

Sunstone Life Science Ventures Fund II K/S
Store Strandstræde 18 A, st.
1255 Copenhagen K
Business Registration No 30582268
Annual report 2023

The Annual General Meeting adopted the annual report on 28.02.2024

Chairwoman of the General Meeting

Name: Merete Lundbye Møller

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Fund details

Fund

Sunstone Life Science Ventures Fund II K/S
Store Strandstræde 18 A, st.
DK-1255 Copenhagen K

Business Registration No: 30582268

Registered in: Copenhagen

Financial year: 01.01.2023 – 31.12.2023

General Partner

Sunstone LSV General Partner II ApS

Fund Manager

Sunstone Life Science Ventures A/S

Registered manager of Alternative Investment Funds (Danish FTID number: 23084)

Executive Board in Sunstone LSV General Partner II ApS

Merete Lundbye Møller

Sten Verland

Søren Lemonius

Claus Asbjørn Andersson

Auditor

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

2300 Copenhagen S

Statement by management on the annual report

The Executive Board have today considered and approved the annual report of Sunstone Life Science Ventures Fund II K/S (“the Fund”) for the financial year 01.01.2023 - 31.12.2023.

The financial statements are prepared in accordance with IFRS Accounting Standards as adopted by the EU and Danish disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Fund’s financial position at 31.12.2023 and of the results of its operations and cash flows for the financial year 01.01.2023 - 31.12.2023.

In our opinion, the management commentary contains a fair review of the development of the Fund’s business and financial matters, the results for the year and of the Fund’s financial position as a whole, together with a description of the principal risks and uncertainties that the Fund faces.

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

Copenhagen, 24.01.2024

On behalf of the Executive Board in Sunstone LSV General Partner II ApS

Merete Lundbye Møller

Søren Lemonius

Sten Verland

Claus Asbjørn Andersson

Independent auditor's report

To the General Partner and Limited Partners of Sunstone Life Science Ventures Fund II K/S

Opinion

We have audited the financial statements of Sunstone Life Science Ventures Fund II K/S ("the Fund") for the financial year 01.01.2023 - 31.12.2023, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in net asset value, the statement of cash flows, and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Fund's financial position at 31.12.2023 and of the results of its operations and cash flows for the financial year 01.01.2023 - 31.12.2023 in accordance with IFRS Accounting 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 financial statements section of this auditor's report. We are independent of the Fund in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

General Partner's responsibilities for the financial statements

The General Partner is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Accounting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as the General Partner 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, the General Partner is responsible for assessing the Fund's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless the General Partner either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the General Partner.
- Conclude on the appropriateness of the General Partner'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 Fund'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 Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Independent auditor's report

Statement on the Management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 24.01.2024

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Michael Thorø Larsen
State-Authorised Public Accountant
Identification number (MNE) mne35823

Rikke Frydkjær Hansen
State-Authorised Public Accountant
Identification number (MNE) mne46616

Management commentary

Primary activities

Sunstone Life Science Ventures Fund II K/S invests in early-stage life science companies mainly located in the Nordic countries, Germany and Switzerland.

A team of investment professionals in Denmark are responsible for the investment management.

Development in activities and finances

The Fund was established on 8 May 2007 and holds one active portfolio enterprise by the end of 2023.

The result for the year shows a loss of DKK 37.9 million primarily related to fair value loss from its investments in portfolio enterprises.

Future results of Sunstone Life Science Ventures Fund II K/S depend on the development in the value of the Fund's investment in portfolio enterprises.

Development in selected portfolio enterprises

The company description below illustrates the one remaining portfolio enterprise within the Fund.

Ascelia Pharma AB: Located in Lund, Sweden, develops a contrast agent for MR imaging of the liver. The company is listed on NASDAQ Exchange Stockholm. News about the company can be found on www.ascelia.com/mfn_news/.

Uncertainty relating to recognition and measurement

When preparing the Fund's annual report, the General Partner, in accordance with legislative provisions, makes accounting judgements and estimates forming the basis of the annual report.

