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Biotalys NV

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RPR BE 0508.931.185 (Gent)

(the *Company* or *Biotalys*)

Special Report of the board of directors to the general meeting of shareholders of the Company in accordance with article 7:228 of the Belgian Code on Companies and Associations (BCCA)

15 November 2022

Current report was prepared by the board of directors of the Company (the “Board of Directors”) in accordance with Article 7:228 of the BCCA in view of the extraordinary general meeting of shareholders of the Company scheduled on 27th December 2022.

In accordance with the aforementioned Article 7:228 of the BCCA, a general meeting of shareholders of a company must be convened when, as a result of losses incurred, a company's net assets have fallen to less than half of the company's capital. The general meeting of shareholders shall be held within two months after the loss has been determined or should have been determined under legal or statutory provisions in order to decide on the dissolution of the company or on measures announced in the agenda to preserve the continuity of the company.

In the present case, the Board of Directors proposes to convene an extraordinary general meeting of shareholders of the Company scheduled on 27th December 2022 on which the Board of Directors proposes the continuation of the Company's activities.

It should be noted that at the occasion of the same extraordinary general meeting, the Board of Directors proposes to absorb in total EUR 58,966,826.06 of losses (being the total amount of carry-forward losses as per the non-consolidated statutory accounts of the Company for the period ended 31 December 2021) in the following manner:

- (a) an amount of EUR 37,656,747.71 through the reduction of the share capital bringing the share capital from EUR 82.204.665,05 to EUR 44,547,917.34 without reduction of the number of shares;
- (b) an amount of EUR 21,310,078.35 through the reduction of the issue premiums bringing the issue premiums from EUR 34,082,506.02 to EUR 12,772,427.67

Net assets of the Company

At its meeting held on 15 November 2022, the Board of Directors determined that, based on statutory (non-consolidated) management accounts made in Belgian GAAP a loss of EUR 75,923,385.85 was incurred at the end of October 2022 (including the carry-forward losses of EUR 58,966,826.06 as per the non-consolidated statutory accounts of the Company for the period ended 31 December 2021) . Consequently, the Board of Directors also determined that due to these losses incurred, the Company's net assets amounted to EUR 40,363,785.10 as of the end of October 2022, compared to a capital of EUR 82.204.665,05. The net assets are therefore less than half of the capital (49.10 %).

Origin of the losses incurred

The aforementioned net asset situation is due to the losses incurred by the Company in recent fiscal years, which are typical to the research and development phase in which the Company finds itself. Investments are being made in research and development, which entails the necessary costs, while there are currently no commercial revenues. This is in line with the business plan of the Company and typical for an Ag-tech company such as the Company which is in the research- and development phase.

Measures to ensure continuity.

From the start of the Company's operations, the Company is aware that research and development costs will increase for a number of years before any prospect of commercial revenues is possible.

The Board of Directors has prepared the necessary budgets and cash planning for the operation of the Company in 2023, taking into account available financial resources.

The Board of Directors believes that the measures that can safeguard the continuity of the Company are related to the possibility of continuing the Company's operations combined with and obtaining additional financing through equity, grants, partnerships or other sources of financing.

In this regard, the Board of Directors points out the following elements:

- The Company's current situation is in line with the Company's proposed business plan;
- The Company has full control over its spendings and since there are few or no other significant long-term financial commitments of the Company besides labour agreements and lease obligations, management can timely and adequately reduce budgeted expenditures should this be necessary in the context of the Company's going concern or should it be necessary to have more time to obtain additional financing. Furthermore, the Company has not concluded any contractual obligations that would exceed its current cash reserves;
- The possibility of obtaining additional financing can be substantiated by the progress that the Company has made during 2022 :
 - In January 2022, Biotalys partnered with Olon, a world-leading bioactive manufacturing organization, to significantly scale-up the production of the active ingredient of Evoca™ (Biotalys' first proprietary biocontrol product candidate) – ensuring production efficiency to increase its market potential. Biotalys also appointed Kwizda Agro, an established crop protection manufacturer, as formulator of its proteinbased biocontrols – solidifying a critical step in the set-up of the supply chain for Biotalys products, starting with Evoca.

