

Bainan Biotech ApS

Ole Maaløes Vej 3, 3., DK-2200 Copenhagen N

CVR no. 39 90 42 76

Annual report 2022

for the year 1 January - 31 December 2022

Approved at the Company's annual general meeting on 12 July 2023

Chair of the meeting:

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Bainan Biotech ApS for the financial year 1 January - 31 December 2022.

The annual report has been 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 2022 and of the results of its operations and cash flows for the financial year 1 January - 31 December 2022.

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, 12 July 2023
Executive Board:

Bolette Hartmann

Board of Directors:

Mette Marie Rosenkilde
Chair

Jens Juul Holst

Bolette Hartmann

Independent auditor's report

To the shareholders of Bainan Biotech ApS

Conclusion

We have audited the financial statements of Bainan Biotech ApS for the financial year 1 January - 31 December 2022, 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 2022 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2022 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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.

Material uncertainty related to going concern

We draw attention to the material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. We refer to note 2 to the financial statements, which states that it is uncertain whether financing of the Company's operations and the necessary investments in the coming years can be secured in due time. However, as Management believes that such financing will be obtained, the financial statements have been prepared on a going concern basis. We have not modified our opinion in respect of this matter.

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. Management is also responsible for such internal control that 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 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.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and 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 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.

Independent auditor's report

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

Copenhagen, 12 July 2023
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Birgit Morville Schrøder
State Authorised
Public Accountant
mne21337

Anders Roe Eriksen
State Authorised
Public Accountant
mne46667

Management's review

Company details

Name	Bainan Biotech ApS
Address, postal code, city	Ole Maaløes Vej 3, 3., DK-2200 Copenhagen N
CVR no.	39 90 42 76
Established	27 September 2019
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	www.bainanbiotech.com
E-mail	info@bainanbiotech.com
Telephone	+45 50 55 26 48
Board of Directors	Mette Marie Rosenkilde, Chair Jens Juul Holst Bolette Hartmann
Executive Board	Bolette Hartmann
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, P.O. Box 250, DK-2000 Frederiksberg

Management's review

Business review

The Company operates in research and experimental development within biotechnology, as well as related activities. The Company's objective is the research of incretins and other gut hormones for the purpose of developing peptide agonists for the treatment of diseases of the human body.

Unusual matters having affected the financial statements

Loss of share capital

The company's assets and liabilities have been assessed with continued operations in mind. Management is aware that the Company continues to have capital losses and is thus covered by section 119 of the Danish Companies Act. It is the Management's assessment that the Company, despite the capital loss, still has the necessary capital base to ensure continued operations. Management continuously assesses the capital base and the need for re-establishment of equity.

Management expects to re-establish the share capital through new share capital injections in combination with potential loan conversions to equity.

Going concern

Management monitors its liquidity position on a monthly basis to identify liquidity risks and enable the Board of Directors and Management to prepare for new financing transactions and/or take relevant tactical or strategic actions to allow the Company to continue its research and development activities as planned as a going concern.

As of 31 December 2022, the Company's available liquidity, consisting of cash and cash equivalents, was DKK 2,748 thousand and total equity was negative DKK 12,544 thousand. For the year ended 31 December 2022, the Company incurred a net loss of DKK 3,129 thousand.

In June 2023, as a result of recent research results in newly performed rodent models, the Board of Directors and Management revisited the Company's corporate strategy, and on this basis, measures will be implemented during the remaining part of 2023 to implement a new strategy for establishing preclinical proof-of-concept in a new disease area.

Management and the Board of Directors are working to obtain additional sources of funding for the Company in 2023 and believe it is probable that new funding will be obtained in due time to enable the Company to continue its activities as planned.

The Company's ability to continue as a going concern is depending on its ability to raise additional funds. At 31 December 2022, the convertible loan amounted to DKK 7.9 million, and original repayment date was set for July 2023. Subsequent to the balance sheet date, the loan provider confirmed the extension for the loan repayment until 31 December 2024. Therefore, in the annual report 2022, the convertible loan has been presented as short-term liability. The current cash position is expected to last through the fourth quarter of 2023, which includes the expected tax credit refund of DKK 750 thousand and Management is currently working in securing a loan tranche of DKK 2 million during 2023 which is contingent upon a positive analysis of the current clinical data. Such additional funding is required before 31 December 2023 in order to continue the Company's planned development activities beyond 2023.

