

Embark Biotech ApS

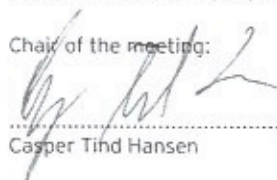
c/o COBIS Ole Maaløes Vej 3, 2200

CVR no. 39 11 93 74

Annual report 2021

Approved at the Company's annual general meeting on 7 June 2022

Chair of the meeting:



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Casper Tind Hansen

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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Embark Biotech ApS 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 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.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 7 June 2022

Executive Board:


Casper Tind Hansen
Jakob Bondo Hansen

Board of Directors:


Klaus Christian Schollmeier
Chair
Casper Tind Hansen

Independent auditor's report

To the shareholders of Embark Biotech ApS

Opinion

We have audited the financial statements of Embark Biotech ApS for the financial year 1 January - 31 December 2021, which comprise income statement, 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 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.

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 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' 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.

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 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 the 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.

Independent auditor's report

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 form of 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 Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 7 June 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Rasmus Bloch Jespersen
State Authorised Public Accountant
mne35503

Management's review

Company details

Name Embark Biotech ApS
Address, Postal code, City c/o COBIS Ole Maaløes Vej 3, 2200

CVR no. 39 11 93 74
Established 28 November 2017
Registered office Copenhagen
Financial year 1 January - 31 December

Executive Board Casper Tind Hansen
Jakob Bondo Hansen

Auditors EY Godkendt Revisionspartnerselskab
Dirch Passers Allé 36, P.O. Box 250, 2000 Frederiksberg,
Denmark

Management's review

Business review

Embark Biotech ApS was founded on 28 November 2017 and is a spin-out from the University of Copenhagen. The Company is a biotech start-up developing strategies for treating metabolic diseases and eating disorders.

The technology platform is based on the pioneering work of Associate Professor Zachary Gerhart-Hines, Ph.D. and Jakob Bondo Hansen, Ph.D. within the field of adipose tissue biology and modulation of the axis between fat tissue and the brain. Our overall aim is to position Embark Biotech as the world-leading Company in adipose tissue biology, metabolism, and eating disorders.

Embark Biotech was co-founded by Associate Professor Zachary Gerhart-Hines, Ph.D. and Jakob Bondo Hansen, Ph.D., Professor Thue Walther Schwartz and Casper Tind Hansen, CEO.

Financial review

The income statement for 2021 shows a loss of DKK 6,196,311 against a profit of DKK 3,185,064 last year, and the balance sheet at 31 December 2021 shows equity of DKK 2,940,920.

In Q3 2021 Embark Biotech became part of the BioInnovation Institute (BII) Creation House program and in connection with this received a convertible loan to advance the lead program further in development.

The company has not experienced a material adverse impact from COVID-19 on the financial statements for 2020, the Company is closely monitoring the potential impact of COVID-19 on its financial reporting for 2021 and beyond.

In 2021, the Company acquired, and at 31 December 2021 the Company holds 1,031 treasury shares of nominal DKK 1 each, equivalent to 2 % of the Company's share capital. The purchase price was DKK 350,000. The acquisition of purchase shares was based on a resolution passed by the general meeting of shareholders with the purpose of accommodating a former investor's wish to divest.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Financial statements 1 January - 31 December

Income statement

Note	DKK	2021	2020
	Gross profit	0	10,676,598
	Administrative expenses	-331,547	-202,375
	Operating profit/loss	-331,547	10,474,223
8.2	Research and development costs	-7,052,523	-6,397,539
	Profit/loss before net financials	-7,384,070	4,076,684
	Financial income	1,180	931
3	Financial expenses	-299,029	-159,566
	Profit/loss before tax	-7,681,919	3,918,049
4	Tax for the year	1,485,608	-732,985
	Profit/loss for the year	-6,196,311	3,185,064
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-6,196,311	3,185,064
		-6,196,311	3,185,064

