

Biotalys NV

Condensed Consolidated Interim Financial Statements For the 6 months ended 30 June 2022

CONTENTS

STATEMENT OF THE BOARD OF DIRECTORS	3
INDEPENDENT AUDITORS' REPORT	4
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	6
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 6 MONTHS ENDED 30 JUNE	7
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 6 MONTHS ENDED 30 JUNE	8
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6 MONTHS ENDED 30 JUNE	9
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	10
1. General information	10
2. Summary of significant accounting policies	10
3. Critical accounting estimates and judgments	11
4. Financial instruments	11
5. Property, plant and equipment	11
6. Other current assets	12
7. Borrowings	12
8. Other operating income	12
9. Operating expenses by nature	13
10. Financial income	13
11. Earnings per share	13
12. Commitments and contingencies	14
13. Events after the end of the reporting period	14

STATEMENT OF THE BOARD OF DIRECTORS

On 18 August 2022, the Directors of Biotalys NV certified in the name and on behalf of Biotalys NV, that to the best of their knowledge,

- the condensed consolidated interim financial statements, established in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (“IAS 34”) as adopted by the European Union, give a true and fair view of the equity, financial position and financial performance of Biotalys NV and of the entities included in the consolidation as a whole;
- the financial report presents a fair overview of the development and the performance of the business and the position of Biotalys NV and of the entities included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

This report is prepared in accordance with article 13 of the Belgian Royal Decree of November 14, 2007. Biotalys publishes its Interim Financial Report in English and Dutch. In the event of differences of interpretation between the English and the Dutch versions of the Report, the original English version will prevail.

INDEPENDENT AUDITORS' REPORT

Report on the review of the consolidated interim financial information of Biotalys NV for the six-month period ended 30 June 2022

In the context of our appointment as the company's statutory auditor, we report to you on the consolidated interim financial information. This consolidated interim financial information comprises the condensed consolidated statement of financial position as at 30 June 2022, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the period of six months then ended, as well as the notes to the condensed consolidated financial statements.

Report on the consolidated interim financial information

We have reviewed the consolidated interim financial information of Biotalys NV ("the Company") and its subsidiary (jointly "the Group"), prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" as adopted by the European Union.

The condensed consolidated statement of financial position shows total assets of 60 045 (000) EUR and the condensed consolidated statement of profit or loss and other comprehensive income shows a loss for the period of six months then ended of 9 892 (000) EUR.

The board of directors of the Company is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of review

We conducted our review of the consolidated interim financial information in accordance with International Standard on Review Engagements (ISRE) 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with the International Standards on Auditing (ISA) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated interim financial information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information of Biotalys NV has not been prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

Signed at Zaventem.

The statutory auditor

Deloitte Bedrijfsrevisoren/Réviseurs d'Entreprises BV/SRL

Represented by Pieter-Jan Van Durme

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (in thousands of euros)	Note	30 June 2022	31 December 2021
Non-current assets		11,089	11,336
Intangible assets		631	665
Property, plant and equipment	5	5,382	5,407
Right-of-use assets		3,610	3,885
Other non-current assets		1,466	1,380
Current assets		48,956	58,938
Receivables		503	451
Other financial assets		2,100	2,100
Other current assets	6	793	279
Cash and cash equivalents	7	45,560	56,107
TOTAL ASSETS		60,045	70,274
EQUITY AND LIABILITIES (in thousands of euros)			
	Note	30 June 2022	31 December 2021
Equity attributable to owners of the parent		50,004	58,915
Share capital		82,094	81,969
Share premium		31,394	31,303
Accumulated losses		(65,747)	(55,855)
Other reserves		2,263	1,498
Total equity		50,004	58,915
Non-current liabilities		5,710	6,150
Borrowings	8	5,591	6,037
Employee benefits obligations		30	26
Provisions		88	87
Current liabilities		4,331	5,209
Borrowings	8	1,119	1,186
Trade and other liabilities		2,254	3,119
Other current liabilities		958	904
Total liabilities		10,041	11,359
TOTAL EQUITY AND LIABILITIES		60,045	70,274

