Freya Biosciences ApS

Fruebjergvej 3, 2100 Copenhagen

CVR no. 41 25 75 47

Annual report

for the year 1 January - 31 December 2022

Approved at the Company's annual general meeting on 28 June 2023

Chair of the meeting:

DocuSigned by:

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Peter Finsel Bisgaard

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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 Freya Biosciences ApS for the financial year 1 January - 31 December 2022.

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 2022 and of the results of the Company's operations 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, 28 June 2023
Executive Board:

DocuSigned by:
Colleen Acosta
8EBBC5988C76493...
Colleen Acosta
CEO

Board of Directors:

DocuSigned by: 4407A53A88F5459...	DocuSigned by: Nick Haft 941BD5B3DE9246E...	DocuSigned by: Mark Smith B0EBE738B514442...
Peter Finsel Bisgaard Chairman	Nicholas Haft	Mark Smith
DocuSigned by: Colleen Acosta 8EBBC5988C76493...	DocuSigned by: F6952847F89248C...	DocuSigned by: Claudia Maria Colciago E3F1A5F8790F48C...
Colleen Acosta	Henrijette Elsebeth Richter	Claudia Maria Bisgaard

Independent auditor's report

To the shareholders of Freya Biosciences ApS

Opinion

We have audited the financial statements of Freya Biosciences 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 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 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.

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.

Aalborg, 28 June 2023
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Hans B. Vistisen
State Authorised Public Accountant
mne23254

Mads Obel Knøsgaard
State Authorised Public Accountant
mne49041

Management's review

Company details

Name	Freya Biosciences ApS
Address, Postal code, City	Fruebjergvej 3, 2100 Copenhagen
CVR no.	41 25 75 47
Established	23 March 2020
Registered office	Copenhagen
Board of Directors	Peter Finsel Bisgaard, Chairman Nicholas Haft Mark Smith Colleen Acosta Henrijette Elsebeth Richter Claudia Maria Bisgaard
Executive Board	Colleen Acosta, CEO
Auditors	EY Godkendt Revisionspartnerselskab Østre Havnegade 65, 9000 Aalborg, Denmark

Management's review

Business review

Freya Biosciences ApS is a clinical stage women's health company pioneering a new class of microbial immunotherapies to adress substantial unmet need across a range of indications.

Financial review

The income statement for 2022 shows a loss of DKK 32,157 thousand against a loss of DKK 20,406 thousand last year, and the balance sheet at 31 December 2022 shows a negative equity of DKK 3,745 thousand.

The Company has lost more than half of the share capital, which is why the Company is subject to the capital loss rules in accordance with section 119 of the Danish Companies Act. The Company has re-established its share capital by conversion of debt in February 2023 and completion of Series A financing round.

Management considers the Company's financial performance in the year satisfactory and in line with the stategic directions.

Financing and liquidity resources

The funding received in February 2023 from the completion of the Series A-financing is expected to cover the Company's financing needs and clinical developments plans well into 2024. On this basis, the financial statements are prepared on a going concern assumption.

Events after the balance sheet date

In February 2023, the debt facility is converted into equity.

In February 2023, the Company completed a Series A financing securing additional DKK 109.6m (USD 16.2m) to advance its pipeline of microbial immunotherapies to address substantial unmet need across a range of indications.

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

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2022	2021
	Other external expenses	-16,628	-11,236
	Gross profit	-16,628	-11,236
4	Staff costs	-7,155	-5,890
	Depreciation of property, plant and equipment	-123	-123
	Research costs	-15,398	-5,510
	Profit/loss before net financials	-39,304	-22,759
5	Financial income	1,246	9
6	Financial expenses	-1,050	-139
	Profit/loss before tax	-39,108	-22,889
7	Tax for the year	6,951	2,483
	Profit/loss for the year	-32,157	-20,406
	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-32,157	-20,406
		-32,157	-20,406

