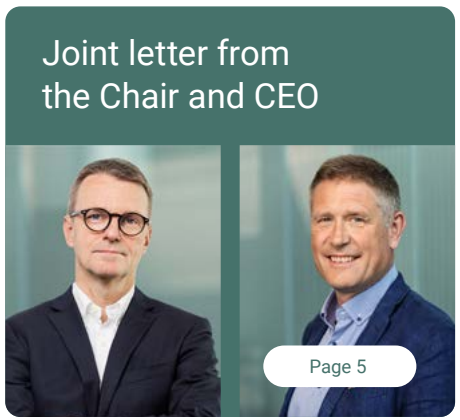
UNION
THERAPEUTICS

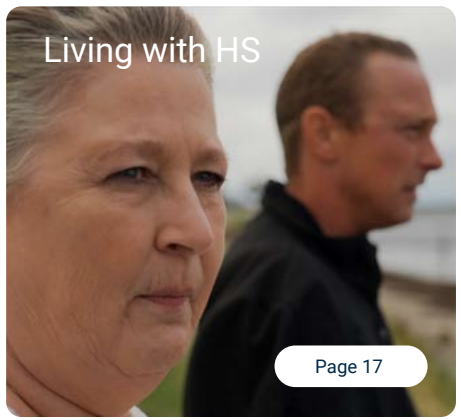
Annual Report 2021

Developing new treatments for the benefit of patients with immunological and infectious diseases.

Contents

Management review





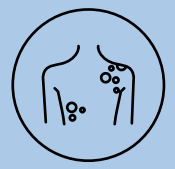
Financial statements

Introduction

UNION develops innovative drug candidates to improve the quality of life for people with immunological and infectious diseases.

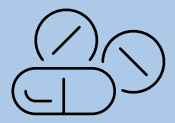
UNION at a glance

Pharmaceutical development company with a diversified pipeline addressing major unmet medical needs in immunology and infectious disease.



Immunology
Immunology is the largest therapy area in the US, the second largest globally after oncology, and the fastest growing therapy area globally.

Infectious disease
Infectious disease is an area of growing importance and was already before COVID-19 the fourth largest therapy area globally.



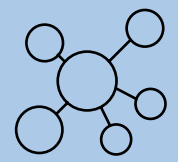
Orismilast
Next-generation PDE4-inhibitor with first-in-class and best-in-class potential as an oral treatment across a range of immunological diseases, initially in development for psoriasis, atopic dermatitis and hidradenitis suppurativa, tapping into a fast-growing USD +30bn market.

Niclosamide
Anti-infective drug with broad antiviral and antibacterial properties, and first-in-class potential for prevention and treatment of different respiratory infections, currently being tested as prevention of COVID-19 in immunocompromised patients.

Intellectual property
Pipeline in immunology and infectious disease supported by strong patent estate consisting of more than 100 issued patents.

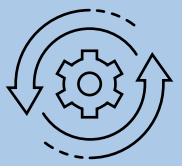
+100 issued patents

Business model and strategy
Focused on clinical development of well-characterized molecules with broad mechanisms of action, maximizing the potential of the molecules through a combination of pharmaceutical innovation and strong clinical development expertise.



R&D investments
DKK 155m invested in research and development in 2021, +139% vs. 2020, driven by initiation of Phase 2/3 study in COVID-19 prophylaxis and Phase 2 studies in psoriasis and hidradenitis suppurativa.

DKK 155m



Employees
36 employees (+20 vs. 2020) in total led by an experienced management team of biotech entrepreneurs and seasoned pharma executives with a track record of 15 global drug launches (FDA/EMA).

36 employees

Joint letter from the Chair and CEO

Building a lasting Danish pharmaceutical company

2021 has been a year of great progress for UNION with important advancement of our clinical pipeline, expansion of our international collaborations, external recognition, and significant strengthening of the organization across all levels.

Developing orismilast as a potential first-in-class and best-in-class oral treatment

Throughout the year, we have successfully advanced our two lead molecules, orismilast and niclosamide, with the overall aim to develop best-in-class and first-in-class treatments.

UNION's key focus is to address unmet medical needs for the benefit of patients, physicians, and payers. We are currently developing orismilast, a next-generation PDE4-inhibitor, for the treatment of three immunological diseases: psoriasis, atopic dermatitis (AD), and hidradenitis suppurativa (HS). Despite many important advancements and novel medicines, substantial unmet medical needs remain, but also in immunology more broadly; a therapy area that is the second largest and fastest growing globally.

AD is the most prevalent immunological skin disease with no safe oral treatment available today. The Fast Track Designation granted from the FDA in November for oral orismilast in AD is a big testimony to both the significant unmet medical need, as well as oral orismilast's potential in this disease.

During 2021, we have initiated Phase 2a and 2b studies with oral orismilast for the treatment of HS and psoriasis, respectively. We are very encouraged by the rapid progression of the development of orismilast by the UNION team.

In September 2021, we entered a strategic partnership and license agreement with Innovent Biologics for the development and commercialization of orismilast in Greater China (including Mainland China, Hong Kong, Macau and Taiwan). This agreement has both an immediate and potential long-term positive financial impact. UNION received USD 20m upfront and is entitled to additional milestone payments of up to USD 247m as well as tiered royalties on future orismilast sales in Greater China. The agreement is a further validation of the first-in-class and best-in-class potential of orismilast and expands our global footprint in an underserved market where deep market understanding and special competencies are important.

Developing niclosamide to help immunocompromised patients

The year 2021 will also be remembered for COVID-19 and the continued impact the pandemic has had on our lives for the second consecutive year. However, the pharmaceutical industry has risen to the challenge in record-time with vaccines approved and antiviral treatments developed to further reduce the risk of severe disease progression and hospitalization.

After almost two years with lockdowns, most countries are now lifting restrictions. Yet, some patients with weakened immune systems do remain at significant risk of severe illness from COVID-19. Immunocompromised patients, for example organ transplant patients, chronic kidney disease patients on dialysis and hematologic cancer patients, do not mount a full antibody response upon vaccination and thus need additional protection.

"Throughout the year, we have successfully advanced our two lead molecules, orismilast and niclosamide."

In 2021, our proprietary niclosamide nasal spray was selected for the Phase 2/3 PROTECT-V platform study sponsored by Cambridge University Hospitals NHS Foundation Trust and the University of Cambridge as a COVID-19 prophylaxis for kidney disease patients. The study was subsequently granted Level 1 Urgent Public Health prioritization by the National Institute for Health Research in the UK. PROTECT-V is one of the first prophylactic COVID-19 studies in immunocompromised patients, and we are very pleased to contribute and hopefully help protect this vulnerable patient group.

Strengthening of the organization

The UNION organization has been significantly strengthened in 2021 with several key hires to the Management, the Board of Directors, and the broader UNION team. Today, UNION is a diversified and agile international organization with a good mix of seasoned pharma executives, biotech entrepreneurs and new talent.

All of us at UNION are passionate about contributing to the development of new drug candidates that hold the potential to improve the quality of life for people with immunological and infectious diseases.

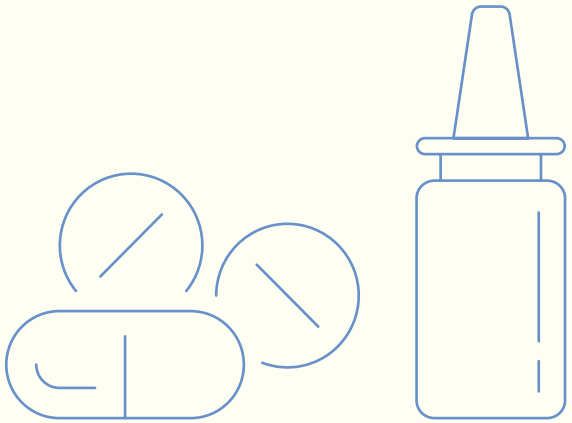
The Executive Management and the Board are very encouraged with the progress achieved in 2021 and we are excited about the opportunities and challenges ahead of us in 2022.

A sincere thank you to all who have supported the remarkable achievements during 2021 – colleagues, partners, contractors, investigators, investors, collaborators, other stakeholders and not least the patients participating in clinical trials with orismilast and niclosamide.

Stig Løkke Pedersen
Chair of the Board of Directors

Kim Domela Kjøller
Chief Executive Officer

2021 achievements



Advanced the clinical pipeline

Phase 2a investigator-led, proof-of-concept study OSIRIS initiated with oral orismilast for the treatment of hidradenitis suppurativa.

UNION initiated the Phase 2b study IASOS with oral orismilast for the treatment of moderate to severe psoriasis.

Niclosamide selected for the Phase 2/3 platform trial PROTECT-V by University of Cambridge, investigating niclosamide nasal spray as a COVID-19 pre-exposure prophylactic agent in kidney patients.

Strengthened the organization

UNION has more than doubled its employee base in 2021 from 16 employees at the end of 2020 to 36 employees at the end of 2021.

Special competencies have been added across all levels of the organization.

Received Fast Track Designation from FDA in atopic dermatitis

UNION received Fast Track Designation from the U.S. Food and Drug Administration (FDA) for oral orismilast for the treatment of moderate to severe atopic dermatitis.

Atopic dermatitis is the most prevalent immunological skin disease and the lack of safe oral treatments is a major unmet need.

Further validated the potential for orismilast through partnership with Innovent Biologics

UNION entered a strategic partnership and licensing agreement for orismilast in Greater China (including Mainland China, Hong Kong, Macau and Taiwan), receiving USD 20m upfront and being entitled to additional milestone payments of up to USD 247m as well as tiered royalties on future orismilast sales in Greater China.

Raised funds to accelerate clinical programs

UNION continued to see strong support from current and new investors, and raised more than DKK 200m in private placements.

Consolidated key figures

DKK'000	2021	2020	2019	2018*	2017*
Statement of comprehensive income					
Revenue	118,912	0	11,649	0	2,080
Research and development costs	-155,305	-65,107	-19,402	-48,459	-41,625
Administrative costs	-21,724	-8,270	-5,053	-5,491	-3,302
Other operating income	6,178	9,049	344	3,683	2,464
Operating result	**-51,939**	**-64,328**	**-12,462**	**-50,267**	**-40,382**
Financial income/(expense)	-9,562	-22,078	-4,543	-5,375	-868
Result before tax	**-61,501**	**-86,406**	**-17,005**	**-55,642**	**-41,250**
Tax benefit/(expense)	5,475	5,510	4,143	5,497	5,658
Result for the year	**-56,026**	**-80,896**	**-12,862**	**-50,145**	**-35,592**
Statement of financial position					
Non-current assets	17,978	16,856	576	169	155
Current assets excl. Cash and cash equivalents	13,545	15,603	5,251	6,678	9,014
Cash and cash equivalents	253,402	36,425	46,466	21,775	13,834
Total assets	284,925	68,884	52,293	28,622	23,003
Equity	49,380	-58,397	-38,308	-35,419	12,023
Non-current liabilities	170,675	94,963	81,220	52,362	2,488
Current liabilities	64,870	32,318	9,381	11,679	8,492

DKK'000	2021	2020	2019	2018*	2017*
Cash flow statement					
Cash flow from operating activities	-2,974	-51,546	-8,379	-43,973	-32,795
Cash flow from investing activities	-140	-1,668	0	-35	-160
- Investment in property plant and equipment	-140	0	0	-35	-63
Cash flow from financing activities	216,496	43,524	32,783	52,023	47,258
Employees					
Average full-time equivalents	26	9	9	8	5

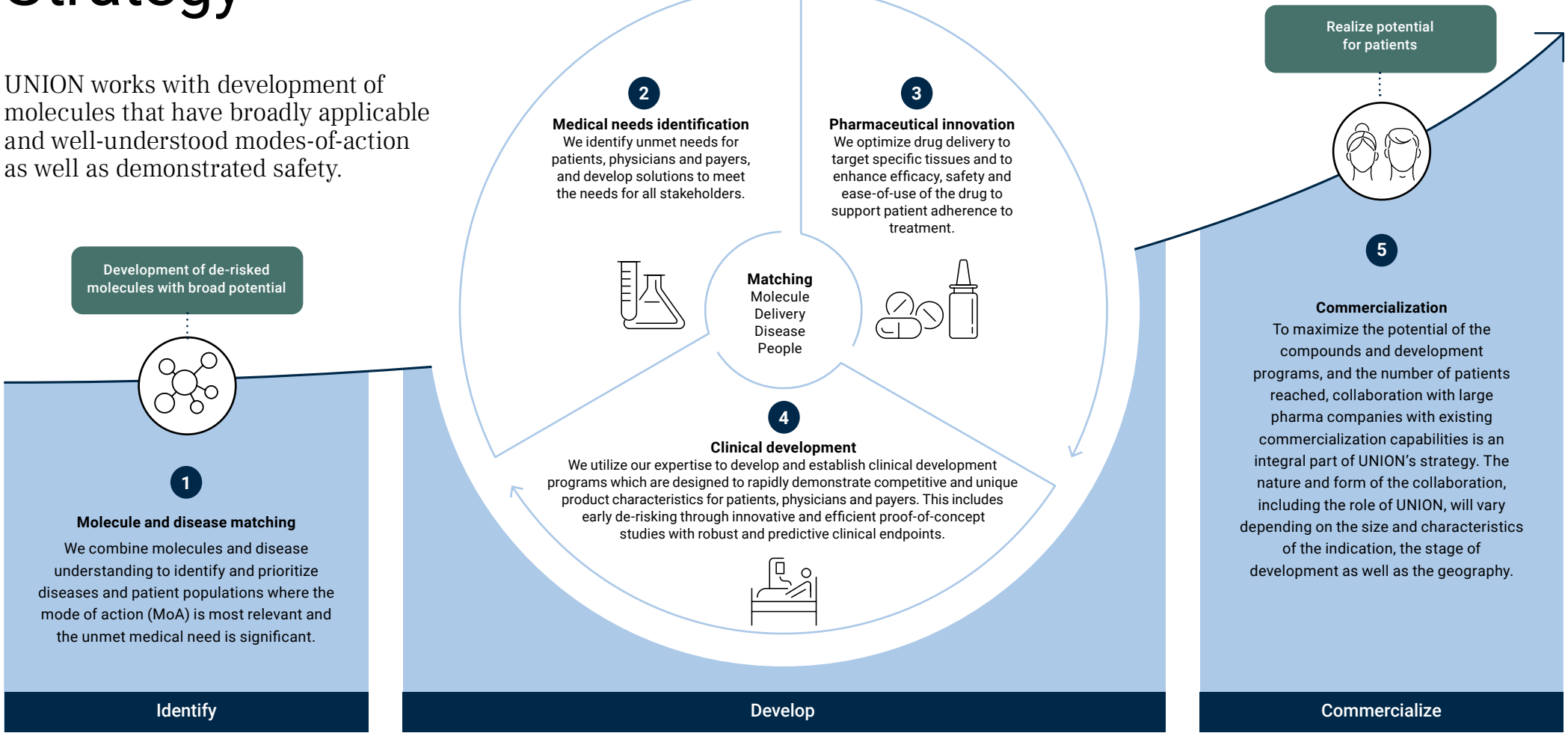
* The comparatives figures for 2017-2018 have not been restated following the adoption of IFRS 16 Leases on January 1, 2019 by use of the modified retrospective approach.

Our business

UNION's core area of expertise is centred around pharmaceutical innovation and clinical development, working with molecules in therapeutic areas with significant unmet medical need.

Strategy

UNION works with development of molecules that have broadly applicable and well-understood modes-of-action as well as demonstrated safety.



Pipeline

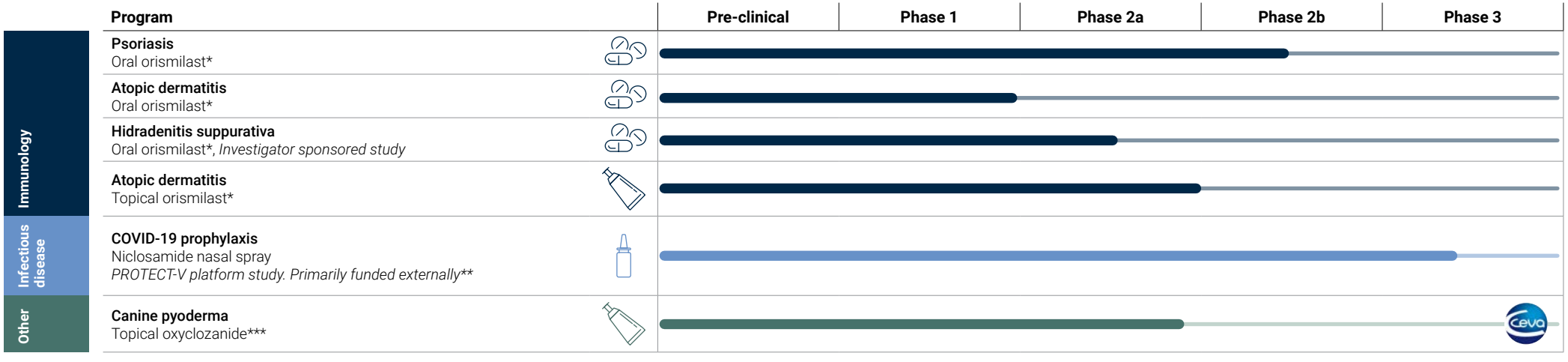
A diversified late-stage clinical pipeline with drug development candidates in large disease areas, including multiple Phase 2 programs with orismilast in psoriasis, atopic dermatitis and hidradenitis suppurativa, as well as one Phase 2/3 program with niclosamide in COVID-19 prophylaxis.

Immunology

The purpose of the immune system is to defend the body against outside invaders, such as bacteria, viruses, and toxins. However, the immune system sometimes malfunctions, which can lead to inflammation, eczema, allergies or autoimmune reactions where the immune system attacks the body's own cells.

Infectious disease

Infectious diseases are disorders caused by disease-causing agents, such as bacteria or viruses. An infection can occur anywhere in the body. COVID-19 and flu are examples of respiratory infections, which are infections of parts of the body involved in breathing, such as the throat, airways or lungs.



* Innovent Biologics has exclusive rights to oral orismilast and an option on topical orismilast for Greater China (Mainland China, Hong Kong, Taiwan and Macau); UNION retains worldwide rights outside of Greater China.

** Platform study sponsored by Cambridge University Hospitals NHS Foundation Trust and the University of Cambridge, and funded by LifeArc, Addenbrookes Charitable Trust, Kidney Research UK and UNION.

*** Topical oxyclozanide is fully outlicensed to Ceva Santé Animale.

Orismilast

First-in-class and best-in-class potential for treatment of immunological diseases.

Orismilast is a next-generation PDE4-inhibitor (phosphodiesterase-4 inhibitor) with potential for improved efficacy and safety profile compared to today's PDE4-inhibitors on the market. Because of the broad mode of action (MoA) associated with PDE4-inhibitors, orismilast holds potential in several diseases within immunology.

Addressing unmet needs

UNION is currently developing orismilast in a modified release tablet for the treatment of three diseases within immunology – psoriasis, atopic dermatitis (AD), and hidradenitis suppurativa (HS).

In psoriasis there are limited safe oral treatment options available today that do not require extensive screening and monitoring. There is a need for oral treatments with improved efficacy, representing a significant unmet medical need.

In AD there are no safe oral treatment options available today that do not require extensive screening and monitoring. Thus, a substantial unmet medical need exists.

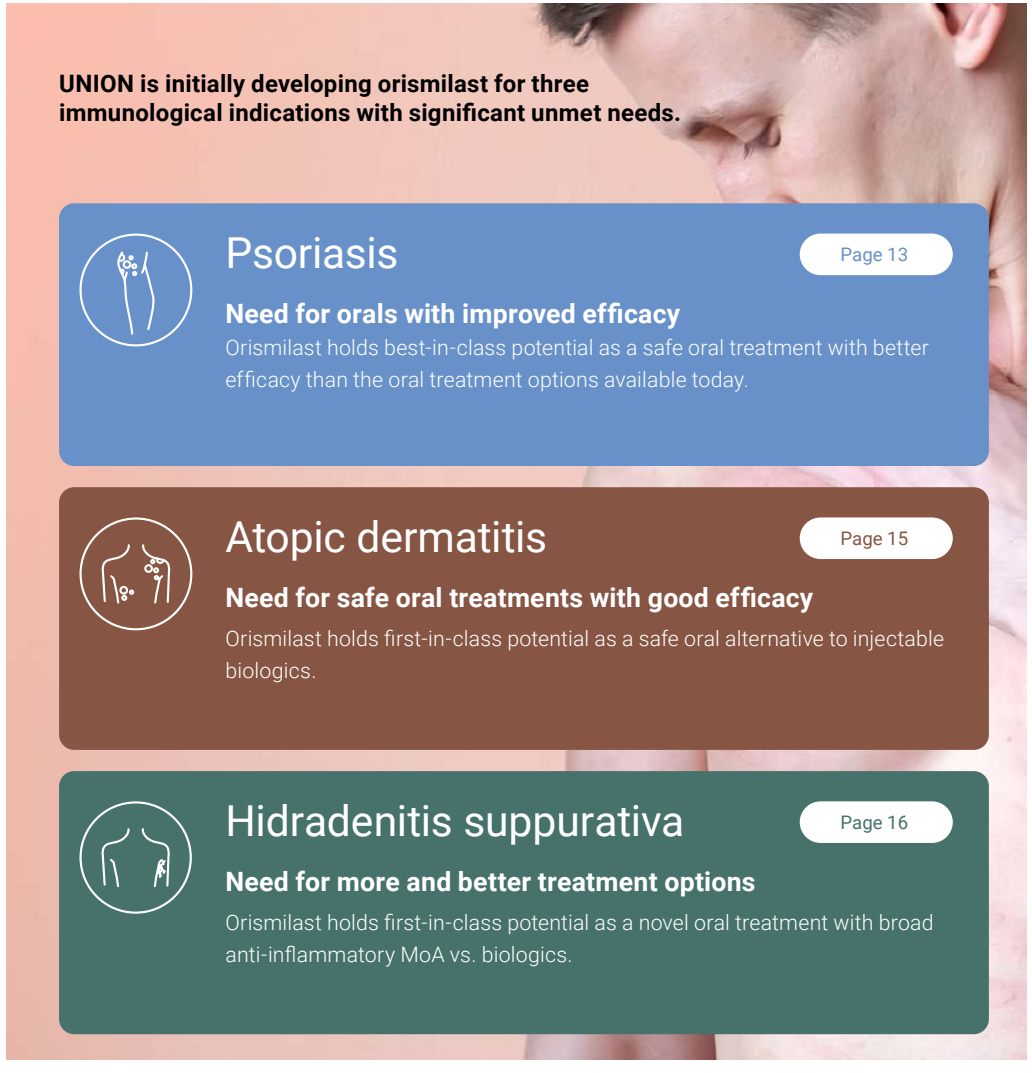
In HS there is only one approved treatment available today. No oral options are available.

Proof-of-concept established in psoriasis and AD

Proof-of-concept has been demonstrated with oral orismilast in psoriasis and with a topical version of orismilast in AD. In proof-of-concept studies, orismilast demonstrated superior efficacy to placebo in both psoriasis and AD.

