Saniona A/S

Smedeland 26B

2600 Glostrup

Central Business Registration No 34049610

Annual Report 2021

The Annual General Meeting adopted the annual report on 20 May 2022

Chairman of the General Meeting

DocuSigned by:

Søren Skjærbæk

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Name: Søren Skjærbæk

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Entity details

Saniona A/S

Smedeland 26B

2600 Glostrup

Central Business Registration No: 34049610

Registered in: Albertslund

Financial year: 01.01.2021 – 31.12.2021

Board of Directors

Joseph Donald deBethizy, Chairman

Karl Johan Bertil Sundberg

Anna Helena Constance Ljung

Edward Saltzman

Robert Hoffman

Jørgen Drejer, Interim Chairman

Executive Board

Thomas Feldthus, CEO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

2300 Copenhagen S

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Saniona A/S for the financial year 01.01.2021 - 31.12.2021.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2021 and of the results of its operations for the financial year 01.01.2021 - 31.12.2021.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Glostrup, 20.05.2022

Executive Board

Thomas Feldthus

CEO

Board of Directors

Joseph Donald deBethizy

Chairman

Jørgen Drejer

Interim Chairman

Karl Johan Bertil Sundberg

Edward Carey Saltzman

Robert Edwin Hoffman

Anna Helena Constance Ljung

Independent auditor's report

To the shareholders of Saniona A/S

Opinion

We have audited the financial statements of Saniona A/S for the financial year 01.01.2021 - 31.12.2021, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant 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 Entity's financial position at 31.12.2021 and of the results of its operations for the financial year 01.01.2021 - 31.12.2021 in accordance with the Danish Financial statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which state that the company has taken actions to reduce costs and optimize the Company´s cash flow and liquidity. There is a risk that the company will not be able to raise additional capital, retain or obtain additional partnerships or obtain other co-financing on acceptable terms or at all. This could result in a temporary halt to the Company´s development programs or that the Company is forced to run operations at a lower rate than desired, which could adversely affect the Company´s operations. In summary, these conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified 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, 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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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 about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial statements Act.

Based on the work we have performed, we conclude that the management commentary 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 commentary.

Copenhagen, 20.05.2022

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No: 33963556

Lars Hansen

State Authorised Public Accountant

Identification number (MNE) mne24828

Management commentary

Letter from the Interim Chairman

Looking back at 2021
2021 was a year of substantial operational progress, in which Saniona achieved multiple milestones that strengthened the fundamentals of our programs. During 2021, we obtained Orphan Drug Designation (ODD) from the FDA for Tesomet in both HO and PWS and we initiated multinational Phase 2b clinical trials in each indication. We also advanced our ion channel drug discovery engine, initiating a Phase 1 trial of SAN711, moving SAN903 towards the clinic, and preparing to select another preclinical program candidate.

The decision to restructure
Despite the significant progress Saniona achieved last year, 2021 brought unprecedented challenges related to the global biotech stock markets, and this situation intensified during the spring of 2022 due to global instability. Thus, during the spring of 2022, we announced a two-step strategic program reprioritization and restructuring. Due to funding limitations, we made the difficult decision to voluntarily pause our Phase 2b clinical trials of Tesomet for HO and PWS. We determined that it was in the best interest of the company and our shareholders to refocus on our core expertise in ion channel drug discovery. In connection with this revised strategy, coupled with the deteriorating biotech market conditions, the company terminated its plans to list its shares in the U.S. and, as a result, is closing its U.S. operations and terminating the positions of all U.S. personnel, including the U.S. executive management team. These restructuring actions are anticipated to reduce future annual operating expenses by approximately 70-75%. Importantly, the reduction in operating expenses will increase the utility of any future cash inflows obtained by the company. These types of decisions are always difficult to make. I would like to thank Saniona’s departing Board members, executives, and employees for their significant contributions over the past two years. Tesomet, SAN711 and SAN903 have all advanced in development and now have a lower risk profile, thanks to the work of this team. I also appreciate the professionalism and continued dedication the U.S. team and our Board has shown throughout this transition.