As part of the new strategy, focus will be managing the Company's intellectual property and pursuing business development arrangements, in order to raise a seed round in 2024.

While these measures are considered likely to ensure that the Company will be able to settle its current obligations as they fall due, the Company's ability to settle its non-current obligations including the Covid-19 Syndication loan from Vækstfonden and the convertible debt facilities is depending on both the Company's ability to realise its studies as well as to raise additional funding in due time.

Management's review

Due to the uncertainty associated with the outcome of the analysis of the current clinical data, and thereby securing the loan tranche of DKK 2 million, and in longer term the completion of the financing round, significant uncertainties regarding going concern exist, and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Board of Directors and Management believe it is possible to obtain sufficient liquidity in due time during 2023 to enable the Company to continue its activities beyond 2023.

Based on this assessment Management has prepared the financial statements presented herein based on assumption of being a going concern.

Reference is made to note 2 for more details.

Financial review

The income statement for 2022 shows a loss of DKK 3,128,882 against a loss of DKK 9,063,823 last year, and the balance sheet at 31 December 2022 shows a negative equity of DKK 12,543,766.

Events after the balance sheet date

With reference to section on going concern, the Company's ability to continue as a going concern is depending on its ability to raise additional funds. At 31 December 2022, the convertible loan amounted to DKK 7.9 million, and original repayment date was set for July 2023. Subsequent to the balance sheet date, the loan provider confirmed the extension for the loan repayment until 31 December 2024. Therefore, in the annual report 2022, the convertible loan has been presented as short-term liability.

With reference to section on going concern above, in June 2023, Bainan Biotech received data suggesting an effect of our compounds in the performed rodent models. As a result of these recent research results, the Board of Directors and Management have in June 2023 revisited the Company's corporate strategy and, on this basis, measures will be implemented during the remaining part of 2023 to increase our focus on this area.

No other 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	2022	2021
4	Other operating income	928,021	1,224,456
	Other operating expenses	-2,158,201	-4,934,258
	Gross profit	-1,230,180	-3,709,802
5	Staff costs	-2,089,946	-4,959,288
	Profit/loss before net financials	-3,320,126	-8,669,090
6	Financial income	879,655	302,402
7	Financial expenses	-1,437,931	-2,267,219
	Profit/loss before tax	-3,878,402	-10,633,907
8	Tax for the year	749,520	1,570,084
	Profit/loss for the year	-3,128,882	-9,063,823
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-3,128,882	-9,063,823
		-3,128,882	-9,063,823

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2022	2021
	ASSETS		
	Non-fixed assets		
	Receivables		
	Corporation tax receivable	749,403	1,579,084
	Other receivables	210,138	444,386
		<u>959,541</u>	<u>2,023,470</u>
	Cash	<u>2,748,331</u>	<u>3,622,350</u>
	Total non-fixed assets	<u>3,707,872</u>	<u>5,645,820</u>
	TOTAL ASSETS	<u>3,707,872</u>	<u>5,645,820</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2022	2021
	EQUITY AND LIABILITIES		
	Equity		
9	Share capital	50,000	50,000
	Retained earnings	-12,593,766	-9,464,884
	Total equity	-12,543,766	-9,414,884
	Liabilities other than provisions		
	Non-current liabilities other than provisions		
10	Other credit institutions	5,905,013	5,096,466
	Convertible debt instruments	0	7,051,598
		5,905,013	12,148,064
	Current liabilities other than provisions		
11	Convertible debt instruments	7,893,291	0
11	Convertible debt instruments (conversion option)	1,973,323	1,762,899
	Prepayments received	0	310,021
	Trade payables	468,227	506,982
	Other payables	11,784	332,738
		10,346,625	2,912,640
	Total liabilities other than provisions	16,251,638	15,060,704
	TOTAL EQUITY AND LIABILITIES	3,707,872	5,645,820
1	Accounting policies		
2	Going concern uncertainties		
3	Events after the balance sheet date		
12	Contractual obligations and contingencies, etc.		
13	Collateral		