Orismilast currently in Phase 2 development

The formulation of orismilast in a modified release tablet is now being tested in a Phase 2b dose-finding study in psoriasis and in a Phase 2a investigator-initiated proof-of-concept study in HS. A Phase 2b dose-finding study with oral orismilast in AD is expected to be initiated in 2022.



Psoriasis

Psoriasis is a chronic, autoimmune disease that primarily involves the skin.

Most people living with psoriasis have plaque psoriasis, which is characterized by "plaques", or raised, red areas of skin covered with a silver or white layer of dead skin cells referred to as "scale". Psoriatic plaques can appear on any area of the body, but most often appear on the scalp, knees, elbows, torso, and limbs, and the plaques are often itchy and sometimes painful.

Substantial psychosocial impact of living with psoriasis

60% of psoriasis patients report their disease to be a "large problem" for their everyday life[3]. Psoriasis patients in general experience negative impact on their quality of life due to higher rates of many comorbidities, including cardiovascular disease, heart attack, stroke and metabolic syndrome.

In addition to the direct clinical challenges of psoriasis, many patients with plaque psoriasis suffer substantial psychosocial impacts from their disease, including depression, social stigma, feelings of rejection and shame, guilt, impaired sexual intimacy, discrimination in the workplace, difficulty finding employment or working outside the home, financial hardships, increased work absenteeism and reduced productivity.

The economic burden of psoriasis is substantial because the disease results in these considerable negative physical, psychological and social consequences.

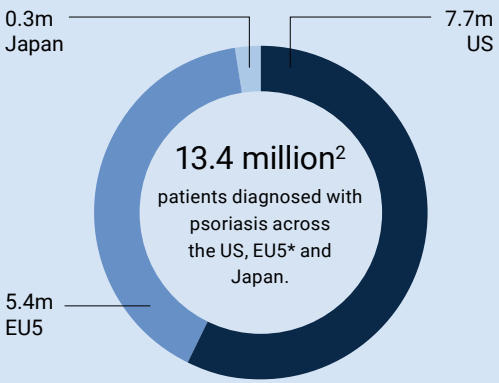
Unmet need – need for better oral treatments

Psoriasis can be managed by topical, oral, and biological treatments as well as phototherapy. Depending on the progression and severity of the disease, patients and physicians choose between these treatment options. However, many physicians and patients express a need for better oral treatments.

Market size and market growth

~USD 25bn

and annual market growth of 4% towards 2027[1].



* EU5: UK, Germany, France, Italy and Spain.

1 GlobalData, DRG (2021).

2 GlobalData, DRG (2021) and Publication: Armstrong et al. (2021).

3 Stern et al. (2004).

Development of oral orismilast in psoriasis

In November 2020, the FDA approved an Investigational New Drug Program (IND) for advancing oral orismilast into a Phase 2b trial in patients with moderate to severe psoriasis.

In December 2021, UNION initiated IASOS, a Phase 2b study with oral orismilast for the treatment of moderate to severe psoriasis.

Prof. Richard Warren, MD, Ph.D., Senior Investigator of the Phase 2b study:

"Psoriasis is one of the most common chronic inflammatory skin diseases in the world. Even though there are many biologics approved for the treatment of psoriasis, there are still limited oral treatments that are efficacious, can be used long-term and do not require screening before initiation and during use. Oral orismilast has the potential to become an efficacious and patient-friendly treatment option for patients with psoriasis."

Patient story

Living with psoriasis

Meet Frederik who has severe psoriasis and learn about his experience with different treatment options.

Frederik was 24 when he was diagnosed with psoriasis by a dermatologist who gave Frederik a brief brochure about the disease, a cream, which is the typical first line treatment, and told him how to apply it.

“When I came home from the doctors, I Googled psoriasis and it made me worried and a bit scared - suddenly, I was a patient, having to live with psoriasis for the rest of my life.”

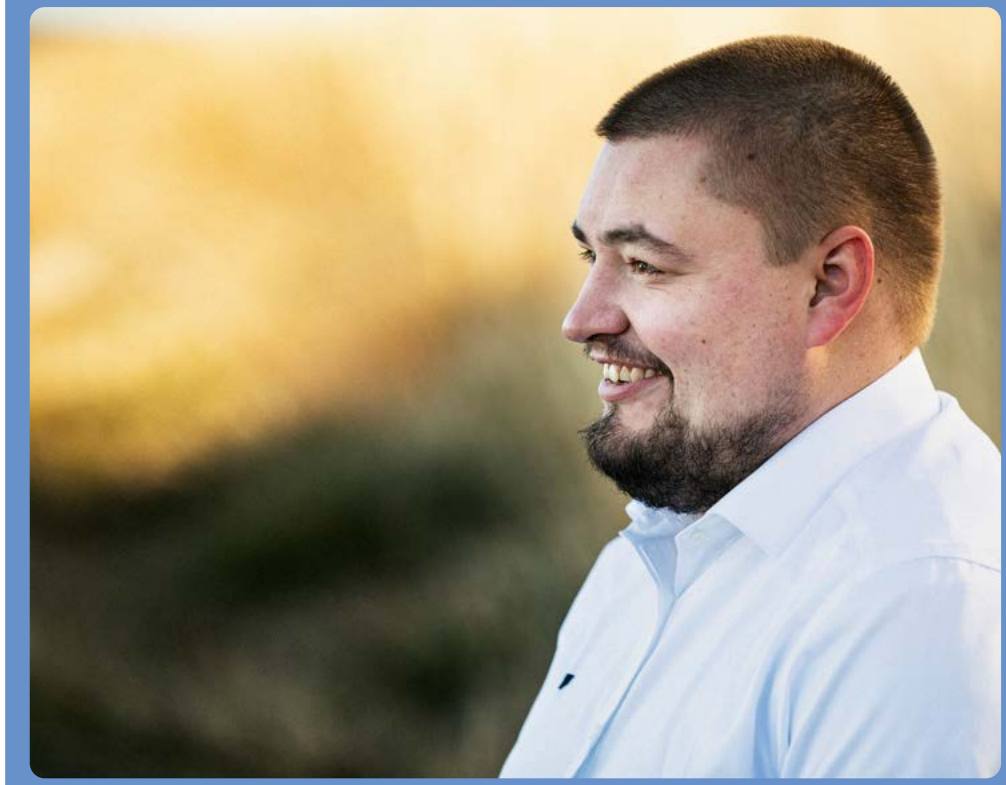
The first couple of years after being diagnosed, Frederik had difficulties accepting his diagnosis and was not that fond of applying the cream to his skin. This led to a worsening of his psoriasis, and it greatly influenced his state of mind.

In the years to come, Frederik step-by-step tried the different treatments offered: UVB-lightening, orals, and biologics. The UVB-light did have a positive effect on Frederik’s psoriasis, but it was a struggle for him to fit this with his everyday life, as the treatment regimen was two to three times a week during regular working hours and many kilometres away from both his home and work.

The third treatment option, oral treatment, also had a positive effect on his psoriasis, but the side effects meant that Frederik often had to work from home. Many psoriasis patients prefer the ease-of-use attributes of an oral treatment. This goes for both moderate and severe psoriasis patients. The challenge, however, is that there are limited treatment options available, and the few commonly prescribed oral treatments can have negative side effects.

Frederik is now on a biological treatment where he has to inject himself once every second week. The treatment works well both for his psoriasis and his lifestyle. However, it is uncertain how long he can stay on biologics, as the long-term side effects of this relatively new treatment option are unknown. Another challenge is that biologics are generally very expensive compared to topical and oral treatments.

“Psoriasis can negatively influence my mood especially when I think about getting one of the comorbidities associated with psoriasis such as cardiovascular diseases or diabetes.”



Atopic dermatitis

Atopic dermatitis is the most common type of eczema, characterized by overreaction to allergens and irritants, leading to an immune reaction and inflammation.

Atopic dermatitis (AD) produces a red, itchy rash, most frequently occurring on the face, arms and legs, and the rash can cover significant areas of the body, in some cases half of the body or more. The prevalence of AD worldwide is ~3% in the adult population and ~15% among children[1]. AD is one of the most common skin diseases among children, and 90% of AD patients are diagnosed by the age of five[2].

Substantial psychosocial impacts of living with AD

Children with AD can suffer from sleep disturbances, behavioral problems, irritability, crying, interference with normal childhood activities and social functioning.

Adults with AD also frequently suffer from sleep disturbances, emotional impacts, and impaired social functioning. They also appear to be at a significantly increased risk of anxiety and depression.

Unmet need – no safe oral treatments

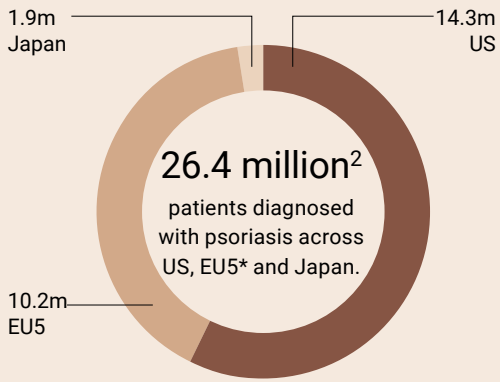
The vast majority of AD patients are being treated with topical therapies, particularly topical corticosteroids and topical calcineurin inhibitors. In addition to this, systemic therapies like biologics are used in those patients who fail on topical therapy. However, biological therapies in AD are currently limited. Some physicians and patients have expressed dissatisfaction with current treatments due to the overall suboptimal symptomatic improvement, poor safety, limited ability to control itch, and limited impact on quality of life.

There are currently no oral therapies for the treatment of AD that are safe for long-term use and exempt from extensive screening and monitoring. The first oral therapies have only recently been approved but all carry a boxed warning in the US label for serious heart-related events, cancer, blood clots, and death.

Market size and market growth

> USD 6bn

and annual market growth of 22% towards 2027[2].



* EU5: UK, Germany, France, Italy and Spain.

1 Silverberg (2017).

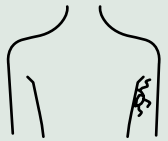
2 GlobalData, DRG (2020).

Development of oral orismilast in AD

UNION is developing oral orismilast for the treatment of moderate to severe AD. The FDA has granted Fast Track Designation to oral orismilast for the treatment of moderate to severe AD and UNION expects to initiate a Phase 2b dose-finding study in 2022.

Jonathan Silverberg, MD, Ph.D., MPH:

"Despite the recent advancements in the treatment of atopic dermatitis, there is still a high unmet need in terms of safe and efficacious oral treatments that can be used before biologics. It is encouraging to see that the FDA recognizes the potential of orismilast in atopic dermatitis and has granted it Fast Track Designation, which would bring orismilast one step closer to patients."



Hidradenitis suppurativa

Hidradenitis suppurativa is a chronic debilitating systemic skin disease which results in painful inflammation of the hair follicles, most notably in the armpit, groin and genital regions.

The clinical hallmarks of hidradenitis suppurativa (HS) include very painful inflammatory nodules, boils or abscesses that typically open and release odorous inflammatory fluids. In the more chronic form of the disease, patients experience draining fistulas, also referred to as sinus tracts, which ultimately lead to scarring and related functional disability in certain areas. HS patients suffer primarily from pain and significant discomfort resulting from the constant formation of puss, often requiring the use of bandages and diapers, resulting in social isolation. HS severely and adversely affects patients' quality of life.

Substantial psychosocial impact of living with HS

HS has a severe, negative impact on quality of life with 60% of patients with HS experiencing a "large" or "extremely large" negative impact on quality of life[2].

Patients with HS also have lower quality of life as measured by the Dermatology Life Quality Index compared to patients with other chronic skin diseases, including psoriasis and AD.

Unmet need – only one approved drug today

Currently, there is only one drug approved for treatment of moderate-severe HS, which is an injectable drug. For mild HS there are no treatments approved. The general standard of care for HS patients, although off-label, includes topical, oral or intravenous antibiotic treatment which often provides only temporary symptomatic relief. Antibiotics do not target the underlying inflammation and they are associated with resistance development.

The relevance of PDE4 inhibition in HS

The only approved drug today targets primarily TNF-α. However, several cytokines are relevant in the pathogenesis of HS. PDE4 inhibition has been demonstrated to inhibit a wide array of HS-related cytokines and also demonstrated effect in prior clinical studies.

Market size and market growth

~USD 1bn

and annual market growth of 8% towards 2027[1].

785,000[1]

patients diagnosed with HS across US, EU5* and Japan.

* EU5: UK, Germany, France, Italy and Spain.

1 GlobalData (2019).

2 von der Werth and Jemec (2001).

Development of oral orismilast for the treatment of HS

Oral orismilast is currently in development for the treatment of HS in an investigator-sponsored Phase 2a study, OSIRIS.

The study was initiated in October 2022.

Professor Gregor B. Jemec, Lead Investigator of the Phase 2a study, Founding Chairman of the Department of Dermatology, Zealand University Hospital Roskilde, Denmark:

"There is a significant and urgent unmet need for an effective therapy. We are therefore very pleased to be able to enroll the first of 24 patients in the study and hope that orismilast as an innovative oral approach will demonstrate benefit in the management of this devastating illness."

Patient story

Living with Hidradenitis Suppurativa

Meet Janne who has lived with hidradenitis suppurativa since she was 13 years old.

For most of her life, Janne has suffered from hidradenitis suppurativa (HS), but it was not until she turned 47 that she got her diagnosis.

For many years she lived with an undiagnosed disease due to lack of awareness. It has resulted in many years of suffering, not just due to the lack of diagnosis itself but also due to improper treatment.

As part of living with HS, Janne has had more than 100 surgeries and has been admitted to the hospital more than 150 times for operations under general anesthesia because of the boils.

HS greatly influences her everyday life. Janne has retired because of her disease as her physical condition is impacted by HS.

She cannot ride a bike because of large scars in her groin area, and she has difficulties straightening her arms over her head because the skin has become tight from the surgeries and skin transplants.

"I have had seven major skin transplants because my skin became so damaged that it could not grow back together after the boils."

Both of Janne's children have been diagnosed with HS. Her daughter was diagnosed when she was 23 and seven years later her son was also diagnosed with HS.

"My hope for HS patients in the future is that researchers will find a treatment that helps control HS, if nothing else, something that can help reduce symptoms so people can have an acceptable life with HS."

See video on UNION's website.

Niclosamide

First-in-class candidate for the prevention of COVID-19 and potential in other respiratory infections.

Niclosamide is an anti-infective drug introduced into clinics in the early 1960s as an oral treatment for tapeworm infections and is currently marketed as a tablet in certain countries.

UNION has developed a concentrated liquid formulation of niclosamide that allows for delivery as a nasal spray to the upper respiratory tract, as a nebulizer solution for delivery to the lower respiratory tract (lungs), or as a combination of both the nasal spray and the nebulizer covering infections of the upper and lower respiratory tracts. For respiratory infections such as COVID-19, this allows for a local delivery of niclosamide directly to the site of infection, either as a potential treatment or, prior to infection, as a prophylactic agent.

Broad antiviral properties

Niclosamide's mechanism of action is host-targeting, making it broadly antiviral. Therefore, niclosamide has been able to inhibit replication of all SARS-CoV-2 variants that it has been tested against, including Alpha, Beta, Delta and Omicron[1]. Several neutralizing monoclonal antibodies, which received emergency use authorization from FDA for treatment of COVID-19, have not retained broad efficacy against SARS-CoV-2 variants due to their virus-targeting mechanism of action.

Looking ahead, niclosamide holds the potential to prevent or treat a broad range of respiratory infections due to its broad antiviral properties.

Niclosamide currently in Phase 2/3 development

Niclosamide was selected for the Phase 2/3 platform trial PROTECT-V sponsored by Cambridge University Hospital NHS Foundation Trust and the University of Cambridge, funded by Kidney Research UK, LifeArc and others, and granted level 1 Urgent Public Health (UPH) prioritization in the UK. The trial is currently ongoing.

1 Weiss et al. (2021) and TFF (2022).

Repurposing of niclosamide

In early 2020, in response to the emerging COVID-19 pandemic, Institut Pasteur in South Korea conducted a major *in-vitro* (cell studies) screening effort of approved molecules and found niclosamide to be the most potent inhibitor of SARS-CoV-2 among approved compounds. Intranasal delivery of niclosamide has also demonstrated significant efficacy in improving outcomes and reducing mortality from SARS-CoV-2 infection compared to saline solution in an *in vivo* study (mouse model).

Niclosamide funding from Innovation Fund Denmark and European Investment Bank

In addition to co-funding of the niclosamide development through platform study participation, UNION has received grants and support from institutional backers targeted towards niclosamide. This includes grants from Innovation Fund Denmark and a venture debt facility from the European Investment Bank.

COVID-19 and immuno-compromised patients

Immunocompromised patients continue to be at high risk of contracting COVID-19 and experience significantly higher mortality rates.

COVID-19 is a disease caused by infection with SARS-CoV-2, a strain of coronavirus. Respiratory illness is the most common symptom associated with COVID-19 with a severity ranging from mild disease to life-threatening acute respiratory distress syndrome.

Unmet need – Weak protection of immunocompromised patients

Vaccines have become the most important weapon to fight COVID-19. However, there are some patient groups who continue to be at high risk of contracting COVID-19 because they have a poor immune system due to medication or underlying disease, for example organ transplant patients, cancer patients receiving chemotherapy, or patients with chronic kidney disease on dialysis. Immunocompromised patients are estimated to constitute ~3% of the population[1].

Due to the immunocompromised state of these patients, they do not respond properly to vaccines and they are also at higher risk of severe outcomes of infection and experience higher hospitalization and mortality rates.

Higher mortality rates among immunocompromised patients

Data from the UK Kidney Association & UK Renal Registry shows that kidney patients have significantly higher case fatality rates than the general population. After the roll-out of vaccines, in the period November 2021-February 2022, case fatality rates have been ~30 times higher for UK kidney patients compared to the general UK population.

In general, immunocompromised patients are at greater risk of severe illness if contracting an infection than the general population, whether it is COVID-19 or another infection like influenza or RSV. This also means that prophylaxis is well-established among immunocompromised patients.

Continued prevalence of COVID-19

There is a high likelihood for continued spread of COVID-19 cases in the general population due to viral mutations, waning vaccine immunity and vaccine scepticism. As countries around the globe start loosening social restrictions, the immunocompromised patient group is increasingly at risk of contracting COVID-19, a risk that is unlikely to change in the near term. Additional layers of protection and treatments are needed to keep this patient population safe.

Development of niclosamide in COVID-19

UNION is developing niclosamide nasal spray as a potential first-in-class prophylactic agent for immunocompromised patients to prevent COVID-19 infection. Niclosamide was selected by Cambridge University Hospital for the Phase 2/3 platform study PROTECT-V, which started in February 2021.

Dr. Rona Smith, Lead Investigator, a senior research associate at the University of Cambridge and honorary consultant nephrologist at Addenbrooke's Hospital:

"The vaccine is a huge step forward, but we know that the patients enrolled in the PROTECT-V study may make less robust vaccine responses due to their underlying condition or treatment. Niclosamide may provide further protection against COVID-19 that does not rely on the immune system mounting a response."

1 MacMillan (2022).

Patient story

The long-term consequences of COVID-19

Meet Robert who lives with a new kidney and is significantly affected after having contracted COVID-19.

Robert was 50 when he had a kidney transplant, as both of his kidneys were damaged. When the COVID-19 pandemic spread all over the world, Robert became very afraid of contracting COVID-19 due to his poor immune function and the uncertain impact of COVID-19. Due to this fear, Robert and his family dramatically changed their everyday lives and mainly stayed at home.

In the Spring of 2021, shortly before Robert's planned second vaccination, he was hospitalized due to heart problems. Unfortunately, during this hospitalization, he was infected with COVID-19. After a few days with COVID-19, Robert's condition worsened to plus 40 degrees of fever for 10 days. He was given antibiotics and pain medication to reduce the fever but the antibiotics did not work. Finally, his oxygen level dropped to 75%. The doctors feared for his life and planned to move him to the intensive care unit but there were no empty beds. Instead, he was placed on oxygen flow for the remainder of his hospitalization.

After being hospitalized for a month, Robert was finally able to come home. He continued to suffer from low oxygen levels, he had lost his ability to speak properly, and he could not work. For the first 3-4 months at home, he was merely surviving. He forgot words and had difficulties speaking. For the last 11 months, he has not been himself. He has also gained more than 15 kilos, as he has difficulties when walking due to low oxygen levels.

Robert finds it important to stay positive about the future. He hopes that within the next couple of months, he and his family will get back to their normal lives again.

"Many people do not understand how big a problem it is for an immunocompromised patient like me to get COVID-19 – it makes me very angry."

"I would very much like to start working again, if my head and my ability to talk will ever feel better after having had COVID-19."

Corporate matters

UNION is determined to develop drugs offering significant benefits to patients, physicians and payers - in a sustainable way with care for key stakeholders, including employees, the environment and collaborators.

Executive Management

Kim Domela Kjøller

Chief Executive Officer

Born 1967, Danish

Dr. Kim D. Kjøller has been CEO of UNION since January 2021. He brings more than 20 years of experience from various senior executive positions in the pharmaceutical industry. He has worked for more than 10 years at LEO Pharma where he for five years was EVP of Global R&D.

Kim is an MD from University of Copenhagen and Chair of the Board at the Danish Life Science Cluster.

Morten H. Boesen

Chief Financial Officer

Born 1982, Danish

Morten H. Boesen joined UNION in 2018 as Chief Financial Officer. He brings more than 10 years of experience from corporate finance, management consulting and private equity.

Morten holds a Master of Science in Finance and Accounting from Copenhagen Business School.

Dr. Rasmus Toft-Kehler

Co-founder, Chief Operating Officer and Board member

Born 1980, Danish

Rasmus Toft-Kehler is co-founder, board member and Chief Operating Officer at UNION. Rasmus has extensive leadership and strategic development experience from founding and building companies in the life science industry. He is co-founder and board member of multiple biotech and life science companies.

Rasmus holds a Ph.D. in Entrepreneurship from Copenhagen Business School and executive education from Harvard Business School.

Dr. Morten Sommer

Co-founder, Chief Scientific Officer and Board member

Born 1981, Danish

Morten Sommer is the co-founder of several biotechnology companies specialized within the fields of drug development, industrial biotech and microbiome research.

Morten is also a Professor and Scientific Director at the Technical University of Denmark with a lab of more than 20 Ph.D.s and Post-Doctorial researchers, working primarily at the intersection of antibiotic resistance and the human microbiome.

Morten holds an M.Sc. in Physics from University of Copenhagen and a Ph.D. in Biophysics from Harvard University from the laboratory of Professor George Church.

Board of Directors

Stig Løkke Pedersen

Chair of the Board

Born 1961, Danish

Elected to the Board in 2017 and Chair of the Board since 2020. Stig is regarded as an independent board member.

Special competencies

Stig has more than 35 years of strategic, commercial and leadership expertise from the life science industry, holding senior positions at H. Lundbeck and Ciba-Geigy.

Current positions

Chair of the Board of Directors at StemMedical, SSI Diagnostica and Moksha8.