Looking ahead
Saniona’s vision remains unchanged: to improve the lives of rare disease patients around the world through scientific innovation. We emerge from this restructuring a leaner organization that is focused on prioritizing investment in specific pipeline programs as well as our core expertise in ion channel drug discovery. I am pleased to welcome back Saniona’s co-founder Thomas Feldthus as the new CEO, and I look forward to collaborate with him as Chairman of our Board of Directors. Our innovative ion channel drug discovery engine, which leverages 20+ years of expertise in this field, continues to drive our pipeline and partnerships, and we have several exciting milestones ahead. We look forward to top-line data from our Phase 1 trial of SAN711 in mid-2022. We continue to expect to advance SAN903 into a Phase 1 trial and our next development candidate into our pipeline this year or early next year as well. We also look forward to reporting progress on partnering activities around Tesomet and SAN711. I know this has been a difficult year for our shareholders, and I want to thank all of you for your continued support. I know many of you have been with Saniona on our journey for many years. Others of you may just be joining us now. Either way, we are glad to have you alongside us, and we look forward to keeping you posted on our progress.

Jørgen Drejer

Interim Chairman of the Board

Our core values

Put People First
Treat all people with kindness, respect and equity. Support people on their journey and enable a sense of belonging.

Innovation with Impact
Push boundaries with courage. Embrace empowerment. And deliver excellence.

Integrity, Always
Maintain the highest ethical standards in all that we do as we deliver with urgency for patients in need.

Our strategy
Saniona's focus is on the discovery, development and delivery of proprietary product candidates for the treatment of rare diseases with high unmet medical need.

Group relations
The company became part of a group on 30 January 2014, where the parent company, Saniona AB, acquired 100 % of the shares in the company. Saniona AB does not have any business other than owning shares in the company. The group is listed on Nasdaq Stockholm First North Premier. The group's share is traded under the ISIN code SE0005794617.

Saniona A/S established Saniona Inc in January 2020 and owns 100% of the shares in the company.

About Saniona
Saniona is a clinical-stage biopharmaceutical company with a mission to leverage its ion channel targeting expertise to discover, develop and deliver innovative rare disease treatments. The company's most advanced product candidate, Tesomet™, has been progressed into mid-stage clinical trials for hypothalamic obesity and Prader-Willi syndrome, serious rare disorders characterized by severe weight gain, disturbances of metabolic functions and uncontrollable hunger. These clinical trials are voluntarily paused due to funding limitations and Saniona is actively exploring partnering opportunities. Saniona has developed a proprietary ion channel drug discovery engine anchored by IONBASE™, a database of more than 130,000 compounds, of which more than 20,000 are Saniona's proprietary ion channel modulators. Through its ion channel expertise, Saniona is advancing two wholly-owned ion channel modulators, SAN711 and SAN903. SAN711 is in a Phase 1 clinical trial and is positioned for the treatment of neuropathic pain conditions, and SAN903 is in preclinical development for rare inflammatory, fibrotic and hematological disorders. Saniona is based in the Copenhagen area, Denmark, and is listed on Nasdaq Stockholm Small Cap (OMX: SANION). Read more at http://www.saniona.com.

Development in activities and finances
In 2021, the company reported revenues and other operating income of DKK 21,578 thousand in total and net loss before tax of DKK 246,056 thousand. The company had positive equity of DKK 261,741 thousand at the end of 2021. The company is financed through loans from the parent company and collaboration agreements. The loan has been converted to equity end of 2021.

Going concern
The financial statements have been prepared on a going concern basis.

As of December 31, 2021, Saniona's current assets exceed current liabilities by DKK 66 million. Current assets include cash and cash equivalents of DKK 33 million. To ensure that Saniona will be in a position to repay all of its current liabilities as of December 31, 2021, as well as its current liabilities to be incurred in connection with operating expenses during the next 12 months, management has taken immediate and significant actions in March and April 2022 to reduce costs and optimize the cash flow and liquidity, including, but not limited to: voluntarily pausing the Phase 2b clinical trials of Tesomet for HO and PWS; closing the U.S. operations and terminating the positions of all U.S. personnel, including the U.S. executive management team; deferring or reducing all discretionary spend; and freezing non-essential hiring. In addition, management is pursuing partnerships for its later-stage clinical programs Tesomet and SAN711, proceeds received from such arrangements would provide the company with additional liquidity. There is however a risk that these efforts are not sufficient to fund the company's operations until additional financing can be obtained. There is a risk that the company will not be able to raise additional capital, retain or obtain additional partnerships or obtain other co-financing on acceptable terms or at all. This could result in a temporary halt to the company's development programs or that the company is forced to run operations at a lower rate than desired, which could adversely affect the company's operations.