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2021	2020
	ASSETS		
	Fixed assets		
5	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	1,521,173	2,211,409
		<u>1,521,173</u>	<u>2,211,409</u>
	Total fixed assets	<u>1,521,173</u>	<u>2,211,409</u>
	Non-fixed assets		
	Receivables		
	Corporation tax receivable	1,341,544	333,102
	Other receivables	190,513	0
		<u>1,532,057</u>	<u>333,102</u>
	Cash	7,639,998	9,160,502
	Total non-fixed assets	<u>9,172,055</u>	<u>9,493,604</u>
	TOTAL ASSETS	<u>10,693,228</u>	<u>11,705,013</u>
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	51,515	51,515
	Retained earnings	2,889,405	9,435,716
	Dividend proposed	0	0
	Total equity	<u>2,940,920</u>	<u>9,487,231</u>
	Provisions		
	Deferred tax	0	144,064
	Total provisions	<u>0</u>	<u>144,064</u>
	Liabilities other than provisions		
7	Non-current liabilities other than provisions		
	Convertible debt facilities	5,377,135	0
	Other payables	428,631	486,778
		<u>5,805,766</u>	<u>486,778</u>
	Current liabilities other than provisions		
7	Conversion option	908,785	0
	Trade payables	517,119	26,184
	Payables to shareholders and management	131,364	121,508
	Other payables	380,160	1,439,248
	Deferred income	9,114	0
		<u>1,946,542</u>	<u>1,586,940</u>
	Total liabilities other than provisions	<u>7,752,308</u>	<u>2,073,718</u>
	TOTAL EQUITY AND LIABILITIES	<u>10,693,228</u>	<u>11,705,013</u>

- 1 Accounting policies
6 Treasury shares
9 Contractual obligations and contingencies, etc.

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings	Dividend proposed	Total
Equity at 1 January 2020	51,515	6,250,652	12,000,000	18,302,167
Transfer through appropriation of profit	0	3,185,064	0	3,185,064
Dividend	0	0	-12,000,000	-12,000,000
Equity at 1 January 2021	51,515	9,435,716	0	9,487,231
Transfer through appropriation of loss	0	-6,196,311	0	-6,196,311
Purchase of treasury shares	0	-350,000	0	-350,000
Equity at 31 December 2021	51,515	2,889,405	0	2,940,920

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Embark Biotech ApS for 2021 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Public grants

Public grants to cover expenses are recognised in the income statement when it is deemed likely that all grant criteria have been met. Grants which must be repaid under certain circumstances are recognised only where they are not expected to be repaid.

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

Revenue consists of revenue from collaboration agreements, comprising milestones, technology access fees, research funding fees and milestone payments. Milestones are recognised when non-refundable technology access fees and milestone payments attributable to previous research and/or development activities are recognised as revenues at the time when it is certain that the fee is earned. Research funding income is recognised as revenue as the research activities are being performed. Accordingly, revenue corresponds to the market value of the research activities rendered during the year.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross profit

The items revenue, production costs and other operating income have been aggregated into one item in the income statement called gross profit in accordance with section 32 of the Danish Financial Statements Act.

Administrative expenses

Administrative expenses include expenses incurred in the year for company management and administration, including expenses relating to administrative staff, Management, office premises and expenses as well as amortisation/depreciation of assets used for administrative purposes.

Research costs

The item includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Licensed patent rights	2 years
Fixtures and fittings, other plant and equipment	5 years

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from company participants, realised and unrealised capital gains and losses relating to investments, exchange gains and losses, amortisation of financial assets and liabilities, and fair value adjustments of conversion option.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

Other intangible assets include acquired intangible rights, including patents and licensing rights.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprises cash balances and bank deposits.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity

Treasury shares

Purchases and sales of treasury shares are taken directly to equity under "Retained earnings".

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

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 alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to materialise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Convertible loans

The convertible debt are initially separated into a debt component and a conversion option. The debt component is measured at amortized cost and the conversion option is measured at fair value through profit or loss.

On initial recognition, The difference between the fair value of the liability component and the total proceeds is allocated to the conversion option. The conversion option is classified as a derivative liability, as it is not convertible into a fixed number of shares for a fixed amount of cash. Subsequent to initial recognition, the conversion option is accounted for as a derivative and thus, it is measured at fair value through profit or loss. Any gains or losses on the conversion option is recognized as part of financial items. The transaction costs are allocated to each component of the loan.

Deferred income

Deferred income recognised as a liability comprises payments received concerning income in subsequent financial reporting years.

Fair value

The fair value measurement is based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximises the price of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierarchy, see below:

Level 1: Value in an active market for similar assets/liabilities

Level 2: Value based on recognised valuation methods on the basis of observable market information

Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

DKK	2021	2020
2 Amortisation/depreciation of intangible assets and property, plant and equipment		
Amortisation of intangible assets	0	27,778
Depreciation of property, plant and equipment	690,236	690,236
	<u>690,236</u>	<u>718,014</u>

Amortisation/depreciation of intangible assets and property, plant and equipment is recognised in the income statement under the following items:

Research costs	690,236	718,014
	<u>690,236</u>	<u>718,014</u>

Financial statements 1 January - 31 December

Notes to the financial statements

DKK		2021	2020
3	Financial expenses		
	Interest on convertible loan	191,115	0
	Fair value adjustment of embedded derivative	42,805	0
	Other financial expenses	65,109	159,566
		<u>299,029</u>	<u>159,566</u>
DKK		2021	2020
4	Tax for the year		
	Estimated tax charge for the year	-1,341,544	326,898
	Deferred tax adjustments in the year	-144,064	351,681
	Tax adjustments, prior years	0	54,406
		<u>-1,485,608</u>	<u>732,985</u>

Estimated tax charge for the year 2021 comprises tax credit for research and development expenditures.