These accounting judgement and estimates are described in note 2 "Critical accounting judgements, estimates, assumptions and uncertainties" to which we refer. The estimates are primarily related to the measurement of investments in portfolio enterprises made based on assumptions which the General Partner consider reasonable and realistic, but uncertain by nature.

For the current year, the General Partner has among others also considered the effects of current macroeconomic conditions, such as development during 2023 in interest rates, stock markets and the effect of the wars between Ukraine and Russia, and Hamas and Israel has been reflected upon.

The Fund itself has not been affected by the above factors. However, they have affected – both positively and negatively - the operations of many of the Fund's portfolio enterprises, which have been regarded in resolving the fair value of investments in portfolio enterprises.

Management commentary (continued)

As the Fund invests in unlisted equity investments within the venture environment, the valuation may be uncertain because of the industry and current macroeconomic conditions. The valuation also depends on execution of strategy by the individual companies; furthermore, in times of high economic uncertainty, valuation will also be more precarious.

Unusual circumstances affecting recognition and measurement

Except for the fair value changes on investments, the financial statements are not influenced by unusual circumstances.

Periodic disclosure for Article 6 financial product

The investment underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Events after the balance sheet date

No events have occurred after the balance sheet date till now, which would influence the evaluation of annual report at hand.

Outlook

Future results of Sunstone Life Science Ventures Fund II K/S depend on the development in the value of the Fund's investment in portfolio enterprises. Due to the Fund's nature, no scope for future results can be estimated.

Statement of comprehensive income

	<u>Notes</u>	<u>2023</u> <u>DKK'000</u>	<u>2022</u> <u>DKK'000</u>
Income/(loss) from investments in portfolio enterprises	4	<u>(37,724)</u>	<u>(73,400)</u>
Operating income/loss		(37,724)	(73,400)
Administrative expenses	5	(50)	(1,264)
Other operating expenses	5	<u>(128)</u>	<u>(109)</u>
Income/loss before financial items (EBIT)		(37,902)	(74,773)
Financial income		35	4
Financial expenses		<u>(3)</u>	<u>(6)</u>
Net income/loss for the year		<u>(37,870)</u>	<u>(74,775)</u>
Total comprehensive income/loss for the year		<u>(37,870)</u>	<u>(74,775)</u>

Balance sheet at 31 December 2023

	<u>Notes</u>	<u>2023 DKK'000</u>	<u>2022 DKK'000</u>
Assets			
Investments in portfolio enterprises	6	<u>10,816</u>	<u>68,511</u>
Fixed asset investments		<u>10,816</u>	<u>68,511</u>
Non-current assets		<u>10,816</u>	<u>68,511</u>
Cash		<u>11,648</u>	<u>2,853</u>
Current assets		<u>11,648</u>	<u>2,853</u>
Total assets		<u>22,464</u>	<u>71,364</u>

Balance sheet at 31 December 2023

	<u>Notes</u>	<u>2023 DKK'000</u>	<u>2022 DKK'000</u>
Net assets and liabilities			
Limited Partners' contributions	7	643,168	643,168
Distributions to Limited Partners		(208,388)	(197,358)
Retained earnings		(412,390)	(374,520)
Net assets attributable to Limited Partners		<u>22,390</u>	<u>71,290</u>
Other payables	8	<u>74</u>	<u>74</u>
Current liabilities		<u>74</u>	<u>74</u>
Total Liabilities		<u>74</u>	<u>74</u>
Total net assets attributable to Limited Partners and liabilities		<u><u>22,464</u></u>	<u><u>71,364</u></u>

Statement of changes in net assets attributable to the limited Partners' Capital

	Limited Partners' contribution DKK'000	Distributions to Limited Partners DKK'000	Retained earnings DKK'000	Total DKK'000
Net assets at 1 January 2022	<u>643,168</u>	<u>(197,358)</u>	<u>(299,745)</u>	<u>146,065</u>
Contributions from Limited Partners	-	-	-	-
Distribution of share of proceeds from sale of portfolio enterprises	-	-	-	-
Comprehensive loss for the year	-	-	<u>(74,775)</u>	<u>(74,775)</u>
Net assets at 31 December 2022	<u>643,168</u>	<u>(197,358)</u>	<u>(374,520)</u>	<u>71,290</u>
Contributions from Limited Partners	-	-	-	-
Distribution of share of proceeds from sale of portfolio enterprises	-	(11,030)	-	(11,030)
Comprehensive loss for the year	-	-	<u>(37,870)</u>	<u>(37,870)</u>
Net assets at 31 December 2023	<u>643,168</u>	<u>(208,388)</u>	<u>(412,390)</u>	<u>22,390</u>

