

Embark Biotech ApS

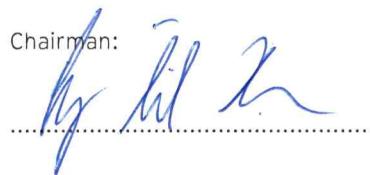
c/o COBIS Ole Maaløes Vej 3, 2200

CVR no. 39 11 93 74

Annual report 2019

Approved at the Company's annual general meeting on

Chairman:

A handwritten signature in blue ink, appearing to read "Hilz". It is placed over a dotted line.

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Financial statements 1 January - 31 December	7
Income statement	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10

Statement by the Board of Directors and the Executive Board

Today, the Executive Board has discussed and approved the annual report of Embark Biotech ApS for the financial year 1 January - 31 December 2019.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In my opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

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

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

Copenhagen, 29 May 2020

Executive Board:



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 2019, 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 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 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' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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.

Independent auditor's report

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any 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, 29 May 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28


Christian Schwenn Johansen
State Authorised Public Accountant
mne33234


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
Auditors	Ernst & Young 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 obesity and metabolic disease by increasing energy expenditure.

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 energy expenditure field.

In the second half of 2018, Embark announced a collaboration with Novo Nordisk A/S (NN) to advance our lead program through to pre-clinical development within obesity and other metabolism-related disorders. In addition to the funding of the lead program, the NN collaboration has funded the development of our proprietary discovery platform within the energy expenditure field.

The NN partnered lead program is the first project out of the Embark discovery platform. In addition to the partnered lead program, we seek to advance our next pipeline programs. Our overall aim is to position Embark Biotech as the world-leading Company in adipose tissue biology and energy expenditure.

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 2019 shows a profit of DKK 14,426,111 against a profit of DKK 9,820,500 last year, and the balance sheet at 31 December 2019 shows equity of DKK 18,302,167.

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	2019 12 months	2017/18 13 months
	Gross profit	25,623,833	14,947,235
	Administrative expenses	-343,313	-505,476
	Operating profit	25,280,520	14,441,759
6	Research and development costs	-6,726,990	-1,840,726
	Profit before net financials	18,553,530	12,601,033
	Financial income	2,260	1,199
	Financial expenses	-54,311	-11,869
	Profit before tax	18,501,479	12,590,363
2	Tax for the year	-4,075,368	-2,769,863
	Profit for the year	14,426,111	9,820,500

Recommended appropriation of profit

Proposed dividend recognised under equity	12,000,000	0
Extraordinary dividend distributed in the year	6,000,000	0
Retained earnings/accumulated loss	-3,573,889	9,820,500
	14,426,111	9,820,500

Financial statements 1 January - 31 December
Balance sheet

Note	DKK	2019	2017/18
	ASSETS		
	Fixed assets		
3	Intangible assets		
	Acquired intangible assets	27,778	194,445
		27,778	194,445
4	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	2,747,673	0
	Prepayments for equipment	0	989,289
		2,747,673	989,289
	Total fixed assets	2,775,451	1,183,734
	Non-fixed assets		
	Receivables		
	Deferred tax assets	207,617	239,253
	Other receivables	0	54,886
		207,617	294,139
	Cash	25,247,502	11,051,459
	Total non-fixed assets	25,455,119	11,345,598
	TOTAL ASSETS	28,230,570	12,529,332
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	51,515	51,515
	Retained earnings	6,250,652	9,824,541
	Dividend proposed	12,000,000	0
		18,302,167	9,876,056
	Total equity		
	Liabilities other than provisions		
5	Non-current liabilities other than provisions		
	Other payables	170,284	0
		170,284	0
	Current liabilities other than provisions		
	Trade payables	122,833	70,050
	Corporation tax payable	4,043,732	559,116
	Payables to shareholders and management	112,369	103,939
	Other payables	4,411,525	852,511
	Deferred income	1,067,660	1,067,660
		9,758,119	2,653,276
	Total liabilities other than provisions	9,928,403	2,653,276
	TOTAL EQUITY AND LIABILITIES	28,230,570	12,529,332

- 1 Accounting policies
 7 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 2019	51,515	9,824,541	0	9,876,056
Transfer through appropriation of profit	0	-3,573,889	12,000,000	8,426,111
Equity at 31 December 2019	51,515	6,250,652	12,000,000	18,302,167

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Embark Biotech ApS for 2019 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.

The Company's comparative figures comprise a 13 months period due to the 2017/18 first financial year of the Company.

Reporting currency

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

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.

Amortisation/depreciation

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

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:

Licenced patent rights	2 years
------------------------	---------

Fixtures and fittings, other plant and equipment	5 years
--	---------

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 and amortisation of financial assets and liabilities.

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).

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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.

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.

Deferred income

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

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK	2019 12 months	2017/18 13 months
2 Tax for the year			
Estimated tax charge for the year		4,043,732	3,009,116
Deferred tax adjustments in the year		31,636	-239,253
		4,075,368	2,769,863
3 Intangible assets			
DKK		Acquired intangible assets	
Cost at 1 January 2019		250,000	
Cost at 31 December 2019		250,000	
Impairment losses and amortisation at 1 January 2019		55,555	
Amortisation for the year		166,667	
Impairment losses and amortisation at 31 December 2019		222,222	
Carrying amount at 31 December 2019		27,778	
4 Property, plant and equipment			
DKK		Fixtures and fittings, other plant and equipment	
Cost at 1 January 2019		0	
Additions		2,307,923	
Transferred		989,289	
Cost at 31 December 2019		3,297,212	
Impairment losses and depreciation at 1 January 2019		0	
Depreciation		549,539	
Impairment losses and depreciation at 31 December 2019		549,539	
Carrying amount at 31 December 2019		2,747,673	

5 Non-current liabilities other than provisions

Of the long-term liabilities DKK 170,284 falls due within 1-5 years after the balance sheet date.

Financial statements 1 January - 31 December
Notes to the financial statements

	DKK	2019 12 months	2017/18 13 months
6 Staff costs			
Wages/salaries		4,285,807	884,176
Pensions		425,579	89,633
Other social security costs		33,643	3,219
Other staff costs		66,032	-242
		<u>4,811,061</u>	<u>976,786</u>
Staff costs are recognised as follows in the financial statements:			
Research		4,811,061	976,786
		<u>4,811,061</u>	<u>976,786</u>
Average number of full-time employees		5	1
		<u>5</u>	<u>1</u>

7 Contingent liabilities and significant events
Other financial obligations
License and Collaboration Agreements

As part of the license and collaboration agreements entered into by Embark, once a product is developed and commercialised, Embark may be required to make royalty payments. It is impossible to measure the timing and the value of such future payments, but Embark expects to generate income from such products which will exceed any royalty payments due. Accordingly, no such liabilities have been recognised.