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	ASSETS		
	Fixed assets		
8	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	261	377
	Leasehold improvements	1	8
		262	385
	Investments		
	Deposits	135	135
		135	135
	Total fixed assets	397	520
	Non-fixed assets		
	Receivables		
	Receivables from group enterprises	246	0
	Tax credit receivable	9,692	2,741
9	Other receivables	926	2,792
	Prepayments	0	1,849
		10,864	7,382
	Cash	5,115	24,465
	Total non-fixed assets	15,979	31,847
	TOTAL ASSETS	16,376	32,367

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	EQUITY AND LIABILITIES		
	Equity		
10	Share capital	351	351
	Share premium account	50,362	50,362
	Retained earnings	-54,458	-22,301
	Total equity	-3,745	28,412
	Liabilities other than provisions		
	Non-current liabilities other than provisions		
11	Convertible debt instruments eligible for dividend	13,014	0
		13,014	0
	Current liabilities other than provisions		
	Trade payables	5,693	3,009
12	Other payables	1,414	946
		7,107	3,955
	Total liabilities other than provisions	20,121	3,955
	TOTAL EQUITY AND LIABILITIES	16,376	32,367

1 Accounting policies
2 Financing and liquidity ressources
3 Events after the balance sheet date
13 Contractual obligations and contingencies, etc.
14 Contingent assets

Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Share premium account	Retained earnings	Total
Equity at 1 January 2022	351	50,362	-22,301	28,412
Transfer through appropriation of loss	0	0	-32,157	-32,157
Equity at 31 December 2022	351	50,362	-54,458	-3,745

The Company has lost more than half of the share capital, which is why the Company is subject to the capital loss rules in accordance with section 119 of the Danish Companies Act. Subsequently, to 31 December 2022, the Company has re-established the share capital.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Freya Biosciences 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.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

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'000).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate 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 and payables and other monetary items denominated in foreign currencies are translated at the exchange rate 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 most recent financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Research costs

Research and development expenses are primarily internal and external costs incurred in the development of the Company's product candidates, including research and development expenses.

Due to the general uncertainty related to the development of pharmaceutical drugs, Management concludes that development costs can be capitalized only if the product has been fully developed and all necessary approvals from the authorities have been obtained. As a result, in 2022, Management has chosen to expense research and development costs in the year when incurred.

Contract Research Organizations expenses and related prepayments and accruals

Substantial portions of the Company's pre-clinical and clinical studies are performed by third-party laboratories, contract research organizations and other vendors (collectively, the "CROs"). The CROs generally bill monthly or quarterly for services performed. For studies, the Company accrues expenses based upon estimated percentage of work completed.

The Company's estimates depend on the timeliness and accuracy of the data provided by the CROs regarding the status of each program and total program spending. The Company evaluates the estimates to determine if adjustments are necessary or appropriate based on information received.

CROs invoice the Company upon the occurrence of predetermined contractual or activity-based milestones; however, the timing of these invoices and the Company's related payments often do not correspond directly to the level of performance of contracted activities. To the extent payments are made by the Company in advance of the related activities performed by the CROs, they are included in prepayments and expensed when the activities performed by the CROs. To the extent the payments are made by the Company following the performance of the related activities, the expense is accrued for as a trade payable.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other external expenses

Other external expenses include the year's expenses relating to administration, premises, external consultants and advisors, payments under operating leases, etc.

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.

Depreciation

The item comprises depreciation of property, plant and equipment.

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

Fixtures and fittings, other plant and equipment	2-5 years
Leasehold improvements	2-5 years

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

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.

The Company is part of the tax credit scheme (in Danish: skattekreditordningen).

Balance sheet

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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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".

Deposits

Deposits are measured at cost.

Investments in group entities, associates and participating interests

The Company has a subsidiary in the United States, Freya Biosciences, Inc.

Investments in group entities and associates are measured at cost. Where costs exceeds the recoverable amount, writedown is made to this lower value.

Dividends received that exceed the accumulated earnings in the group entity during the period of ownership are treated as a reduction in the cost of acquisition.

Impairment of fixed assets

The carrying amount of property, plant and equipment and investments in group entities is assessed for impairment on an annual basis.