- In June 2022, Biotalys announced a new partnership with Novozymes, a world leader in biotech solutions, to explore additional routes for the scale-up and production of the bioactive protein of Evoca™. In October 2022, Biotalys announced the successful outcome of the feasibility study for Evoca™. Novozymes obtained proof of concept for a new manufacturing process that offers potential significant cost of goods reductions and scaling advantages, thereby broadening the commercial potential of Evoca™ as a novel biofungicide.
- Evoca™ continues to perform consistently well in field trials in preparation for its planned U.S. market introduction – demonstrating its promise as a pivotal tool for growers looking for more sustainable ways to control devastating fungal diseases.
 - Its latest trial results (announced in May 2022) further proved its efficacy and ideal product positioning in grapes, with Evoca™ outperforming a leading chemical product when applied at the flowering stage of grapes in a fungicide rotation program.
 - The latest trials also demonstrated that wine grape juice quality, vinification or wine characteristics exhibited no differences for Evoca™-treated vineyards compared to non-Evoca™ treated vineyards.
 - With more than 600 field trials now completed, Evoca™ offers fruit and vegetable growers a new tool for their Integrated Pest Management (IPM) programs to combat major fungal diseases to maximize yields with significantly lower residues.
- Achieving another major milestone in May of this year, the active ingredient in Evoca™ earned an entirely new resistance class by the Fungicide Resistance Action Committee (FRAC). The new classification granted by this highly regarded international panel of renowned technical experts, demonstrates to growers that Evoca™ will be a new and differentiating product to manage resistance to fungicides, complementing existing biological and conventional crop protection solutions to fight the fungal diseases Botrytis and powdery mildew.
- Biotalys also earned recognition for Evoca™ in May 2022, winning a World BioProtection Award 2022 for Best Biofungicide Product. The award was granted at the World BioProtection Summit in Birmingham (UK) based on the innovative character, scientific value and market potential of the product.
- At the beginning of H1 2022, Biotalys initiated the new fungicide program funded by the Gates Foundation (BioFun-7) to develop new biological solutions for cowpeas and other legumes. This new program is an important opportunity for the Biotalys team to leverage the antifungal knowhow built with our AGROBODY Foundry™ platform and is providing funding to Biotalys of more than EUR 5.1 million over four years.
- Biotalys continues to strengthen its patent portfolio to protect its science and products. In H1 2022, three additional patents were granted to the company as follows: in Japan related to transgenic plants; in Canada related to an agrochemical composition; and in Brazil related to a method for protecting and treating plants from infection by plant pathogenic fungi.

These accomplishments will also pave the way for Biotalys' pipeline of product candidates, which includes biofungicides, biobactericides and bio-insecticides.

- After announcing the achievement of a significant breakthrough in protein expression (more than 500% increase in production) for the bioactive ingredient of Evoca™ in January 2022, which dramatically lowers production costs, Biotalys adapted its biofungicide pipeline to effectively capture market share.
- The other pipeline programs continue and are expected to provide the Company with valuable IP and know-how thereby strengthening the Company's Agrobody Foundry platform and enhancing the opportunities from the Company to enter into partnerships.
- The Company continues to make progress in the regulatory approval process for Evoca™ in the US and expects approval by the US Environmental Protection Agency in early 2023.

With the current operations in accordance progressing with the business plan, it is reasonable to expect further progress in the pipeline development and the regulatory approval process of Evoca™ and the development of existing partnerships or entering into new partnerships during 2023. This progress should help build an attractive business case and thereby attract investors or industry players for collaborations that can support the Company's operation in the following years.

Consequently, the Board of Directors proposes to continue the operations of the Company.