Based on these factors, the Board has a reasonable expectation that the company has and will have adequate resources to continue in operation existence for at least the next 12 months.

Events after the balance sheet date
During the spring of 2022, Saniona announced a two-step strategic program reprioritization and restructuring. Due to funding limitations, Saniona voluntarily paused its Phase 2b clinical trials of Tesomet for HO and PWS and is actively exploring partnerships for its late-stage clinical programs, Tesomet and SAN711. The company is refocusing on its core expertise in ion channel drug discovery. In connection with this revised strategy, coupled with the deteriorating biotech market conditions, the company terminated its plans to list its shares in the U.S. and, as a result, decided to close its U.S. operations and eliminated all associated positions. Affected employees were offered separation benefits, including severance payments and healthcare coverage. Saniona expects the reduction in workforce to cost between DKK 25 million and DKK 27 million in 2022, the majority of which will be incurred in the first half of 2022.

Income statement for 2021

DKK	Note	2021	2020
Revenue		19,987,709	5,818,910
Other operating income		1,590,585	845,330
Costs of raw materials and consumables		-10,273,923	-6,277,705
Other external expenses		-26,145,181	-48,232,834
Gross profit/loss		**-14,840,810**	**-47,846,300**
Staff costs	2	-34,574,687	-28,969,621
Depreciation, amortization and impairment losses		-4,528,795	-2,617,513
Operating profit/loss		**-53,944,292**	**-79,433,433**
Other financial income	3	303,900	24,015,289
Income from other investments		2,951,027	9,718,510
Other financial expenses	4	-200,866,216	-48,332,549
Profit/loss before tax		**-251,555,582**	**-94,032,183**
Tax on profit/loss for the year	5	5,500,000	5,451,897
Profit/loss for the year		**-246,055,582**	**-88,580,286**
Proposed distribution of profit/loss			
Retained earnings		-246,055,582	-88,580,286
		-246,055,582	**-88,580,286**

Balance sheet

DKK	Notes	2021	2020
Acquired intangible assets	6	4,500,000	4,500,000
Intangible assets		**4,500,000**	**4,500,000**
Other fixtures and fittings, tools and equipment	7	5,425,932	6,309,209
Leasehold improvements	7	2,003,537	2,101,550
Land and buildings	7	6,953,292	9,560,777
Tangible assets		14,382,761	**17,971,536**
Investment in subsidiaries	8	167,926,212	356,181,212
Other financial assets		1,671,290	1,278,284
Other investments	9	14,048,886	27,658,985
Financial assets		183,646,388	385,118,481
Other assets	10	150,000	379,751
Non-current assets		**202,679,149**	**407,969,767**
Trade receivables		2,628,499	3,737,746
Receivables from group companies		46,343,229	-
Current tax assets		5,500,000	5,500,000
Other assets		3,181,081	3,890,715
Current receivables		**57,652,809**	**13,128,461**
Cash		**33,208,772**	**71,509,869**
Current assets		**90,861,581**	**84,638,331**
Total assets		**293,540,730**	**492,608,098**

Balance sheet

DKK	Notes	2021	2020
Share capital		504,000	503,000
Other reserves		6,357,666	4,024,318
Retained earnings		254,879,459	453,722,794
Equity		**261,741,125**	**458,250,112**
Other financial liabilities	11	7,270,404	11,206,922
Other liabilities		-	1,540,683
Non-current liabilities		**7,270,404**	**12,747,606**
Current portion of non-current liabilities other than provisions	11	4,056,724	3,689,827
Payables to group enterprises		-	4,195,781
Trade payables		15,961,187	11,109,571
Other financial liabilities		2,557,437	2,003,876
Other liabilities		1,953,853	611,324
Current liabilities		**24,529,201**	**21,610,380**
Total liabilities		**31,799,605**	**34,357,986**
Total equity and liabilities		**293,540,730**	**492,608,098**
Related parties with controlling interest	12		
Subsequent events to the balance sheet date	13		

Statement of changes in equity for 2021

DKK	Share capital	Other reserves	Retained earnings	Shareholders' equity
Equity beginning of year (previously reported)	503,000	4,024,318	453,722,794	458,250,112
Correction		-1,414,951	1,414,951	0
Equity beginning of year	503,000	2,609,367	455,137,745	458,250,112
Profit/loss of the year			-246,055,582	-246,055,582
Increase of capital	1,000		45,797,296	45,798,296
Share-based compensation expenses		3,748,299		3,748,299
Equity end of year	**504,000**	**6,357,666**	**254,879,459**	**261,741,125**

Notes

1. Going concern

The financial statements have been prepared on a going concern basis.