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 6 MONTHS ENDED 30 JUNE

in € thousands	Note	2022	2021
Other operating income	9	1,140	831
Research and development expenses	10	(7,574)	(6,275)
General and administrative expenses	10	(2,596)	(2,241)
Sales and marketing expenses	10	(718)	(677)
Other operating expenses	10	-	(1)
Operating loss (EBIT)		(9,748)	(8,363)
Financial income	11	141	1,322
Financial expenses		(269)	(110)
Loss before taxes		(9,877)	(7,151)
Income taxes		(15)	(7)
LOSS FOR THE PERIOD		(9,892)	(7,158)
Other comprehensive income (OCI)			
<i>Items of OCI that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		9	1
TOTAL COMPREHENSIVE LOSS OF THE PERIOD		(9,883)	(7,157)
Basic and diluted loss per share (in €)	12	(0.32)	(9.54)
Loss for the period attributable to the owners of the Company		(9,892)	(7,158)
Total comprehensive loss for the period attributable to the owners of the Company		(9,883)	(7,157)

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 6 MONTHS ENDED 30 JUNE

<i>(in thousands of euros)</i>	Attributable to equity holders of the Company						Total Equity
	Share capital	Share premium	Other reserves			Accumulated losses	
			Share-based payment reserve	Anti-dilution reserve	Currency translation reserve		
Balance at 31 December 2020	62,822	675	1,062	(4,813)	20	(34,117)	25,648
Share-based payments	-	-	300	-	-	-	300
Exercise of ESOP Warrants	-	15	-	-	-	-	15
Total comprehensive loss	-	-	-	-	1	(7,158)	(7,157)
Balance at 30 June 2021	62,822	690	1,362	(4,813)	21	(41,276)	18,807

<i>(in thousands of euros)</i>	Attributable to equity holders of the Company						Total Equity
	Share capital	Share premium	Other reserves			Accumulated losses	
			Share-based payment reserve	Anti-dilution reserve	Currency translation reserve		
Balance at 31 December 2021	81,969	31,303	1,473	-	25	(55,855)	58,915
Share-based payments	-	-	847	-	-	-	847
Exercise of ESOP Warrants	125	91	(91)	-	-	-	125
Total comprehensive loss	-	-	-	-	9	(9,892)	(9,883)
Balance at 30 June 2022	82,094	31,394	2,229	-	34	(65,747)	50,004

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6 MONTHS ENDED 30 JUNE

in € thousands	Note	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Operating result		(9,748)	(8,363)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation, amortization and impairments		771	747
Share-based payment expense		855	301
Changes in provisions		4	13
R&D tax credit		(203)	(186)
Loss on disposal of fixed assets		-	6
Other		-	1
Changes in working capital:			
Receivables		(52)	(83)
Other current assets		(397)	(292)
Trade and other payables		(831)	899
Other current liabilities		62	(371)
Cash used in operations		(9,539)	(7,328)
Taxes paid		(20)	(17)
Net cash used in operating activities		(9,559)	(7,345)
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment	5	(328)	(975)
Purchases of intangible assets		-	(53)
Proceeds from disposal of PPE		-	3
Investments in other financial assets		-	(1,500)
Net cash used in investing activities		(328)	(2,526)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from borrowings and other financial liabilities	8	-	2,780
Repayment of borrowings	8	(207)	(68)
Repayment of lease liabilities		(416)	(422)
Interests paid		(164)	(71)
Proceeds from issue of equity instruments of the Company (net of issue costs)		126	15
Net cash provided by financing activities		(661)	2,234
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,547)	(7,637)
CASH AND CASH EQUIVALENTS at beginning of period		56,107	23,103
CASH AND CASH EQUIVALENTS at end of period, calculated		45,560	15,465

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Biotalys NV (the “Company” or “Biotalys”) is a limited liability company governed by Belgian law. As of the date these condensed consolidated interim financial statements were authorized for issuance, the address of its registered office is Buchtenstraat 11, 9051 Gent, Belgium.