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Retained earnings	Total
Equity at 1 January 2021	50,000	-401,061	-351,061
Transfer through appropriation of loss	0	-9,063,823	-9,063,823
Equity at 1 January 2022	50,000	-9,464,884	-9,414,884
Transfer through appropriation of loss	0	-3,128,882	-3,128,882
Equity at 31 December 2022	50,000	-12,593,766	-12,543,766

Loss of share capital

The Company's assets and liabilities have been assessed with continued operations in mind. Management is aware that the Company continues to have capital losses and is thus covered by section 119 of the Danish Companies Act. It is the Management's assessment that the Company, despite the capital loss, still has the necessary capital base to ensure continued operations. Management continuously assesses the capital base and the need for re-establishment of equity.

Management expects to re-establish the share capital through new share capital injections in combination with potential loan conversions to equity.

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Bainan Biotech ApS for 2022 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.

Effective from the financial year 2022, the Company has implemented amending act no. 1716 of 27 December 2018 to the Danish Financial Statements Act. The implementation of the amending act has not affected the Company's accounting policies on recognition and measurement of assets and liabilities but has solely entailed a requirement for further disclosures. The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

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

Foreign currency translation

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

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

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are presented as separate items in the balance sheet.

Income statement

Revenue

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains on the sale of fixed assets.

Government grants are recognized periodically when the work supported by the grant has been reported and presented as other operating income. Government grants are recognized when a final and firm right to the grant has been obtained. Government grants are recognised in the income statement in the same period as the work (external expenses) has been performed as the grants are considered to be reimbursement of research expenses.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

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.

Income tax of the year comprises refundable tax credits for costs incurred in connection with research and development activities under the Danish Tax Credit Regime.

Balance sheet

Receivables

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

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

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. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

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

Cash

Cash comprise bank accounts which are readily convertible into cash and with minor risks of changes in value.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. 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 crystallise 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.

Income tax receivables are recognized in accordance with the Danish tax credit scheme (Skattekreditordningen). Companies covered by the tax credit scheme may obtain payment of the taxbase of losses originating from research and development expenses of up to DKK 25 million (tax value of DKK 5.5 million).

Liabilities

The Company has chosen IAS 39 as interpretation for liabilities.

Financial liabilities comprising amounts payable to credit institutions, trade payables and payables to group entities are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.

Debts including government grants

Loan granted from the government at below the prevailing market interest rate. Loan also includes a bonus element which is considered a non-closely related derivative separated from the host loan contract.

At initial recognition the loan is measured at fair value computed based on a market interest rate and the bonus element i.e. derivative have been measured at fair value. The difference between the proceeds received and the fair value of the loan including the bonus element is recognized as a government grant. The government grant is recognized as financial income when the conditions attached to the grant have been fulfilled. Subsequently, the loan is measured at amortized cost and the derivative is measured at fair value through profit and loss. Any gain or loss on the derivative is recognized as financial items.

Financial statements 1 January – 31 December

Notes

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.

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.

On initial recognition, derivative financial instruments are recognised at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are presented as separate items in the balance sheet.

Deferred income

Deferred income recognised as a liability comprises payments (from Government grants) received concerning grant income (other operating income) in subsequent financial reporting years.

Subsequent events

If the Company obtains information after the balance sheet date, but prior to the date of the Board of Directors' approval of the financial statements, about conditions that existed at the balance sheet date, the Company assesses if the information affects the amounts that it recognises in the financial statements.

The Company will adjust the amounts recognised in its financial statements to reflect any adjusting events after the balance sheet date and update the disclosures that relate to those conditions in the light of the new information.

For non-adjusting events after the balance sheet date, the Company will not change the amounts recognised in its financial statements, but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

Fair value

Fair value is determined 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.

All assets and liabilities that 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).

If a reliable fair value cannot be stated according to the above levels, the asset or liability is measured at cost.

