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# *Bactolife A/S*

Rønnegade 8, 2, DK-2100 Copenhagen

## Annual Report for 2023

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CVR No. 38 87 90 73

The Annual Report was  
presented and adopted  
at the Annual General  
Meeting of the  
company  
on 31/5 2024

Morten Jensen  
Chairman of the  
general meeting



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# Management's statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Bactolife A/S for the financial year 1 January - 31 December 2023.

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 2023 of the Company and of the results of the Company operations for 2023.

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, 16 May 2024

## Executive Board

Sebastian Søderberg  
CEO

## Board of Directors

Jørgen Rugholm Jensen  
Chairman

Mads Aage Laustsen

Morten Aleksandr Engel

Frank Julian Zachmann

Rhonda Doyce Hoffman

# Independent Auditor's report

To the shareholder of Bactolife 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 2023 and of the results of the Company's operations for the financial year 1 January - 31 December 2023 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Bactolife A/S for the financial year 1 January - 31 December 2023, 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.

## 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.

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.

# Independent Auditor's report

## 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 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.

Copenhagen, 16 May 2024

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Torben Jensen  
State Authorised Public Accountant  
mne18651

André Nielsen  
State Authorised Public Accountant  
mne46624

## Company information

<b>The Company</b>	Bactolife A/S Rønnegade 8, 2 DK-2100 Copenhagen  CVR No: 38 87 90 73 Financial period: 1 January - 31 December Municipality of reg. office: Copenhagen
<b>Board of Directors</b>	Jørgen Rugholm Jensen, chairman Mads Aage Laustsen Morten Aleksandr Engel Frank Julian Zachmann Rhonda Doyce Hoffman
<b>Executive Board</b>	Sebastian Søderberg
<b>Auditors</b>	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

# Management's review

## Key activities

Bactolife is a Danish biotech company that specializes in developing innovative food and feed ingredients using its unique Binding Protein technology. These ingredients are made to enhance the health of the gut microbiome and promote gastrointestinal wellness. Bactolife's platform involves selecting and producing Binding Proteins that can safely neutralize toxins without impacting the growth of beneficial bacteria. The company's breakthrough ingredients have the potential to benefit all of us, but they are specifically tailored to mothers and children, the elderly, immune compromised, travelers and deployed, and even for the well-being of animals.

## Letter from the Chairman, Jørgen Rugholm Jensen, and CEO, Sebastian Søderberg, 2023

### Funding secured and commercial validation.

2023 marked a significant year for Bactolife, as the company secured EURm 30 (DKKm ~226) in Series A financing, including EURm 25.5 (DKKm ~190) in fresh capital. This funding reaffirms the support of existing investors and introduces ATHOS as a new shareholder. Additionally, a USDm 5 (DKKm ~36) convertible note from the Bill & Melinda Gates Foundation in 2022 was converted into equity to support Bactolife's innovative technology, following the USDm 2 (DKKm ~15.2) grant in 2022. The Bill & Melinda Gates Foundation funds are earmarked the enhancement of Bactolife's Binding Proteins for the Mothers & Children platform, and the acceleration of the upscaling and manufacturing capabilities. Bactolife believes that the Series A financing not only accelerates the commercialization of Binding Proteins but also underscores the global relevance and impact of the technology.

Bactolife has entered a JDA with Novonesis A/S (previously Novozymes A/S, now merged with Chr. Hansen A/S) to commercialize Ablacto+ for post-weaning diarrhea in piglets. Under this agreement, Novonesis A/S will oversee the manufacturing, registration, and commercialization of Ablacto+, with market entry anticipated in 2026. This collaboration will yield innovative biosolutions that stabilize the gut of piglets, increase productivity, and substantially reduce antibiotic usage among pigs. Moreover, Bactolife has in 2024 secured a separate agreement to supply a Binding Protein component of Ablacto+ for a fast-tracked human health project, E-defend, which will further accelerate the commercial strategy in human health applications.

**Investment of DKKm 40 in R&D.** The investments were primarily targeted towards the priority projects within Piglets, Athletes, Travelers, Elderly and the Mothers and Children platform. Specifically, the investments were directed towards discovery, initiating tox safety studies for the first products and manufacturing development. In addition, one scientific publication was accepted and published early 2023 on "Orally delivered single-domain antibodies against gastrointestinal pathogens" and two scientific manuscripts were submitted on specific binding proteins targeting piglets postweaning diarrhea and toxin B from *Clostridioides difficile*.