Member of the Board of Directors of TAP, Skybrands, BroenLab, Hasle Refractories, NLS Pharmaceutics and Quiapeg. In addition, Stig is Operating Partner in the private equity fund Catacap.

Education

Stig holds a Master of Science in Economics from Aalborg University, Denmark.

Arthur Higgins

Deputy Chair of the Board

Born 1956, British and American

Elected to the Board in 2021 and Deputy Chair since 2021. Arthur is regarded as an independent board member.

Arthur is a global executive with extensive business development, marketing, and leadership expertise from large healthcare companies in both the US and Europe, holding CEO positions at Bayer HealthCare AG and Assertio Therapeutics, Inc, and senior executive roles at Abbott Laboratories.

Senior Operating Advisor to Abu Dhabi Investment Authority, Director at Ecolab and ZimmerBiomet.

Arthur Higgins holds a B.Sc. in Biochemistry from Strathclyde University, Scotland.

Gitte P. Aabo

Member of the Board

Born 1967, Danish

Elected to the Board in 2021 and is regarded as an independent board member.

Gitte brings extensive global leadership experience from the life science industry and a deep understanding of dermatology, marketing, and capital markets. Gitte has previously been President & Chief Executive Officer of LEO Pharma for more than 10 years.

Gitte Aabo is the Chief Executive Officer at GN Hearing.

Gitte is a member of the Committee of Directors of Danmarks Nationalbank (the Danish Central Bank), board member of ALK-Abelló, and member for the board and the Executive Committee at Danish Chamber of Commerce (Dansk Erhverv).

Gitte Aabo holds a Master of Science in Business Administration from Copenhagen Business School, Denmark.

Andrew J. Oakley

Member of the Board

Born 1962, Australian

Elected to the Board in 2019 and is regarded as an independent board member.

Andrew is a global executive with more than 20 years of financial and capital markets experience, holding positions as Chief Financial Officer of Actelion Ltd, Sosei Group Corporation and Vectura Group Plc.

Andrew currently serves as Senior Vice President and Chief Financial Officer of Autolus Therapeutics. Andrew has been a member of the Australian Institute of Chartered Accountants since 1987 and is also a board member at Novaremed.

Andrew holds a Bachelor of Economics degree from Macquarie University and an MBA from London Business School, United Kingdom.

Board of Directors

Dr. Jutta Heim

Member of the Board

Born 1951, German and Swiss

Elected to the Board in 2017 and regarded as an independent board member.

Dr. Rasmus Toft-Kehler

Co-founder, Chief Operating Officer and Board member

Born 1980, Danish

Member of the Board, and not considered independent due to being COO as well as co-founder and major shareholder of UNION.

Dr. Morten Sommer

Co-founder, Chief Scientific Officer and Board member

Born 1981, Danish

Member of the Board, and not considered independent due to being CSO as well as co-founder and major shareholder of UNION.

Special competencies	More than 20 years of research experience within infectious disease, coagulation disorders and oncology. Jutta has worked for more than 30 years at Ciba-Geigy/Novartis in both Switzerland and the US, as well as in Basilea Pharmaceutica and Evolva.	Extensive leadership and strategic development experience from founding and building companies in the life science industry. Before going into biotech, Rasmus worked in investment banking and in management consulting.	Extensive research and development experience working within the fields of drug development, industrial biotechnology and microbiome research. Morten has published more than 100 scientific publications and is an inventor of several issued patents.
Current positions	Chair of the Board of Directors of Synendos Therapeutics and advisor to discoveric bio group and to Aukera Therapeutics, all companies located in Switzerland. Member of the scientific advisory board of the HZI, the infectious diseases institute of the Helmholtz association.	Rasmus is the Chief Operating Officer of UNION and co-founder of several biotech companies. He is also board member at Clinical-Microbiomics and UTILITY Therapeutics.	Morten is the Chief Scientific Officer of UNION and holds the position as Professor and Scientific Director at the Technical University of Denmark. He is also Chair of the Board at Clinical-Microbiomics and board member in SNIPR Holdings and SNIPR biome, Biosyntia and UTILITY Therapeutics.
Education	Jutta holds a Ph.D. in Microbiology from the University of Tübingen and a Professorship in Biotechnology at the Biocenter of the University of Basel, Switzerland.	Rasmus holds a Ph.D. in Entrepreneurship from Copenhagen Business School and executive education from Harvard Business School.	Morten holds an M.Sc. in Physics from University of Copenhagen and a Ph.D. in Biophysics from Harvard University from the laboratory of Professor George Church.

Corporate responsibility

The vision of UNION is to profoundly improve the lives of patients with immunological and infectious diseases, and to ease the burden on society in coping with these diseases.

From the headquarters in Hellerup, Denmark, UNION's dedicated employees work with patient organizations, physicians, investigators, regulatory authorities, and external suppliers, including clinical research organizations and contract development and manufacturing organizations, among other key stakeholders, to progress orismilast and niclosamide throughout the pipeline and into the hands of patients.

As we work with the development of orismilast and niclosamide, we recognize the importance of doing so with constant care for the world around us. We believe in operating as a responsible company with financial, social and environmental sustainability in focus.

The starting point in UNION's ESG (Environment, Social and Governance) focus is the company's vision to improve the lives of patients with immunological and infectious diseases. Developing innovative drug candidates to the benefit of patients, physicians and payers, building a lasting pharmaceutical company, creating jobs and partnering with patient organizations and contractors among others, UNION is actually addressing several of UN's Sustainable Development Goals (SDGs).

However, in line with the company's vision and core business operations, two SDGs are in particular focus:

- SDG 3: Good Health and Well-being
- SDG 13: Climate Action

While the awareness of our impact on society and our surroundings have always been integral to UNION, a more structured approach to working with ESG is new and will be further developed and expanded in 2022 and beyond. UNION will continue to identify and implement ESG-related initiatives and identify relevant metrics to evaluate the company's progress.

Primary areas of focus

Good Health and Well-being

What it means for UNION:

UNION's ultimate goal is to help improve the health and well-being, i.e. quality of life, for patients with immunological and infectious diseases by developing innovative drugs.

The health and well-being of UNION's employees is of significant importance to the success of the company.

Climate Action

What it means for UNION:

UNION wants to take action by optimizing and minimizing emissions across the value chain. The starting point is creating more transparency by measuring the company's carbon baseline in 2021 using well-recognized carbon accounting standards.

Our people

People are the most important asset at UNION. We aim to attract and retain employees who have passion for their work and can challenge status quo in the pursuit of excellence.

As a small to medium-sized pharmaceutical development company, teamwork within and across functions is essential. We believe in sharing knowledge and supporting each other's development through feedback and mentoring. We want to continue building an exciting and engaging culture where successes are celebrated and failures form part of the learning process.

UNION is committed to being an employer with proper terms of employment, appropriate health and safety standards, and a motivating and inspiring work environment. We support the principles set forth in the core labor conventions of the International Labor Organization (ILO) and the UN Sustainable Development Goal on Good Health and Well-being. The time invested in creating a good and healthy working environment has significant benefits in terms of improving employee satisfaction, productivity and promoting employee welfare in general. At

Team with broad industry experience

Dr. Per Cantor, MD, DMSci
Chief Medical Officer
30 years of experience from pharmaceutical companies in Europe, US and China, including 14 years as SVP of Clinical and Non-clinical R&D at Ferring and 15 years at Eli Lilly, leading major clinical development programs.

Mads Jellingsø, M.Sc.
Chief Commercial Officer
15 years of experience from management consulting (McKinsey & Co.) and commercial roles in the pharmaceutical industry (Novo Nordisk), specializing in market access including real world evidence and innovative contracting.

Eckhard Niemeier, M.Sc.
Chief Business Officer
20 years of experience from strategy and dealmaking in life science. Previously employed at McKinsey & Co., MorphoSys AG and latest Pieris Pharmaceuticals where he was Head of Business Development, responsible for all business and corporate development activities.

Dr. Günter Ditzinger
Chief Technology Officer
30 years of experience from pharmaceutical innovation across the value chain with successful development and commercialization of multiple marketed products at Sanofi, Novartis and latest Basilea Pharmaceutica where he served as Chief Technology Officer.

Dr. Lutz Wevelsiep
VP of Regulatory Affairs
25 years of experience in international regulatory affairs across Europe (EMA and EU national agencies) and US (FDA) from Phase I through Marketing with multiple successful marketing authorizations at Basilea Pharmaceutica where he was Head of Global Regulatory Affairs.

Gina Fisher, M.Sc.
Project Director of orismilast
20 years of experience with project, alliance and portfolio management in the pharmaceutical industry, including multiple global approvals when leading several joint developments at Nycomed and LEO Pharma.

Tanya Arp Regnersgaard, M.Sc.
Project Director of niclosamide
15 years of experience with project and portfolio management across R&D and commercial functions in the pharmaceutical and medical devices industry, including 10 years at LEO Pharma.

Read more at UNION's website

UNION, we are determined to create and maintain a safe working environment that meets the regulatory requirements regarding the way the workplace is designed. UNION offers health insurance to all its employees.

COVID-19 and flexible working conditions

As a response to the increase in COVID-19 infection rates in Denmark in the fall of 2021, UNION started to offer free COVID-19 rapid antigen tests to all employees on a daily basis. UNION continuously monitors the pandemic and its potential impact on the health and well-being of employees and their families. UNION has also offered flexible working conditions in general to allow employees to adapt to their individual needs and preferences.

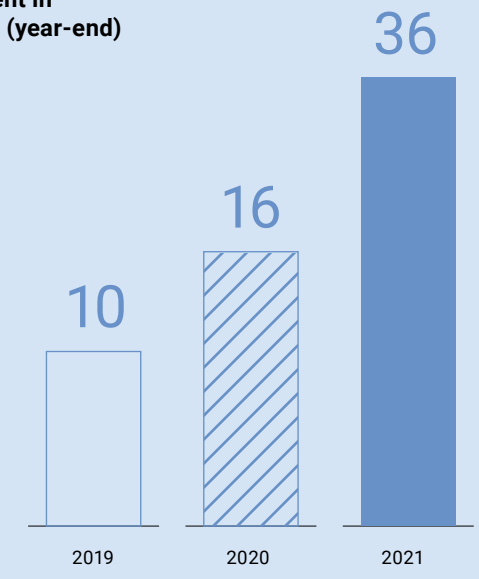
Organizational development

The organizational development in UNION has been significant during the year 2021. The employee base has increased from 16 employees as of year-end 2020 to 36 employees as of year-end 2021. Among the 36 employees, 26 employees work in Research and Development and related functions, thus representing 72% of the workforce, whereas 10 employees work in general and administrative functions, e.g. Finance, Legal, HR and IT. As of 31 December 2021, 19 employees are male and 17 employees are female, representing an approximate 50-50 split. The employee base is international with a multitude of nationalities working across time zones.

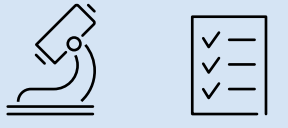
The Executive Management at UNION consists of four members. All four members of the Executive Management are male. The Board of Directors at UNION consists of seven members, including four Danish nationals and three internationals. Five board members are independent, whereas the two founders are also part of the management team in their roles as CSO and COO, respectively. With five male board members and two female board members, UNION meets the Danish Business Authority's guidelines for board gender composition (guideline of two vs. five gender ratio in boards with seven people).

As an important part of working with ESG, in particular ESG integration, UNION has throughout the organization conducted workshops and started discussing the concepts of culture, values, and meaningfulness with respect to purpose, leadership, belonging and personal growth. Company culture, values and meaningfulness will continue as important employee-related topics in 2022.

Development in employees (year-end)



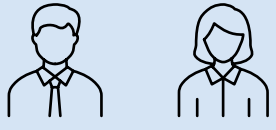
Functional areas



72% R&D

28% Administrative

Gender



53% Male

47% Female

Environment and climate

We strive to conduct our business in a sustainable way with care for the environment.

In November 2021, UNION partnered with a global leader in science-based carbon accounting to estimate and track the company's combined carbon footprint as an organization.

Greenhouse Gas Protocol

The carbon emission baseline is calculated using the Greenhouse Gas Protocol, which is the world's most widely used greenhouse gas accounting standards, and covers scope 1 (direct emissions from vehicle and fuel use), scope 2 (indirect emissions from electricity and heating) and scope 3 (indirect emissions from purchased goods and services, transport, and business travel).

The Greenhouse Gas Protocol accounting standards are based on both activity-level data and transaction-level data (spend). UNION's 2021 carbon footprint has been measured using activity-level data, when possible, for example for business travel and employee commuting, upstream transportation, electricity, and heating, whereas transaction-level data has been used when activity-level data is not yet available. However, the vast majority of UNION's carbon emission does come from the purchase of goods and services.

It should be acknowledged that transaction-level data is associated with a significant level of uncertainty.

UNION's carbon footprint in 2021

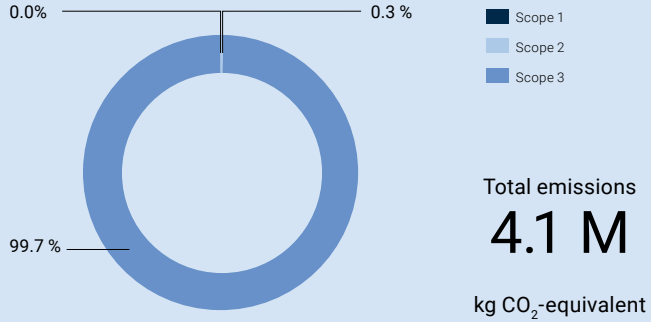
Indirect emissions in scope 3 represent almost 100% of UNION's carbon emission. Due to the business model of UNION where several activities are outsourced, including manufacturing, distribution, clinical study execution and CMC development, UNION's direct impact on the environment and climate is minimal. However, we very much want to contribute to the UN Sustainable Development Goal on Climate Action and acknowledge that our indirect emissions across the value chain are what matter.

The categories *Pharmaceutical products and pharmaceutical preparations* and *Scientific research and development* represent the majority of UNION's carbon emissions at roughly 75% in

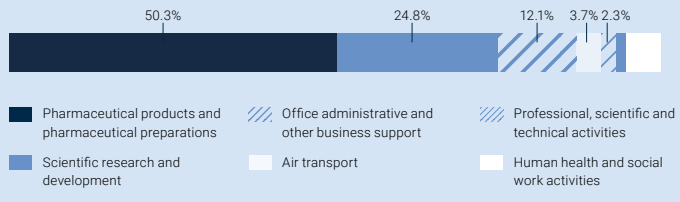
UNION's 2021 carbon footprint

Overview of Greenhouse Gas Emissions

Scope breakdown (1, 2, 3) % of total emissions



Emissions per activity type in scope 3 (kg CO_2-equivalent)



2021. Getting the transparency by measuring our carbon footprint has been the starting point towards driving positive change and taking climate action.

Extending the office space

In June 2021, UNION's headquarters in Hellerup, Denmark was expanded to accommodate the continued increase in numbers of employees. Focus has been on efficient management of office materials. Based on the learnings from working virtually during the COVID-19 pandemic, employees continue to have the flexibility to work from home, reducing the need for office space.

In connection with the extension of the office space in June 2021, new video-meeting equipment has been installed in all meeting rooms to encourage teleconference calls. However, we do believe that some meetings work best face-to-face, so travelling, including flights, will continue when required. Yet, by having the transparency on our carbon footprint, we have a better foundation to minimize emissions and will in the future consider select carbon dioxide saving initiatives to further reduce emissions.

Another example of a small-scale initiative that UNION joined in 2021 is "Pant for Pant" a non-profit plastic bottle collection service developed by the organization "Hus Forbi" where homeless people are employed as drivers collecting and sorting bottles.

Corporate governance

During the year 2021, significant efforts were made to mature the company on different parameters, including corporate governance.

Strengthening of the organization
2021 was among other things characterized by significant strengthening of the organization, not only in terms of people but also with respect to policies, processes and compliance in general. The corporate governance framework is being further matured in 2022.

The Board of Directors is responsible for the overall and strategic management of UNION and the supervision of the company's management and organization. The Board of Directors appoints and dismisses the members of Executive Management who are responsible for the daily management of the company. Daily management of the company includes strategy execution and management of the organization, as well as identification and management of key risks.

In 2021, the Board of Directors grew from five to seven members with the addition of two new independent members of the board.

Business ethics
UNION believes that business ethics and proper conduct are based on sound and ethical company values as well as proper compliance with applicable laws and regulation. For that purpose, UNION is committed to comply with domestic as well as international anti-corruption legislation, anti-money laundering law and similar laws, regulations, principles, standards and codes.

As a company developing treatments to improve and save lives, it is important that all people related to our business are treated with respect and dignity. For UNION this includes respecting human rights, respecting privacy of personal data, welcoming diversity, respecting the freedom of association and collective bargaining, and opposing child labor as well as forced labor and human trafficking.

Key risks

UNION faces risks that need to be identified and mitigated. Failure to mitigate significant risks can potentially impact future sales, profits, and market position negatively. The risks are diverse and range from not being able to attract and retain qualified employees to violation of intellectual property, all with different likelihood and impact profiles.

	Description	Potential impact	Mitigating actions
 **Clinical development risks**	UNION's product candidates will go through lengthy and costly clinical trials to document efficacy and safety before filing for approval with the relevant regulatory authorities. Clinical trials are generally associated with high risk of failure. UNION could experience delays in completing clinical trials, incur additional costs in clinical trials, and ultimately fail to progress orismilast and niclosamide towards the market.	• Patients will not benefit from new treatments • Potentially negative impact on sales, profit and market position.	• UNION's clinical project teams work closely with Contract Research Organizations to design and conduct the clinical trials and engage with regulatory authorities to get guidance on the development path • UNION's management team has quaterly program review meetings where Project Directors and the relevant functional leads in the orismilast and niclosamide project teams discuss the clinical development progress and associated risks. Risk management and prioritizations within and across programs are structured around a stage-gate model with defined milestones.
 **Product supply, quality and safety risks**	Shortage of the investigational medicinal product (IMP) or quality issues could mean that UNION is unable to continue the development of its product candidates.	• Product shortage and quality issues could result in delays and ultimately discontinuation of UNION's product candidates. • Potentially negative impact on sales, profit and market position.	• UNION's CMC and supply chain team works closely with Contract Development and Manufacturing Organizations on early identification of root causes when issues materialize.
 **People risks**	UNION's ability to compete in the highly competitive pharmaceutical industry depends on its ability to attract and retain highly qualified managerial, scientific, medical, commercial and other personnel.	• UNION could be unable to continue the development of its product candidates, out-license or commercialize its product candidates or otherwise implement the business plan if key employees leave the organization and it is not possible to find suitable replacements on a timely basis. • Potentially negative impact on sales, profit and market position.	• UNION professionalized considerably in terms of employees and processes during 2021. In addition to building a healthy and rewarding work environment, UNION will continue to strengthen processes in order to mitigate the potentially negative impact from significant unwanted employee turnover.

	Description	Potential impact	Mitigating actions
Environmental risks	UNION's business operations are not considered very sensitive to environmental risks, such as air pollution, toxic waste or unwanted environmental accidents. However, the business activities of UNION and our contractors do have a carbon emission footprint.	• The indirect carbon emissions of UNION, representing the majority of the company's emissions, could have a negative impact on the environment.	• UNION has started measuring the company's aggregated carbon emission footprint in 2021, hence creating more transparency and opportunities to identify initiatives that can help optimize and minimize emissions going forward.
Business ethics risks	Partnerships and collaborations can bring significant benefits but also involve risks. The key business ethics risk includes violation by employees and business partners or contractors of our anti-corruption commitment.	• Potentially legal and financial consequences from business ethics violation. • Potentially negative impact on sales, profit and market position.	• All UNION employees are encouraged to speak up if potential illegal or unethical business behaviors are detected or suspected. • Development of programs to train employees in the general business code of conduct, as well as a program to ensure stronger data privacy and protection.
Intellectual property risks	UNION could be unable to maintain or enforce intellectual property rights that cover the current product candidates. UNION could also face infringement claims or challenges by third parties.	• UNION could lose its competitive advantage if the company is unable to protect its intellectual property, whereas patent infringement claims could prevent development of the product candidates. • Potentially negative impact on sales, profit and market position.	• UNION owns a patent portfolio consisting of key patent families that include issued patents and pending patent applications worldwide, providing comprehensive protection of the company's product candidates. • UNION works closely with external patent counsels to minimize the risk of patent infringement against UNION and to prepare for any potential patent infringement claims as well as defense.
Financial risks	Financial risks relate to uncertainty associated with budget forecasts, treasury management, i.e. exchange rate fluctuations, interest rate risk, and financing opportunities.	• Potentially negative impact on sales, profit and market position as well as cash position.	• Sensitivity analyses for budget forecasts and ongoing dialogue with project teams to monitor actual spend vs. budget forecast. • Natural hedging of outflow of resources in selected currencies when commitments are entered. • Exploring different financing opportunities (venture debt, equity).
IT risks	IT systems are key to UNION's business operations. IT risks, such as cyber-attacks and infrastructure failure, could result in business disruption.	• IT risks could compromise patients', employees' and other individuals' privacy. • IT risks could limit UNION's ability to continue its business operations. • Potentially negative impact on sales, profit and market position.	• UNION has appropriate protection from viruses and malware, and sensitive data is encrypted and subject to restricted use. • UNION works with external IT specialists on IT security. In 2021, UNION did an "IT Infrastructure and Security Update" to improve the IT environment and security framework.

Financial review

Advancement in lead molecules, orismilast and niclosamide, as well as conscious effort to strengthen the organization led to a high activity level in 2021. The strategic partnership with Innovent Biologics validates the potential of orismilast.

The financial review is based on the consolidated financial statements for the year ended December 31, 2021, with comparative 2020 figures in brackets. There is no significant difference in the development of the Group and the Parent Company.

Income statement

Revenue

Revenue in 2021 was DKK 118.9m (DKK 0m) as UNION on September 28, 2021, entered into a strategic collaboration and license agreement for orismilast with Innovent Biologics (the Innovent Agreement). As part of the Innovent Agreement, UNION is entitled to receive a non-refundable, non-creditable and not subject to off-set up-front payment of USD 20m and is eligible to receive future milestones payments of up to USD 247m, contingent on the achievement of certain development and regulatory milestones across multiple therapeutic indications and on the achievement of certain sales-based milestones. Lastly, the company is entitled to receive a sales-based royalty fee ranging from a high single digit to a low twenties percentage of all net sales of orismilast in Greater China (including Mainland China, Hong Kong, Macau and Taiwan) by or on behalf of Innovent Biologics.

Research and development costs

Research and development costs increased to DKK 155.3m in 2021 (DKK 65.1m). Higher activity level in 2021 compared to 2020 caused the increase in cost in 2021. Additionally, employee costs have increased as an effect of the strengthening of the research and development organization.

Administrative costs

Administrative costs increased to DKK 21.7m in 2021 (DKK 8.3m) To support the increased activity level in research and development, the administrative functions have also been strengthened, resulting in higher employee costs. Supported by external service providers, systems, processes and compliance efforts have been revised and optimized together with preparations for future growth. This has led to an increase in external costs, most of which are one-off costs.