As of December 31, 2021, the Saniona's current assets exceed current liabilities by DKK 66 million. Current assets include cash and cash equivalents of DKK 33 million. To ensure that Saniona will be in a position to repay all of its current liabilities as of December 31, 2021, as well as its current liabilities to be incurred in connection with operating expenses during the next 12 months, management has taken immediate and significant actions in March and April 2022 to reduce costs and optimize the Saniona's cash flow and liquidity, including, but not limited to: voluntarily pausing the Phase 2b clinical trials of Tesomet for HO and PWS; closing the U.S. operations and terminating the positions of all U.S. personnel, including the U.S. executive management team; deferring or reducing all discretionary spend; and freezing non-essential hiring. In addition, management is pursuing partnerships for its later-stage clinical programs Tesomet and SAN711, proceeds received from such arrangements would provide the company with additional liquidity. There is however a risk that these efforts are not sufficient to fund the Company's operations until additional financing can be obtained. There is a risk that the Company will not be able to raise additional capital, retain or obtain additional partnerships or obtain other co-financing on acceptable terms or at all. This could result in a temporary halt to the Company's development programs or that the Company is forced to run operations at a lower rate than desired, which could adversely affect the Company's operations.

Based on these factors, the Board has a reasonable expectation that Saniona has and will have adequate resources to continue in operation existence for at least the financial year 2022.

2. Staff costs

DKK	2021	2020
Wages and salaries	31,723,073	26,747,995
Pension costs	1,368,810	1,209,825
Share-based payment	1,241,403	904,844
Other social security costs	-94,515	-251,007
Other staff costs	335,916	357,963
	34,574,687	**28,969,621**
Average number of employees	**24**	**22**

Share based payments

A detailed description of the warrant program for 2017, 2018, 2019 and 2020 can be found in the annual report for 2020.

2021:1 A total of 700 options were allotted under the terms of the Options Program 2020 at various points in time in the first quarter of 2021.

2021:2 A total of 10,400 options were allotted under the terms of the Options Program 2020 at various points in time in the second quarter of 2021.

Share-based compensation expenses for the years ended December 31, 2021 and 2020 totaled DKK 3,7 million and DKK 0.9 million, respectively. The fair value of the service that entitles an employee to allotment of options under the Option Programs is recognized as a personnel cost with a corresponding increase in equity. Such compensation expenses represent the fair market values of options granted and do not represent actual cash expenditures.

Saniona uses the Black-Scholes-Merton model to determine the grant date fair value of its options granted. The estimated life has been based on the average of the end of the vesting period and the contractual life of the respective instruments, absent sufficient Saniona-specific information about employees exercising options. Expected volatility has been based on an evaluation of the historical volatility of the Parent Company's share price, particularly over the historical period commensurate with the estimated life.

3. Financial income

DKK	2021	2020
Financial income from group enterprises	40,330	24,015,289
Other financial income	942	-
Foreign exchange gain	262,628	-
Total	**303,900**	**24,015,289**

4. Financial expenses

DKK	2021	2020
Financial expenses from group enterprises	11,233,075	30,032,135
Interest expense	176,497	188,503
Other financial expenses	1,201,644	340,632
Foreign exchange losses	-	17,771,278
Reduction of carrying value of investment in subsidiary	188,255,000	-
Total	**200,866,216**	**48,332,548**

5. Tax on profit/loss for the year

DKK	2021	2020
Tax on current year taxable income	5,500,000	5,500,000
Change in deferred tax for the year	-	-48,103
Total	**5,500,000**	**5,451,897**

6. Intangible assets

DKK	Acquired intangible assets
Cost on January 1	5,500,000
Additions	-
Cost on December 31	**5,500,000**
Depreciation on January 1	1,000,000
Depreciation	-
Depreciation on December 31	**1,000,000**
Carrying amount December 31	**4,500,000**