DKK		Fixtures and fittings, other plant and equipment
5	Property, plant and equipment	
	Cost at 1 January 2021	3,451,180
	Cost at 31 December 2021	3,451,180
	Impairment losses and depreciation at 1 January 2021	1,239,771
	Depreciation	690,236
	Impairment losses and depreciation at 31 December 2021	1,930,007
	Carrying amount at 31 December 2021	<u>1,521,173</u>
	Depreciated over	<u>5 years</u>

6 Treasury shares

In 2021, the Company acquired, and at 31 December 2021 the Company holds 1,031 treasury shares of nominal DKK 1 each, equivalent to 2 % of the Company's share capital. The purchase price was DKK 350,000. The acquisition of purchase shares was based on a resolution passed by the general meeting of shareholders with the purpose of accommodating a former investor's wish to divest.

Financial statements 1 January - 31 December

Notes to the financial statements

7 Non-current liabilities other than provisions

Of the long-term liabilities DKK 486.778 falls due within 1-5 years after the balance sheet date.

DKK	Total debt at 31/12 2021	Short-term portion	Long-term portion	Outstanding debt after 5 years
Convertible debt facilities	5,377,135	0	5,377,135	0
Conversion option	908,785	908,785	0	0
Other payables	428,631	0	428,631	0
	<u>6,714,551</u>	<u>908,785</u>	<u>5,805,766</u>	<u>0</u>

The Company has entered a convertible loan in August 2021. The principal amount of the convertible loan is DKK 10,000,000, which is divided in two tranches. The first tranche of DKK 6.050 thousand was drawn on 10 September 2021. The second tranche of 3.950 thousand is expected to be drawn in 2022 or 2023, however conditioned that the Company reach certain research and development milestones. The convertible loan, including accrued interest, matures on 19 August 2024 and carries a 5% interest rate.

The convertible loan includes several conversion features, which allows the lender to convert the loan into shares in the Company with a conversion discount of 0-30% to the share price of the Company, depending on which option is being utilized. The conversion features include (i) conversion upon a qualified financing round, (ii) conversion upon an 'exit event', (iii) conversion upon the company entering a license agreement, and (iv) conversion upon maturity of the loan.

At initially recognition, the first tranche of the convertible debt has been separated into a liability component and a conversion option (an embedded derivative), by allocating the difference between the fair value of the liability component and the proceeds to the conversion option. Subsequent to initial recognition, the liability component is measured at amortized cost and the conversion option is measured at fair value through profit or loss.

The amortization of the liability component is calculated by use of an estimated market interest rate of 10.6%. The fair value of the conversion option has been calculated by use of an option pricing model and by weighing in management's assumption about the probabilities associated with the timing and triggering event of conversion, considering the respective conversion features, and repayment of the loan (level 3 of the fair value hierarchy). The following main assumptions has been applied: (i) conversion upon a qualified financing round; assessed probability of 59% and timing within 12-36 months from issuance date, (ii) conversion upon an 'exit event'; assessed probability of 31% and timing within 12-36 months from issuance date, (iii) conversion upon the company entering a license agreement; assessed probability of 8% and timing within 12-36 months from issuance date, (iv) conversion upon maturity of the loan; assessed probability of 1%, and (v) repayment at maturity of 1%.

DKK	2021	2020
8 Staff costs		
Wages/salaries	2,901,602	3,894,503
Pensions	366,698	487,285
Other social security costs	27,150	34,665
Other staff costs	8,466	10,788
	<u>3,303,916</u>	<u>4,427,241</u>

Staff costs are recognised as follows in the financial statements:

Research	<u>3,303,916</u>	<u>4,427,241</u>
	<u>3,303,916</u>	<u>4,427,241</u>
Average number of full-time employees	<u>3</u>	<u>5</u>

Financial statements 1 January - 31 December

Notes to the financial statements

9 Contingent liabilities and significant events

Other financial obligations

Other rent liabilities:

DKK

Rent liabilities

	<u>2021</u>	<u>2020</u>
	445,000	0