Other operating income

Other operating income decreased to DKK 6.2m in 2021 (DKK 9.0m). In 2021, Other operating income consists of government grant (Innovation Fund Denmark).

Financial income/(expenses)

Financial income/(expenses) decreased to DKK -9.6m in 2021 (DKK -22.1m). The development compared to 2020 is mainly due to increased income from currency adjustments of USD bank accounts and lower fair value adjustments of warrant and put option. This is only partly off-set by increased cost related to fair value adjustment of convertible loan.

Tax benefit/(expense)

Tax benefit of DKK 5.5m in 2021 (DKK 5.5m) comprises receivable tax credit for research and development expenditures at the applicable tax rate under the Danish Tax Assessment Act.

Result for the year

The result for the year of DKK -56.0m (DKK -80.9m) is reflecting high research and development costs off-set by revenue from the Innovent agreement.

Cash flow

Cash flow from operating activities

Cash flow from operating activities totaled DKK -3.0m (DKK -51.5m), which includes positive contribution of DKK 128.2m related to the up-front payment from the Innovent agreement.

Cash flow from financing activities

Cash flow from financing activities totaled DKK 216.5m (DKK 43.5m) due to proceeds from a capital increase and proceeds from issuance of convertible loan.

Liquidity and capital resources

As of December 31, 2021, UNION had cash and cash equivalents of DKK 253.4m (DKK 36.4 m). The increase is primarily due to upfront payment from the Innovent agreement, capital increase and issuance of convertible loan.

Equity

Equity as of December 31, 2021, totaled DKK 49.4m (DKK -58.4m) The increase was driven primarily by net income and the capital increase. The equity corresponds to an equity ratio of 17.3% (-84.8%).

Financial statements

Consolidated financial statements

Statement of comprehensive income

DKK'000	Notes	2021	2020
Revenue	3	118,912	0
Research and development costs	4	-155,305	-65,107
Administrative costs	4	-21,724	-8,270
Operating result before other income		**-58,117**	**-73,377**
Other operating income	7	6,178	9,049
Operating result		**-51,939**	**-64,328**
Financial income	8	4,286	6
Financial expenses	8	-13,848	-22,084
Result before tax		**-61,501**	**-86,406**
Tax benefit/(expense)	9	5,475	5,510
Result for the year		**-56,026**	**-80,896**
Other comprehensive income or loss			
Items that may be reclassified to profit or loss in subsequent periods, net of tax			
Exchange differences on translation of foreign operations		13	-40
Other comprehensive result for the period, net of tax		**13**	**-40**
Total comprehensive result for the year		**-56,013**	**-80,936**
Basic net result per share	10	-8	-15
Diluted net result per share	10	-8	-15

Result for the year and total comprehensive result is attributable to the shareholders of UNION therapeutics A/S.

Cash flow statement

DKK'000	Notes	2021	2020
Result for the year		-56,026	-80,896
Adjustment for non-cash items	21	14,129	23,459
Changes in net working capital	22	34,762	1,945
Changes in non-current financial assets		-130	-10
Interest received		0	7
Interest paid		-1,184	-221
Income taxes received/(paid)		5,475	4,170
Cash flow from operating activities		**-2,974**	**-51,546**
Investment in intangible assets	11	0	-1,668
Investment in property, plant and equipment	12	-140	0
Cash flow from investing activities		**-140**	**-1,668**
Proceeds from capital increase		154,786	43,749
Costs associated with capital increase		-15	-70
Proceeds from issuance of convertible loans	18	62,037	0
Lease instalments	20	-312	-155
Cash flow from financing activities		**216,496**	**43,524**
Net cash flow for the year		**213,382**	**-9,690**
Cash at the beginning of the year		36,425	46,466
Exchange rate adjustments of cash		3,595	-351
Cash and cash equivalents at end of the year		**253,402**	**36,425**
Cash and cash equivalents as per statement of financial position		**253,402**	**36,425**
Non-cash investing activities			
Non-cash capital increases included in equity		0	14,898

Statement of financial position

DKK'000	Notes	Dec. 31 2021	Dec. 31 2020
Assets			
Non-current assets			
Intangible assets	11	16,566	16,566
Property, plant and equipment	12	1,160	168
Other receivables		252	122
Total non-current assets		**17,978**	**16,856**
Current assets			
Tax receivables	9	5,500	5,500
Other receivables and prepayments	13	8,045	10,103
Cash and cash equivalents		253,402	36,425
Total current assets		**266,947**	**52,028**
Total assets		**284,925**	**68,884**

DKK'000	Notes	Dec. 31 2021	Dec. 31 2020
Equity and liabilities			
Equity			
Share capital	14	660	563
Other reserves		48,720	-58,960
Total equity		**49,380**	**-58,397**
Non-current liabilities			
Long-term debt	16	99,286	88,894
Cash-settled warrant obligation	6	6,074	6,069
Deferred revenue	3	876	0
Lease liabilities	16	661	0
Convertible loans	18	63,778	0
Total non-current liabilities		**170,675**	**94,963**
Current liabilities			
Lease liabilities	16	429	167
Trade payables	16	11,424	7,350
Warrant and put option	16	18,480	18,018
Deferred revenue	3	7,344	0
Other payables	15	27,193	6,783
Total current liabilities		**64,870**	**32,318**
Total liabilities		**235,545**	**127,282**
Total equity and liabilities		**284,925**	**68,884**

Statement of changes in equity

			Other reserves		
DKK'000	**Notes**	**Share capital**	**Foreign currency translation reserve**	**(Accumulated deficit)/ Retained earnings**	**Total**
Equity at January 1, 2020		**515**	**15**	**-38,838**	**-38,308**
Result for the year		0	0	-80,896	-80,896
Other comprehensive income or loss		0	-40	0	-40
Total comprehensive result for the year		**0**	**-40**	**-80,896**	**-80,936**
Transactions with owners:					
Capital increases	14	48	0	58,600	58,648
Transaction costs		0	0	-70	-70
Share-based compensation	6	0	0	2,269	2,269
Equity at December 31, 2020		**563**	**-25**	**-58,935**	**-58,397**

			Other reserves		
DKK'000	**Notes**	**Share capital**	**Foreign currency translation reserve**	**(Accumulated deficit)/ Retained earnings**	**Total**
Equity at January 1, 2021		**563**	**-25**	**-58,935**	**-58,397**
Result for the year		0	0	-56,026	-56,026
Other comprehensive income or loss		0	13	0	13
Total comprehensive result for the year		**0**	**13**	**-56,026**	**-56,013**
Transactions with owners:					
Capital increases	14	97	0	154,689	154,786
Transaction costs		0	0	-15	-15
Share-based compensation	6	0	0	9,019	9,019
Equity at December 31, 2021		**660**	**-12**	**48,732**	**49,380**

Notes

1. Accounting policies

Basis for preparation
The consolidated financial statements of UNION therapeutics A/S (refered to as "UNION" or "the company" throughout the Annual Report) have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial Statements Act (class B and selected disclosure requirements for class C and D).

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities that are measured at fair value.

Going concern
Management considers the company's capital resources at December 31, 2021 sufficient to cover the company's obligations for the ongoing activities as they mature at least through December 31, 2022. On this basis, management has prepared the financial statements on a going concern assumption.

Applied materiality
UNION's consolidated financial statement is based on the concept of materiality focusing on information that is considered material and relevant.

The consolidated financial statements are a result of processing large numbers of transactions and aggregating those into classes according to their nature or function. The aggregated transactions are presented in classes of similar items in the consolidated financial statements. Line items not individually material are aggregated with other items of similar nature in the financial statements or in the notes.

The disclosure requirements are substantial in IFRS and the Danish Financial Statement Act. Management provides specific disclosures required unless the information is considered immaterial to the financial decision-making of the users of these consolidated financial statements and otherwise not warranted or not applicable.

Information on COVID-19
UNION's business, operations and clinical studies were impacted by the effects of COVID-19. Although the clinical studies continued without interruption during 2021, delays and increased costs resulting from implications of COVID-19 were experienced. However, UNION has not recognized any writeoffs, impairments of assets, or losses due to onerous contracts. The COVID-19 pandemic may, in the long-term, affect the productivity of UNION's staff; the ability to attract, integrate, manage and retain qualified personnel or key employees; the global supply chains and relationships with vendors and other parties; significant disruption of global financial markets; and reduced ability to secure additional funding. UNION continuously monitors the COVID-19 pandemic and its potential impact on the business and financials.

Information on the war in Ukraine
UNION does not have any activities in neither Ukraine nor Russia and is not directly impacted by the war in Ukraine.

Changes in the accounting policies and disclosures

Implementation of new and revised standards and interpretations
UNION applied for the first time, certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2021. UNION has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.
The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- To require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- To permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- To provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of UNION. UNION intends to use the practical expedients in future periods if they become applicable.

COVID-19-Related Rent Concessions beyond June 30, 2021 Amendments to IFRS 16 On May 28, 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases.
The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

The amendment was intended to apply until June 30, 2021, but as the impact of the COVID-19 pandemic is continuing, on March 31, 2021, the IASB extended the period of application of the practical expedient to June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

UNION has not received COVID-19-related rent concessions.

Standards and interpretations not yet in force
At the date of publication of the consolidated financial statements, a number of new and amended standards and interpretations have not yet entered into force or have not yet been adopted by the EU. Therefore, they are not incorporated in the consolidated financial statements.

None of the new or amended standards and interpretations are expected to have a material impact on the consolidated financial statements.

Consolidated financial statements
The consolidated financial statements comprise the parent company, UNION therapeutics A/S, and three subsidiaries controlled by UNION therapeutics A/S: UNION Research ApS, UNION therapeutics Germany GmbH and UNION therapeutics North America Inc.

The group controls an entity if the group holds more than 50% of the votes or otherwise exercises control. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Notes

1. Accounting policies continued

The consolidated financial statements are prepared by combining the parent company's and the individual subsidiaries' financial statements and eliminating intercompany transactions such as intra-group income and expenses, shareholdings, intra-group balances and dividends, and realized and unrealized gains on intra-group transactions.

Translation of foreign operations
Items included in the consolidated financial statements of each of the group's entities are measured using the currency of the primary economic environment that best reflect the economic substance in which the legal entities operate (functional currency). The functional currency of the parent company and the Danish subsidiary is DKK. The functional currency of the U.S. subsidiary is USD and the functional currency of the German subsidiary is EUR.

Transactions denominated in currencies other than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the rate at the transaction date and the rate at the date of payment are recognized in profit or loss as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the date of the statement of financial position.

The difference between the exchange rates at the end of the reporting period and at the date at which the receivable or payable arose or was recognized in the latest annual report is recognized in the statement of comprehensive income as financial income or financial expenses.

Financial statements of foreign subsidiaries are translated into DKK at the exchange rates prevailing at the reporting date for assets and liabilities, and at average exchange rates for income statement items. The following exchange rate differences, arising from translation using the exchange rate prevailing at the reporting date, are recognized in Other comprehensive income:

- Translation of foreign subsidiaries' net assets at the beginning of the year
- Translation of foreign subsidiaries' income statements from average exchange rates

Statement of comprehensive income

Revenue
Revenue is recognized when the customer obtains control of promised goods or services, in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements within the scope of IFRS 15, the following five steps are performed: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The five-step model to contracts is only applied when it is probable that the consideration UNION is entitled to in exchange for the goods or services it transfers to the customer will be collected. At contract inception, once the contract is determined to be within the scope of IFRS 15, UNION assesses the goods or services promised within each contract and identifies, as a performance obligation, and assesses whether each promised good or service is distinct. Revenue is recognized in the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Royalties: Certain license and collaboration agreements include sales-based royalties including commercial milestone payments based on the level of sales. The license has been deemed to be the predominant item to which the royalties relate under license and collaboration agreements. As a result, revenue is recognized when the related sales occur.

Upfront payments: Certain agreements include payments to UNION at signing. To the extend the customer obtains control of goods or services related to the upfront payments at signing, revenue is recognized at signing. To the extend the customer obtains control of goods and services related to the upfront payment at a later point in time, upfront payments are initially recognized as deferred revenue and only recognized as revenue when the customer obtains control of goods or services.

Milestone Revenue: At the inception of each arrangement that includes milestone payments, it is evaluated whether the achievement of milestones are considered highly probable and UNION estimates the amount to be included in the transaction price. If it is highly probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of UNION or the license and collaboration partner, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which revenue is recognized as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the probability of achievement of such development milestones and any related constraint is re-evaluated, and if necessary, estimate of the overall transaction price is adjusted. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

License Revenue for Intellectual Property: If license to functional intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, revenue is recognized from non-refundable upfront fees allocated to the license at the point in time the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are bundled with other promises, UNION utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, upfront fees.

Revenue is measured at the fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. Revenue is presented in the country in which the delivery takes plase, which is the customer's country of domicile.

Joint arrangements
When UNION enters into an agreement, the agreement might include joint development arrangement plans in respect of activities that support the development of the UNION Asset. Costs arising under any such joint development plan will be shared between UNION and the

Notes

1. Accounting policies continued

development partner. These collaboration agreements, are considered joint operations as defined in IFRS 11 "Joint Arrangements". As a consequence such agreements are not considered perfomance obligations.

Research and development costs
Research and development costs are primarily external and, to a lesser extent, internal costs incurred in the development of the company's product candidates, including personnel costs and external research and development costs. Substantial portions of the company's clinical studies are performed by third-party laboratories, medical centres or CROs. The company recognizes accruals for estimated research and development costs, comprising payments for work performed by third-party contractors and others. Payments for these activities are based on the terms of the individual agreements with the relevant counterparties, which may differ from the pattern of costs incurred, in which case, they are reflected in the financial statements as expense, prepaid expense or accrued expense. CROs generally invoice monthly or quarterly for services performed. For clinical 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 to clinical research organisations and expensed when the activities are 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 payable to clinical research organisations.

Administrative costs
Administrative costs consist primarily of personnel costs and costs related to corporate functions and business development. In addition, administrative costs include depreciation and other expenses for UNION's headquarters. UNION recognizes administrative costs in the period in which such costs occur.

Other operating income
Other operating income comprises items secondary to the principal activities of the entities, including gains on ongoing disposal and replacement of items of property and plant and equipment. Gains on disposal are made up as the sales price less selling costs and the carrying amount at the time of disposal.

Moreover, other operating income comprises government and privately funded grants. Grants are recognized at the time when a final and firm right to the grant has been obtained and to the extent that the entity has obtained reasonable assurance to comply with the conditions attached to the grants received. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Financial income and expenses
Financial income and expenses comprise interest income and expenses, exchange gains and losses on transactions denominated in foreign currencies and are recognized in the income statements at the amounts that concern the financial year. Furthermore, amortization of financial assets and liabilities, including lease liabilities, as well as surcharges and allowances under the on-account tax scheme and changes in the fair value of non-derivative financial liabilities that are measured at fair value are included in financial income and expenses.

Income 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 recognized in the statement of comprehensive income, whereas the portion that relates to transactions taken to equity is recognized in equity.

Net result per share
Basic net result per share is calculated as the result for the year compared to the weighted average of the issued shares in the financial year.

The basis for the calculation of diluted net result per share is the weighted-average number of ordinary shares in the financial year adjusted for the dilutive effects of warrants.

Current versus Non-current classification
The company presents assets and liabilities in the statement of financial position based on Current/Non-current classification.

An asset is classified as Current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as Non-current.

A liability is classified as Current when:

- it is expected to be settled in the normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The company classifies all other liabilities as Non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Intangible assets

Separately acquired intangible assets
Separately acquired intangible assets are measured at historical costs. Such assets have a finite useful life and are subsequent to initial measurement carried at costs less accumulated amortization and impairment.

For acquisition of intangible rights involving equity-settled share-based payment transactions, management

Notes

1. Accounting policies continued

measures the fair value of the rights received and the corresponding increase in equity by reference to the fair value of the rights received unless that fair value cannot be estimated reliably. If management cannot estimate reliably the fair value of the rights received, it measures the fair value and the corresponding increase in equity by reference to the fair value of the equity instruments granted.

Variable or contingent consideration for the acquisition of intangible rights is accounted for under the cost accumulation model, whereby all future considerations are added, when incurred, to the cost of the asset initially recorded.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized using the straight-line method over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method are reviewed at least once a year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

UNION has no intangible assets with indefinite useful lives.

Internally generated intangible assets from development
Intangible assets arising from development projects are recognized in the balance sheet when:

- the development project is clearly defined and identifiable and the attributable costs can be measured reliably during the development period;
- the technological feasibility, adequate resources to complete and a market for the product or an internal use of the product can be documented; and
- management has the intent to produce and market the product or to use it internally.

Such an intangible asset is recognized if it can be documented that the future income from the development project will exceed the aggregate cost of production, development, and sale and administration of the product, with sufficient certainty.

Research and development costs not recognized in the balance sheet are recognized in the statement of comprehensive income when incurred.

Impairment test of intangible assets
During the year, the carrying amounts of intangible assets are reviewed in order to determine whether there is any indication that they have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs of disposal and value in use. On assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Property, plant and equipment
Property, plant and equipment include leasehold improvements and other fixtures and fittings, tools 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.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. Repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least annually.

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

Other fixtures and fittings, tools and equipment: 2-5 years
Leasehold improvements: Extend of lease term, but no longer than 5 years.

Leases
UNION assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

UNION applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The company recognizes lease liabilities for future remaining lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
Right-of-use assets are recognized at the lease commencement date (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, lease payments made at or before the commencement date less any lease incentives received, initial direct costs incurred, and restoration costs.

Right-of-use assets are depreciated over the shorter of the lease term and the useful life of the right-of-use asset using the straight-line method. In addition, right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements.

Right-of-use assets are presented within 'Property, plant and equipment'.

Notes

1. Accounting policies continued

Lease liabilities
At the commencement date of the lease, UNION recognizes lease liabilities measured at the present value of the following payments, when applicable:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments (linked to an index or interest rate) initially measured using the index or rate as at the commencement date
- expected payments under residual value guarantees;
- the exercise price of purchase options, where exercise is reasonably certain;
- lease payments in optional renewal periods, where exercise of extension options is reasonably certain; and
- penalty payments for the termination of a lease if the lease term reflects the exercise of the respective termination option.

The lease payments are discounted using the interest rate implicit in the lease if this rate can be readily determined. Otherwise, UNION's incremental borrowing rate is used, being the rate that the company would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions. Generally, UNION uses its incremental borrowing rate as the discount rate.

Lease liabilities are subsequently measured at amortized cost using the effective interest method. In addition, the carrying amount of the lease liabilities are remeasured if there is a modification, a change in the lease term, or a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

Impairment of non-current assets
Non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Accounts receivables
Accounts receivables comprise unconditional rights to consideration, which are designated as financial assets measured at amortized cost, are initially measured at fair value or transaction price and subsequently measured in the balance sheet at amortized cost, which generally corresponds to nominal value less expected credit loss provision. UNION utilizes a simplified approach to measuring expected credit losses.

Other receivables
Other receivables, which include VAT and government grant receivables, are initially measured at fair value, and subsequently measured at amortized cost, which usually corresponds to the nominal value. The value is reduced by impairment losses.

Prepayments
Prepayments recognized under assets comprise prepaid expenses regarding subsequent financial reporting periods.

Cash and cash equivalents
Cash is comprised of cash on hand and in bank deposit accounts.

Income tax and deferred tax

Current income tax
Tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities within one year from the date of the statement of financial position. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the company operates.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation or uncertainty and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses, can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside the profit or loss is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities of the same tax jurisdiction are offset if a legally enforceable right exists to set off.

Equity

Share capital
The share capital comprises the nominal amount of the company's ordinary shares, each at a nominal value of 0.1 DKK.

Foreign currency translation reserve
Exchange differences arising on translation of foreign controlled entities into the presentation currency, DKK, are recognized in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified in the statement of comprehensive income when the net investment is disposed of.

Notes

1. Accounting policies continued

Retained earnings/(accumulated deficit)
Accumulated deficit includes the accumulated profit or loss for the year. Further, accumulated deficit includes the share premium 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. Accumulated deficit also includes the corresponding increase in equity relating to share-based payment expense recognized in the profit or loss, arising from equity-settled share-based compensation programs.

Share-based payments
Members of the Board of Directors, Executive Management and key personnel of the company receive remuneration in the form of share-based payments.

Equity-settled awards
For equity-settled, share-based payment transactions, UNION measures the goods received at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If UNION cannot estimate the fair value of the goods or services received reliably, it measures their fair value by reference to the fair value of the equity instruments granted.

The cost of equity-settled awards is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The cost is recognized in the statement of comprehensive income together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period).

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

Cash-settled awards
A liability is recognized for the fair value of cash-settled awards. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognized in employee benefits expense.

Financial liabilities measured at amortized cost
Financial liabilities measured at amortized cost includes all financial liabilities, other than those measured at fair value through profit or loss. The company includes in this category loans and other short-term payables.

Loans are initially recognized at fair value, net of transaction costs incurred, if any. Loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income within financial items when liabilities are derecognized as well as when the effective interest rate method is used.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method.

Compound financial instruments
A compound financial instrument which contains both a liability and an embedded put option component is separated at the issue date.

When establishing the accounting treatment of these non-derivative instruments the company first establishes whether the instrument is a compound instrument and classifies such instruments or components separately as financial liabilities, or warrant put option instruments in accordance with IAS 32 Financial Instruments: Presentation.

The company separately recognizes the components of a financial instrument that: (a) creates a financial liability for the company; and (b) grants a put option to the lender to purchase all or part of the warrants held by the lender.

Classification of the liability and warrant put option components is not revised because of a change in the likelihood that the warrant put option will be exercised, even when exercise of the option may appear to have become economically advantageous to the holders. When allocating the initial carrying amount of a compound financial instrument to its liability and warrant put option components, the liability component is assigned the residual amount after deducting from the entire fair value of the instrument, the amount separately determined for the warrant put option component.

Deferred revenue
Deferred revenue represents the aggregated amount of consideration to which UNION has obtained unconditional right to but for which performance obligations are not yet satisfied at the end of the reporting period. Deferred revenue presented as Current relates to performance obligations UNION expects to satisfy during the coming twelve months, whereas the Non-current portion represents performance obligations UNION expects to satisfy after the coming twelve months. The split between Current and Non-current deferred revenue is based on UNION's underlying development plans under which the performance obligations are expected to be satisfied.

Convertible loan
During July, 2021, the company issued a convertible debt instrument which is determined to be a financial instrument. As required by IAS 32 and IFRS 9, this instrument was separated into its components: debt, and embedded derivatives related to the conversion features; conversion or repayment at maturity, mandatory conversion in the occurrence of an exit event, or conversion or repayment in connection with a De-SPAC transaction. The company elected the fair value option and accounts for both the debt and the embedded derivatives as a single instrument that is measured at fair value, whereby the convertible debenture at initial recognition is designated at fair value through profit or loss. At each reporting date the entire agreement is remeasured at fair value, whereby:

- changes in fair value related to changes in UNION's own credit risk is presented in other comprehensive income; and
- all other changes in fair value to be presented in the income statement.

Amounts recognized in other comprehensive income are not subsequently to be recycled to the income statement.