Biotalys and its subsidiary (together referred as the “Group”) is a development-stage, Agricultural Technology (AgTech) platform-based company focused on the discovery and development of novel biological products (protein-based biocontrols). The biocontrol products in the Group’s pipeline protect our food in a sustainable and safe manner and have the potential to address a broad range of food threats such as fungal diseases, insect pests and bacterial diseases with unique and novel modes of action. Biotalys filed with the Environmental Protection Agency (EPA) in the United States in December 2020, and with the European Food Safety Authority (EFSA) in March 2021, for the registration of Evoca™, its first protein based biofungicide. The Group does not yet have any commercialized products on the market.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 18 August 2022 and has been subject to a limited review by an independent auditor.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

The Group’s condensed consolidated interim financial statements for the 6-month period ended 30 June 2022 have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* as endorsed by the European Union (“IAS 34”).

These condensed consolidated interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2021, which were prepared in accordance with IFRSs. The same accounting policies, presentation and methods of computation have been applied in these condensed financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2021, except for the impact of the adoption of new Standards and Interpretations as described below.

These condensed consolidated interim financial statements are presented in euro, which is the Company’s functional currency. All amounts in this document are represented in thousands of euros (€ thousands), unless noted otherwise.

The consolidated financial statements are prepared on an accrual basis and on the assumption that the entity is in going concern and will continue in operation in the foreseeable future (see also note 3.1 below).

The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3 of the consolidated financial statements for the year ended 31 December 2021.

Due to rounding, numbers presented throughout these consolidated financial statements may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Relevant IFRS accounting pronouncements adopted as from 2022 onwards

The following relevant new standards and amendments to existing standards have been published and are mandatory for the first time for the financial periods beginning on or after 1 January 2022:

- Amendments to IAS 16 – Proceeds before Intended Use (effective 1 January 2022): The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract (effective 1 January 2022): The amendments clarify the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.
- Annual Improvements 2018-2020 (effective 1 January 2022): The annual improvements package includes the following minor amendments: Subsidiary as a First-time Adopter (Amendment to IFRS 1); Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities (Amendment to IFRS 9); Lease Incentives (Amendment to Illustrative Example 13 of IFRS 16); Taxation in Fair Value Measurements (Amendment to IAS 41).

The above-mentioned standards did not have an impact on the financial statements.

Relevant IFRS accounting pronouncements that have been issued but not yet applied by the Group

The following IFRS standards, interpretations and amendments that have been issued but that are not yet effective and have not been applied to the IFRS financial statements closed on 30 June 2022:

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current (effective 1 January 2023, but not yet endorsed in EU): The amendments provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.
- Amendments to IAS 1 and Practice Statement 2 – Disclosure of Accounting Policies (effective 1 January 2023). The amendments provide more guidelines on which accounting policies to disclose in the financial statements.
- Amendments to IAS 8 – Definition of Accounting Estimates (effective 1 January 2023). The amendments clarify the distinction between accounting policies and accounting estimates.
- Amendments to IAS 12 – Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 1 January 2023, but not yet endorsed in EU). The amendments clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.

The Group does not expect that the above mentioned IFRS pronouncements will have a significant impact on the consolidated financial statements.

2.2. MEASUREMENT IN THE CONSOLIDATED FINANCIAL STATEMENTS

Other operating income and costs that are incurred unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to anticipate or defer such revenues and costs at the end of the financial year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021.

3.1. GOING CONCERN

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities during the normal course of business. The condensed consolidated results of the Group for the six months ended 30 June 2022 present a negative result, and the condensed consolidated statement of financial position includes a loss carried forward.