**Employee growth and facility expansion.** Employee development and facility enhancement were pivotal for Bactolife's progress. Throughout 2023, the company grew from 28 full-time employees (FTEs) concluding the year with 38 FTEs. The majority of these new employees were allocated to crucial departments such as Research and Development, Manufacturing, and the Commercial Team. Moreover, a significant milestone was achieved with the inauguration of the 1st floor expansion at the Roennegade 8 facility, providing an additional 770 m<sup>2</sup> of office and laboratory space. The expansion was instrumental in accommodating future growth initiatives. Furthermore, in 2023, the newly established Quality Control (QC) laboratory was fully outfitted and commenced operations, further enhancing the company's operational capabilities.

# Management's review

## ESG strategy Bactolife.

### Environmental Commitment

**Antibiotic use reduction:** By reducing incidence of gastrointestinal infections in humans and animals with its Binding Protein platform, Bactolife can reduce the use of antibiotics globally in a OneHealth approach. In industrial pig production alone, approximately 1,000 tons of antibiotics are used annually. The Ablacto+ trials in over 5,000 piglets have already demonstrated a 20% reduction in antibiotic use. By achieving an estimated 10% global market penetration, Bactolife aims to reduce annual antibiotic usage by 33 tons by 2030. Management believes that Bactolife's Binding Proteins can play an important role in the fight against Antimicrobial Resistance (AMR).

**Agriculture CO2 emissions reduction:** Gut dysbiosis in livestock leads to inefficient feed conversion, contributing significantly to CO2 emissions. Bactolife's interventions have the potential to reduce these emissions by approximately 500 tons annually if adopted by just 10% of the global pig population, translating to a reduction in nitrogen excretion and associated environmental pollution.

**Environmental Risks:** The large-scale use of microbial fermentation and potential biowaste from production processes pose potential environmental risks. Bactolife is committed to maintain strict compliance with environmental regulations to mitigate these risks and actively seek to do so.

### Social Commitment

**Employee Welfare and Diversity:** At Bactolife, diversity, inclusion, and collaboration are fundamental to its culture. The diverse team of 13 nationalities brings a global perspective to the company's operations. Bactolife continuously improves employee benefits, recently adding pension schemes, sports initiatives and equipment to the facility in Copenhagen. The company's flat organizational structure enhances transparency, drives performance and enables meaningful contributions from all employees. Recognizing the importance of gender diversity, especially in leadership roles, the company is actively working towards increasing female representation. Bactolife's Leadership Team, consisting of six, has an equal gender representation. These efforts align with Bactolife's core values of equality and respect, affirming the company's commitment to innovation and equitable workplace practices.

**Community Engagement:** While Bactolife primarily focuses on advancing its solutions towards the market, the company is committed to community engagement through advocacy and awareness initiatives. Bactolife sponsors organizations like the Peggy Lillis Foundation to promote awareness of *Clostridioides difficile* infections. Additionally, Bactolife actively uses platforms like LinkedIn to educate and engage the public on gastrointestinal disorders, the microbiome, and antimicrobial resistance, emphasizing its commitment to the One Health approach.

**Social Impact and Global Health:** Bactolife's global social impact is achieved through partnerships with NGOs and organizations like the Bill & Melinda Gates Foundation, aiming to deliver its health solutions to low- and middle-income countries (LMICs). In these regions, diarrheal diseases severely impact child health and nutrition, leading to over 40 million Disability-Adjusted Life Years (DALYs) lost annually. The broader effects of these diseases, including infections, stunted growth, and long-term health issues, contribute to an additional 16 million DALYs lost. Bactolife's initiatives, such as the Mothers & Children platform and Gastroguard – a project for Cholera control, directly address these challenges. This initiative supports the UN's Sustainable Development Goal 3: Good Health and Wellbeing, by targeting critical health issues like antimicrobial resistance (AMR). Relevant sub-targets include 3.2 (reducing mortality in children under five years old), 3.3 (ending epidemics of water-borne and communicable diseases), and 3.d (strengthening the capacity of countries to manage national and global health risks).

### Governance

Integrity is a cornerstone of Bactolife's ethos, deeply embedded in its leadership and governance practices. The Leadership Team and Board consistently uphold transparency, engage in open collaboration, and rigorously adhere to all applicable laws. Bactolife is dedicated to continuous improvement and actively participate in governance enhancement. This includes regular progress updates essential for maintaining stakeholder trust and optimizing operations. The governance framework integrates ethical considerations, aligning with the mission to manage global health risks and advance sustainable practices.