Notes

1. Accounting policies continued

Other liabilities
Other financial liabilities are on initial recognition measured at fair value which correspond to proceeds received less transaction costs paid. On subsequently recognition, liabilities are measured at amortized cost corresponding to the nominal unpaid debt.

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Valuation models and assumptions
Management assessed that cash, trade receivables, trade payables, and other current liabilities (except for cash-settled warrants and the European Investment Bank warrant and put option) approximate their carrying amounts largely due to the short-term maturities of these instruments.

Subsequent events
If UNION obtains information after the balance sheet date, but prior to the date of the Board of Director's approval of the financial statements, about conditions that existed at the balance sheet date, UNION assesses if the information affects the amounts that it recognizes in the financial statements.

UNION adjusts the amounts recognized in its consolidated 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, UNION does not change the amounts recognized in its consolidated financial statements but disclose the nature of the non-adjusting events and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

Cash flow statement
The cash flow statement shows the company's net cash flows, broken down by operating, investing and financing activities, the year's changes in cash and cash equivalents and the company's cash and cash equivalents at the beginning and at the end of the year.

Cash flows from operating activities are presented using the indirect method and are made up as the result for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid or received income taxes.

Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities.

Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest-bearing debt.

Cash is comprised of cash on hand and in bank deposit accounts.

Segment information
Although UNION have established subsidiaries in Denmark, Germany, and USA the company is managed and operated as one business unit which is reflected in the internal reporting. No separate lines of business or separate business entities have been identified with respect to any product candidate or geographical market and no segment information is currently disclosed in the company's internal reporting. All material non-current assets are located in Denmark.

Notes

2. Critical accounting estimates and judgements

In preparing the consolidated financial statements, management makes various accounting judgements as well as estimates and define assumptions which form the basis of recognition, measurement and presentation of the company's assets and liabilities.

The estimates and assumptions applied are based on historical experience, the most recent information available at the reporting date, and other factors that management considers reasonable under the circumstances.

The basis for judgement and information can by nature be inaccurate or incomplete, and the company is subject to uncertainties, which can result in an actual outcome that deviates from the estimates and defined assumptions. It may be necessary in the future to change previous estimates and judgements as a result of supplementary information, additional knowledge and experience of subsequent events.

In applying the accounting policies described in note 1, management has exercised the following critical accounting judgements and estimates which significantly influence the amounts recognized in the consolidated financial statements:

Revenue Recognition
Revenue comprises license payments, milestone payments and royalty income. License payments which provide the buyer with the right to use the license as it exists at the date of transfer are recognized upon transfer of the associated licensing rights at the point at which the buyer obtains the right to use the license.

The evaluation of the criteria for revenue recognition requires management to apply significant judgment in the application of the five step model of IFRS 15. Specifically, in relation to the Innovent Biologics license and collaboration agreement management has performed significant judgements and estimates in its (i) identification of performance obligations under the contract, including the determination of whether promised services under the contract are capable of being distinct, (ii) allocation of the transaction price to various performance obligations, (iii) determining whether licenses granted under the contract provide the costumer with either a right to access the entity's intellectual property as it exists throughout the license period or a right to use the entity's intellectual property as it exists at a point in time at which the license is granted, and (iv) determination of budget costs and cost to complete the research and development projects, which are applied in measuring progress of performance obligation satisfied over time. For further detail refer to note 3.

Measuring of share-based payments
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the respective awards. This estimate also requires determination of the most appropriate inputs to the valuation model including the share price, expected life of the share option, market interest rate, and volatility and making assumptions about them. UNION initially measures the cost of equity-settled and cash-settled share-based payment awards using the Black-Scholes model to determine the fair value of the respective awards. For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognized in comprehensive income. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 6.

Measurement of European Invesment Bank warrant and put option
Estimating fair value of the European Investment Bank warrant and put option requires determination of the most appropriate mesuring model and the determination of the most appropriate inputs to the measuring model. UNION measures the fair value by the end of each reporting period by use of the Black-Scholes model. For the European Investment Bank warrant and put option, estimated share-price is the most significant input. UNION determines the value of the share price with reference to the share price applied in most recent capital increase transactions, and adjusted for any value infliction points. The assumptions and method used for estimating fair value for the warrant and put option are further disclosed in note 17.

Measurement of convertible debt instruments
The company has elected the fair value option for including embedded derivatives with their debt hosts and the combined instruments are measured at fair value. In order to value these various instruments, the company makes assumptions and estimates concerning variables such as discount rates, probability of exit events taking place, and the timing of such exit events. The assumptions of future outcomes, and other sources of estimating uncertainty concerning the determination of key inputs to the valuation models, are based on management's best assessment using the knowledge available, management's historical experiences as well as other factors that are considered to be relevant. The estimates and assumptions are reviewed on an ongoing basis. Refer to note 18 for further details.

Notes

3. Revenue

Innovent Agreement
On September 28, 2021, UNION entered into a strategic collaboration and license agreement for orismilast with Innovent Biologics, Inc (the Innovent Agreement). As part of the Innovent Agreement, UNION is entitled to receive a non-refundable, non-creditable and not subject to off-set up-front payment of USD 20m (DKK 127m) and is eligible to receive future milestones and option payments of up to USD 250m, of which up to USD 247m is contingent on the achievement of certain development and regulatory milestones across multiple therapeutic indications and on the achievement of certain sales-based milestones. Lastly, UNION is entitled to receive a sales-based royalty fee ranging from a high single digit to a low twenties percentage of all net sales of orismilast in Greater China (including Mainland China, Hong Kong, Macau and Taiwan) by or on behalf of Innovent.

Within the Innovent Agreement, UNION identified three performance obligations: (1) delivery of license for orismilast (at a point in time), (2) delivery of Phase 2 study data for orismilast (over time) (3) Option to enter into agreement regarding topical formulation (over time).

Out of the total contract value of DKK 1,715m (USD 270m) excluding royalties, the upfront payment of DKK 127m has been recognized as the transaction price, as the future potential milestone and option amounts were not deemed to be highly probable as they are contingent upon success in future clinical trials and regulatory approvals which are not within UNION's control and were uncertain at the inception of the agreement. Milestones will be recognized when their achievement are deemed to be highly probable, and a significant revenue reversal would not occur. Upon commercialization of products, if any, under this agreement, royalties and net sales-based milestones will be recognized when the related sales occur.

The transaction price of DKK 127m was at the inception of the contract allocated to the performance obligations based on the best estimate of relative stand-alone selling prices. As such, DKK 117m was allocated to the perfomance obligation related to to the delivery of license of orismilast, DKK 10m was allocated to the performance obligation related to the delivery of Phase 2 study data for orismilast. The transaction price of DKK 127m comprises UNION's unconditional rights to considerations under the Innovent agreement.

The performance obligations related to the delivery of licenses were completed at a point in time (September 2021) and UNION recognized DKK 117m as revenue in September 2021. The performance obligation regarding Phase 2 study data will be completed as the study progress. Revenue will be recognized over time based on incurred cost as a percentage of total expected cost.

Other out-license agreements
In January 2019, UNION entered into an out-licensing agreement with an external party. Under the terms of the agreement, UNION is eligible for upfront and milestone payments upon successful achievement of certain research and development and regulatory approval milestones, as well as royalties on sales.

100% of UNION's revenue in 2021 arise from the Innovent agreement. Payment terms are between 30 and 60 days.

Revenue

DKK'000	2021	2020
License revenue from upfront payment recognized over time	1,886	0
License revenue from upfront payment recognized at a point in time	117,026	0
	118,912	**0**
Geographical split of revenue:		
Denmark	0	0
Greater China	118,912	0
	118,912	**0**

Deferred revenue
Deferred revenue at December 31, 2021 of DKK 8.2m represents the aggregated amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period. Deferred revenue of DKK 7.3m presented as Current relates to performance obligations that UNION expects to satisfy during the coming twelve months, whereas the Non-current portion of DKK 0.9m represents performance obligations that UNION expects to satisfy after the coming twelve months.

Notes

3. Revenue continued

Deferred revenue

DKK'000	2021	2020
At January 1	0	0
Portion of upfront payment recognized over time	10,106	0
Recognized as revenue	-1,886	0
At December 31	**8,220**	**0**
Of which is presented as:		
Non-current	876	0
Current	7,344	0

Joint arrangements

For the Innovent agreement UNION and Innovent Biologics have agreed on an initial joint development plan in respect of activities that support the development of orismilast. Costs under any such joint development plan will be shared between Innovent Biologics and UNION, with UNION covering 90% and Innovent Biologics covering 10 % of such costs. In the accounting for the Innovent Biologics collaboration agreement, this joint development is considered a joint operation as defined in IFRS 11 "Joint Arrangements". Accordingly, UNION is accounting for the assets, liabilities, revenues, and expenses related to its interest in the joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

4. Research and development costs and Administrative costs

Research and development costs are primarily external and, to a lesser extent, internal costs incurred in the development of UNION's product candidates. Substantial portions of the company's clinical studies are performed by third-party laboratories, medical centres or clinical research organizations.

DKK'000	Notes	2021	2020
Research and development costs			
Employee benefit costs	5	21,289	7,453
Share-based compensation	6	6,750	5,542
External costs		127,266	52,112
		155,305	**65,107**

Higher activity level in 2021 compared to 2020 caused the increase in research and development costs. Additionally, employee costs have increased as an effect of the strengthening of the research and development organization.

Administrative costs consist primarily of personnel costs and costs related to corporate functions and business development. In addition, administrative costs include depreciation and other expenses for UNION's headquarters.

DKK'000	Notes	2021	2020
Administrative costs			
Employee benefit costs	5	7,451	4,026
Share-based compensation	6	2,274	1,354
External costs		11,648	2,735
Depreciation	12	351	155
		21,724	**8,270**

To support the increased activity level in research and development the administrative functions have also been strengthened resulting in higher employee costs. Supported by external service providers systems, processes and compliance efforts have been revised and optimized together with other preparations for future growth. This has led to an increase in external costs, most of which are one-off costs.

Notes

5. Staff costs

DKK'000	Notes	2021	2020
Wages and salaries		25,711	9,518
Defined contribution plans		1,005	300
Other social security costs		1,452	410
Share-based compensation	6	9,024	6,896
Other staff costs		572	1,250
		37,764	**18,374**
Research and development costs		28,039	12,995
Administrative costs		9,725	5,379
		37,764	**18,374**
Average number of full-time equivalents		26	9

Remuneration to Executive Board and Board of Directors

	2021		
DKK'000	Executive Board	Board of Directors	Total
Wages and salaries	6,938	888	7,826
Share-based compensation expenses	3,545	1,819	5,364
Social security	10	0	10
	10,493	**2,707**	**13,200**

	2020		
DKK'000	Executive Board	Board of Directors	Total
Wages and salaries	4,693	140	4,833
Share-based compensation expenses	644	391	1,035
Social security	7	0	7
	5,344	**531**	**5,875**

Executive board members are the key management personnel of UNION.

Notes

6. Share-based payment

Warrant programs
UNION has established share-based incentive programs (equity-settled and cash-settled) for members of the Board of Directors, members of the Executive Board and key personnel in the form of warrants. Warrants are granted by the Board of Directors in accordance with authorizations given to it by the general meeting of shareholders and as incorporated into the company's articles of associations.

On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged. Refer to note 14.

Warrants granted in February 2017 (Cash-settled)
In April 2017, the general meeting of shareholders granted warrants with rights to subscribe for up to 44,650 shares of nominally DKK 0.1 with an exercise price of DKK 23,98 per warrant (pre-split: 4,465 shares of nominally DKK 1 with an exercise price of DKK 239.80 per warrant). At December 31, 2021, the Board of Directors have granted in total 44,650 (December 31, 2020: 44,650 (pre-split: 4,465)). These warrants vest and become exercisable upon an "exit event", defined as an event of IPO, merger, demerger, or solvent liquidation, which triggers an immediate expense recognition upon grant. These warrants may be settled in equity instruments of the company or in cash at the discretion of the warrant holder. Accordingly, these warrants are classified as cash-settled warrants. The life of the warrants under the February 2017 program is eight years from the date of grant.

Warrants granted from November 2017 (Equity-settled)
In November 2017, the Board of Directors were authorized to grant warrants for up to 250,000 shares of nominally DKK 0.1 per warrant (pre-split: 25,000 shares of nominally DKK 1) in the company in the period until March 31, 2022. In June 2020, the Board of Directors were authorized to grant warrants for up to an additional 250,000 (pre-split: 25,000) shares in the company in the period until June 25, 2025. At December 31, 2021, the Board of Directors have granted in total 398,280 (December 31, 2020: 235,930 (pre-split: 23,593)) warrants under this authorization.

Warrants granted under the November 2017 equity incentive plan are classified as equity settled and generally vest over four years' service periods in periodic installments that may or may not be equal, which triggers linear or graded vesting profiles. Certain warrants under this program vest immediate upon grant. The life of the warrants under the November 2017 program varies from 4-10 years from the date of grant.

The table below summarizes share-based compensation expenses included in the statement of comprehensive income:

DKK'000	2021	2020
Research and development costs	6,750	5,542
Administrative costs	2,274	1,354
	9,024	**6,896**

The following schedule specifies the movements of number and weighted average exercise price of outstanding warrants for 2021 and 2020:

Equity settled warrants

Number of warrants	Board of Directors	Executive board	Employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**7,108**	**8,000**	**7,310**	**22,418**	**654**	**335**
Granted during the period	0	0	1,175	1,175	228	703
Outstanding, December 31, 2020	**7,108**	**8,000**	**8,485**	**23,593**	**633**	**353**
Granted during the period	3,750	10,596	3,984	18,330	967	1,099
Effect of 10-for-1 share split	97,722	167,364	112,221	377,307		
Outstanding, December 31, 2021	**108,580**	**185,960**	**124,690**	**419,230**	**78**	**68**

Notes

6. Share-based payment continued

Cash settled warrants

Number of warrants	Former employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**4,465**	**4,465**	**240**	**100**
Granted during the period	0	0	0	0
Outstanding, December 31, 2020	**4,465**	**4,465**	**240**	**100**
Granted during the period	0	0	0	0
Effect of 10-for-1 share split	40,185	40,185		
Outstanding, December 31, 2021	**44,650**	**44,650**	**24**	**10**

Warrant related disclosures
Across all warrant programs, the weighted average remaining contractual life for warrants outstanding was 3.2 years and 3.5 years at December 31, 2021 and 2020, respectively.

Across all warrant programs, the range of the exercise price for warrants outstanding was DKK 0.1-124 at December 31, 2021 (December 31, 2020, pre-split: DKK 1-815).

On December 31, 2021, 265,696 (December 31 2020, pre-split:18,859) warrants had vested and were exercisable. The weighted average exercise price per warrant was DKK 67.24 at December 31, 2021 (December 31, 2020, pre-split: DKK 541.99).

Determination of fair value of warrants
UNION determines and calculates the fair value of each equity-settled warrant at grant date and for each cash-settled warrant, at each balance sheet date, using the Black-Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- Dividend yield: Is determined to be zero.
- The expected stock price volatility: As it is not possible to estimate the expected volatility of a non-publicly listed entity's share price, UNION has estimated the fair value of its warrants by using the volatility of an appropriate peer group of listed international biotechnology companies.
- The risk-free interest rate, which is based on the Danish government bonds having a yield with a maturity equal to the expected term of the option in effect at the time of grant.
- The expected life of warrants, which is based on vesting terms, expected rate of exercise and life terms in the warrant program.
- Estimate of UNION therapeutics A/S' market share price. As UNION therapeutics A/S is not listed on a stock exchange, the estimated fair value of the warrants at each measuring date, using the Black-Scholes model, has been established by assuming that the value of UNION therapeutics A/S' shares is the price per share determined at the latest financing round and considering additional subsequent valuation inflection points and relevant facts and circumstances.

Notes

6. Share-based payment continued

Valuation assumptions for warrants in 2021 and 2020
The fair value at each measuring date in 2021 and 2020 is measured using the following significant assumptions:

	Dec. 31 2021	Dec. 31 2020
Equity-settled warrants		
Dividend yield	-	-
Volatility (%)	54-76	61-77
Risk-free interest rate	-0.2% - -0.4%	-0.4% - -0.6%
Market share price range applied (2020: pre-split)	DKK 160	DKK 534-1,600
Exercise price (2020: pre-split)	DKK 0.1-124	DKK 1 - 534
Expected life of equity-settled warrants granted	5 years	5 years
The grant date fair value per warrant (2020: pre-split)	DKK 83-160	DKK 533-932

	Dec. 31 2021	Dec. 31 2020
Cash-settled warrants		
Dividend yield	-	-
Volatility (%)	76	67
Risk-free interest rate	-0.2%	-0.6%
Market share price at year end (2020: pre-split)	DKK 160	DKK 1,600
Exercise price (2020: pre-split)	DKK 24.0	DKK 239.8
Expected life of cash-settled warrants at end period	3.1 year	4.1 year
The end period fair value per warrant (2020: pre-split)	DKK 136	DKK 1,359

Reconciliation of fair value of cash-settled warrants:

DKK'000	Cash settled warrants
At January 1, 2020	1,443
Fair value adjustment through comprehensive income	4,626
At December 31, 2020	**6,069**
Fair value adjustment through comprehensive income	5
At December 31, 2021	**6,074**

7. Other operating income

Other operating income consists of government grants and other items secondary to the company's activities. In 2020 UNION received a governmental grant from Innovation Fund Denmark. The grant provides compensation for a part of certain project-specific research and development expenses, including wages and salaries. There are no unfulfilled conditions or other contingencies attached to the government grant that has to be recognized.

In 2021, the company recognized DKK 6.2m (2020: DKK 9.0m) as Other operating income, hereof income from the government grant accounts for DKK 6.2m (2020: DKK 8.7m).

Notes

8. Financial income and expenses

Financial income

DKK'000	Notes	2021	2020
Interest income		0	6
Foreign exchange gains		4,286	0
		4,286	**6**

Financial expenses

DKK'000	Notes	2021	2020
Interest expenses		1,184	380
Interest expenses, lease liabilities		32	11
Fair value adjustment, Convertible debt (unrealized)	18	1,741	0
Interest expenses, European Investment Bank loan (amortized cost)		10,891	9,409
Foreign exchange loss		0	272
Fair value adjustment, warrant and put option (unrealized)	17	0	12,012
		13,848	**22,084**

Foreign exchange gains in 2021 primarily relates to USD positions related to the Innovent agreement.
No fair value adjustment of warrants and put option in 2021, as the assumed market share price has not changed.

9. Income taxes

The major components of income tax benefit for the years ended December 31, 2021 and 2020 are:

DKK'000	2021	2020
Income taxes in the statement of profit or loss		
Net result before tax	-61,501	-86,406
Corporate income tax rate in Denmark	22%	22%
Computed corporate income tax (benefit)	**-13,530**	**-19,009**
Prior year adjustments	1,983	-15
Adjustment for non-deductible expenses	3,748	106
Adjustment for research and development super deduction	-7,532	-4,027
Adjustment for warrant	1,983	1,517
Change in deferred tax asset not recognized	7,873	15,918
Tax expense/(benefit) for the period	**-5,475**	**-5,510**
Deferred tax in the statement of financial position		
Tax deductible losses	15,952	22,262
European Investment Bank loan facility	0	2,484
Research and development capitalized	11,312	0
Other temporary differences	5,420	52
Deferred tax asset/(liability) at December 31	**32,684**	**24,798**
Deferred tax assets not recognized		
Deferred tax assets not recognized	-32,684	-24,798
Deferred tax at December 31	**0**	**0**

Notes

9. Income taxes continued

The biotechnology and pharmaceutical industry is subject to considerable risks and uncertainties. UNION has so far reported significant losses and, consequently, has unused tax losses. Management has concluded that deferred tax assets should not be recognized at December 31, 2021 (none recognized at December 31, 2020) due to uncertainty related to future utilization of loss carry-forward.

Deferred tax assets and liabilities are offset when; there is a legally enforceable right to set off current tax assets against current tax liabilities, they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date.

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 tax base of losses originating from research and development expenses of up to DKK 25.0m (tax value of DKK 5.5m). Under Danish tax legislation, UNION is eligible to receive DKK 5.5m in 2021 (DKK 5.5m in 2020) in cash relating to the surrendered tax loss based on qualifying research and development expenses. These tax receipts comprise the majority of the current tax benefit in 2021 and 2020, respectively.

The unused tax losses can be carried forward indefinitely.

10. Result per share

Basic result per share is calculated as the net result for the period that is allocated to the parent company's ordinary shares, divided by the weighted average number of shares outstanding. Diluted result per share is calculated as the net result for the period that is allocated to the parent company's shares, divided by the weighted average number of shares outstanding and adjusted by the dilutive effect of potential shares. The result for the period and weighted average number of shares used in the calculation of basic and diluted result per share are as follows:

DKK'000, except share amounts and per share amounts	Notes	2021	2020
Result for the year		-56,026	-80,896
Weighted average number of shares outstanding		6,977,910	5,447,310
Average dilutive effect of outstanding stock options and warrants		0	0
Average number of diluted shares		**6,977,910**	**5,447,310**
Basic net result per share		-8	-15
Diluted net result per share		-8	-15

The following potential ordinary shares are anti-dilutive and are therefore not included in the weighted average number of shares for the purpose of diluted earnings per share:

	Notes	2021	2020
Outstanding warrants under employee incentive programs	6	463,880	280,580
Outstanding warrants relating to European Investment Bank loan facility	17	115,572	112,680
Contingent issuable shares relating to convertible loans	18	570,860	0
Total outstanding warrants		**1,150,312**	**393,260**

On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved on an extraordinary general meeting. The stock split also resulted in a reduction of the nominal value of the Company's ordinary shares from DKK 1 to DKK 0.1. Retrospective effect has been given with respect to the number of shares used in the calculation and disclosure of basic and diluted earnings per share.

Notes

11. Intangible assets

	Patents, trademarks and other rights	
DKK'000	**2021**	**2020**
Cost		
At January 1	16,566	0
Additions	0	16,566
At December 31	**16,566**	**16,566**
Depreciation		
At January 1	0	0
At December 31	**0**	**0**
Net book value		
At December 31	**16,566**	**16,566**

Acquisition of PDE4-inhibitor program
In June 2020, UNION entered into an asset purchase agreement with Leo Pharma A/S. Pursuant to this agreement, Leo Pharma A/S sold and transferred certain intangible rights in the form of patents and compound data relating to the 'PDE4 inhibitor compounds' to UNION.

In consideration of the acquisition of the intangible rights, in 2020, UNION paid in cash DKK 1.7m and by issuance and grant of 12,044 shares of nominal 1 DKK at a rate of DKK 1,237 per share, equivalent to a value of DKK 14.9m. The value of the intangible assets acquired, is measured at the fair value of the cash paid and of the equity instruments granted, with reference to the corresponding increase in equity of DKK 14.9m. The applied rate per share is determined with reference to the share price applied in the capital increase completed by UNION in May 2020.

Under the terms of the Agreement, UNION agreed to make future payments to LEO Pharma A/S that were contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION applies the cost accumulation method for the accounting for such contingent payments.