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

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

Receivables comprise Prepayments, Other receivables, Intercompany receivables and Tax receivables, which are presented separately in the statements of financial position.

Prepayments and other receivables are measured at amortized cost.

Current tax receivables are recognized in the balance sheet as calculated tax on the taxable income for the year, adjusted for tax on previous years' taxable income and for any taxes paid on account.

Prepayments comprise costs incurred concerning subsequent financial years.

An impairment loss is recognised if there is objective evidence that a receivable is impaired.

Cash

Cash comprise cash.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity

The share capital comprises the nominal amount of the company's ordinary and preference shares

Share premium account comprising the amount received, attributable to shareholders' equity, in excess of the nominal amount of the shares issued at the Company's capital increases, reduced by any expenses directly attributable to the capital increases as well as any exchange rate adjustments.

Retained earnings include the accumulated profit or loss for the year as well as prior periods.

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 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.

Tax credits for research and development costs is recognised as a tax receivable of 22 % of the costs eligeble for tax credits, when such cost has been realised.

Liabilities

The Company has chosen IAS 39 as interpretation for 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.

Convertible loans

The convertible debt facility is separated into liability and equity components based on the terms of the contract. On issuance of the convertible debt facility, the fair value of the liability component, is determined using a market rate for an equivalent non-convertible instrument.

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.

When estimating the fair value of financial instruments, management applies inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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).

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

2 Financing and liquidity ressources

The funding received in February 2023 from the completion of the Series A-financing is expected to cover the Company's financing needs and clinical developments plans well into 2024. On this basis, the financial statements are prepared on a going concern assumption.

3 Events after the balance sheet date

In February 2023,the debt facility is converted into equity.

In February 2023, the Company completed a Series A financing securing additional DKK 109.6m (USD 16.2m) to advance its pipeline of microbial immunotherapies to address substantial unmet need across a range of indications.

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

Financial statements 1 January - 31 December

Notes to the financial statements

	DKK'000	2022	2021
4	Staff costs		
	Wages/salaries	7,079	5,838
	Pensions	28	15
	Other staff costs	48	37
		7,155	5,890
	Number of employees at the balance sheet date	8	7
5	Financial income		
	Exchange adjustments	1,246	9
		1,246	9
6	Financial expenses		
	Interest expenses, convertible loan	396	0
	Bank interests	95	124
	Exchange adjustments	130	12
	Exchange losses	0	2
	Fair value adjustments of financial instruments	417	0
	Other financial expenses	12	1
		1,050	139
7	Tax for the year		
	Estimated tax charge for the year	-5,500	-2,483
	Tax adjustments, prior years	-1,451	0
		-6,951	-2,483

Estimated tax charge for the year and tax adjustments, prior years, comprise of income tax credit in accordance with LL 8X.

According to the Danish tax legislation, the tax value (22%) of development- and research costs up to DKK 25,000 thousand can be paid out after the year's taxable income is filed. Accordingly, the tax loss carried forward is reduced.

8 Property, plant and equipment

DKK'000	Fixtures and fittings, other plant and equipment	Leasehold improvements	Total
Cost at 1 January 2022	509	15	524
Cost at 31 December 2022	509	15	524
Impairment losses and depreciation at 1 January 2022	132	7	139
Depreciation	116	7	123
Impairment losses and depreciation at 31 December 2022	248	14	262
Carrying amount at 31 December 2022	261	1	262
Depreciated over	3-5 years	2-5 years	

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021
9 Other receivables		
VAT Receivable	926	1,141
Tax Account Deposit	0	1,651
	926	2,792

10 Share capital

Analysis of the share capital:

179,780.00 Common shares of DKK 1.00 nominal value each	180	180
120,653.40 Series Seed 1 Preference shares of DKK 1.00 nominal value each	121	121
50,235.50 Series Seed 2 Preference shares of DKK 1.00 nominal value each	50	50
	351	351

Series Seed 1 Preference shares and Series Seed 2 Preference shares carry special preference rights in case of distribution of dividends, etc. and protection against dilution in case of certain issues of shares.