# Management's review

## Outlook 2024

Bactolife will continue to expand in 2024 and the funding raised in 2023 allows Bactolife to increase investments in the project pipeline, technology platform, organization and upscaling capabilities. Further, it will enable Bactolife to accelerate partnering efforts with world-leading companies and move towards commercialization of the first product concepts for humans and animals.

Despite risks and market uncertainty, Bactolife remains confident that the combined efforts and constant drive to deliver on the company's targets will provide a strong market position with leading product offerings and commercially competitive price points. This will not be possible without the dedicated employees who put in an enormous effort to constantly develop Bactolife's and the technology's offerings to enable worldwide health.

## Income statement 1 January - 31 December

	Note	2023	2022
		DKK	DKK
Revenue		0	333,298
Other operating income		6,753,422	1,996,686
Other external expenses		-23,547,351	-11,446,570
<b>Gross loss</b>		<b>-16,793,929</b>	<b>-9,116,586</b>
Staff expenses	1	-29,705,321	-19,094,198
Depreciation and impairment losses of property, plant and equipment		-1,124,074	-598,927
<b>Profit/loss before financial income and expenses</b>		<b>-47,623,324</b>	<b>-28,809,711</b>
Financial income		3,504,631	1,141,594
Financial expenses	2	-6,962,368	-4,177,061
<b>Profit/loss before tax</b>		<b>-51,081,061</b>	<b>-31,845,178</b>
Tax on profit/loss for the year	3	5,500,000	4,277,038
<b>Net profit/loss for the year</b>		<b>-45,581,061</b>	<b>-27,568,140</b>

### Distribution of profit

	2023	2022
	DKK	DKK
<b>Proposed distribution of profit</b>		
Retained earnings	-45,581,061	-27,568,140
	<b>-45,581,061</b>	<b>-27,568,140</b>

## Balance sheet 31 December

### Assets

	Note	2023	2022
		DKK	DKK
Plant and machinery		8,663,085	4,579,941
Other fixtures and fittings, tools and equipment		1,281,984	816,312
Leasehold improvements		3,168,133	1,094,374
<b>Property, plant and equipment</b>	4	<b>13,113,202</b>	<b>6,490,627</b>
<b>Fixed assets</b>		<b>13,113,202</b>	<b>6,490,627</b>
Raw materials and consumables		161,156	223,450
<b>Inventories</b>		<b>161,156</b>	<b>223,450</b>
Other receivables		4,916,320	3,567,688
Corporation tax		5,500,204	4,277,242
Prepayments		6,696,774	839,726
<b>Receivables</b>		<b>17,113,298</b>	<b>8,684,656</b>
<b>Cash at bank and in hand</b>	5	<b>202,236,980</b>	<b>68,939,722</b>
<b>Current assets</b>		<b>219,511,434</b>	<b>77,847,828</b>
<b>Assets</b>		<b>232,624,636</b>	<b>84,338,455</b>

## Balance sheet 31 December

### Liabilities and equity

	Note	2023	2022
		DKK	DKK
Share capital		809,047	400,001
Share premium account		297,860,504	64,833,162
Retained earnings		-86,925,413	-41,344,352
<b>Equity</b>		<b>211,744,138</b>	<b>23,888,811</b>
Other provisions		1,050,000	402,000
<b>Provisions</b>		<b>1,050,000</b>	<b>402,000</b>
Convertible and profit-yielding instruments of debt		0	38,857,121
<b>Long-term debt</b>	6	<b>0</b>	<b>38,857,121</b>
Trade payables		3,780,456	2,798,899
Other payables		5,423,622	2,943,149
Deferred income		10,626,420	15,448,475
<b>Short-term debt</b>		<b>19,830,498</b>	<b>21,190,523</b>
<b>Debt</b>		<b>19,830,498</b>	<b>60,047,644</b>
<b>Liabilities and equity</b>		<b>232,624,636</b>	<b>84,338,455</b>
Contingent assets, liabilities and other financial obligations	7		
Subsequent events	8		
Accounting Policies	9		

## Statement of changes in equity

	Share capital	Share premium account	Retained earnings	Total
	DKK	DKK	DKK	DKK
Equity at 1 January	400,001	64,833,162	-41,344,352	23,888,811
Debt conversion	78,853	45,303,653	0	45,382,506
Cash contribution	330,193	189,706,057	0	190,036,250
Cost related to debt conversion and cash contribution	0	-1,982,368	0	-1,982,368
Net profit/loss for the year	0	0	-45,581,061	-45,581,061
<b>Equity at 31 December</b>	<b>809,047</b>	<b>297,860,504</b>	<b>-86,925,413</b>	<b>211,744,138</b>

The share capital has been increased through a debt conversion of DKK 78,853 at a share price of DKK 46,047 per share of DKK 0.01 corresponding to DKK 36,309 thousands. As a consequence of the accounting of embedded derivatives the increase in equity is DKK 45,383 thousands which reflects that the conversion was done with a discount of 20 pct. Furthermore, the share capital has been increased through a cash contribution of DKK 330,193 at a share price of DKK 57,553 per share of DKK 0.01 corresponding to an increase in equity of DKK 190,036 thousands.