Financial statements 1 January – 31 December

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2 Going concern uncertainties

Management monitors its liquidity position on a monthly basis to identify liquidity risks and enable the Board of Directors and Management to prepare for new financing transactions and/or take relevant tactical or strategic actions to allow the Company to continue its research and development activities as planned as a going concern.

In June 2023, as a result of recent research results in newly performed rodent models, the Board of Directors and Management revisited the Company's corporate strategy, and on this basis, measures will be implemented during the remaining part of 2023 to implement a new strategy for establishing preclinical proof-of-concept in a new disease area.

Management and the Board of Directors are working to obtain additional sources of funding for the Company in 2023 and believes it is probable that new funding will be obtained in due time to enable the Company to continue its activities as planned.

The Company's ability to continue as a going concern is depending on its ability to raise additional funds. At 31 December 2022, the convertible loan amounted to DKK 7.9 million, and original repayment date was set for July 2023. Subsequent to the balance sheet date, the loan provider confirmed the extension for the loan repayment until 31 December 2024. Therefore, in the annual report 2022, the convertible loan has been presented as short-term liability. The current cash position is expected to last through the fourth quarter of 2023, which includes the expected tax credit refund of DKK 750 thousand and Management is currently working in securing a loan tranche of DKK 2 million during 2023 which is contingent upon a positive analysis of the current clinical data. Such additional funding is required before 31 December 2023 in order to continue the Company's planned development activities beyond 2023.

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While these measures are considered likely to ensure that the Company will be able to settle its current obligations as they fall due, the Company's ability to settle its non-current obligations including the Covid-19 Syndication loan from Vækstfonden and the convertible debt facilities is depending on both the Company's ability to realise its studies as well as to raise additional funding in due time.

Due to the uncertainty associated with the outcome of the analysis of the current clinical data, and thereby securing the loan tranche of DKK 2 million, and in longer term the completion of the financing round, significant uncertainties regarding going concern exist, and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Board of Directors and Management believe it is possible to obtain sufficient liquidity in due time during 2023 to enable the Company to continue its activities beyond 2023.

Based on this assessment Management has prepared the financial statements presented herein based on assumption of being a going concern.

Financial statements 1 January – 31 December

Notes

3 Events after the balance sheet date

With reference to note 2 on going concern, the Company's ability to continue as a going concern is depending on its ability to raise additional funds. At 31 December 2022, the convertible loan amounted to DKK 7.9 million, and original repayment date was set for July 2023. Subsequent to the balance sheet date, the loan provider confirmed the extension for the loan repayment until 31 December 2024. Therefore, in the annual report 2022, the convertible loan has been presented as short-term liability.

With reference to note 2 on going concern above, in June 2023, Bainan Biotech received data suggesting an effect of our compounds in the performed rodent models. As a result of these recent research results, the Board of Directors and Management have in June 2023 revisited the Company's corporate strategy and, on this basis, measures will be implemented during the remaining part of 2023 to increase our focus on this area.

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

	2022	2021
4 Other operating income		
Government grants	928,021	1,224,456
	<u>928,021</u>	<u>1,224,456</u>
Government grants relate to reimbursement of research expenses.		
5 Staff costs		
Wages and salaries	2,032,984	4,894,894
Other social security costs	56,962	64,394
	<u>2,089,946</u>	<u>4,959,288</u>
Average number of full-time employees	<u>4</u>	<u>9</u>
6 Financial income		
Value adjustment of bonus derivative	0	300,000
Exchange adjustments	0	2,402
Fair value adjustments of financial instruments (conversion option)	857,637	0
Other interest income	22,018	0
	<u>879,655</u>	<u>302,402</u>
7 Financial expenses		
Interest expenses, borrowings & financial institutions	826,619	715,280
Interest expenses, convertible debt facilities	609,754	1,241,448
Value adjustment of derivative conversion option	0	310,362
Interest expenses, other	0	129
Surcharges from the Danish tax authorities	1,558	0
	<u>1,437,931</u>	<u>2,267,219</u>

Financial statements 1 January - 31 December

Notes

	DKK	2022	2021
8	Tax for the year		
	Estimated tax charge for the year	749,520	-1,570,084
		749,520	-1,570,084

Income tax of the year comprises refundable tax credits for costs incurred in connection with research and development activities under the Danish Tax Credit Regime (LL § 8 X).

