Celyad Oncology
Listed limited liability company

Rue Edouard Belin 2,
1435 Mont-Saint-Guibert
Belgium

VAT BE 0891 118 115 (RLE Brabant wallon)

(the **Company**)

REPORT OF THE BOARD OF DIRECTORS ESTABLISHED IN ACCORDANCE WITH ARTICLE 7:179, 7:191 AND 7:193 OF THE BELGIAN CODE OF COMPANIES AND ASSOCIATION

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1. INTRODUCTION

This report has been prepared by the board of directors of the Company (the **Board**) in accordance with article 7:179, ,7:191 and 7:193 of the Belgian Code for Companies and Associations (the **BCCA**), with respect to the proposal of the Board to increase the Company's share capital with an amount of EUR 7,750,000 in cash through the issuance of 14,903,846 new shares (the **New Shares**) at a subscription price per New Share of EUR 0.52 (the **Subscription Price**) and to dis-apply, in the interest of the Company, the statutory preferential subscription right of the Company's existing shareholders to the benefit of CFIP CLYD (UK) Limited (or one of its affiliates (**Fortress** or the **Subscriber**), as further described below (the **Capital Increase**).

In accordance with article 7:179 of the BCCA, the Board provides in this report a justification of the proposed Capital Increase, including a justification of the proposed Subscription Price and a description of the consequences of the proposed Capital Increase for the economic and voting rights of the shareholders of the Company.

In accordance with article 7:191 of the BCCA, the Board also provides in this report a justification of the proposed dis-application, in the interest of the Company, of the statutory preferential subscription right of the existing shareholders of the Company with respect to the proposed Capital Increase and a description of the consequences thereof for the economic and voting rights of the shareholders. In accordance with article 7:193 of the BCCA, the justification of the proposed Capital Increase and the Subscription Price takes into account in particular the financial situation of the Company, notably the circumstance that the Company's net assets have fallen below half of its share capital, thereby triggering the application of the "alarm bell procedure" in accordance with article 7:228 of the BCCA, the identity of the Subscriber, and the nature and importance of the contribution of the Subscriber.

This report should be read together with the report prepared in accordance with articles 7:179, 7:191 and 7:193 of the BCCA by the Company's statutory auditor, BV BDO Bedrijfsrevisoren - Réviseurs d'entreprises, a limited liability company organised and existing under the laws of Belgium, with registered office at Da Vincilaan 9, box E.6, The Corporate Village, 1930 Zaventem, Belgium, represented by Bert Kegels and Christophe Pelzer (the **Statutory Auditor**).

As the Subscriber is a related party of the Company, the Board has obtained an advice from the committee consisting of the three (3) independent directors of the Company, namely Hilde Windels, Marina Udier and Dominic Piscitelli, in accordance with article 7:97 of the BCCA with respect to the envisaged transaction. The committee has assessed the envisaged capital increase in light of the criteria included in article 7:97 of the BCCA and concluded, in view of the Company's financial situation and cash flow requirements, after considering and examining alternative funding options and taking into account the interest of all stakeholders, that the expected advantages of the transaction outweigh the expected disadvantages thereof, which leads to the conclusion that the transaction is to the advantage and in the interest of the Company.

2. PROPOSED CAPITAL INCREASE

2.1 Context

On 24 August 2023, Fortress has agreed to subscribe to up to 16,358,654 new Shares at the Subscription Price for a total investment of EUR 8,506,500, subject to certain conditions and provided that it would not be required to launch a mandatory takeover bid on the shares of the Company.

On or around 4 September 2023, the Board will resolve on the increase of the Company's share capital, within the framework of the authorised capital, which will result in the issuance of 3,930,770 new shares for an aggregate investment of EUR 2,044,000 (the **Former Capital Increase**) (see in this respect the board report dated 24 August 2023). In the context of the Former Capital Increase, Fortress will already subscribe to a first tranche of 1,454,808 new shares for an investment of EUR 756,500, following which Fortress would hold 29.99% of the shares. The Board is now proposing the extraordinary shareholders meeting, which is expected to take place on or around October 2023 or November 2023, to resolve on the second tranche of the Fortress' subscription, amounting to EUR 7,750,000.

Article 52 of the Royal Decree of 27 April 2007 on takeover bids provides for an exemption to the obligation to launch a takeover bid when crossing the threshold of 30% of voting securities if the acquisition of voting securities is made within the context of subscribing to a capital increase of a company facing difficulties in accordance with article 7:228 of the BCCA (*alarm bell procedure*) approved by the shareholders' meeting with a 75% majority.

Structure of the Capital Increase

As described in section 2.1 above and in section 2.2 below, pursuant to the subscription, Fortress has agreed to subscribe to a total of 14,903,846 New Shares or EUR 7,750,000 in this Capital Increase.

In accordance with article 7:177, 7:191 and 7:193 of the BCCA, the New Shares will be issued by the Company pursuant to a capital increase in cash decided by an extraordinary shareholders meeting, with the dis-application of the preferential subscription rights of the Company's existing shareholders and, insofar as needed, of the existing holders of subscription rights and/ or convertible bonds of the Company, to the benefit of the Subscriber.

2.2 Dis-application of the preferential subscription right of existing shareholders

Within the framework of the contemplated Capital Increase, the Board proposes to dis-apply the preferential subscription rights of the Company's existing shareholders, in accordance with article 7:191 and 7:193 of the BCCA, to the benefit of Fortress.

The dis-application of the preferential subscription right of the existing shareholders allows the Company to place the New Shares with Fortress in accordance with the terms and conditions of the subscription.

