difference between the selling price, less costs to sell, and the carrying amount at the time of sale. Gains or losses on the sale of items of property, plant and equipment are recognised in the income statement under other operating income or other operating expenses, respectively.

Leases

Leases for items of property, plant and equipment that transfer substantially all the risks and rewards incident to ownership to the company (finance leases) are recognised in the balance sheet as assets. On initial recognition, assets are measured at estimated cost, corresponding to the lower of fair value of the leased asset and the present value of the future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the company's other non-current assets.

The capitalised residual lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The company's total liabilities relating to operating leases and other rent agreements are disclosed under 'Contingencies, etc.'

Fixed asset investments

Investments in subsidiaries

Investments in subsidiaries are measured at the proportionate share of the net asset value of the entities, calculated on the basis of the group's accounting policies, plus or less unrealised intra-group gains or losses and plus or less any remaining value of positive or negative goodwill stated according to the purchase method. Negative goodwill is recognised in the income statement on acquisition. Where the negative goodwill relates to contingent liabilities having been taken over, the negative goodwill is not recognised until the contingent liabilities have been settled or no longer exist.

Investments in subsidiaries are measured in the parent company financial statements using the equity method.

Notes

1 Accounting policies

Impairment of fixed assets

The carrying amount of intangible assets, items of property, plant and equipment and investments in subsidiaries is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Current asset investments

Current asset investments are measured at fair value at the balance sheet date.

Cash

Cash comprises cash and deposits at banks.

Income tax and deferred tax

As management company, Allarity Therapeutics Europe ApS is liable for payment of its affiliated Danish companies' corporate income taxes to the tax authorities.

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

The Company and all its Danish group affiliated entities are taxed on a joint basis. The current income tax charge is allocated between the jointly taxed entities relative to their taxable income. Tax losses are allocated based on the full absorption method. The jointly taxed entities are eligible for the Danish Tax Prepayment Scheme.

Joint taxation contributions payable and receivable are recognised in the balance sheet as 'Joint taxation contributions receivable' or 'Joint taxation contributions payable'.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively. Deferred tax is measured at net realisable value.

Notes

1 Accounting policies

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value. As of December 31, 2022 the Company has no deferred tax assets.

Corporation Tax receivable

Denmark allows loss making companies the opportunity to apply for a payment equal to the tax value (22%) of negative taxable income related to R&D costs. The negative taxable income is calculated on the total negative income of the companies participating in the joint taxation. The tax payment according to this rule cannot exceed an amount of DKK 5.5 million, corresponding to a tax loss relating to R&D expenditure of DKK 25 million. The tax credit is recorded as corporation tax receivable and other income within research and development expenses, thereby reducing research and development expenses.

Liabilities

Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Notes

	<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
2 Staff costs		
Wages and salaries	8.731	24
Other social security costs	43	0
Other staff costs	<u>1</u>	<u>0</u>
	<u>8.775</u>	<u>24</u>
Average number of employees	<u>5</u>	<u>0</u>
	<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
3 Special items		
Special items are income and expenses that are special due to their size and nature.		
The following special items were recorded in the financial year:		
Gain on the divestment of group enterprises	<u>0</u>	<u>37.201</u>
	<u>0</u>	<u>37.201</u>
	<u>2022</u> 000'DKK	<u>2021</u> 000'DKK
4 Fair value disclosure		
Listed securities and equity investments		
Fair value of an asset or a liability that is measured at fair value, opening	<u>2.298</u>	<u>2.298</u>
Fair value of an asset or a liability that is measured at fair value, closing	<u>0</u>	<u>2.298</u>

Notes

	<u>2022</u>	<u>2021</u>
	000'DKK	000'DKK
5 Financial costs		
Impairment losses on financial assets	804	0
Financial expenses, group entities	0	999
Other financial costs	124	2.092
Exchange loss	<u>2.294</u>	<u>1.525</u>
	<u>3.222</u>	<u>4.616</u>

6 Uncertainty about the continued operation (going concern)

As a development company, and like other similar companies, Allarity Therapeutics Europe ApS has incurred negative cash flows over the years. Consequently, the Company is dependent on financing until positive cash flow is achieved. Management is constantly monitoring the Company's financial position and is prepared to take adequate measures to secure the ongoing activities of the Company. In the year 2022, the Company recorded a loss of kDKK 142,041 and the Company's current liabilities exceed the Company's current assets by kDKK 93,771. The Company is financed by intercompany advances from its United States incorporated parent, Allarity Therapeutics, Inc. ("Parent Company") The Company is dependent on financial support from the Parent Company to continue its operations. The Company has received a letter of support from its Parent Company, effective to 1 January 2024.

The current liquidity of the Allarity Group is expected to last until July 2023. Allarity management is currently working to secure additional funding, reduce costs in 2023 and defer payments into 2024.

The Company's ability to continue its operations is dependent upon the Allarity Group's ability to obtain additional capital in the future.

Allarity Management is working to ensure financing from investors in order to secure the necessary liquidity to continue operations. Allarity Management expects that a solution will be reached and the necessary funds will become available during 2023.

The Company's financial statements for the year ended 31 December 2022 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business for the foreseeable future.

These financial statements do not include any adjustments to the specific amounts and classifications of assets and liabilities, which might be necessary should the Company be unable to continue as a going concern.

The above indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern, but the Executive Board has confidence in the Company as a going concern, and consequently, the Financial Statements have been prepared in accordance with the going concern principles.

Notes

7 Uncertainty in the recognition and measurement

In the financial statements for 2022, it is important to note the following uncertainty as regards recognition and measurement as it has had a significant influence on the assets and liabilities recognised in the financial statements:

Acquired intangible assets represents the fair value assigned to research and development assets that the Company acquires and have not been completed at the acquisition date. The fair value of the intangible assets acquired is recorded on the balance sheets at the acquisition-date and is determined by estimating the costs to develop the technology into commercially viable products, estimating the resulting revenue from the projects, and discounting the projected net cash flows to present value.

The projected discounted cash flow models used to estimate the fair value of the intangible assets reflect significant assumptions regarding the estimates a market participant would make in order to evaluate an intangible development asset, including the following:

- Estimates of obsolescence of development expenditure
- Probability of successfully completing clinical trials and obtaining regulatory approval
- Estimates of future cash flows from potential milestone payments and royalties related to out-licensed product sales; and
- A discount rate reflecting the Company's weighted average cost of capital and specific risk inherent in the underlying assets.

Once brought into use, intangible assets are amortized over their estimated useful economic lives, which for acquired intangible assets is over the remaining life of the relevant patents.

The market value of Allarity Therapeutics has declined significantly in 2022, which resulted in an impairment charge in 2022.

8 Contingent liabilities

As management company, the Company is taxed jointly with the other Danish companies in the group and has joint, several and unlimited liability for income taxes for the jointly taxed companies. The liability also includes any subsequent corrections to the calculated tax liability as a consequence of changes made to the jointly taxable income etc.

Notes

9 Related parties and ownership structure

Consolidated financial statements

The Company's financial results are included in the consolidated financial statements of the parent Allarity Therapeutics Inc, USA.