Under the agreement, UNION will, subject to meeting certain clinical, regulatory, and sales milestones, pay in cash to the seller up to USD 202m equivalent to DKK 1,240m. Also, UNION will pay to the seller low single-digit percentage royalty applied on net sales of covered products until the expiry of the royalty term which ends at the latest on the twelfth anniversary of the first commercial sale of covered products.

The acquired intangible asset is not being amortized until approval of the underlying asset has been received from regulatory authorities.

Management has in 2020 and 2021 not identified indicators of impairment concerning the acquired intangible rights.

An impairment test has been carried out in 2021. Present value has been calculated based on 12 years of discounted cash flow using a WACC of 14%. The impairment test shows no signs of impairment.

Notes

12. Property, plant and equipment

DKK'000	Notes	Right-of-use assets	Other equipment	Total
Cost				
At January 1, 2021		444	95	539
Additions		1,203	140	1,343
Disposals		0	-78	-78
At December 31, 2021		**1,647**	**157**	**1,804**
Depreciation				
At January 1, 2021		288	83	371
Additions		330	21	351
Disposals		0	-78	-78
At December 31, 2021		**618**	**26**	**644**
Net book value				
At December 31, 2021		**1,029**	**131**	**1,160**

DKK'000	Notes	Right-of-use assets	Other equipment	Total
Cost				
At January 1, 2020		650	95	745
Adjustments		-206	0	-206
Additions		0	0	0
At December 31, 2020		**444**	**95**	**539**
Depreciation				
At January 1, 2020		217	64	281
Adjustments		-65	0	-65
Additions		136	19	155
At December 31, 2020		**288**	**83**	**371**
Net book value				
At December 31, 2020		**156**	**12**	**168**

Right-of-use assets
The company leases its office premises in Copenhagen. The property lease is non-cancellable in the period through June 15, 2023. Hereafter, the option to terminate is six months. The contract does not provide a right, obligation, nor an option to buy the office premises. The contract contains both lease and non-lease components according to the specific pricing of the services in the agreements.

In 2021 and 2020, the expense related to variable lease payments not included in the lease liabilities amounts to DKK 0.1m and DKK 0.1m, respectively, and was recognized in administrative costs.

Notes

13. Other receivables and prepayments

DKK'000	Dec. 31 2021	Dec. 31 2020
VAT receivables	4,224	972
Prepayments	2,170	119
Other receivables	1,651	9,012
	8,045	**10,103**

In 2021, Other receivables primarily consist of the government grant from Innovation Fund Denmark not yet fully paid out. There are no unfulfilled conditions or other contingencies attached to the government grant that have to be recognized. In 2020 Other receivables included the government grant receivables of DKK 8.7m from Innovation Fund Denmark.

14. Capital management and share capital

Capital Management
The Board of Directors monitor the share- and capital structure to ensure that UNION's capital resources support the strategic goals. UNION's goal is to maintain a strong capital base to maintain confidence from investors, creditors, employees and collaboration partners, and a continuous advancement of the research and development pipeline and business in general.

UNION is primarily financed through equity investments from shareholders, convertible loans, and a long-term loan agreement with the European Investment Bank. UNION has also obtained financing through license agreements and governmental grants. The adequacy of UNION's available funds will depend on various factors, including the advancement of the research and development programs, the magnitude of investments in these programs, and UNION's ability to establish commercial collaboration and licensing agreements with partners.

As such, UNION may require additional funds and may attempt to raise additional funds through equity or debt financings, license, and collaborative agreements with partners, or from other sources.

For further information regarding the European Investment Bank loan and the convertible loan, refer to note 17 and 18, respectively.

Loss of subscribed share capital
As a result of the group's accounting policy, financing strategy and utilization of the credit facility provided by the European Investment Bank, at December 31, 2020 the company had lost more than 50% of its subscribed share capital. Following the capital increase in February 2021, the share capital was re-established.

Share capital
On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The stock split also resulted in a reduction of the nominal value of the company's ordinary shares from DKK 1 to DKK 0.1.

Following the share split, the share capital comprises 6,596,000 shares of nominal DKK 0.1, each of which have been issued and paid in full. Only one class of shares exists and no shares carry any special rights.

	Number of shares	Share capital (DKK'000)
Share capital at January 1, 2020	515,448	515
Capital increase at May 7, 2020	35,367	36
Capital increase at June 23, 2020	12,044	12
Share capital at December 31, 2020	**562,859**	**563**
Share capital at January 1, 2021	562,859	563
Capital increase at February 9, 2021	96,741	97
Effect of 10-for-1 share split at December 29, 2021	5,936,400	0
Share capital at December 31, 2021	**6,596,000**	**660**

The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged. For effect on warrants granted as share based payment, earnings per share, warrants granted in relation to the European Investment Bank loan and the convertible loan, refer to note 6, 10, 17 and 18, respectively.

Notes

15. Other payables

DKK'000	2021	2020
Salary related payables	1,711	1,889
Other liabilities	25,482	4,894
	27,193	**6,783**

Other liabilities primarily comprise accruals for clinical research organizations costs. Clinical activity level was significantly higher at year-end 2021 compared to year-end 2020.

16. Financial risks

The company's financial risks are managed by the Executive Board. The company has identified financial risks, but follows a policy where management continually monitors the following defined risks: liquidity risk, interest rate risk, currency risk and credit risk.

Liquidity risk
Liquidity risk is the risk that UNION will not be able to meet its financial obligations as they fall due. The Executive Board monitors its risk of a shortage of funds using a liquidity planning tool.

The company's objective and policy are to maintain a balance between continuity of funding and flexibility using equity investments from shareholders and external loans.

UNION has no unused credit facilities at December 31, 2021 or December 31 2020.

The following are the contractual undiscounted out flows associated with the company's financial liabilities in the current and prior year based on their contractual maturities.

The amounts disclosed in the tables are the contractual undiscounted cash flows (including interest payments). Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for convertible loans.

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total contractual cash flows
2021					
Long-term debt (amortized cost)*	99,286	0	118,136	0	118,136
Trade payables (amortized cost)	11,424	11,424	0	0	11,424
Lease liabilities (amortized cost)	1,090	471	681	0	1,152
Convertible loans (fair value)	63,778	0	80,903	0	80,903
Warrant and put option (fair value)	18,480	18,480	0	0	18,480
	194,058	**30,375**	**199,720**	**0**	**230,095**
2020					
Long-term debt (amortized cost)	88,894	0	118,136	0	118,136
Trade payables (amortized cost)	7,350	7,350	0	0	7,350
Lease liabilities (amortized cost)	167	167	0	0	167
Warrant and put option (fair value)	18,018	18,018	0	0	18,018
	114,429	**25,535**	**118,136**	**0**	**143,671**

* Of which DKK 79m falls due in January 2023.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

UNION has no significant interest-bearing debt with variable interest, and UNION's interest rate risks primarily relate to the position of cash in banks. As such, no separate analysis is provided.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. UNION's exposure to the risk of changes in foreign exchange rates primarily relates to the company's operating activities when revenue or expense transactions are denominated in a foreign currency as well as cash positions in foreign currency. UNION maintains GBP, USD and PLZ bank deposits at a level necessary to support the short-term funding requirements.

Notes

17. European Investment Bank Loan

Loan facility and warrant and put option agreement with the European Investment Bank
On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged. Refer to note 14.

In October 2017, UNION entered into a finance contract with the European Investment Bank ensuring a loan facility of EUR 20.0m.

Under the finance contract, the loan shall be disbursed in up to two tranches and the repayment date is no later than the fifth anniversary of the relevant disbursement date. The loan agreement is subject to a number of financial and non-financial terms.

In January 2018, UNION called the first of the two tranches under the finance contract. The first tranche totalled EUR 7.0m. The loan and accumulated interest fall due for payment in January 2023.

In December 2019, UNION called the second of the two tranches under the finance contract. The second tranche totalled EUR 3.3m. The loan and accumulated interest fall due for payment in December 2024.

As consideration for the loan, UNION has granted 186,910 (pre-split: 18,691) warrants to the European Investment Bank that vest relative to the draw-down on the loan in two tranches. Each warrant entitles the European Investment Bank to subscribe for 1 share of nominal DKK 0.1 (pre-split: DKK 1) against payment of exercise price of DKK 0.1 (pre-split: DKK 1). Vested warrants can be exercised in part or in full at any time at the discretion of the European Investment Bank. Warrants not exercised after 20 years shall lapse.

Upon draw-down of the first tranche in 2018, 87,220 (pre-split: 8,722) warrants vested. Upon draw-down of the second tranche in 2019, 25460 (pre-split: 2,546) warrants vested, and 74,230 (pre-split: 7,423) warrants were lapsed and became void.

In 2021, the European Investment Bank has been granted additional 2,889 warrants. 115,572 warrants were outstanding at December 31, 2021 (December 31, 2020: 112,683 (pre-split: 11,268)).

The loan agreement further includes an embedded derivative in form of a put option, pursuant to which the European Investment Bank may require UNION to purchase all, or part of the vested warrants held by the European Investment Bank at an option price equivalent to the fair value of the warrants at the time of exercise.

As part of the loan agreement, UNION entered into a floating charge agreement pursuant to which a floating charge of EUR 2.0m is pledged. Furthermore, UNION entered into a negative pledge preventing it to subsist any security over any of its assets. Refer to note 23.

The following key methods and assumptions were used to estimate the fair values of the European Investment Bank warrant and put option (level 3):

The fair value of the warrant and put option is estimated using the Black-Scholes Valuation model. This valuation method requires management to make certain assumptions about the model inputs, such as the underlying share price and volatility. The probabilities of the various estimates within the applied range can be reasonably assessed and are used in management's estimate of fair value.

DKK'000	Dec. 31 2021	Dec. 31 2020
Dividend yield	-	-
Volatility (%)	76	67
Annual risk-free interest rate	-0.2%	-0.6%
Market share price at year-end (2020: pre-split)	DKK 160	DKK 1,600
Exercise price (2020: pre-split)	DKK 0.1	DKK 1
Life of option	1-3 years	2-4 years

Sensitivity
At December 31, 2020 and December 31, 2021, other things being equal, a 1% increase in the share price will result in a 1% increase in the fair value of the warrant put option. Similarly, a 1% decrease in the share price will reduce the fair value of the warrant put option by 1%.

Reconciliation of fair value measurements under Level 3 hierarchy:

	Warrant and put option
At December 31, 2019	6,006
Fair value adjustment through profit or loss (unrealized)	12,012
At December 31, 2020	**18,018**
Fair value adjustment through profit or loss (unrealized)	0
Warrants added	462
At December 31, 2021	**18,480**

Fair value adjustments through profit or loss are recognized in the statement of comprehensive income as financial income or financial expenses, as applicable.

Notes

18. Convertible loans

In July 2021, UNION issued a convertible debt instrument of DKK 62.0m, which was received from various parties, including members of the Board of Directors and Executive Management. The company elected the fair value option and accounts for both the debt and the embedded derivatives as a single instrument that is measured at fair value, whereby the convertible debenture at initial recognition is designated at fair value and subsequently remeasured with the change being presented on the statement of profit or loss for the reporting period.

The following table summarizes the changes in the convertible debt instrument 2021:

DKK thousands	
Carrying amount at January 1, 2021	0
Amount received July 2021	62,037
Fair value adjustment through profit or loss, included in finance expenses	1,741
Carrying amount at fair value at December 31, 2021	**63,778**

The convertible loan is mesured at fair value (level 3) taking into account:

- The convertible loan is a fixed rate loan carrying an interest rate of 9% with maturity on 16 July 2024
- The convertible loan is denominated in DKK
- Conversion or repayment at maturity. On the maturity date, July 16, 2024, UNION has the discretion to 1) convert the loan into new shares of the company as the share price at the latest capital increase with a deduction of 15%. If the loan is converted at maturity, the conversion price has a cap of DKK 160 per share minus 15%; or 2) repay the loan in cash to the extent that the loan amount and accrued interest has not been converted into shares and the company's existing loan to the European Investment Bank has been repaid or consent has been provided by the European Investment Bank, though with bondholder's discretion to elect conversion to equity.
- Mandatory conversion in the occurrence of an exit-event including 1) an admission to trading of the company's shares on a regulated market (IPO), 2) a trade sale of more than 90% of the company's shares and 3) an equity financing with issuance of new shares with proceeds of minimum DKK 120m.
- Conversion or repayment in connection with a De-SPAC transaction. In the event of a De-SPAC transaction the lenders have the discretion to demand the outstanding loan amount repaid in cash or converted into shares with a conversion price equal to the final offer price with a deduction of 15%. In the event of a De-SPAC transaction the lenders may elect to demand the loan repaid in cash against receiving additional 6% interest rate.

Since the convertible debt instrument includes conversion features resulting in settlement in a variable number of shares, the convertible debt instrument does not comprise an equity component. The convertible debt instrument includes the following elements:

- Fixed rate debt host contract
- Embedded prepayment option (exit event)
- Embedded prepayment option (De-SPAC)
- Cap on conversion price at maturity

Management has designated, due to the existence of non-closely related embedded derivatives, the entire debt instrument to be carried at fair value through profit or loss using a probability weighted expected return method. Changes arising from changes in the company's own credit risk are recognized in other comprehensive income. The inputs used in the valuation as at 31 December, 2021 are detailed in the table below:

	Assumptions applied
Discount rate	36.6%
Probability of conversion at maturity	1%
Probability of conversion due to exit event, including De-SPAC event	99%

Notes

18. Convertible loans continued

The sensitivity of the required return towards key assumptions regarding probabilities has been analyzed.

The below table, shows the market value of the convertible loan assuming a fixed discount rate of 36.6% if the probability associated with an exit event is changed:

Probability of exit event	Calculated debt at Dec. 31 (DKK'000)
94%	62,743
96%	63,186
98%	63,629
99%	63,778
100%	64,072

19. Related party disclosures

UNION's related parties comprise significant shareholders, Board of Directors, Executive Management, and close members of the family of these persons.

Besides paying the salary, board fees and share-based payment to the Executive Management and Board of Directors, as further described below, the company did not carry through any transactions with its related parties besides the below-mentioned transactions.

DKK'000	Period	Other income	Purchases	Convertible loan	Payables
Transactions with other related parties:					
Clinical-Microbiomics A/S	2021	0	0	0	0
	2020	301	0	0	0
Cajaikas ApS	2021	0	1,755	0	0
	2020	0	1,260	0	0
Black Swans Exist ApS	2021	0	2,294	0	42
	2020	20	671	0	49
Executive Management and Board of Directors	2021	0	0	3,394	0
	2020	0	0	0	0

The company has received employee services from Anne Kathrine Toft-Kehler, M.D. specializing in ophthalmology and spouse of Rasmus Vendler Toft-Kehler, a Principal Shareholder and member of the Board of Directors and Executive Management. The employee benefits paid to Anne Kathrine Toft-Kehler amounted to DKK 480 thousand for the financial year ended December 31, 2021 and DKK 480 thousand for the financial year ended December 31 2020. Anne Kathrine Toft-Kehler works on the pre-clinical programs. Her appointment was approved by the Board of Directors.

The company has received consultancy services from H & L Invest ApS, which is 50% owned by Stig Løkke Pedersen, Chair of the Board of Directors. The expenses related to such services amounted to 60 thousand for the financial year ended December 31, 2021, which does not form part of the board fees payable to Stig Løkke Pedersen.

Notes

19. Related party disclosures continued

Holding companies
The company is jointly controlled by the holding companies Vendler ApS and Manjin ApS, which are owned by members of the Executive Board. There were no transactions between UNION and the holding companies neither in the financial year ended December 31, 2021 nor in the financial year ended December 31, 2020.

Associated parties
Clinical-Microbiomics A/S
UNION rendered administrative services to Clinical-Microbiomics A/S in 2020. Clinical-Microbiomics A/S is partly owned by UNION therapeutics A/S' holding companies and members of the Executive Board of UNION therapeutics A/S are appointed to the Board of Directors of Clinical-Microbiomics A/S.

Cajaikas ApS
UNION renders contract research and management services from Cajaikas ApS. Cajaikas ApS is owned by a member of the Board of Directors of UNION therapeutics A/S.

Black Swans Exist ApS
UNION renders recruitment services from, and in 2020 also rendered administrative services to, Black Swans Exist ApS. Black Swans Exist ApS is partly owned by UNION therapeutics A/S' holding companies, Manjin ApS and Vendler ApS.

20. Changes in liabilities arising from financing activities

2021		Non-cash changes				
DKK'000	2020	Cash flows	Fair value adjustment	Addition during the period	Interest	Foreign exchange adjustment	2021
Debt facility	88,894	0	0	0	10,429	-37	99,286
Convertible loan	0	62,037	1,741	0	0	0	63,778
Leasing liability	167	-312	0	1,203	32	0	1,090
Total	**89,061**	**61,725**	**1,714**	**1,203**	**10,461**	**-37**	**164,154**

2020		Non-cash changes				
DKK'000	2019	Cash flows	Adjustment opening	Addition during the period	Interest	Foreign exchange adjustment	2020
Debt facility	79,558	0	0	0	9,409	-73	88,894
Leasing liability	451	-155	-140	0	11	0	167
Total	**80,009**	**-155**	**-140**	**0**	**9,420**	**-73**	**89,061**

Notes

21. Cash flow statement - adjustment for non-cash items

DKK'000	2021	2020
Income taxes	-5,475	-5,510
Depreciation and amortization	351	155
Financial costs/income	10,229	21,918
Share-based compensation costs	9,024	6,896
Other adjustments, primarily exchange rate adjustments	0	0
	14,129	**23,459**

22. Cash flow statement - changes in net working capital

DKK'000	2021	2020
Changes in other receivables	7,362	-8,358
Changes in VAT receivables	-3,253	-624
Changes in prepayments	-2,051	-65
Changes in employee related liabilities	221	1,358
Changes in trade payables	4,074	6,147
Changes in other liabilities	28,409	3,487
	34,762	**1,945**

23. Contingent assets and liabilities, contractual obligations and pledges

Pledges
UNION has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2.0m (2020: EUR 2.0m) is pledged. Furthermore, the company has entered into a negative pledge preventing it from placing any of its assets as security, excluding the aforementioned floating charge to the European Investment Bank.

Contingent payments under out-license agreements
UNION is entitled to potential milestone payments and royalties on successful commercialization of products developed under license agreements with an external party (refer to note 3). Since the size and timing of such payments are uncertain until the milestones are reached or sales are generated, the agreements may qualify as contingent assets. However, it is associated with a very high degree of uncertainty to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Contingent payment of acquisition of intangible assets
As part of the acquisition of intangible rights, UNION may be required to make milestone and royalty payments to the seller. Refer to note 11.

24. Events after the balance sheet date

No significant events after the balance sheet date, that could be of material importance to the company's financial position.

Parent financial statements

Statement of comprehensive income

DKK'000	Notes	2021	2020
Revenue	3	118,912	0
Research and development costs	4	-155,528	-65,121
Administrative costs	4	-21,724	-8,270
Operating result before other income		**-58,340**	**-73,391**
Other operating income	7	5,980	9,049
Operating result		**-52,360**	**-64,342**
Financial income	8	4,289	46
Financial expenses	8	-13,823	-21,957
Result before tax		**-61,894**	**-86,253**
Tax benefit/(expense)	9	5,500	5,515
Result for the year		**-56,394**	**-80,738**
Other comprehensive income or loss			
Items that may be reclassified to profit or loss in subsequent periods, net of tax			
Exchange differences on translation of foreign operations		0	0
Other comprehensive result for the year, net of tax		**0**	**0**
Total comprehensive result for the year		**-56,394**	**-80,738**

Result for the period and total comprehensive result is attributable to the shareholders of UNION therapeutics A/S.

Cash flow statement

DKK'000	Notes	2021	2020
Result for the year		-56,394	-80,738
Adjustment for non-cash items	21	12,827	23,447
Changes in net working capital	22	34,725	2,027
Changes in non-current financial assets		-130	-10
Interest received		0	6
Interest paid		-1,158	-261
Income taxes received/(paid)		5,500	4,170
Cash flow from operating activities		**-4,630**	**-51,359**
Investment in intangible assets	10	0	-1,668
Investment in property, plant and equipment	11	-140	0
Cash flow from investing activities		**-140**	**-1,668**
Proceeds from capital increase		154,786	43,749
Costs associated with capital increase		-15	-70
Proceeds from issuance of convertible loans	18	62,037	0
Lease instalments	20	-312	-155
Cash flow from financing activities		**216,496**	**43,524**
Net cash flow for the year		**211,726**	**-9,503**
Cash at the beginning of the year		36,027	45,827
Exchange rate adjustments of cash		3,582	-297
Cash and cash equivalents at end of the year		**251,335**	**36,027**
Cash and cash equivalents as per statement of financial position		**251,335**	**36,027**
Non-cash investing activities			
Non-cash capital increases included in equity		0	14,898

Statement of financial position

DKK'000	Notes	Dec. 31 2021	Dec. 31 2020
Assets			
Non-current assets			
Intangible assets	10	16,566	16,566
Property, plant and equipment	11	1,160	168
Investments in subsidiaries	15	226	40
Other receivables		252	122
Total non-current assets		**18,204**	**16,896**
Current assets			
Tax receivables	9	5,500	5,500
Receivables from group entities		1,120	1,353
Other receivables and prepayments	12	7,908	10,102
Cash and cash equivalents		251,335	36,027
Total current assets		**265,863**	**52,982**
Total assets		**284,067**	**69,878**

DKK'000	Notes	Dec. 31 2021	Dec. 31 2020
Equity and liabilities			
Equity			
Share capital	13	660	563
Other reserves		48,042	-59,248
Total equity		**48,702**	**-58,685**
Non-current liabilities			
Long-term debt	16	99,286	88,894
Cash-settled warrant obligation	6	6.074	6,069
Deferred revenue	3	876	0
Lease liabilities	16	661	0
Convertible loans	16	63,778	0
Total non-current liabilities		**170,675**	**94,963**
Current liabilities			
Lease liabilities	16	429	167
Trade payables	16	11,391	7,350
Warrant and put option		18,480	18,018
Deferred revenue	3	7,344	0
Payables to group entities		430	1,268
Other payables	14	26,616	6,797
Total current liabilities		**64,690**	**33,600**
Total liabilities		**235,365**	**128,563**
Total equity and liabilities		**284,067**	**69,878**

Statement of changes in equity

DKK'000	Notes	Share capital	Other reserves (Accumulated deficit)/ Retained earnings	Total
Equity at January 1, 2020		**515**	**-39,309**	**-38,794**
Result for the period		0	-80,738	-80,738
Other comprehensive income or loss		0	0	0
Total comprehensive result for the year		**0**	**-80,738**	**-80,738**
Transactions with owners:				
Capital increases	13	48	58,600	58,648
Transaction costs		0	-70	-70
Share-based compensation	6	0	2,269	2,269
Equity at December 31, 2020		**563**	**-59,248**	**-58,685**

DKK'000	Notes	Share capital	Other reserves (Accumulated deficit)/ Retained earnings	Total
Equity at January 1, 2021		**563**	**-59,248**	**-58,685**
Result for the period		0	-56,394	-56,394
Other comprehensive income or loss		0	0	0
Total comprehensive result for the year		**0**	**-56,394**	**-56,394**
Transactions with owners:				
Capital increases	13	97	154,689	154,786
Transaction costs		0	-15	-15
Share-based compensation	6	0	9,010	9,010
Equity at December 31, 2021		**660**	**48,042**	**48,702**

Notes

1. Accounting policies

Basis of preparation
The parent company financial statements of UNION therapeutics A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish requirements. The accounting policies are the same as for the consolidated financial statements with the supplementary accounting policies for the parent described below. For detailed description of the accounting policies of the group, please refer to note 1 in the consolidated financial statements.