The total share capital of DKK 809,047 hereafter consists of 256,848 A-shares, 143,153 B-shares and 409,046 C-shares. The B-shares and C-shares have special rights.

31 December 2023 the company had granted 7,520,759 warrants to employees.

## Notes to the Financial Statements

	2023	2022
	DKK	DKK
<b>1. Staff Expenses</b>		
Wages and salaries	29,048,685	18,779,220
Other social security expenses	282,667	163,887
Other staff expenses	373,969	151,091
	<u>29,705,321</u>	<u>19,094,198</u>
Average number of employees	<u>32</u>	<u>22</u>

At the end of December 2023 Bactolife had 38 employees (December 2022: 28 employees).

	2023	2022
	DKK	DKK
<b>2. Financial expenses</b>		
Interest expense	3,321,588	2,827,181
Other financial expenses	3,640,780	1,349,880
	<u>6,962,368</u>	<u>4,177,061</u>

	2023	2022
	DKK	DKK
<b>3. Income tax expense</b>		
Current tax for the year	-5,500,000	-4,277,038
	<u>-5,500,000</u>	<u>-4,277,038</u>

Current tax for the year is related to certain research and development expenses incurred by Bactolife that are refundable according to the Danish tax legislation.

The value of tax assets related to tax loss carry forward etc. of DKK 9,478 thousands (2022: DKK 3,932 thousands) is not recognised as an asset as the use of the tax loss carry-forward is highly uncertain.

## Notes to the Financial Statements

### 4. Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improve- ments
	DKK	DKK	DKK
Cost at 1 January	5,010,300	1,014,891	1,141,639
Additions for the year	4,733,000	768,368	2,245,281
Cost at 31 December	<u>9,743,300</u>	<u>1,783,259</u>	<u>3,386,920</u>
Impairment losses and depreciation at 1 January	430,359	198,579	47,265
Depreciation for the year	649,856	302,696	171,522
Impairment losses and depreciation at 31 December	<u>1,080,215</u>	<u>501,275</u>	<u>218,787</u>
<b>Carrying amount at 31 December</b>	<b><u>8,663,085</u></b>	<b><u>1,281,984</u></b>	<b><u>3,168,133</u></b>
		<u>2023</u>	<u>2022</u>
		DKK	DKK
<b>5. Cash at bank and in hand</b>			
Other cash at bank and in hand		<u>202,236,980</u>	<u>68,939,722</u>
		<b><u>202,236,980</u></b>	<b><u>68,939,722</u></b>

A total bank amount of DKK 25,743 thousands (2022: DKK 15,205 thousands) is restricted by contributions received to specific research projects.

## Notes to the Financial Statements

<u>2023</u>	<u>2022</u>
DKK	DKK

### 6. Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

#### Convertible and profit-yielding instruments of debt

After 5 years	0	0
Between 1 and 5 years	0	38,857,121
Long-term part	0	38,857,121
Within 1 year	0	0
	<u>0</u>	<u>38,857,121</u>



# Notes to the Financial Statements

2023	2022
DKK	DKK

## 6. Long-term debt

### Convertible and profit-yielding instruments of debt (2023 figures)

In June 2023 the debt related to the convertible note issued in 2022 was converted to equity for a value of DKK 45.4 million (USD 6.6 million) representing a 20% discount of the share value. In connection with this a negative net value adjustment of the host debt and embedded derivatives of DKK 3.6 million (USD 0.5 million) was recognised as other financial cost in the income statement in 2023.

Including accrued interest on the debt host contract from 31 December 2022 to time of conversion of DKK 3.3 million (USD 0.5 million) the convertible note had a total negative net impact on the income statement in 2023 of DKK 6.9 million (USD 1.0 million).