The Partners have committed themselves to contributing up to DKK 646,461 thousand into the Fund, as and when new capital is required for making investments, paying fund costs etc. Of the total committed capital, the Partners have paid-in net DKK 643,168 thousand, and the remaining contribution balance is DKK 3,293 thousand. Distributions to Partners comprise return of capital and realized gains.

Refer to note 7 for further information regarding the rights, preferences and restrictions attached to the limited partnership capital.

Statement of cash flows

	<u>Notes</u>	<u>2023</u> <u>DKK'000</u>	<u>2022</u> <u>DKK'000</u>
Profit/loss before financial items		(37,902)	(74,773)
Reversal of income/loss from investments in portfolio enterprises	4	37,724	73,400
Working capital changes	9	<u>-</u>	<u>1</u>
Cash flows from ordinary primary activities		(178)	(1,372)
Financial income received		35	4
Financial expenses paid		<u>(3)</u>	<u>(6)</u>
Cash flows from operating activities		<u>(146)</u>	<u>(1,374)</u>
Investments in portfolio enterprises		-	-
Net proceeds from sale of portfolio enterprises		<u>19,971</u>	<u>3,220</u>
Cash flows from investing activities		<u>19,971</u>	<u>3,220</u>
Contributions from Limited Partners		-	-
Distribution of share of proceeds from sale of portfolio enterprises		<u>(11,030)</u>	<u>-</u>
Cash flows from financing activities		<u>(11,030)</u>	<u>-</u>
Increase/decrease in cash and cash equivalents		8,795	1,846
Cash and cash equivalents at 1 January		<u>2,853</u>	<u>1,007</u>
Cash and cash equivalents at 31 December		<u><u>11,648</u></u>	<u><u>2,853</u></u>

Notes to the financial statements

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Notes

1. Overview of business

Sunstone Life Science Ventures Fund II K/S (“the Fund”) invests in early-stage life science companies mainly located in the Nordic countries, Germany and Switzerland.

Administrative and investment work is performed by Sunstone Life Science Ventures A/S.

Sunstone Life Science Ventures Fund II K/S has its registered office at Store Strandstræde 18 A, st., 1255 Copenhagen K, Denmark, and is incorporated in Denmark as a Danish limited partnership under the laws of Denmark. The General Partner of the Fund is Sunstone LSV General Partner II ApS.

2. Accounting policies

The financial statements of Sunstone Life Science Ventures Fund II K/S for 2023 are prepared in accordance with IFRS Accounting Standards as approved by the EU and disclosure requirements of the Danish Financial Statements Act governing reporting class B enterprises as further outlined in the Danish Executive Order on Adoption of IFRS issued in accordance with the Danish Financial Statements Act.

The financial statements are presented in Danish kroner (DKK), which is the functional currency of the Fund.

The Fund's investments are not subject to IFRS 9. The Fund has no material assets or liabilities subject to IFRS 9.

The Fund's income consists of value increases on investments, and the Fund has no contracts covered by IFRS 15. The Fund has not entered into any lease contracts covered by IFRS 16.

Where relevant, assessments made by Management when applying IFRS and which have had a significant impact on the financial statements are presented in the relevant notes to the financial statements.

The financial statements are presented on the basis of going concern.

All amounts in the financial statements are presented in whole thousands. Every figure is rounded off separately and, for that reason, minor differences between the stated totals and the sum of underlying figures may occur.

Statement regarding the omission of consolidated financial statements

With reference to IFRS 10, the General Partner of Sunstone Life Science Ventures Fund II K/S has assessed that the Fund meets the definition of an investment company as the following conditions exist:

- 1) The Fund has more than one portfolio investment.
- 2) The Fund has more than one investor, and the investors are not related to each other.