Management has prepared detailed budgets and cash flow forecasts for the years 2022 and 2023. These forecasts reflect the strategy of the Group and include significant expenses and cash outflows in relation to the development of the ongoing product candidates and the platform. Management believes that the cash position of the Group at 30 June 2022 (i.e. €46 million) is sufficient to cover the cash needs of the Company for at least the 12-month period following the approval of this report.

After due consideration of the above, the Board of Directors is of the opinion that it has an appropriate basis to conclude on the business continuity over the 12-month period following the approval of this report, and hence it is appropriate to prepare the financial statements on a going concern basis.

4. FINANCIAL INSTRUMENTS

All financial assets and liabilities presented in the consolidated statement of financial position are classified according to IFRS 9 – Financial Instruments as financial instruments at amortized cost. The Group considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

5. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment totaling €328 thousands related primarily to additional lab equipment and furniture in our headquarters in Sint-Denijs-Westrem. The Group also executed the purchase option on a few items of leased lab equipment, increasing the property, plant and equipment with an additional €142 thousands.

Certain assets that have been financed by the Bank Loan described in note 8 have been pledged as collateral. No other items of property, plant and equipment have been pledged in the context of financial liabilities.

6. OTHER CURRENT ASSETS

Of the total of €793 thousands at 30 June 2022 (€279 thousands at 31 December 2021), €435 thousands relates to deferred charges for field trials where the related services have not yet been performed.

7. CASH AND CASH EQUIVALENTS

The net cash position as presented in the consolidated statement of cash flows is as follows:

In € thousands	30 June 2022	31 December 2021
Cash at bank and in hand	37,660	48,207
Short-term bank deposits	7,900	7,900
Total cash and cash equivalents	45,560	56,107

The carrying amount of the cash and cash equivalents is a reasonable approximation of their fair value.

8. BORROWINGS

In € thousands	30 June 2022	31 December 2021
Bank borrowings	3,521	3,727
Lease liabilities	3,189	3,495
Total borrowings	6,710	7,223
of which as:		
Non-current borrowings	5,591	6,037
Current borrowings	1,119	1,186

Lease liabilities

The weighted average incremental borrowing rate used for the measurement of the lease liabilities is 2.00% at closing June 2022 (2021: 2.00%). The underlying leased assets act as pledge in the context of the lease liabilities. Certain restrictive covenants are contained in the lease liabilities and the Group was in compliance with such covenants (level of cash position in excess of €1,500 thousands) as of 30 June 2022.

Bank loan

On 20 May 2020, the Group entered into a bank loan for leasehold improvements of its new facilities in Belgium with a maximum committed amount of €4,000 (the "Bank Loan"). The committed funds were completely drawn by May 2021, after which the Bank Loan turned into an amortizing loan over a period of 9 years with a fixed interest rate of 1.95% per annum.

The Bank Loan is secured by a pledge of €2,100 thousands which is not available for use by the Group and is presented as "Other financial assets". The Bank Loan contains certain restrictive covenants including a clause that requires the Group to increase the amount of cash held as a pledge to an amount at least equal to the outstanding balance of the loan if the overall cash balance at the bank falls below €10,000 thousands. The Group was in compliance with such covenants as of 30 June 2022.

9. OTHER OPERATING INCOME

For the six months ended In € thousands	2022	2021
Grants	622	366
R&D tax incentives	510	464
Other income	8	1
Total other operating income	1,140	831

Other operating income mainly consists of the R&D tax credits received and grants that were awarded to support R&D activities (VLAIO and Bill and Melinda Gates Foundation).

The R&D tax incentives correspond to certain rebates on payroll withholding taxes for scientific personnel and Belgian research and development tax credit with regard to incurred research and development expenses. The R&D tax credit will be paid to the Group in cash after a five-year period, if not offset against the taxable basis over the respective period.

10. OPERATING EXPENSES BY NATURE

The table below illustrates certain items of expense recognized in the income statement using a classification based on their nature within the Group.

