
AFYX Therapeutics A/S

Lergravsvej 57, 2.tv, DK-2300 København S

Annual Report for 1 January - 31 December 2021

CVR No 35 83 97 39

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
31/5 2022

Lars Lüthjohan Jensen
Chairman of the General
Meeting



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Company Information	
Company Information	5
Management's Review	6
Financial Statements	
Income Statement 1 January - 31 December	8
Balance Sheet 31 December	9
Statement of Changes in Equity	11
Notes to the Financial Statements	12

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of AFYX Therapeutics A/S for the financial year 1 January - 31 December 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 31 December 2021 of the Company and of the results of the Company 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.

Copenhagen, 20 May 2022

Executive Board

Lars Siim Madsen

Board of Directors

Lars Gosta Ekman
Chairman

Kristine Peterson

Christian Ellebæk Elling

Morten Aleksandr Engel

Independent Auditor's Report

To the Shareholders of AFYX Therapeutics A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of AFYX Therapeutics A/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 are independent of the Company 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the Financial Statements, which describes the Company's current liquidity situation. Management is working together with the Company's existing shareholders as well as actively seeking financing from new investors in order to ensure liquidity for the Company to finalise the clinical trials. This indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as going concern.

Our opinion has not been modified in respect of this matter.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, 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 Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financial Statements Act.

Independent Auditor's Report

Based on the work we have performed, in our view, 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 in Management's Review.

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 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 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

Independent Auditor's Report

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 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.

Hellerup, 20 May 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Torben Jensen
statsautoriseret revisor
mne18651

Allan Knudsen
statsautoriseret revisor
mne29465

Company Information

The Company

AFYX Therapeutics A/S
Lergravsvej 57, 2.tv
DK-2300 København S

CVR No: 35 83 97 39
Financial period: 1 January - 31 December
Municipality of reg. office: Copenhagen

Board of Directors

Lars Gosta Ekman, Chairman
Kristine Peterson
Christian Ellebæk Elling
Morten Aleksandr Engel

Executive Board

Lars Siim Madsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's Review

Key activities

The Company's activities comprise within research and development in biotechnology. The Company's proprietary Rivelin® patch is flexible, biodegradable, and adhesive to mucosal surfaces. The Company's lead program completed Phase 2 clinical trial for oral lichen planus. Other pipeline programs include Rivelin patch for vulvar lichen sclerosus, which is in pre-clinical development.

Development in the year

The income statement of the Company for 2021 shows a loss of DKK 35,049,956, and at 31 December 2021 the balance sheet of the Company shows negative equity of DKK 88,033,840.

Capital resources

The Company incurred a net loss attributable to shareholders of approximately DKK 35 million for the year ended 31 December 2021, had net working capital of DKK -91 million at the end of 2021, and had negative equity of DKK 88 million. The current liquidity is expected to last until September 2023.

The Company has not had any commercial revenue since inception and does not expect to have any in 2022. The Company's ability to continue its operations is dependent upon its ability to obtain additional capital in the future and achieve profitable operations. Management is working together with the Company's existing shareholders as well as actively seeking financing from new investors in order to secure the necessary liquidity to continue operations. Different options are being explored at the moment and Management expects that a solution is reached and the necessary funds will be available during 2022/2023.

In 2021 the Company raised additional convertible debt from three of the main shareholders with the same conditions as the original convertible debt. The principal amount is USD 1.5 million. The maturity date of the original convertible debt was postponed to 31 July 2022. Management is currently renegotiating the repayment terms of the convertible debt.

The Company's financial statements as of and for the year ended 31 December 2021 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.

Unusual events

The financial position at 31 December 2021 of the Company and the results of the activities of the Company for the financial year for 2021 have not been affected by any unusual events.

Management's Review

Subsequent events

No events have occurred after the balance sheet date, that influence the evaluation of the financial statements.

Income Statement 1 January - 31 December

	Note	2021 DKK	2020 DKK
Other operating income		122.542	134.306
Other external expenses		-27.564.786	-36.365.373
Gross profit/loss		-27.442.244	-36.231.067
Staff expenses	3	-6.476.855	-9.097.574
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-499.303	-499.303
Profit/loss before financial income and expenses		-34.418.402	-45.827.944
Income from investments in subsidiaries		717.215	577.307
Financial income	5	355.602	42.382
Financial expenses	6	-6.984.614	-9.770.342
Profit/loss before tax		-40.330.199	-54.978.597
Tax on profit/loss for the year	7	5.280.243	5.500.000
Net profit/loss for the year		-35.049.956	-49.478.597