7. Property, plan and equipment

DKK	Other fixtures and fittings, tools and equipment	Leasehold improve-ments	Land & building	Total
Cost on January 1	9,019,315	2,203,988	10,429,938	21,653,241
Additions	565,622	374,398	-	940,020
Disposals	-46,260	-	-	-46,260
Cost on December 31	**9,538,677**	**2,578,386**	**10,429,938**	**22,547,001**
Depreciation on January 1	2,710,105	102,438	869,162	3,681,705
Depreciation	1,818,874	102,437	2,607,484	4,528,795
Disposals	-46,260	-	-	-46,260
Depreciation on December 31	**4,482,719**	**204,875**	**3,476,646**	**8,164,240**
Carrying amount December 31	**5,055,958**	**2,373,511**	**6,953,292**	**14,382,761**
Recognised assets not owned by the entity	**4,368,090**		**6,953,292**	**11,321,382**

8. Investments in subsidiaries

Direct subsidiary	Share of equity	Share of voting power	Carrying amount in Parent Company DKK
Saniona Inc, 500 Totten Pond Road, Suite 620, Waltham, MA 02451, USA	100%	100%	167,926,212

DKK	2021
Cost on January 1	356,181,212
Additions	-
Reduction of carrying value of investment in subsidiary	-188,255,000
Carrying amount December 31	**167,926,212**

9. Other investments

DKK	Other financial assets
Cost of January 1	27,658,985
Additions	750,000
Payment received	-17,311,126
Fair value adjustment	2,951,027
Carrying amount December 31	**14,048,886**

10. Other assets

DKK	Other assets
Cost of January 1	379,751
Additions	-
Disposals	-229,751
Carrying amount December 31	**150,000**

11. Lease liabilities

DKK	Lease liabilities
Less than one year	4,056,724
Between one and five years	7,270,404
More than five years	-

12. Related parties with controlling interest

The Company has registered the following shareholder to have the controlling interest of the company:
Saniona AB, Sverige, 100 %.

13. Subsequent events to the balance sheet date

During the spring of 2022, Saniona announced a two-step strategic program reprioritization and restructuring. Due to funding limitations, Saniona voluntarily paused its Phase 2b clinical trials of Tesomet for HO and PWS and is actively exploring partnerships for its late-stage clinical programs, Tesomet and SAN711. The company is refocusing on its core expertise in ion channel drug discovery. In connection with this revised strategy, coupled with the deteriorating biotech market conditions, the company terminated its plans to list its shares in the U.S. and, as a result, decided to close its U.S. operations and eliminated all associated positions. Affected employees were offered separation benefits, including severance payments and healthcare coverage. Saniona expects the reduction in workforce to cost between DKK 25 million and DKK 27 million in 2022, the majority of which will be incurred in the first half of 2022.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognized in the income statement when earned, whereas costs are recognized by the amounts attributable to this financial year.

Leases

A lease asset (right-of-use asset) and a similar lease liability are recognised for all leases for which the Entity is a lessee. However, this policy does not apply to short-term leases (i.e. leases with a lease term ending within 12 months) and contracts to lease assets of low value. For such leases, lease payments are recognised as an expense on a straight-line basis over the lease term.

If the lease contains non-lease components (e.g. a service agreement on the lease assets), such components are recognised separately.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognized in the income statement as financial income or financial expenses.

Income statement

Revenue

i. General

Saniona generates revenue from out-licensing of intellectual property and from providing research and development services, either in combination with an out-licensing arrangement, or standalone. For all contracts with customers, Saniona (1) identifies the performance obligations in the contract, (2) determines the transaction price, (3) allocates the transaction price to the performance obligations in the contract, and (4) recognizes revenue when or as Saniona satisfies a performance obligation.

ii. Out-licensing arrangements

For out-licensing arrangements that include promises in addition to the promised license, Saniona determines if the license is 'distinct' by assessing whether the customer can benefit from the license on its own or together with other resources that are readily available, and whether the license is separately identifiable from other goods or services in the contract. If the license is not distinct, then Saniona recognizes revenue for the single performance obligation when or as the combined goods or services are transferred to the customer.

If the license is distinct, Saniona determines the nature of the license. If the nature of the promise is to provide the customer with a right to access the Saniona's intellectual property ('IP') throughout the license period, then Saniona recognizes revenue over time, because the customer simultaneously consumes and receives benefit from Saniona's performance of providing access to its IP as that performance occurs. A promise to provide the customer with a right to use Saniona's IP is satisfied at a point in time.

iii. Service revenue

Revenue from providing R&D services is recognized when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised services to the customer.