Notes

2. Accounting policies (continued)

- 3) The Fund's investments in portfolio enterprises primarily occur as equity instruments or similar investments.
- 4) The investments are measured and evaluated on a fair value basis.

As a result, the General Partner has decided to apply the exemption rule in IFRS 10 not to prepare consolidated financial statements where the controlled subsidiaries are consolidated, and instead any controlled subsidiaries are accounted for at fair value through profit or loss.

Similarly, Sunstone Life Science Ventures Fund II K/S holds investments in portfolio enterprises, which meet the definition of an associate over which the Fund has significant influence. Such investments are also accounted for at fair value through profit or loss whereby all investments are treated as investments in portfolio enterprises at fair value through profit or loss no matter the ownership share

Standards and interpretations not yet effective

None of the new and changed standards and interpretations issued by the International Accounting Standards Board and IFRS Interpretation Committee effective for the financial period beginning at 1 January 2023 have been assessed to have any impact on the financial reporting for Sunstone Life Science Ventures Fund II K/S for 2023 or future years.

At the time of publication of the financial statements, new or changed standards and interpretations have not yet become effective. It is the General Partner's assessment that these new standards and interpretations will not materially impact the financial statements for the forthcoming years.

Significant accounting policies and estimates

When preparing the financial statements, the General Partner makes several accounting estimates forming the basis for the presentation, recognition and measurement of the Fund's assets and liabilities. The most significant accounting estimates and assessments are presented in note 2.

Foreign currency translation

On initial recognition, transactions made in a different currency than the Fund's functional currency are translated applying the exchange rate at the transaction date.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or the rate at the balance sheet date are recognised in the statement of comprehensive income as financial income or financial expenses.

Notes

2. Accounting policies (continued)

Exchange rate adjustments relating to investments in portfolio enterprises are presented in the statement of comprehensive income together with other fair value adjustments concerning the investments.

Income taxes

The annual report does not include current or deferred tax due to the corporate form of the Fund being tax-transparent.

Statement of comprehensive income

Income from investments in portfolio enterprises

Income from investments in portfolio enterprises comprises gains/losses from divestments, fair value changes and received dividends and other similar types of returns from the investments.

Gains/losses from divestment of investments in portfolio enterprises are stated as the difference between the selling price or disposal consideration and the carrying amount of the portfolio enterprises at the time of sale or disposal, respectively.

Dividends from investments in portfolio enterprises are recognised as income when final entitlement to the dividends is obtained, which is usually at the time of the approval of the declaring dividends by the portfolio enterprise.

Administrative expenses and other operating expenses

Other operating expenses include general costs and administrative expenses include management fee to the management company, Sunstone Life Science Ventures A/S.

Financial expenses

Other financial expenses comprise interest expenses and negative interest income, which are accrued based on the principal amount and the effective interest rate.

The effective interest rate represents the discount rate which should be used when discounting future payments related to the financial asset or the financial liability, in order for the present value of these to correspond with the carrying amount of the asset and the liability, respectively.

Balance sheet

Investments in portfolio enterprises

Investments in portfolio enterprises comprise equity investments in portfolio enterprises and loans to portfolio enterprises measured at fair value through profit or loss.

Notes

2. Accounting policies (continued)

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements

- Level 1: Fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using (i) quoted market prices in active markets for similar instruments (ii) quoted prices for identical or similar instruments in markets that are not considered active, or (iii) other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. The fair value of the unlisted investments is determined in accordance with IPEV's Valuation Guidelines, according to which the fair value – depending on the type and maturity of the investment – is determined to be equal to cost (typically applied for new investments), the price of recent investments, multiple-based calculations based on industry benchmarks or discounted cash flow models. The price of a recent investment is only applied if the transaction includes the participation of new investors obtaining more than an insignificant ownership share in the portfolio enterprise.

The objective of valuation techniques is to determine a fair value that reflects the price that would be received from selling portfolio enterprises in an orderly transaction between market participants at the balance sheet date.