Distribution of profit

Proposed distribution of profit

Reserve for net revaluation under the equity method		717.215	577.307
Retained earnings		-35.767.171	-50.055.904
		-35.049.956	-49.478.597

Balance Sheet 31 December

Assets

	Note	2021 DKK	2020 DKK
Other fixtures and fittings, tools and equipment		80.100	160.200
Leasehold improvements		524.004	943.207
Property, plant and equipment		604.104	1.103.407
Investments in subsidiaries		2.727.607	1.894.676
Fixed asset investments		2.727.607	1.894.676
Fixed assets		3.331.711	2.998.083
Trade receivables		18.605	18.896
Other receivables		2.184.960	342.306
Corporation tax		5.280.243	5.500.000
Prepayments		207.283	207.303
Receivables		7.691.091	6.068.505
Cash at bank and in hand		17.435.167	38.752.425
Currents assets		25.126.258	44.820.930
Assets		28.457.969	47.819.013

Balance Sheet 31 December

Liabilities and equity

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Share capital		550.630	550.630
Reserve for net revaluation under the equity method		2.751.444	2.034.229
Retained earnings		<u>-91.335.914</u>	<u>-55.568.742</u>
Equity		<u>-88.033.840</u>	<u>-52.983.883</u>
Convertible instruments of debt		109.452.341	94.638.717
Trade payables		2.658.094	1.181.353
Payables to group enterprises		3.572.591	1.640.660
Other payables		<u>808.783</u>	<u>3.342.166</u>
Short-term debt		<u>116.491.809</u>	<u>100.802.896</u>
Debt		<u>116.491.809</u>	<u>100.802.896</u>
Liabilities and equity		<u>28.457.969</u>	<u>47.819.013</u>
Going concern	1		
Subsequent events	2		
Contingent liabilities	8		
Accounting Policies	9		

Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	DKK	DKK	DKK	DKK
Equity at 1 January	550.630	2.034.229	-55.568.743	-52.983.884
Net profit/loss for the year	0	717.215	-35.767.171	-35.049.956
Equity at 31 December	550.630	2.751.444	-91.335.914	-88.033.840

Notes to the Financial Statements

1 Going concern

The Company incurred a net loss attributable to shareholders of approximately DKK 35 million for the year ended 31 December 2021, had net working capital of DKK -91 million at the end of 2021, and had negative equity of DKK 88 million. The current liquidity is expected to last until September 2023.

The Company has not had any commercial revenue since inception and does not expect to have any in 2022. The Company's ability to continue its operations is dependent upon its ability to obtain additional capital in the future and achieve profitable operations. Management is working together with the Company's existing shareholders as well as actively seeking financing from new investors in order to secure the necessary liquidity to continue operations. Different options are being explored at the moment and Management expects that a solution is reached and the necessary funds will be available during 2022/2023.

In 2021 the Company raised additional convertible debt from three of the main shareholders with the same conditions as the original convertible debt. The principal amount is USD 1.5 million. The maturity date of the original convertible debt was postponed to 31 July 2022. Management is currently renegotiating the repayment terms of the convertible debt.

The Company's financial statements as of and for the year ended 31 December 2021 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.

2 Subsequent events

No events have occurred after the balance sheet date, that influence the evaluation of the financial statements.

3 Staff expenses

	2021 DKK	2020 DKK
Wages and salaries	6.476.855	9.097.574
	6.476.855	9.097.574
Average number of employees	6	10

Notes to the Financial Statements

	2021 DKK	2020 DKK
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Depreciation of property, plant and equipment	499.303	499.303
	499.303	499.303
5 Financial income		
Other financial income	430	42.382
Exchange adjustments	355.172	0
	355.602	42.382
6 Financial expenses		
Other financial expenses	6.984.614	5.607.267
Exchange adjustments	0	4.163.075
	6.984.614	9.770.342
7 Tax on profit/loss for the year		
Current tax for the year	-5.280.243	-5.500.000
	-5.280.243	-5.500.000
8 Contingent liabilities		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	594.700	594.700
Between 1 and 5 years	123.896	718.596
	718.596	1.313.296

Notes to the Financial Statements

9 Accounting Policies

The Annual Report of AFYX Therapeutics A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021 are presented in DKK.

Consolidated financial statements

With reference to section 110 of the Danish Financial Statements Act, no consolidated financial statements are prepared.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

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

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

9 Accounting Policies (continued)

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income Statement

Other external expenses

Other external expenses comprise expenses for premises, clinical research and other research and development activities as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including public grants for research and development.

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Notes to the Financial Statements

9 Accounting Policies (continued)

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

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

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Notes to the Financial Statements

9 Accounting Policies (continued)

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning patent expenses.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.