9 Share capital

The Company's share capital has remained DKK 50,000 in the past year.

At 31 December 2022 the company had lost its share capital. Management will take appropriate measures to restore the share capital.

10 Borrowings (other credit institutions)

The Company has taken out the following long-term loan:

DKK	Outstanding nominal amount*)	Carrying amount	Estimated market interest rate	Government grant
Loan, issued 2020	6,825,000	5,905,013	15,00%	0
Bonus derivative	-	0	-	-
	6,825,000	5,905,013		0

*) Including embedded governmental grant of DKK 2,420,875

The Company secured in December 2020 a Covid-19 Syndication loan from Vækstfonden which includes a government grant in terms of an interest discount.

The loan includes the following terms:

- Term: 72 months from issuance - repayment begins after 36 months.
- Interest coupon CIBOR 3 Month + 5% accruing over the term of the loan
- Loan principal: DKK 6,825,000 (Including embedded governmental grant of DKK 2,420,875)
- Lender bonus element, where the principal under certain conditions are doubled. The bonus element is accounted for as a non-closely related derivative.

If the Company's shares are transferred for a gross proceeds per share, which is more than four times (4x) as high as the price per share in connection with the Convertible debt facilities (a "Qualified Sale"). The Company shall pay the Lender a bonus equal to the Principal (the "Bonus") (less interest payments made during the period until time of the bonus). The Bonus shall not be paid, insofar the gross proceeds per share does not constitute a Qualified Sale.

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10 Borrowings (other credit institutions) - continued

This valuation method requires Management to make certain assumptions regarding a potential Qualified Sale. Management estimated the fair value of the Bonus derivative to 0 as of 31 December 2022.

Interest expenses for the year amounts to DKK 808,548.

A government grant of DKK 2,420,875 was recognised for during 2020 at the inception of the loan.

11 Convertible debt facilities and conversion option

The Company has the following convertible debt facilities and Conversion option:

DKK	Outstanding nominal amount	Carrying amount of loan	Carrying amount of embedded derivative	Estimated market interest rate
Loan, tranche 1, issued 2020	6,700,000	6,711,963	1,677,991	21.64%
Loan, tranche 2, issued 2022	1,300,000	1,181,328	295,332	19.26%
	<u>8,000,000</u>	<u>7,893,291</u>	<u>1,973,323</u>	

The Company obtained a convertible loan at 1 August 2020. The principal amount of the Loan is DKK 10,000,000 and is designed to be disbursed to the Company in three tranches, whereas the first tranche of DKK 6,700,000 was disbursed on 1 August 2020, and the second tranche disbursed DKK 1,300,000 on 11 April 2022. Any disbursements are subject to several conditions based on different milestones as set out in the loan note.

The loan matures on 10 July 2023 and has an embedded interest of 8% p.a. Reference is made to note 3 regarding extension of the repayment schedule.

The Lender has an option to convert the loan amount into shares in the Company with a conversion discount of 20% to the share price of the Company and can be converted in the event of a Qualified Financing, in the event of an Exit or at maturity date.

The convertible debt was initially separated into a debt component and a conversion option. 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. Subsequent to initial recognition, the conversion option is accounted for as a derivative and thus, it has been measured at fair value through profit or loss as part of financial items.

Fair value as at 31 December 2022 of the conversion option has been based on the key assumption that a qualified financing activity is expected to take place in 2024.

A fair value adjustment of DKK 857,637 has been recognised through the income statement during 2022.

Financial statements 1 January - 31 December

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12 Contractual obligations and contingencies, etc.

Other financial obligations

The Company has not provided any security or other collateral in assets at 31 December 2022.

As stated in note 10, the loan that the company entered into in 2020 contains a bonus element, where the principal under certain conditions is doubled (less already paid interest). This valuation method requires Management to make certain assumptions. Management has estimated the fair value of the Bonus derivative to 0 as of 31 December 2022.

13 Collateral

The Company has not provided any security or other collateral in assets at 31 December 2022.

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