For the six months ended in € thousands	2022	2021
Employee benefit expense	5,145	4,086
R&D materials and external services	3,205	2,368
Depreciation expense of property, plant and equipment	494	348
Depreciation expense of right-of-use assets	242	298
Amortization expense of intangible assets	34	100
Facilities and IT related costs	576	334
Patents and IP	212	274
Other	980	1,386
Total operating expenses	10,888	9,194
of which as:		
Research and development expense	7,574	6,275
General and administrative expenses	2,596	2,241
Sales and marketing expenses	718	677
Other operating expenses	-	1

Sales and marketing expenses relate to expenses incurred in the context of business development projects to promote the Group's activities to different stakeholders.

11. FINANCIAL INCOME

The financial income consists mainly of foreign exchange gains. The figures of 2021 contain changes in the fair value of the anti-dilution warrants (€1,302 thousands), which have been cancelled in July 2021 as part of the IPO.

12. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after adjusting for the effects of all dilutive potential ordinary shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

In case of the Group, no effects of dilution affect the net profit attributable to ordinary equity holders. The table below reflects the income and share data used in the basic and diluted earnings per share computations:

For the six months ended in € thousands	2022	2021
Basic earnings		
Loss from continuing operations attributable to owners of the parent	(9,892)	(7,158)
Diluted earnings		
Dilution effect of share-based payments	-	-
Loss from continuing operations attributable to owners of the parent, after dilution effect	(9,892)	(7,158)

For the six months ended		
Number of shares	2022	2021
Weighted average number of ordinary shares outstanding during the period	30,857,830	1,500,000
Retrospective adjustment for the 2:1 reverse split completed in July 2021		(750,000)
Weighted average number of ordinary shares outstanding during the period for basic and diluted earnings per share	30,857,830	750,000

For the six months ended		
in €	2022	2021
Basic and diluted earnings per share	(0.32)	(9.54)

As the Group is reporting operating losses, the stock options and anti-dilution warrants have an anti-dilutive effect. As such, there is no difference between basic and diluted earnings per ordinary share. There are no other instruments that could potentially dilute earnings per share in the future.

13. COMMITMENTS AND CONTINGENCIES

Capital Expenditures

At 30 June 2022, the Group has committed to spend €388 thousand for capital expenditures for additional equipment, in addition to what has already been accrued. All amounts are expected to be paid within one year.

Contractual Agreements

The Group has concluded various agreements with Contract Manufacturing Organizations (“CMOs”) to provide manufacturing services related to the production of Biotalys’ developmental products, including costs to be incurred by the CMOs for modifications of their production facilities. Total outstanding non-cancelable purchase commitments under these agreements amount to €1,934 thousand as per the end of June 2022 (December 2021: € 733 thousand).

The Group has also entered into development agreements with various Contract Research Organizations (“CROs”) and field trial operators. These arrangements are service agreements which only require payment dependent on the completion of the service and delivery of the final reports. Total outstanding non-cancelable purchase commitments under these agreements, excluding amounts accrued for services already performed, amount to €1,062 thousands as per the end of June 2022 (December 2021: €286 thousand).

The majority of these service agreements are expected to be paid within one year. The amounts are not risk-adjusted or discounted, and the timing of the payments is based on the Group’s current best estimate of delivery of the related services.

The Group also has a non-exclusive license agreement with VTU Technology GmbH in relation to a number of AGROBODY™ bioactive-expressing *Pichia pastoris* strains. This license encompasses the *Pichia pastoris* strain that the Group uses to produce EVOCA™. The license fees comprise success fees and royalty fees, both of which are based on the titre at which the licensed strains produce AGROBODY™ bioactives.

14. EVENTS AFTER THE END OF THE REPORTING PERIOD

During July 2022, 115,000 ESOP II Warrants were exercised. This resulted in an additional 57,500 new Ordinary Shares being issued on 19 July 2022 when applying the 2:1 ratio.

As of the date when these financial statements have been approved, there have been no other events after the balance sheet date.