Costs of raw materials and consumables

Costs of raw materials and consumables comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary write-downs of the relevant inventories.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

Share-based incentive programs

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

The fair value of the equity instruments is calculated using the Black-Scholes formula including the parameters defined in note 1.

Depreciation, amortization and impairment losses

Amortization, depreciation and impairment losses relating to intangible assets and property, plant and equipment comprise amortization, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Income from investments in group enterprises

Income from investments in group enterprises includes dividends etc. received from the individual businesses in the financial year

Income from other investments

Income from other financial assets includes returns by way of fair value adjustments etc. of financial assets that are not investments in group enterprises or associates.

Other financial income

Other financial income comprises dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortization of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortization of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the profit for the year and recognized directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

Land and buildings, other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Land and buildings (lease assets)	3 years
Other fixtures and fittings, tools and equipment	1-10 years
Leasehold improvements	5 years

For leasehold improvements, the depreciation period cannot exceed the contract period.

Expected useful lives and residual values are reassessed annually.

Items of plant and equipment are written down to the lower of recoverable amount and carrying amount.

Lease assets

On initial recognition, lease assets are measured at the amount of the initial measurement of the lease liabilities, any lease payments made before the commencement date less any lease incentives received, and any initial direct costs incurred by the lessee.

An estimate of costs to be incurred by the lessee in dismantling and removing the lease as-sets, or restoring the underlying assets, are recognised as a separate provision. The costs are added to the cost of the lease assets. Subsequently, lease assets are measured at cost less accumulated depreciation and impairment losses.

Lease assets are depreciated over the lower of the lease term and the useful life of the under-lying assets. If the lease transfers the ownership of the lease assets by the end of the lease term or if the exercise of a purchase option is expected, the lease assets are depreciated over their useful life. Depreciation begins at the commencement date.

Lease assets are written down to the lower of recoverable amount and carrying amount

Lease assets are adjusted upon remeasurement of the lease liabilities; see below in the lease liability section.

Lease assets are recognised as fixed assets within the asset item in which the underlying as-sets of the lease would be recognised if the Entity owned them.

Investments in group enterprises

Investments in subsidiaries are measured at cost. The investment is written down to the lower of the recoverable amount and the carrying amount.

Other investments

Other securities and investments include unlisted securities, which are measured at fair value at the balance sheet date.

Receivables

Receivables are measured at amortized cost, usually equaling nominal value less write-downs for bad and doubtful debts.

Deferred tax

Deferred tax is recognized on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognized in the balance sheet at their estimated realizable value, either as a set-off against deferred tax liabilities or as net tax assets.

Income tax payable or receivable

Current tax payable or receivable is recognized in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Lease liabilities
On initial recognition, lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Entity’s incremental borrowing rate shall be used.

Lease payments included in the measurement of the lease liability comprise the following payments:

Fixed payments less any lease incentives provided by the lessor to the lessee.

Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

Amounts expected to be payable under residual value guarantees.

The exercise price of a purchase option if it is reasonably certain to exercise that option.

Payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate are recognised in the income statement as “Other external expenses” in the period in which the event or the circumstance triggering the payments in question takes place.

On subsequent measurement, lease liabilities are adjusted for accrued interest and repayments made, calculated by the effective interest rate method.

Lease liabilities are remeasured and the corresponding lease assets are similarly adjusted when:

There is a change in the lease term, e.g. as a result of a change in the assessment of whether an option to extend or to purchase will be exercised. Remeasurement takes place by discounting the revised lease payments using a discount rate revised at the time of changing the lease.

There is a change in lease payments resulting from a change in an index or a rate, or in the amounts expected to be payable under a residual value guarantee. Remeasurement takes place by discounting the revised lease payments using the original discount rate. However, a revised discount rate is used if the change reflects a change in the floating interest rate.

There is a lease modification that is not accounted for as a separate lease. Remeasurement takes place by discounting the revised lease payments using a revised discount rate.

If the remeasurement results in the reduction of a lease liability exceeding the carrying amount of the corresponding lease asset, the excess amount is recognised in the income statement.

Other financial liabilities

Other financial liabilities are measured at amortized cost, which usually corresponds to nominal value.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.