The parent company financial statements are presented in DKK.

Supplementary accounting policies for the Parent Company

Investments in subsidiaries
Investments in subsidiaries are measured in the parent company financial statements at the lower of cost and recoverable amount. Distributed dividends are recognized in the income statement of the parent company.

2. Critical accounting estimates and judgements

Management assesses that, in respect of the financial reporting for the parent company, no accounting estimates or judgements are made when applying the parent company's accounting policies, which are significant to the financial reporting apart from those disclosed in note 2 in the consolidated financial statements.

3. Revenue

Innovent agreement
On September 28, 2021, UNION therapeutics A/S entered into a strategic collaboration and license agreement for orismilast with Innovent Biologics Inc (the Innovent Agreement). As part of the Innovent Agreement, UNION therapeutics A/S is entitled to receive a non-refundable, non-creditable and not subject to off-set up-front payment of USD 20m (DKK 127m) and is eligible to receive future milestones and option payments of up to USD 250m, of which up to USD 247m is contingent on the achievement of certain development and regulatory milestones across multiple therapeutic indications and on the achievement of certain sales-based milestones. Lastly, UNION therapeutics A/S is entitled to receive a sales-based royalty fee ranging from a high single digit to a low twenties percentage of all net sales of orismilast in Greater China (including Mainland China, Hong Kong, Macau and Taiwan) by or on behalf of Innovent.

Within the Innovent Agreement, UNION therapeutics A/S identified three performance obligations: (1) delivery of license for orismilast (at a point in time), (2) delivery of Phase 2 study data for orismilast (over time) (3) Option to enter into agreement regarding topical formulation (over time).

Out of the total contract value of DKK 1,715m (USD 270m) excluding royalties, the upfront payment of DKK 127m has been recognized as the transaction price, as the future potential milestone and option amounts were not deemed to be highly probable as they are contingent upon success in future clinical trials and regulatory approvals which are not within UNION therapeutics A/S' control and were uncertain at the inception of the agreement. Milestones will be recognized when their achievement are deemed to be highly probable, and a significant revenue reversal would not occur. Upon commercialization of products, if any, under this agreement, royalties and net sales-based milestones will be recognized when the related sales occur.

The transaction price of DKK 127m was at the inception of the contract allocated to the performance obligations based on the best estimate of relative stand-alone selling prices. As such, DKK 117m was allocated to the perfomance obligation related to to the delivery of license of orismilast, DKK 10m was allocated to the performance obligation related to the delivery of Phase 2 study data for orismilast. The transaction price of DKK 127m comprise UNION therapeutics A/S' unconditional rights to considerations under the Innovent agreement.

The performance obligations related to the delivery of licenses were completed at a point in time (September 2021) and UNION therapeutics A/S recognized DKK 117m as revenue in September 2021. The performance obligation regarding Phase 2 study data will be completed as the study progress. Revenue will be recognized over time based on incurred cost as a percentage of total expected cost.

Other out-license agreements
In January 2019, UNION therapeutics A/S entered into an out-licensing agreement with an external party. Under the terms of the agreement, UNION therapeutics A/S is eligible for upfront and milestone payments upon successful achievement of certain research and development and regulatory approval milestones, as well as royalties on sales.

Revenue

DKK'000	Notes	2021	2020
License revenue from upfront payment recognized over time		1,886	0
License revenue from upfront payment recognized at a point in time		117,026	0
		118,912	**0**
Geographical split of revenue:			
Denmark		0	0
Greater China		118,912	0
		118,912	**0**

Notes

3. Revenue continued

100% of UNION therapeutics A/S' revenue in 2021 arise from the Innovent agreement. Payment terms are between 30 and 60 days.

Deferred revenue
Deferred revenue at December 31, 2021 of DKK 8.2m represents the aggregated amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period. Deferred revenue of DKK 7.3m, presented as Current relates to performance obligations that UNION therapeutics A/S expects to satisfy during the coming twelve months, whereas the Non-current portion of DKK 0.9m, represents performance obligations that UNION therapeutics A/S expects to satisfy after the coming twelve months.

Deferred revenue

DKK'000	2021	2020
At January 1	0	0
Portion of upfront payment recognized over time	10,106	0
Recognized as revenue	-1,886	0
At December 31	**8,220**	**0**
Of which is presented as:		
Non-current	876	0
Current	7,344	0

Joint arrangements
For the Innovent agreement UNION therapeutics A/S and Innovent Biologics have agreed on an initial joint development plan in respect of activities that support the development of orismillast. Costs under any such joint development plan will be shared between Innovent Biologics and UNION therapeutics A/S, with UNION therapeutics A/S covering 90% and Innovent Biologics covering 10% of such costs. In the accounting for the Innovent Biologics collaboration agreement, this joint development is considered a joint operation as defined in IFRS 11 "Joint Arrangements". Accordingly, UNION therapeutics A/S is accounting for the assets, liabilities, revenues and expenses related to its interest in the joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

4. Research and development costs and Administrative costs

Research and development costs are primarily external and, to a lesser extent, internal costs incurred in the development of UNION therapeutics A/S' product candidates. Substantial portions of the company's clinical studies are performed by third-party laboratories, medical centres or clinical research organizations.

DKK'000	Notes	2021	2020
Research and development costs			
Employee benefit costs	5	19,250	7,454
Share-based compensation	6	6,740	5,541
External costs		129,538	52,126
		155,528	**65,121**

Higher activity level in 2021 compared to 2020 caused the increase in research and development costs. Additionally, employee costs have increased as an effect of the strengthening of the research and development organization.

Administrative costs consist primarily of personnel costs and costs related to corporate functions and business development. In addition, administrative costs include depreciation and other expenses for UNION therapeutics A/S' headquarters.

DKK'000	Notes	2021	2020
Administrative costs			
Employee benefit costs	5	7,451	4,025
Share-based compensation	6	2,275	1,354
External costs		11,647	2,736
Depreciation	11	351	155
		21,724	**8,270**

To support the increased activity level in research and development the administrative functions have also been strengthened resulting in higher employee costs. Supported by external service providers systems, processes and compliance efforts have been revised and optimized, together with other preparations for future growth. This has led to an increase in external costs, most of which are one-off costs.

Notes

5. Staff costs

DKK'000	Notes	2021	2020
Wages and salaries		23,673	9,518
Defined contribution plans		1,005	300
Other social security costs		1,452	410
Share-based compensation	6	9,015	6,896
Other staff costs		571	1,250
		35,716	**18,374**
Research and development costs		25,990	12,995
Administrative costs		9,726	5,379
		35,716	**18,374**
Average number of full-time equivalents		**24**	**9**

5. Staff costs continued

Remuneration to Executive Board and Board of Directors

	2021		
DKK'000	**Executive Board**	**Board of Directors**	**Total**
Wages and salaries	6,938	888	7,826
Share-based compensation	3,545	1,819	5,364
Social security	10	0	10
	10,493	**2,707**	**13,200**

	2020		
DKK'000	**Executive Board**	**Board of Directors**	**Total**
Wages and salaries	4,693	140	4,833
Share-based compensation	644	391	1035
Social security	7	0	7
	5,344	**531**	**5,875**

Executive board members are the key management personnel of UNION therapeutics A/S.

Notes

6. Share-based payment

Warrant programs
UNION therapeutics A/S has established share-based incentive programs (equity-settled and cash-settled) for members of the Board of Directors, members of the Executive Board and key personnel in the form of warrants. Warrants are granted by the Board of Directors in accordance with authorizations given to it by the general meeting of shareholders and as incorporated into the company's articles of associations.

On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged. Refer to note 13.

Warrants granted in February 2017 (Cash-settled)
In April 2017, the general meeting of shareholders granted warrants with rights to subscribe for up to 44,650 shares of nominal 0.1 with an exercise prise of DKK 23.98 per warrant (pre-split: 4,465 shares of nominally DKK 1 in the company with an exercise price of DKK 239.80 per warrant). At December 31, 2021, the Board of Directors have granted in total 44,650 (December 31, 2020: 44,650 (pre-split: 4,465)) warrants under this program. These warrants vest and become exercisable upon an "exit event", defined as an event of IPO, merger, demerger, or solvent liquidation, which triggers an immediate expense recognition upon grant. These warrants may be settled in equity instruments of the company or in cash at the discretion of the warrant holder. Accordingly, these warrants are classified as cash-settled warrants. The life of the warrants under the February 2017 program is eight years from the date of grant.

Warrants granted from November 2017 (Equity-settled)
In November 2017, the Board of Directors were authorized to grant warrants for up to 250,000 shares of nominally DKK 0.1 per warrant (pre-split: 25,000 shares of nominally DKK 1) in the company in the period until March 31, 2022. In June 2020, the Board of Directors were authorized to grant warrants for up to an additional 250,000 (pre-split: 25,000) shares in the company in the period until June 25, 2025. At December 31, 2021, the Board of Directors have granted in total 398,280 (December 31, 2020: 235,930 (pre-split: 23,593)) warrants under this authorization.

Warrants granted under the November 2017 equity incentive plan are classified as equity settled and generally vest over four years' service periods in periodic installments that may or may not be equal, which triggers linear or graded vesting profiles. Certain warrants under this program vest immediate upon grant. The life of the warrants under the November 2017 program varies from 4-10 years from the date of grant.

The table below summarizes share-based compensation expenses included in the statement of comprehensive income:

DKK'000	2021	2020
Research and development costs	6,740	5,541
Administrative costs	2,275	1,354
	9,015	**6,895**

The following schedule specifies the movements of number and weighted average exercise price of outstanding warrants for 2021 and 2020:

Equity-settled warrants

Number of warrants	Board of Directors	Executive board	Employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**7,108**	**8,000**	**7,310**	**22,418**	**654**	**335**
Granted during the period	0	0	1,175	1,175	228	703
Outstanding, December 31, 2020	**7,108**	**8,000**	**8,485**	**23,593**	**633**	**354**
Granted during the period	3,750	10,596	3,984	21,230	967	1,099
Effect of 10-for-1 share split	97,722	167,364	112,221	377,307		
Outstanding, December 31, 2021	**108,580**	**185,960**	**124,690**	**419,230**	**78**	**68**

Notes

6. Share-based payment continued

Cash-settled warrants

Number of warrants	Former employees	Total	Weighted average exercise price per warrant (DKK)	Weighted average grant date fair value per warrant (DKK)
Outstanding, December 31, 2019	**4,465**	**4,465**	**240**	**100**
Granted during the period	0	0	0	0
Outstanding, December 31, 2020	**4,465**	**4,465**	**240**	**100**
Granted during the period	0	0	0	0
Effect of 10-for-1 share split	40,185	40,185		
Outstanding, December 31, 2021	**44,650**	**44,650**	**24**	**10**

Warrant related disclosures
Across all warrant programs the weighted average remaining contractual life for warrants outstanding was 3.2 years and 3.5 years at December 31, 2021 and 2020, respectively.

Across all warrant programs, the range of the exercise price for warrants outstanding was DKK 0.1-124 at December 31 2021 (December 31, 2020, pre-split: DKK 1-815).

On December 31, 2021, 265,705 (December 31 2020, pre-split: 18,859) warrants had vested and were exercisable. On December 31, 2021 the weighted average exercise price per warrant was DKK 67.24 (December 31, 2020, pre-split: 541.99).

Determination of fair value of warrants
UNION therapeutics A/S determines and calculates the fair value of each equity settled warrant at grant date and for each cash-settled warrant, at each balance sheet date, using the Black-Scholes pricing model. This pricing model requires the input of subjective assumptions such as:

- Dividend yield: Is determined to be zero.
- The expected stock price volatility: As it is not possible to estimate the expected volatility of a non-publicly listed entity's share price, UNION therapeutics A/S has estimated the fair value of its warrants by using the volatility of an appropriate peer group of listed international biotechnology companies.
- The risk-free interest rate, which is based on the Danish government bonds having a yield with a maturity equal to the expected term of the option in effect at the time of grant.
- The expected life of warrants, which is based on vesting terms, expected rate of exercise and life terms in the warrant program.
- Estimate of UNION therapeutics A/S' market share price. As UNION therapeutics A/S is not listed on a stock exchange the estimated fair value of the warrants at each measuring date, using the Black-Scholes model, has been established by assuming that the value of UNION therapeutics A/S' shares is the price per share determined at the latest financing round and considering additional subsequent valuation inflection points and relevant facts and circumstances.

Notes

6. Share-based payment continued

Valuation assumptions for warrants in 2021 and 2020
The fair value at each measuring date in 2021 and 2020 is measured using the following significant assumptions:

	Dec. 31 2021	Dec. 31 2020
Equity-settled warrants		
Dividend yield	-	-
Volatility (%)	54-76	61-77
Risk-free interest rate	-0.2% - -0.4%	-0.4% - -0.5%
Market share price range applied (2020: pre-split)	DKK 160	DKK 534-1,600
Exercise price (2020: pre-split)	DKK 0.1-124	DKK 1 - 534
Expected life of equity-settled warrants granted	5 years	5 years
The grant date fair value per warrant (2020: pre-split)	DKK 83-160	DKK 533-932

	31 Dec. 2021	31 Dec. 2020
Cash-settled warrants		
Dividend yield	-	-
Volatility (%)	76	67
Risk-free interest rate	-0.2%	-0.6%
Market share price at year end (2020: pre-split)	DKK 160	DKK 1,600
Exercise price (2020: pre-split)	DKK 24.0	DKK 239.8
Expected life of cash-settled warrants at end period	3.1 year	4.1 year
The end period fair value per warrant (2020: pre-split)	DKK 136	DKK 1,359

Reconciliation of fair value of cash settled warrants:

DKK'000	Cash settled warrants
At January 1, 2020	1,443
Fair value adjustment through comprehensive income	4,626
At December 31, 2020	**6,069**
Fair value adjustment through comprehensive income	5
At December 31, 2021	**6,074**

7. Other operating income

Other operating income consists of government grants and other items secondary to the company's activities. In 2020 UNION therapeutics A/S received a grant from Innovation Fund Denmark. The grant provides compensation for a part of certain project-specific research and development expenses, including wages and salaries. There are no unfulfilled conditions or other contingencies attached to the government grant that has to be recognized.

In 2021, the company recognized DKK 6.0m (2020: DKK 9.0m) as Other operating income, hereof income from the government grant accounts for DKK 6.0m (2020: DKK 8.7m).

Notes

8. Financial income and expenses

Financial income

DKK'000	Notes	2021	2020
Interest income		0	6
Interest income, group entities		3	40
Foreign exchange gains		4,286	0
Fair value adjustment, warrant and put option (unrealized)	17	0	0
		4,289	**46**

Financial expenses

DKK'000	Notes	2021	2020
Interest expenses		1,159	380
Interest expenses, lease liabilities		32	11
Fair value adjustment, Convertible debt (unrealized)	18	1,741	0
Interest expenses, European Investment Bank loan (amortized cost)		10,891	9,408
Foreign exchange loss		0	146
Fair value adjustment, warrant and put option (unrealized)	17	0	12,012
		13,891	**21,957**

Foreign exchange gains in 2021 primarily relates to USD positions related to the Innovent agreement.
No fair value adjustment of warrants and put option in 2021, as the assumed market share prise has not changed.

9. Income taxes

The major components of income tax benefit for the years ended December 31, 2021 and 2020 are:

DKK'000	2021	2020
Income taxes in the statement of profit or loss		
Net result before tax	-61,894	-86,253
Corporate income tax rate in Denmark	22%	22%
Computed corporate income tax (benefit)	**-13,617**	**-18,976**
Prior year adjustments	1,983	-15
Adjustment for non-deductible expenses	3,748	79
Adjustment for research and development super deduction	-7,532	-4,027
Adjustment for warrant	1,983	1,517
Change in deferred tax asset not recognized	7,935	15,907
Tax expense/(benefit) for the period	**-5,500**	**-5,515**
Deferred tax in the statement of financial position		
Tax deductible losses	15,952	22,251
European Investment Bank loan facility	0	2,484
Research and development capitalized	11,312	0
Other temporary differences	5,920	63
Deferred tax assets/(liabilities) at December 31	**32,684**	**24,798**
Deferred tax assets not recognized		
Deferred tax assets not recognized	-32,684	-24,798
Deferred tax at December 31	**0**	**0**

Notes

9. Income taxes continued

The biotechnology and pharmaceutical industry is subject to considerable risks and uncertainties. UNION therapeuticst A/S has so far reported significant losses and, consequently, has unused tax losses. Management has concluded that deferred tax assets should not be recognized at December 31, 2021 (none recognized at December 31, 2020), due to uncertainty related to future utilization of tax loss carry-forward.

Deferred tax assets and liabilities are offset when; there is a legally enforceable right to set off current tax assets against current tax liabilities, they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date.

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 tax base of losses originating from research and development expenses of up to DKK 25.0m (tax value of DKK 5.5m). Under Danish tax legislation, UNION therapeutics A/S is eligible to receive DKK 5.5m in 2021 (DKK 5.5m in 2020) in cash relating to the surrendered tax loss based on qualifying research and development expenses. These tax receipts comprise the majority of the current tax benefit in 2021 and 2020, respectively.

The unused tax losses can be carried forward indefinitely.

10. Intangible assets

	Patents, trademarks and other rights	
DKK'000	**2021**	**2020**
Cost		
At January 1, 2021	16,566	0
Addition	0	16,566
At December 31, 2021	**16,566**	**16,566**
Depreciation		
At January 1, 2021	0	0
At December 31, 2021	**0**	**0**
Net book value		
At December 31, 2021	**16,566**	**16,566**

Notes

10. Intangible assets continued

Acquisition of PDE4-inhibitor program
In June 2020, UNION therapeutics A/S entered into an asset purchase agreement with Leo Pharma A/S. Pursuant to this agreement, Leo Pharma A/S sold and transferred certain intangible rights in the form of patents and compound data relating to the 'PDE4 inhibitor compounds' to UNION therapeutics A/S.

In consideration of the acquisition of the intangible rights, in 2020, UNION therapeutics A/S paid in cash DKK 1.7m and by issuance and grant of 12,044 shares of nominal 1 DKK at a rate of DKK 1,237 per share, equivalent to a value of DKK 14.9m. The value of the intangible assets acquired, is measured at the fair value of the cash paid and of the equity instruments granted, with reference to the corresponding increase in equity of DKK 14.9m. The applied rate per share is determined with reference to the share price applied in the capital increase completed by UNION therapeutics A/S in May 2020.

Under the terms of the Agreement, UNION therapeutics A/S agreed to make future payments to LEO Pharma A/S that were contingent upon the achievement of specified clinical, regulatory, and sales milestones. UNION therapeutics A/S applies the cost accumulation method for the accounting for such contingent payments.

Under the agreement, UNION therapeutics A/S will, subject to meeting certain clinical, regulatory, and sales milestones, pay in cash to the seller up to USD 202m equivalent to DKK 1,240m. Also, UNION therapeutics A/S will pay to the seller low single-digit percentage royalty applied on net sales of covered products until the expiry of the royalty term which ends at the latest on the twelfth anniversary of the first commercial sale of covered products.

The acquired intangible asset is not being amortized until approval of the underlying asset has been received from regulatory authorities. Management has in 2020 and 2021 not identified indicators of impairment concerning the acquired intangible rights.

An impairment test has been carried out in 2021. Present value has been calculated based on 12 years of dicounted cash flow using a WACC of 14%. The impairment test shows no signs of impairment.

11. Property, plant and equipment

DKK'000	Notes	Right-of-use assets	Other equipment	Total
Cost				
At January 1, 2021		444	95	539
Additions		1,203	140	1,343
Disposals		0	-78	-78
At December 31, 2021		**1,647**	**157**	**1,804**
Depreciation				
At January 1, 2021		288	83	371
Additions		330	21	351
Disposals		0	-78	-78
At December 31, 2021		**618**	**26**	**644**
Net book value				
At December 31, 2021		**1,029**	**131**	**1,160**

Notes

11. Property, plant and equipment continued

DKK'000	Notes	Right-of-use assets	Other equipment	Total
Cost				
At January 1, 2020		650	95	745
Adjustments		-206	0	-206
Additions		0	0	0
At December 31, 2020		**444**	**95**	**539**
Depreciation				
At January 1, 2020		217	64	281
Adjustments		-65	0	-65
Additions		136	19	155
At December 31, 2020		**288**	**83**	**371**
Net book value				
At December 31, 2020		**156**	**12**	**168**

Right-of-use assets
The company leases its office premises in Copenhagen. The property lease is non-cancellable in the period through June 15, 2023. Hereafter, the option to terminate is six months. The contract does not provide a right, obligation, nor an option to buy the office premises. The contract contains both lease and non-lease components according to the specific pricing of the services in the agreements.

In 2021 and 2020, the expense related to variable lease payments not included in the lease liabilities amounts to DKK 0.1m and DKK 0.1m, respectively, and was recognized in administrative costs.

12. Other receivables and prepayments

DKK'000	31 Dec. 2021	31 Dec. 2020
VAT receivables	4,224	972
Prepayments	2,170	119
Other receivables	1,494	9,011
	7,908	**10,102**

In 2021, Other receivables primarily consist of the government grant from Innovation Fund Denmark not yet fully paid out. There are no unfulfilled conditions or other contingencies attached to the government grant that have to be recognized. In 2020, Other receivables included the government grant receivables of DKK 8.7m from Innovation Fund Denmark.

Notes

13. Capital management and share capital

Capital Management
The Board of Directors monitors the share- and capital structure to ensure that UNION therapeutics A/S' capital resources support the strategic goals. UNION therapeutics A/S' goal is to maintain a strong capital base so as to maintain confidence from investors, creditors, employees and collaboration partners, and a continuous advancement of the research and development pipeline and business in general.

UNION therapeutics A/S is primarily financed through equity investments from shareholders, convertible loans, and a long-term loan agreement with the European Investment Bank. UNION therapeutics A/S has also obtained financing through license agreements, governmental grants. The adequacy of UNION therapeutics A/S' available funds will depend on various factors, including the advancement of the research and development programs, the magnitude of investments in these programs, and UNION therapeutics A/S' ability to establish commercial collaboration and licensing agreements with partners.

As such, UNION therapeutics A/S may require additional funds and may attempt to raise additional funds through equity or debt financings, license and collaborative agreements with partners, or from other sources.

For further information regarding the European Investment Bank loan and the convertible loan, refer to note 17 and 18, respectively

Loss of subscribed share capital
As a result of the group's accounting policy, financing strategy and utilization of the credit facility provided by the European Investment Bank, at December 31 2020 the company had lost more than 50% of its subscribed share capital. Following the capital increase in February 2021, the share capital was re-established.