Net assets attributable to Partners

Net assets attributable to Partners are classified as a financial liability under International Accounting Standards IAS 32 Financial Instruments: Presentation, due to the finite life and the requirement to pay amounts pursuant to contractual payment provisions within limited partners agreement and are measured at the present value of the redemption amounts.

Other financial liabilities

Other financial liabilities comprise other payables.

Statement of cash flows

The statement of cash flows is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Notes

2. Accounting policies (continued)

Cash flows from operating activities are presented as the operating profit/loss adjusted for non-cash operating items, including fair value adjustments of investments in portfolio enterprises and working capital changes attributable to the operating activities.

Cash flows from investing activities comprise payments in connection with investments, including follow-up investments and proceeds from divestment of portfolio enterprises.

Cash flows from financing activities comprise changes in the Limited Partners' contributions, distributions to Limited Partners as well as the raising of loans and instalments on interest-bearing debt, if any.

3. Significant accounting judgements, estimates, assumptions and uncertainties

Sunstone Life Science Ventures Fund II K/S invests in portfolio enterprises, which primarily includes equity investments and to a smaller extent contribution of loans to development-oriented enterprises, and which may require continuous contribution of capital. The investments are accounted for at a fair value through profit or loss.

When measuring the fair value of the unlisted investments, the General Partner assesses the development stage of the portfolio enterprises compared to the initial plans at the time of making the initial investments, future financing requirements, commercialisation possibilities, timing of exit and possible exit values.

The fair value of each unlisted portfolio enterprise is determined in accordance with commonly used valuation principles based on the IPEV Valuation Guidelines, taking into account the assessment of the development stage of the enterprise as well as its market potential and expected cash flows in order to reflect the fair value of the portfolio enterprise in the best way possible.

As the Fund invests in unlisted equity investments within the venture environment, the valuation is characterised by uncertainty as a result of the industry in general and current macroeconomic conditions. As a result, the valuation is associated with uncertainty, just as the valuation is dependent on the future execution of the strategy by the individual companies. In periods of high economic uncertainty, the uncertainty surrounding the valuation will also be greater.

Methods and assumptions for determining the fair value of investments in unlisted portfolio enterprises are further described in note 6.

Notes

4. Income/(Loss) from investments in portfolio enterprises

	2023 <u>DKK'000</u>	2022 <u>DKK'000</u>
Realised gain/(loss)	(811)	(389)
Fair value gain/(loss)	<u>(36,913)</u>	<u>(73,011)</u>
Income/(Loss) from investments in portfolio enterprises	<u>(37,724)</u>	<u>(73,400)</u>

5. Expenses

The Fund had no employees during the financial year.

Administrative and Investment work is performed by Sunstone Life Science Ventures A/S (see note 11).

Administration expenses cover fee to General Partner of DKK 50 thousand (2022: DKK 50 thousand). Other expenses cover audit and legal fees of DKK 128 thousand (2022: 109 thousand).

	2023 <u>DKK'000</u>	2022 <u>DKK'000</u>
6. Investments in portfolio enterprises		
Cost beginning of year	231,443	429,927
Adjustment regarding previous year	-	(165,809)
Disposals	<u>(86,932)</u>	<u>(32,675)</u>
Cost end of year	<u>144,511</u>	<u>231,443</u>
Revaluations beginning of year	(162,931)	(284,795)
Adjustment regarding previous year	0	165,809
Revaluations	(36,913)	(73,011)
Reversal regarding disposals	<u>66,150</u>	<u>29,065</u>
Revaluations end of year	<u>(133,695)</u>	<u>(162,932)</u>
Carrying amount end of year	<u>10,816</u>	<u>68,511</u>

*The Fund has issued convertible bonds of DKK 0 as part of the carrying amount at end of year.

Equity investments include both direct Equity investments as well as convertible bonds, which have been entered into and converted to Equity instruments by subsequent capital rounds in the underlying portfolio enterprises. Investments via convertible bonds are normal practice within the venture fund, and are entered into solely for the purpose of future Equity conversions. As a result, it is considered most fair to show these together, just as the instruments have the same risk profile as the rest of the portfolio.