### Convertible and profit-yielding instruments of debt (2022 figures)

The company have in 2022 issued a convertible note of USD 5,000 thousands (corresponding to DKK 35,977 thousands) and based on this recognised; interest of DKK 2,660 thousands as financial expense; fair value adjustment of embedded derivatives of DKK 1,347 thousands recognised as other financial cost and exchange rate adjustments of DKK 1,127 thousands recognised as financial income. At year end 2022 the total amount recognised as convertible note is DKK 38,857 thousands. The calculated value of embedded derivatives included in the convertible amount to DKK 13,426 thousands (2021: DKK 0).

### Significant loan terms related to the Company's loan

- Issued 4 August 2022 with a total principal amount of USD 5 million.
- Maturity 4 August 2024
- Interest coupon 6.0 % p.a. accruing over the term of the loan.
- Loan currency USD
- Automatic conversion of the loan in case of an investment with a proceed above USD 20 million (qualified financing). The conversion price is equal to the price per share issued to the new investors in the qualified financing with accretive five percent discount rate per every calendar quarter the loan remains outstanding (maximised to accumulative 20 percent discount).
- Lenders maturity date conversion option in case of no qualified financing event before maturity. The conversion price is equal to the quotient of dividing USD 35 million (valuation Cap) by the fully-diluted capitalisation.

### Significant assumptions related to the valuation of the embedded derivatives 31 December 2022

- Discount rate of 31 %.
- Probability of conversion before maturity of 90 %.

### Sensitivity to changes in fair value of the embedded derivative 31 December 2022

If the discount rate is increased with 5 % the debt value of the embedded derivatives is increased with DKK 850 thousands.

If the probability of conversion before maturity is decreased with 10 % points the debt value of the embedded derivatives is decreased by DKK 836 thousands.

# Notes to the Financial Statements

## 7. Contingent assets, liabilities and other financial obligations

### Rental and lease obligations

The Company has two lease contracts for rent of offices and laboratories which are non-cancellable until 2026 and 2027. The total future lease payments for the non-cancellable lease periods are DKK 5,172 thousands and DKK 6,566 thousands respectively.

## 8. Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

# Notes to the Financial Statements

## 9. Accounting policies

The Annual Report of Bactolife A/S for 2023 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2023 are presented in DKK.

### 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.

### Share based payment

The Company has granted warrants to employees. The warrants are equity settled programs which Management has chosen not to recognise in the Financial Statements.

## Income statement

### Revenue

Revenue consists of fees related to joint development agreements with partners.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

Revenue is measured at the consideration received and is recognised exclusive of VAT.

### Other external expenses

Other external expenses comprise expenses for premises, sales as well as office expenses, etc.

### Staff expenses

Staff expenses comprise wages and salaries as well as salary dependent expenses.

# Notes to the Financial Statements

## Amortisation, depreciation and impairment losses

Depreciation comprise depreciation 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 received grants.

## 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 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.

## 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:

Plant and machinery	5-20 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	15 years

### 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 depreciation.

### Inventories

Inventory consist of raw materials used for the research and development activities.

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

### 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 rent, insurance, acquisition of property, plant and equipment etc.

# Notes to the Financial Statements

## Provisions

Other provisions relate to estimated decommissioning obligations for leased premises.

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

## 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.

## Convertible and profit-yielding instruments of debt

Loan agreements under which the company does not have an unconditional right to avoid repayment in cash or where the Company has an obligation to deliver a variable number of its own equity instruments are classified as financial liabilities. Financial liabilities are initially measured at fair value which is generally equal to the proceeds obtained. Non closely related embedded derivatives are separated from the host liability contract and measured at fair value through the income statement. The difference between the fair value of the financial liability and the initial fair value of the non closely related embedded derivatives is considered the initial carrying amount of the liability host contract. Transaction costs are allocated proportionately between the non closely related embedded derivatives and the host liability. The difference between the initial amount allocated to the liability host contract less transaction costs and the principal is amortised under the effective interest method as part of interest expense over the term of the loan.

The Company had until the debt conversion 16 June 2023 a loan with the following non closely related embedded derivatives: automatic conversion with accretive five percent discount rate per every calendar quarter the loan remained outstanding (maximised to accumulative 20 percent discount) and a maturity date conversion option for the lender where the conversion prices was subject to a valuation cap. See further details in the note 7.

Fair value of the embedded derivatives was determined based on option pricing models and assessment of the likelihood of conversion in a given quarter before maturity or at maturity. None of the significant inputs applied were observable and consequently represent level 3 measurements in the fair value hierarchy. The assumptions to which the fair value of the embedded derivatives was most sensitive to is stated in note 7 Long-term debt. Reasonably possible alternative assumptions could have resulted in significantly different fair values.

## Financial liabilities

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

## Deferred income

Deferred income comprises payments received in respect of income in subsequent years.