The board’s complete proposal on implementation of a long-term incentive programme for employees and consultants and by way of (i) a directed issue of warrants and (ii) approval of transfer of warrants

The board of directors in Klaria Pharma Holding AB (publ) (excluding Scott Boyer and Fredrik Hübinette) proposes that the extraordinary general meeting resolves on implementation of a long-term incentive programme (“Warrant programme 2021/2025”) for certain employees and consultants in the company and the company’s group by way of (i) a directed issue of warrants and (ii) approval of transfer of warrants as set forth below. The warrants shall entitle to subscription for new shares in the company.

*Background and reasons*

The proposal to launch an incentive programme by the issuance of warrants has been prepared and presented by the board of directors (excluding Scott Boyer and Fredrik Hübinette) in order to strengthen the retention of employees and consultants with the company group and to motivate the employees and consultants to create shareholder value. The board of directors assess that these objectives are in line with all shareholders’ interests.

The programme encompasses certain employees and consultants of the group. Board members not employed by the group are not allowed to participate. Those entitled to participate in the incentive program are hereinafter referred to as “**Participants**”. The programme will encompass around 12 Participants.

*Terms and conditions for the issue of warrants*

1. The company shall issue not more than 5,750,000 warrants. Each warrant entitles to subscription of one (1) new share in the company.
2. The warrants may, with deviation from the shareholders’ preferential rights, only be subscribed for by the company, after which the company is to transfer the warrants to the Participants in accordance with the resolution adopted by the general meeting and instructions from the board of directors of the company. The reason for the deviation from the shareholders’ preferential rights is that the warrants are to be used within the proposed incentive programme.
3. Subscription for warrants shall be made on a separate subscription list following the general meeting’s issue resolution, but no later than 1 January 2022. The board of directors shall be entitled to prolong the subscription period.
4. The warrants shall be issued without consideration (i.e. free of charge) to the company.
5. If all issued warrants are subscribed for by the company, transferred to and exercised by the Participants for subscription of new shares, the company’s share capital will increase with SEK 95,833.335059 (subject to potential recalculations in accordance with standard terms and conditions applicable to the warrants set out in an Appendix A).
6. The warrants may be exercised for subscription for new shares during the period from and including 1 January 2025 until and including 31 January 2025. Subscription for new shares may however not take place during so-called closed periods according to the EU Market Abuse Regulation, or otherwise in breach of relevant insider rules and regulations (including the company’s internal guidelines in this respect). Warrants that have not been exercised for subscription of new shares by 31 January 2025 shall lapse.
7. Each warrant shall entitle the warrant holder to subscribe for one (1) new share at a subscription price per share amounting to SEK 11. Any amount that exceeds the quotient value shall be transferred to the nonrestricted share premium account. The exercise price may never be below the quotient value of the shares.
8. The warrants will be subject to customary recalculation conditions set out in Appendix A.

*Allocation principles to be applied in relation to Participants*

The warrants are to be transferred to the Participants against a premium payable by the Participants corresponding to the theoretical market value of the warrants as of the date of transfer, calculated by an independent valuation agent engaged by the company by use of the Black & Scholes valuation model.

The board of directors of the company shall resolve upon allocation to Participants in accordance with the guidelines set forth below. No Participant may be offered a higher number of warrants than the maximum allocation set forth below.

|  |  |  |
| --- | --- | --- |
| **Category** | **Maximum number of warrants per Participant** | **Maximum number of warrants within the respective category** |
| Management | 1,830,000 | 4,410,000 |
| Employees | 140,000 | 305,000 |
| Advisors & consultants | 650,000 | 1,035,000 |
| **Total:** | **-** | **5,750,000** |

A Participant can choose to acquire a lower but not a higher number of warrants than offered to the Participant.

*Warrant agreements*

All warrants will be governed by warrant agreements to be entered into between each Participant and the company in connection with the transfer of warrants from the company. The warrant agreement will include a so-called vesting structure, certain transfer restrictions and other terms and conditions customary for such agreements. The vesting period until a share may be acquired may not be less than three years.

*Reasons for the deviation from the shareholders’ preferential rights*

The reasons for the deviation from the shareholders’ preferential rights is that the company wishes to offer warrants to certain employees and consultants of the group in order to strengthen the retention of employees and consultants and to motivate them to contribute to the creation of shareholder value. Warrants granted under the incentive programme to employees and consultants are intended to align such individual’s and shareholder interests by attempting to create a direct relation between compensation and shareholder return. Participation in the incentive programme rewards overall corporate performance, as measured through the price of the shares in the company. In addition, the incentive programme enables employees and consultants to develop and maintain a significant ownership position in the company. As per today, the company has no share or share price related incentive programmes.

*Dilution, costs, etc.*

Upon full subscription, transfer and exercise of all 5,750,000 issued warrants; a total of 5,750,000 new shares will be issued in the company (subject to potential recalculations in accordance with standard terms and conditions applicable to the warrants as set forth in Appendix A). This would lead to a dilution corresponding to approx. 9.99 per cent of the total share capital and number of votes in the company (based on the share capital and number of shares in the company registered as of the date of this proposal and calculated as the maximum amount of share capital and number of shares that may be issued, divided by the total share capital and the total number of shares in the company after all warrants have been exercised).

Accounting for the new shares that may be issued under the proposed incentive programme, the key ratio earnings per share for the full year 2020 had then been changed in such way that the result per share had been changed from approximately SEK -1.19 to approximately SEK -1.05.The market value of the warrants for the subscription period is estimated to SEK 0.38 per warrant (as per 9 December 2021), in accordance with the preliminary valuation made based on a market value of the underlying share corresponding to SEK 6.19 (as per 7 December 2021). The Black & Scholes valuation model has been used for valuing the warrants, assuming a risk free interest of -0.05 per cent and a volatility of 33.18 per cent.

There are costs associated with the incentive programme in respect of valuation, consultancy services and costs for registration and practical management of the programme. There should not be any security costs or similar payable by the company. Ongoing administration costs and other costs of the programme are minimal.

*Approval of transfer of warrants from the Subsidiary to Participants*

A resolution to issue warrants in accordance with this proposal also includes an approval of the transfers of warrants from the company to the Participants.

*Preparation of the proposal*

This proposal has been prepared by the board of directors (excluding Scott Boyer and Fredrik Hübinette) together with external consultants. The final proposal has been presented by the board of directors (excluding Scott Boyer and Fredrik Hübinette).

*Majority requirements*

This proposal to adopt the incentive programme and to issue warrants, as well as the approval of the transfers of warrants from the company to the Participants, is governed by the provisions in Chapter 16 of the Swedish Companies Act, and a valid resolution therefore requires that the proposal is supported by shareholders representing at least nine-tenths (9/10) of the votes cast as well as of all shares represented at the meeting.

*Miscellaneous*

Documents as referred to in Chapter 14 Section 8 of the Swedish Companies Act have been prepared and are kept available at the company’s address.

The chairman of the board of directors, the CEO or a person appointed by the board of directors shall be authorised to make any minor adjustments required to register the resolution with the Swedish Companies Registration Office.

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Klaria Pharma Holding AB (publ)

Stockholm in December 2021

The board of directors