Notes

6. Investments in portfolio enterprises (continued)

Portfolio enterprise	Corporate form	Registered in	Equity interest %
Active investments			
Ascelia Pharma	AB	Sweden	13.7
Non-active investments			
Anergis	S.A.	Switzerland	14.0
JenaValve Technology	Inc.	Germany	0.1

Equity interest percentage is based on the General Partners' latest information.

The General Partner regularly and at least on a quarterly basis reviews the fair value of its portfolio enterprises in connection with its non-public reporting to its Limited Partners and in connection with the preparation of the annual financial statements.

The Fund's portfolio enterprises are not classified as investment companies. They are engaged in doing business in development and trading, etc. The Fund has no limitations concerning the potential reception of dividends or having loans etc. repaid from the portfolio enterprises, apart from the fact that distribution from the portfolio enterprises can only take place if it is considered proper and prudent.

Methods and assumptions for determining fair values in unlisted portfolio enterprises

The fair value for each unlisted portfolio enterprise is determined based on methods which best reflect the individual investment's potential and risk, life cycle and industry conditions.

In general, the fair value is determined following the IPEV Valuation Guidelines which prescribe the use of accepted valuation methods, such as price of recent investments, multiple analysis/benchmarking, most recent transaction multiple and other relevant methods. The Fund invests venture capital primarily in development stage companies without any or with only limited revenue entailing that the fair value measurement of each of the investments is inherently subject to considerable uncertainty.

The Fund Manager has implemented procedures and methodology to ensure that the valuation is carried out consistently over time and across investments.

Upon initial investment, cost of the investment is generally determined to represent the fair value. If new investors join the investments and obtain more than just an insignificant share of the enterprise, the price of a recent investment is used as basis for determining the fair value.

Notes

6. Investments in portfolio enterprises (continued)

Throughout the life of the investment, the General Partner reviews its investments for potential impairment, which may materialise if the portfolio enterprises have been subject to pervasive negative development and/or if the Fund decides that it will no longer participate in the further funding and there is a considerable risk that the portfolio enterprise may not be able to continue its operations or it is by other means obvious that there is a pervasive decline in the fair value of the portfolio enterprise. In these cases, the value is written down to a new lower fair value based on the General Partner's best estimate.

As investments mature, other valuation models for determining the fair value may be more appropriate. Such models are typically based on peer group multiples, which may be discounted depending on an objective assessment of the portfolio enterprise's growth, cash flows and funding status.

The Peer Group Multiple-method uses comparable entities, in which market value and earnings are known. Based on this, a market level for revenue multiples is determined for the comparable entities. Factors as size and liquidity are also taken into consideration when applied these methods.

The calculated EV /revenue is then capitalised on the basis of a normalised revenue for the individual portfolio companies which, by adjustment for net interest-bearing debt, yield the value of the investments.

In using the method, the Fund assesses which multiples can be used and assesses the determination of normal earnings in the portfolio companies, including assessing the sensitivity of the values when changing the model's variables.

Description of the valuation process

The valuation process is carried out in connection with the preparation of internal reporting to investors and in connection with the preparation of the Fund's annual report. The valuation assesses the portfolio investments at the end of the accounting period and must reflect the fair value of each portfolio company, based on reasonable valuation methods and assumptions.

Individual investments are assessed separately at the end of the accounting period and are in most cases assessed on the basis of the market situation as follows: (i) determination of the Enterprise Value (EV) estimated on the basis of a hypothetical sale of the investment at the time of the balancesheet date, based on one or more of the valuation methods mentioned above, and (ii) calculation of the value of the equity investment by adjusting EV for net debt and NWC adjustments as well as any equity related waterfall structures, including dilution effect where relevant.

In connection with the use of this method, the Fund assesses which multiples are applicable as well as assesses the determination of the applicable earnings to be used in the calculation of the deemed fair value.

Notes

6. Investments in portfolio enterprises (continued)

When applicable the fair value of investments, which are traded on a stock exchange, is based on the quoted market prices at the reporting date.

The fair value is determined in the functional currency of the portfolio enterprise, which is then translated to DKK at the exchange rate at the balance sheet date, and any exchange rate adjustment is included in the fair value adjustment of the investment in profit or loss.