Share capital
On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The stock split also resulted in a reduction of the nominal value of the company's ordinary shares from DKK 1 to DKK 0.1.

Following the share split the share capital comprises 6,596,000 shares of nominal DKK 0.1, each of which have been issued and paid in full. Only one class of shares exists, and no shares carry any special rights.

	Number of shares	Share capital (DKK'000)
Share capital at January 1, 2020	515,448	515
Capital increase at May 7, 2020	35,367	36
Capital increase at June 23, 2020	12,044	12
Share capital at December 31, 2020	**562,859**	**563**
Share capital at January 1, 2021	562,859	563
Capital increase at February 9, 2021	96,741	97
Effect of 10-for-1 share split at December 29, 2021	5,936,400	0
Share capital at December 31, 2021	**6,596,000**	**660**

The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged. For effect on warrants granted as share based payment, warrants granted in relation to European Investment Bank loan and the convertible loan, refer to note 6, 17 and 18, respectively.

14. Other payables

DKK'000	2021	2020
Salary related payables	1,552	1,889
Other liabilities	25,064	4,908
	26,616	**6,797**

Other liabilities primarily comprise accruals for clinical research organizations costs. Clinical activity level was significantly higher at year- end 2021 compared to year-end 2020.

Notes

15. Investments in subsidiaries

DKK'000	2021	2020
Cost at January 1	40	40
Additions	186	0
Cost at December 31	**226**	**40**
Carrying amount at December 31	**226**	**40**

Name and registered office	Voting rights and ownership
UNION therapeutics North America Inc., Collateral MMA, 33 Bedford street, Suite 9, Lexington MA 02420	100%
UNION therapeutics Research Services ApS, Tuborg Havnevej 18, 2900 Hellerup	100%
UNION therapeutics Germany GmbH, Alter Kirchenweg 83, 24983 Handewitt	100%

16. Financial risks

The company's financial risks are managed by the Executive Board. The company has identified financial risks, but follows a policy where management continually monitors the following defined risks: liquidity risk, interest rate risk, currency risk and credit risk.

Liquidity risk
Liquidity risk is the risk that UNION therapeutics A/S will not be able to meet its financial obligations as they fall due. The Executive Board monitors its risk of a shortage of funds using a liquidity planning tool.

The company's objective and policy are to maintain a balance between continuity of funding and flexibility through the use of equity investments from shareholders and external loans.

UNION therapeutics A/S has no unused credit facilities at December 31, 2021 or at December 31, 2020.

The following are the contractual undiscounted out flows associated with the company's financial liabilities in the current and prior year based on their contractual maturities. The amounts disclosed in the tables are the contractual undiscounted cash flows (including interest payments). Balances due within 12 months equal their carrying balances as the impact of discounting is not significant, except for convertible loans.

DKK'000	Carrying amount	Falling due within 1 year	Falling due between 1-5 years	Falling due after 5 years	Total contractual cash flows
2021					
Long-term debt (amortized cost)*	99,286	0	118,136	0	118,136
Trade payables (amortized cost)	11,391	11,391	0	0	11,391
Lease liabilities (amortized cost)	1,090	471	681	0	1,152
Convertible loans (fair value)	63,778	0	80,903	0	80,903
Warrant and put option (fair value)	18,480	18,480	0	0	18,480
	194,025	**30,342**	**199,720**	**0**	**230,062**
2020					
Long-term debt (amortized cost)	88,894	0	118,136	0	118,136
Trade payables (amortized cost)	7,350	7,350	0	0	7,350
Lease liabilities (amortized cost)	167	167	0	0	167
Warrant and put option (fair value)	18,018	18,018	0	0	18,018
	114,429	**25,535**	**118,136**	**0**	**143,671**

*Of which DKK 79m falls due in Janaury 2023.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

UNION therapeutics A/S has no significant interest-bearing debt with variable interest, and UNION therapeutics A/S' interest rate risks primarily relate to the position of cash in banks. As such, no separate analysis is provided.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. UNION therapeutics A/S' exposure to the risk of changes in foreign exchange rates primarily relates to the company's operating activities when revenue or expense transactions are denominated in a foreign currency as well as cash positions in foreign currency. UNION therapeutics A/S maintains GBP, USD and PLZ bank deposits at a level necessary support the short-term funding requirements.

Notes

17. European Investment Bank Loan

Loan facility and warrant and put option agreement with the European Investment Bank
On December 29, 2021, a 10-for-1 stock split of issued and outstanding ordinary shares was approved at an extraordinary general meeting. The share split directly affects granted warrants, as warrants effectively split 10-for-1, while the exercise price of each warrant is reduced to 1/10 of the pre-split value. The total value of granted warrants is unchanged. Refer to note 13.

In October 2017, UNION therapeutics A/S entered into a finance contract with the European Investment Bank ensuring a loan facility of EUR 20.0m.

Under the finance contract, the loan shall be disbursed in up to two tranches and the repayment date is no later than the fifth anniversary of the relevant disbursement date. The loan agreement is subject to a number of financial and non-financial terms.

In January 2018, UNION therapeutics A/S called the first of the two tranches under the finance contract. The first tranche totalled EUR 7.0m. The loan and accumulated interest fall due for payment in January 2023.

In December 2019, UNION therapeutics A/S called the second of the two tranches under the finance contract. The second tranche totalled EUR 3.3m. The loan and accumulated interest fall due for payment in December 2024.

As consideration for the loan, UNION therapeutics A/S has granted 186,910 (pre-split: 18,691) warrants to the European Investment Bank that vest relative to the draw-down on the loan in two tranches. Each warrant entitles the European Investment Bank to subscribe for 1 share of nominal DKK 0.1 (pre-split: DKK 1) against payment of exercise price of DKK 0.1 (pre-split: DKK 1). Vested warrants can be exercised in part or in full at any time at the discretion of the European Investment Bank. Warrants not exercised after 20 years shall lapse.

Upon draw-down of the first tranche in 2018, 87,220 (pre-split: 8,722) warrants vested. Upon draw-down of the second tranche in 2019, 25,460 (pre-split: 2,546) warrants vested, and 74,230 (pre-split: 7,423) warrants were lapsed and became void.

In 2021, the European Investment Bank has been granted additional 2,889 warrants. 115,572 warrants were outstanding at December 31, 2021 (December 31, 2020: 112,683 (pre-split: 11,268).

The loan agreement further includes an embedded derivative in form of a put option, pursuant to which the European Investment Bank may require UNION therapeutics A/S to purchase all or part of the vested warrants held by the European Investment Bank at an option price equivalent to the fair value of the warrants at the time of exercise.

As part of the loan agreement, UNION therapeutics A/S entered into a floating charge agreement pursuant to which a floating charge of EUR 2.0m is pledged. Furthermore, UNION therapeutics A/S entered into a negative pledge preventing it to subsist any security over any of its assets. Refer to note 23.

The following key methods and assumptions were used to estimate the fair values of the European Investment Bank warrant and put option (level 3):

The fair value of the warrant and put option is estimated using the Black-Scholes Valuation model. This valuation method requires management to make certain assumptions about the model inputs, such as the underlying share price and volatility. The probabilities of the various estimates within the applied range can be reasonably assessed and are used in management's estimate of fair value.

DKK'000	31 Dec. 2021	31 Dec. 2020
Dividend yield	-	-
Volatility (%)	76	67
Annual risk-free interest rate	-0.2%	-0.6%
Market share price at year-end (2020: pre-split)	DKK 160	DKK 1,600
Exercise price (2020: pre-split)	DKK 0.1	DKK 1
Life of option	1-3 years	2-4 years

Sensitivity
At December 31, 2020 and December 31, 2021, other things being equal, a 1% increase in the share price will result in a 1% increase in the fair value of the warrant put option. Similarly, a 1% decrease in the share price will reduce the fair value of the warrant put option by 1%.

Reconciliation of fair value measurements under Level 3 hierarchy:

	Warrant and put option
At December 31, 2019	6,006
Fair value adjustment through profit or loss (unrealized)	12,012
At December 31, 2020	**18,018**
Fair value adjustment through profit or loss (unrealized)	0
Warrants added	462
At December 31, 2021	**18,480**

Fair value adjustments through profit or loss are recognized in the statement of comprehensive income as financial income or financial expenses, as applicable.

Notes

18. Convertible loans

In July 2021, UNION therapeutics A/S issued a convertible debt instrument of DKK 62.0m, which was received from various parties, including members of the Board of Directors and Executive Management. The company elected the fair value option and accounts for both the debt and the embedded derivatives as a single instrument that is measured at fair value, whereby the convertible debenture at initial recognition is designated at fair value and subsequently remeasured with the change being presented on the statement of profit or loss for the reporting period.

The following table summarizes the changes in the convertible debt instrument 2021:

DKK thousands	
Carrying amount at January 1, 2021	0
Amount received July 2021	62,037
Fair value adjustment through profit or loss, included in finance expenses	1,741
Carrying amount at fair value at December 31, 2021	**63,778**

The convertible loan is mesured at fair value (level 3) taking into account:

- The convertible loan is a fixed rate loan carrying an interest rate of 9% with maturity on July 16, 2024
- The convertible loan is denominated in DKK
- Conversion or repayment at maturity. On the maturity date, July 16, 2024, UNION therapeutics A/S has the discretion to 1) convert the loan into new shares of the company as the share price at the latest capital increase with a deduction of 15%. If the loan is converted at maturity, the conversion price has a cap of DKK 160 per share minus 15%; or 2) repay the loan in cash to the extent that the loan amount and accrued interest has not been converted into shares and the company's existing loan to the European Investment Bank has been repaid or consent has been provided by the European Investment Bank, though with bondholder's discretion to elect conversion to equity.
- Mandatory conversion in the occurrence of an exit-event including 1) an admission to trading of the company's shares on a regulated market (IPO), 2) a trade sale of more than 90% of the company's shares and 3) an equity financing with issuance of new shares with proceeds of minimum DKK 120m.
- Conversion or repayment in connection with a De-SPAC transaction. In the event of a De-SPAC transaction the lenders have the discretion to demand the outstanding loan amount repaid in cash or converted into shares with a conversion price equal to the final offer price with a deduction of 15%. In the event of a De-SPAC transaction the lenders may elect to demand the loan repaid in cash against receiving additional 6% interest rate.

Since the convertible debt instrument includes conversion features resulting in settlement in a variable number of shares, the convertible debt instrument does not comprise an equity component. The convertible debt instrument includes the following elements:

- Fixed rate debt host contract
- Embedded prepayment option (exit event)
- Embedded prepayment option (De-SPAC)
- Cap on conversion price at maturity

Management has designated, due to the existence of non-closely related embedded derivatives, the entire debt instrument to be carried at fair value through profit or loss using a probability weighted expected return method. Changes arising from changes in the company's own credit risk are recognized in other comprehensive income. The inputs used in the valuation as at December 31, 2021 are detailed in the table below:

	Assumptions applied
Discount rate	36.6%
Probability of conversion at maturity	1%
Probability of conversion due to exit event, including De-SPAC event	99%

Notes

18. Convertible loans continued

The sensitivity of the required return towards key assumptions regarding probabilities has been analyzed.

The below table, shows the market value of the convertible loan assuming a fixed discount rate of 36.6% if the probability associated with an exit event is changed:

Probability of exit event	Calculated debt at Dec. 31 (DKK '000)
94%	62,743
96%	63,186
98%	63,629
99%	63,778
100%	64,072

19. Related party disclosures

UNION therapeutic A/S' related parties comprise significant shareholders, Board of Directors, Executive Management, and close members of the family of these persons as well as subsidiaries.

Besides paying the salary, board fees and share-based payment to the Executive Management and Board of Directors, as further described below, the company did not carry through any transactions with its related parties besides the below-mentioned transactions.

DKK'000	Period	Other income	Purchases	Convertible loan	Payables/ (Receivables)
Transactions with other related parties:					
Clinical-Microbiomics A/S	2021	0	0	0	0
	2020	301	0	0	0
Cajaikas ApS	2021	0	1,755	0	0
	2020	0	1,260	0	0
Black Swans Exist ApS	2021	0	2,294	0	42
	2020	20	671	0	49
Executive Management and Board of Directors	2021	0	0	3,394	0
	2020	0	0	0	0
UNION therapeutics North America Inc	2021		123		31
	2020	113	1,510	0	-285
UNION therapeutics Research Services ApS	2021	0	400	0	0
	2020	0	0	0	0
UNION therapeutics Germany GmbH	2021	0	2,003	0	-721
	2020	0	0	0	0

The company has received employee services from Anne Kathrine Toft-Kehler, M.D. specializing in ophthalmology and spouse of Rasmus Vendler Toft-Kehler, a Principal Shareholder and member of the Board of Directors and Executive Management. The employee benefits paid to Anne Kathrine Toft-Kehler amounted to DKK 488 thousand for the financial year ended December 31, 2021 and DKK 480 thousand for the financial year ended December 31, 2020. Anne Kathrine Toft-Kehler works on the pre-clinical programs. Her appointment was approved by the Board of Directors.

Notes

19. Related party disclosures continued

The company has received consultancy services from H & L Invest ApS, which is 50% owned by Stig Løkke Pedersen, Chair of the Board of Directors. The expenses related to such services amounted to 60 thousand for the financial year ended December 31, 2021, which does not form part of the board fees payable to Stig Løkke Pedersen.

Holding companies
The company is jointly controlled by the holding companies Vendler ApS and Manjin ApS, which are owned by members of the Executive Board. There were no transactions between UNION therapeutics A/S and the holding companies neither in the financial year ended December 31, 2021 nor in the financial year ended December 31, 2020.

Associated parties
Clinical-Microbiomics A/S
UNION therapeutics A/S rendered administrative services to Clinical-Microbiomics A/S. Clinical-Microbiomics A/S is partly owned by UNION therapeutics A/S' holding companies, and members of the Executive Board of UNION therapeutics A/S are appointed to the Board of Directors of Clinical-Microbiomics A/S.

Cajaikas ApS
UNION therapeutics A/S renders contract research and management services from Cajaikas ApS. Cajaikas ApS is owned by a member of the Board of Directors of UNION therapeutics A/S.

Black Swans Exist ApS
UNION therapeutics A/S renders recruitment services from, and in 2020 also rendered administrative services to, Black Swans Exist ApS. Black Swans Exist ApS is partly owned by UNION therapeutics A/S' holding companies, Manjin ApS and Vendler ApS.

20. Changes in liabilities arising from financing activities

2021			Non-cash changes				
DKK'000	2020	Cash flows	Fair value adjustment	Addition during the period	Interest	Foreign exchange adjustment	2021
Debt facility	88,894	0	0	0	10,429	-37	99,286
Convertible loans	0	62,037	1,741	0	0	0	63,778
Lease liability	167	-312	0	1,203	32	0	1,090
Total	**89,061**	**61,725**	**1,741**	**1,203**	**10,461**	**-37**	**164,154**

2020			Non-cash changes				
DKK'000	2019	Cash flows	Adjustment opening	Addition during the period	Interest	Foreign exchange adjustment	2020
Debt facility	79,558	0	0	0	9,409	-73	88,894
Leasing	451	-155	-140	0	11	0	167
Total	**80,009**	**-155**	**(140)**	**0**	**9,420**	**-73**	**89,061**

Notes

21. Cash flow statement - adjustment for non-cash items

DKK'000	2021	2020
Income taxes	-5,500	-5,515
Depreciation and amortization	351	155
Financial costs/income	8,961	21,911
Share-based compensation costs	9,015	6,896
Other adjustments, primarily exchange rate adjustments	0	0
	12,827	**23,447**

22. Cash flow statement - changes in net working capital

DKK'000	2021	2020
Changes in other receivables	7,519	-8,358
Changes in VAT receivables	-3,272	-624
Changes in prepayments	-2,051	-65
Changes in employee related liabilities	-336	1,358
Changes in intercompany payables	-838	1,434
Changes in intercompany receivables	233	-1,313
Changes in trade payables	5,278	6,148
Changes in investments in subsidiaries	-186	-40
Changes in other liabilities	28,378	3,487
	34,725	**2,027**

23. Contingent assets and liabilities, contractual obligations and pledges

Pledges
The company has entered into a floating charge agreement with the European Investment Bank pursuant to which a floating charge of EUR 2.0m (2020: EUR 2.0m) is pledged. Furthermore, the group has entered into a negative pledge preventing it from placing any of its assets as security, excluding the aforementioned floating charge to the European Investment Bank.

Contingent payment under out-license agreements
UNION therapeutics A/S is entitled to potential milestone payments and royalties on successful commercialization of products developed under license agreements with an external party (reference is made to note 3). Since the size and timing of such payments are uncertain until the milestones are reached or sales are generated, the agreements may qualify as contingent assets. However, it is associated with a very high degree of uncertainty to measure the value of such contingent assets, and, accordingly, no such assets have been recognized.

Contingent payment of acquisition of intangible assets
As part of the acquisition of intangible rights, UNION therapeutics A/S may be required to make milestone and royalty payments to the seller. Refer to note 10.

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 UNION therapeutics A/S for the financial year January 1 – December 31, 2021.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU, and further requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the group and the parent company at December 31, 2021 and of the results of their operations and cash flows for the financial year January 1 – December 31, 2021.

Further, in our opinion, the management's review includes a fair review of developments in the group's and the parent company's activities and finances, results for the year and the group's and the parent company's financial position in general, as well as a description of the most significant risks and uncertainties to which the group and the parent company are exposed.

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

Hellerup, March 16, 2022

Executive Board

Kim Domela Kjøller

Morten Højland Boesen

Rasmus Vendler Toft-Kehler

Morten Otto Alexander Sommer

Board of Directors

Stig Løkke Pedersen

Arthur Higgins

Gitte Aabo

Andrew John Oakley

Jutta Monika Heim

Rasmus Vendler Toft-Kehler

Morten Otto Alexander Sommer

Independent Auditors Report

To the shareholders of UNION therapeutics A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of UNION therapeutics A/S for the financial year 1 January – 31 December 2021, which comprise statement of comprehensive income, cash flow statement, statement of financial position, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "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 Group 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.

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 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 our procedures, 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.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Independent Auditors Report

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.

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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Copenhagen, 16 March 2022

EY Godkendt Revisionspartnerselskab

Christian Schwenn Johansen
State Authorised
Public Accountant
mne33234

Rasmus Bloch Jespersen
State Authorised
Public Accountant
mne35503

Forward looking statements

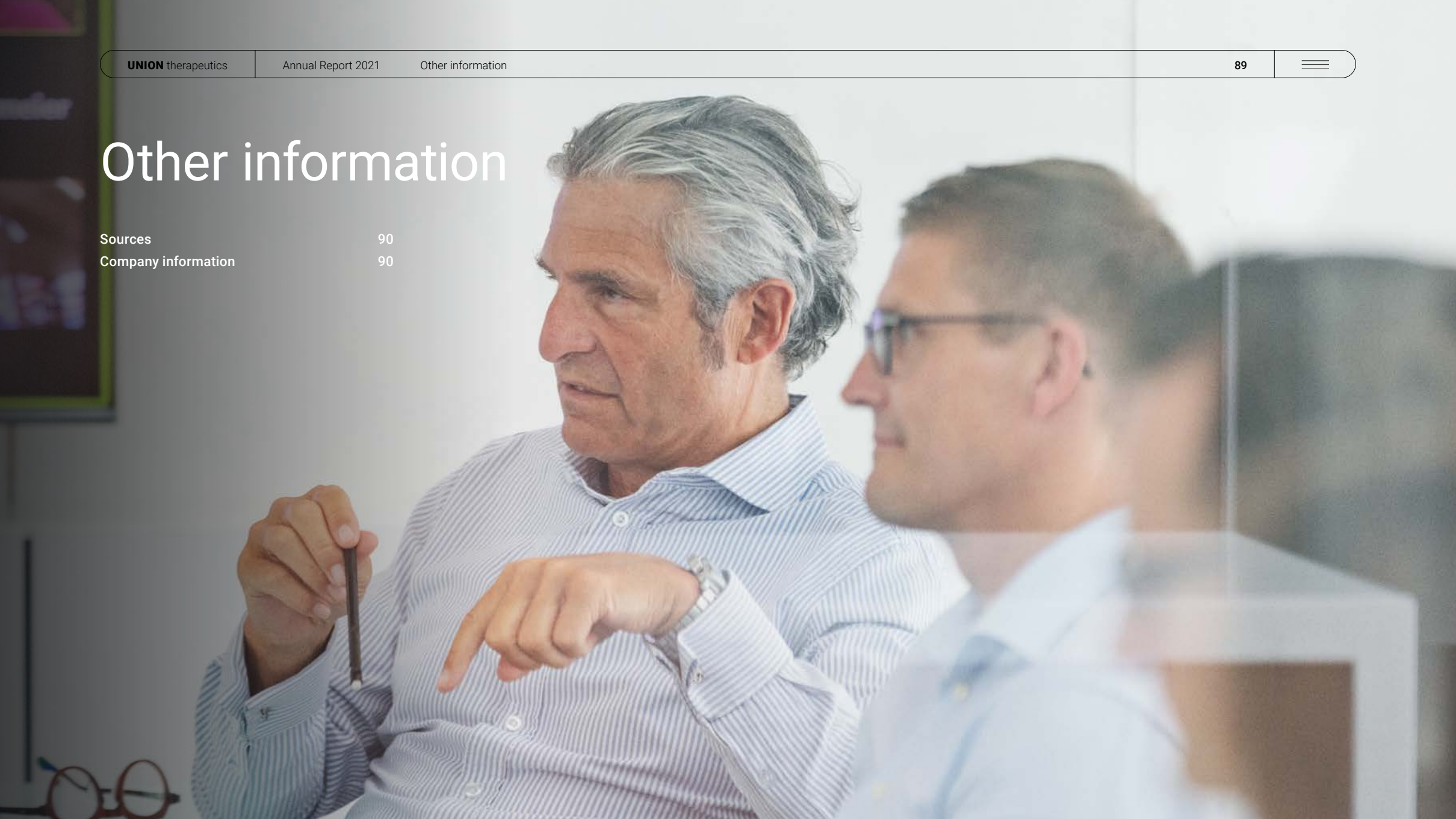
This annual report contains forward-looking statements. All statements other than statements of historical facts contained in this report, such as statements regarding future results of operations and financial position, business strategy, prospective products, availability of funding, clinical trial results, product approvals and regulatory pathways, collaborations, timing and likelihood of success, plans and objectives of management for future operations, and future results of current and anticipated products, are forward-looking statements.

These forward-looking statements are based on current expectations and beliefs, as well as assumptions concerning future events. These statements involve known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results discussed in the forward-looking statements.

Any forward-looking statement made in this report speaks only as of the date of this report and represents estimates and assumptions only as of the date of this report.

Except as required by law, UNION assumes no obligation to update these statements publicly, whether as a result of new information, future events or otherwise after the date of this report.

Other information



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Page 13

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Page 19

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Company information

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CVR-nr.: 33963750

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Denmark

Established
October 10, 2011

UNION
THERAPEUTICS

"UNION develops innovative drug candidates to improve the quality of life for people with immunological and infectious diseases."

UNION therapeutics A/S

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CVR-nr.: 33963750

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