Analysis of changes in the share capital over the past 3 years:

DKK'000	2022	2021	2020
Opening balance	351	252	0
Capital increase	0	99	162
	351	351	162

Financial statements 1 January - 31 December

Notes to the financial statements

11 Convertible debt instruments or corresponding rights issued by the Company

	Exchange deadline	Exchange rate	2022
			DKK'000
Convertible loan principle	27-09-2025	6.97	9,761
Fair value element of option	27-09-2025	6.97	2,857
Amortized interest	27-09-2025	6.97	396
			13,014

The Company entered into a convertible debt agreement amounting to USD 3,500 thousand as of 27 September 2022. The principal loan amount is distributed in two equal tranches, of which tranche 1 of USD 1,750 thousand was distributed as of 27 September 2022, while tranche 2 has to be distributed no later than 31 March 2023. The loan carries an annual interest rate of 8%.

The lenders are entitled to convert the convertible loan in the event of (i) the occurrence of a Series A Investment, (ii) extraordinary conversion before the maturity date, however only to the extent a Series A Investment has not been completed before 31 May 2023 and (iii) the occurrence of a Deemed Liquidation Event. The conversion price shall be either (i) a conversion rate equal to the subscription rate paid by the Series A Investors for the shares in a Series A Investment multiplied with the Conversion Discount (1 minus 0.20), however never below par value for the Series Seed 3 Preference Shares or (ii) (iii) a conversion rate equal to the subscription price for the Series Seed 2 Preference Shares subscribed for by the Lenders on 4 November 2021 multiplied with the Conversion Discount (1 minus 0.20). Thus, the conversion rate is not fixed.

Under the agreement, the Company is obligated to pay interests and principal, as well as providing the lenders with a conversion option with a right to convert the principal and accrued interests into shares of Freya Biosciences ApS. As the conversion rate in the agreement is not fixed, the company has at inception of the agreement accounted separately for two elements: An obligation to pay interest and principal and an initial measure at fair value of the conversion right.

The convertible debt facility is separated into liability and equity components based on the terms of the contract. On issuance of the convertible debt facility, the fair value of the liability component, is determined using a market rate for an equivalent non-convertible instrument.

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.

When estimating the fair value of the conversion option, management applies inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

In the financial statements for 2022, Management has separated the convertible debt facility into liability and equity components based on the terms of the loan contract. On issuance of the convertible debt facility, the fair value of the liability component, is determined using a market interest rate for an equivalent non-convertible instrument.

Conversion option

The fair value of the conversion option at inception 27 September 2022 amounts to USD 350,000. As of 31 December 2022, the fair value has been re-assessed and amounts to USD 409,779. The adjustment of the fair value is recognised as financial income. The fair value of the conversion option is estimated by management using a residual model. The key assumption in this method a discount rate in the range 20-25 % based on the required returns from different investors.

Financial statements 1 January - 31 December

Notes to the financial statements

Loan principle

At inception 27 September 2022 the convertible debt after fair value adjustments amounts to USD 1,400,000. It is recognised as amortised cost with an annual market interest rate at 15 %. The interest amounts to USD DKK 396 thousand (USD 56,795 thousand) as of 31 December 2022 and has been recognised as financial costs.

In February 2023, the debt facility is converted into equity.

	DKK'000	2022	2021
12	Other payables		
	Payroll related payables	1,414	946
		1,414	946

13 Contractual obligations and contingencies, etc.

Other contingent liabilities

The Company has no contingent liabilities.

The Company do not have contractual commitments beyond normal business standards.

Other financial obligations

Other rent liabilities:

DKK'000	2022	2021
Rent liabilities	159	159

Rent liabilities include a rent obligation with 3 months termination.

14 Contingent assets

The company has tax loss carry-forwards totalling DKK 15,929 thousand. The nominal value thereof is 22%, totalling DKK 3,504. The amount has not been recognised in the balance sheet due to the uncertainty as to application of the tax losses.