Each investment has been valued using the valuation techniques listed below:

Portfolio enterprise	Corporate form	2023	2022
Other investments:			
Anergis	S.A.	Written off	Written off
Ascelia Pharma	AB	Listing price	Listing price
JenaValve Technology	Inc.	Written off	Written off

Fair value hierarchy for determining fair value for investments in portfolio enterprises

IFRS has established a fair value hierarchy for certain assets measured at fair value:

- Quoted prices in active markets for identical instruments (level 1)
- Quoted prices in active markets for similar assets or liabilities or other valuation methods under which all material inputs are based on observable market data (level 2)
- Valuation techniques under which any material inputs are not based on observable market data (level 3).

The measurement of investments in portfolio enterprises classified according to level 3 is based on measurement methods, in which material non-observable inputs are included such as assessment of which method best reflects fair value, assessment of the performance of each portfolio enterprise, determination of multiples and

future earnings, and assessment of whether a pervasive negative development should result in the recognition of impairment write-downs.

The fair value of the Fund's portfolio enterprises is impacted by the development in applied multiples as well as expected future earnings and development in each portfolio enterprise. A decrease or increase in the above-mentioned material non-observable inputs may have a direct effect on the measurement of the portfolio enterprises, just as the fair value of the Fund's portfolio enterprises is impacted by the development in macroeconomic conditions. Management believes that the multiples applied are on a par with the market for comparable Danish businesses.

Notes

6. Investments in portfolio enterprises (continued)

The Fund has no investments in portfolio enterprises where fair value has been determined based on level 2 classification. The development in the value of investments in portfolio enterprises classified into level 1 and 3 can be summarised as follows:

	Level 1 DKK'000	Level 3 DKK'000	Total investment DKK'000	Fair value loss DKK'000
2022				
Fair value at 1 January	145,131	-	145,131	-
Follow-up investments	-	-	-	-
Fair value adjustments	(61,546)	-	(61,546)	(61,546)
Exchange rate adjustments	(11,465)	-	(11,465)	(11,465)
Disposals	(3,609)	-	(3,609)	-
Fair value at 31 December	68,511	-	68,511	(73,011)
2023				
Fair value at 1 January	68.512	-	68.512	-
Fair value adjustments	(37.129)	-	(37.129)	(37.129)
Exchange rate adjustments	216	-	216	216
Disposals	(20.783)	-	(20.783)	-
Fair value at 31 December	10,816	-	10,816	(36.913)

Significant unobservable inputs for level 3

Unlisted companies that are measured at fair value in the balance sheet are based on valuation methods that include significant un-observable inputs.

A significant unobservable assumption in connection with the valuation is the multiples used, just as expectations for the future earnings of the portfolio enterprises are included in the valuation. For the current year, no multiples have been used to measure the fair value in the balance sheet.

Sensitivity analysis

The fair value of the Fund's investments is affected by developments in the applied discount rate, future earnings expectations for these investments and debt level within the portfolio enterprises. A decline or increase in the material unobservable inputs stated above and changes in macroeconomic conditions might have a direct effect on the valuation of the investments. As the value of the Fund's investments are based on listing price,

and the listing price is based on the market forces, sensitivity analysis wouldn't give a fair result, why this is not included in the current Financial Statement.

	<u>2023</u> <u>DKK'000</u>	<u>2022</u> <u>DKK'000</u>
7. Limited Partners' contributions		
Limited Partners' contributions beginning of year	643.168	642,168
Contributions made during the year	<u> -</u>	<u> -</u>
Limited Partners' contributions end of year	<u>643.168</u>	<u>642,168</u>

The contributed capital represents the Limited Partners' total net assets contribution. The Fund's contributed capital comprises 99.95% A-shares and 0.05% B-shares. The Fund's A-shares are paid successively and pro rata and the B-shares are fully paid up. One of the share classes has a dividend preference attached when the realised return in the Fund exceeds a fixed minimum rate of return p.a. (hurdle rate) of the Limited Partners' contributed capital. Carried interest is accounted for based on the ownership model under IFRS and hence a distribution between the A-shares and B-shares classes in the Net Asset Value Statement.

If the Fund delivers an annual compounded return of above 8% (IRR) based on realised investment, the Preferred Partners class will receive carried interest based on the waterfall method agreed in the Limited Partners' Agreement.

	<u>2023</u> <u>DKK'000</u>	<u>2022</u> <u>DKK'000</u>
8. Other payables		
Sundry accrued expenses	<u> 74</u>	<u> 74</u>
	<u> 74</u>	<u> 74</u>

The carrying amount of sundry accrued expenses relates to other payables such as legal fees, auditor's fees, etc. The recognised amount approximates the fair value of the liabilities.

All payables fall due within 12 months.

	<u>2023</u> <u>DKK'000</u>	<u>2022</u> <u>DKK'000</u>
9. Working capital changes		
Change in other payables	<u> 0</u>	<u> 1</u>
	<u> 0</u>	<u> 1</u>

Notes

2023 2022

	<u>DKK'000</u>	<u>DKK'000</u>
10. Financial risks and financial instruments		
Categories of financial instruments:		
Investments in portfolio enterprises	<u>10.816</u>	<u>68,511</u>
Financial assets measured at fair value through profit/loss	10.816	68,511
Cash	<u>11.648</u>	<u>2,852</u>
Financial assets measured at amortised cost	11.648	2,852
Other payables	<u>74</u>	<u>74</u>
Financial liabilities measured at amortised cost	<u>74</u>	<u>74</u>

The Fund adheres to an investment strategy approved by the Limited Partners. As a result of its investments in portfolio enterprises, the Fund is directly or indirectly exposed to changes in liquidity, credit, interest and currency risks.

Liquidity risks

Maturity of financial liabilities is specified below divided into timing intervals. The specified amounts are gross and undiscounted.

	Within 1 year <u>DKK'000</u>	Between 1 and 5 years <u>DKK'000</u>	After 5 years <u>DKK'000</u>	Total <u>DKK'000</u>
Other payables	<u>74</u>	<u>-</u>	<u>-</u>	<u>74</u>
31 December 2022	<u>74</u>	<u>-</u>	<u>-</u>	<u>74</u>

	Within 1 year <u>DKK'000</u>	Between 1 and 5 years <u>DKK'000</u>	After 5 years <u>DKK'000</u>	Total <u>DKK'000</u>
Other payables	<u>74</u>	<u>-</u>	<u>-</u>	<u>74</u>
31 December 2023	<u>74</u>	<u>-</u>	<u>-</u>	<u>74</u>

10. Financial risks and financial instruments (continued)

Credit risks

In some cases, the Fund provides loans to its portfolio enterprises. These loans often carry conversion rights or are considered as intermediary financing with the expectation to be converted to equity investments, and hence such loans are considered part of the investment and are, therefore, not considered to represent a separate credit risk, but is rather considered being part of the total investment risk and risk relating to determining a fair value of the investments.

Currency risks

The Fund's investments are exposed to changes in foreign currencies like USD, GBP, EUR and SEK. The Fund considers the currency risk as part of the whole investment risk and hence, the Fund does not separately hedge the currency risk relating to its investments in portfolio enterprises.

In addition, the Fund is indirectly exposed to currency risks through investments in portfolio enterprises which trade in other currencies than their functional currencies and hence, development in exchange rates may influence income and thereby their determination of fair value of the portfolio enterprises.

11. Related party transactions

Related parties with control

No single Limited Partner has control over the Fund.

Transactions with related parties

The General Partner is Sunstone LSV General Partner II ApS. In the financial year, the Fund has paid a fee to Sunstone Life Science Ventures A/S, which is related to Sunstone LSV General Partner II ApS. See note 5.

12. Assets pledged and contingent liabilities etc.

The Fund has not pledged any assets or taken on any contingent liabilities.

13. Events after the reporting date

No events have occurred after the reporting date, which would materially influence the evaluation of this annual report.

14. Approval of the financial statements for publication

At its Board meeting on 24.01.2024, the General Partner approved the financial statements. The financial statements will be presented to the Fund's Limited Partners for approval at the Annual General Meeting on 23.02.2024.