In accordance with article 7:193 of the BCCA, given that Fortress is the beneficiary of the dis-application of the preferential subscription and that each of them owns securities of the Company carrying more than ten (10) percent of the voting rights, its representatives shall not be entitled to vote at the extraordinary shareholders meeting relating to the Capital Increase.

2.3 Subscription Price

The Subscription Price of EUR 0.52 per New Share has been determined following discussions with Fortress. The Subscription Price reflects a discount of 5% compared to the 30-day VWAP (calculated as follows: the sum of daily VWAP multiplied by the number of daily shares traded for the last 30 trading days, divided by the sum of number of daily shares traded for the last 30 trading days) as of 23 August 2023.

This discount reflects, among other things, a compensation for the limited liquidity of the Company's shares notwithstanding the trading of the Company's shares on Euronext Brussels and Paris and the significant size of the transaction compared to the Company's market cap. However, this is outweighed by the risks and disadvantages if the Company were not able to raise new funds to support its working capital and its going concern, and the benefits of the Capital Increase, as referred to above. Furthermore, this discount is comparable to, or even lower than, the discount that would be expected to be applied if the Company were to raise new funds by means of an accelerated book building of new shares with institutional investors or an equity line type of financing. Also, in the interest of time and in light of the Company's cash situation, Fortress is willing to accept non-listed shares upon closing of the transaction, so that the Company can prepare a listing prospectus after receipt of the funds.

Finally, the Board points out that due to macro-economic factors, such as increasing interest rates and declining investor confidence in general, the capital markets have been extremely volatile. The market price of many listed financial instruments have suffered substantial reductions, and a number of previously available sources of financing, particularly for life science companies with a small market capitalisation, are no longer available or only at less attractive terms. In the context hereof, the Board refers to the risks associated with equity line type of financing, leading to significant dilution but also negative price pressure in particular if the subscriber of such instruments does not intend to stay a shareholder of the Company.

Therefore, in view of all the above, the Board believes that the Subscription Price is not unreasonable and is in the best interest of the Company, its shareholders and other stakeholders.

2.4 Rights attached to the New Shares

All New Shares shall have the same rights and benefits as, and rank *pari passu* in all respects, including as the entitlement to dividends and distributions, with the existing and outstanding shares of the Company at the moment of their issuance, and will be entitled to dividends and distributions in respect of which the relevant record date or due date falls on or after the date of issuance of the New Shares.

2.5 Admission to trading of the New Shares

All of the New Shares shall be admitted to listing and trading on the regulated market of Euronext Brussels and Paris. To this end, the Company will prepare a listing prospectus and make the necessary fillings and applications, in accordance with applicable laws and regulations, in order to allow an admission to listing and trading on the regulated market of Euronext Brussels and Paris following the issuance of New Shares in the Capital Increase.

2.6 Justification of the proposed Capital Increase

In light of the Company's limited cash runway, the Board believes that the envisaged Capital Increase, is in the best interests of the Company because, if completed, the Capital Increase will further enable the Company to strengthen its balance sheet, improve its cash position in the very short term and support the continuation of the activities of the Company.

The Board notes that Company needs to be in a good financial situation to be able to negotiate potential licensing opportunities under optimum conditions. Also, if no immediate financing solution is identified there is a significant risk for the Company to lose or see leaving its key employees that hold an important know-how developed over years. In addition, undercapitalisation limits the Company's access to regional grants and subsidies required to support its R&D activities. Finally, if the Company were not able to raise additional funds rapidly to expand its working capital, the Company would have to divest certain of its assets or implement other measures in order to ensure its going concern.

The Company intends to use the net proceeds from the private placement to fund research and development expenses, to advance the current pipeline of preclinical CAR-T candidates, to discover and develop additional preclinical product candidates using its proprietary non-gene edited short hairpin RNA (shRNA) technology platform, as well as for working capital, other general corporate purposes, and the enhancement of the Company's intellectual property.

The Board also notes that other sources of financing to strengthen the Company's cash position were considered, such as, among other things, an accelerated bookbuilding process or an equity line type financing. However, based on the evaluation of such option carried out by the financial advisor of the Company, Van Lanschot Kempen N.V., the Board has noted that such financing would consist in forms of securities, *i.e.* convertible bonds, which would be sub-optimal given the Company's financing needs. Furthermore, those sources of financing would be available on terms that would not be acceptable to the Company or for limited amounts extending cash runway with no more than four months.

Also, the Board is not in favour of proceeding with a fund raising by means of a public offering at this stage, but rather through a capital increase subscribed by Fortress, who has been long term and supportive investor of the Company. A public offering is not only very costly for the Company but it also requires a considerably longer preparation, as a result of which the Company's financial situation may become precarious.

The envisaged Capital Increase subscribed by Fortress, hence, allows the Company to raise a significant amount of additional new funds in a fast and cost efficient manner in order to further fund its activities.

The investment by an existing shareholder can be seen as an additional expression of its support for the Company's activities and strategy. Fortress endorses a long-term view of its investment into the Company, which is in the interest of the latter.

For all the above reasons, the Board is of the opinion that the contemplated Capital Increase, even with the dis-application of the preferential subscription right to the benefit of Fortress and notwithstanding the dilution following therefrom for the shareholders and, as the case may be, the holders of subscription rights, is in the interest of the Company and the existing shareholders and the current holders of subscription rights, as this will further allow the Company to swiftly and cost-efficiently attract a substantial amount of new funds that are urgently needed to fund its activities and support its going concern over the next months.

3. CERTAIN FINANCIAL CONSEQUENCES OF THE WARRANT ISSUANCE AND THE CAPITAL INCREASE

3.1 Evolution of the share capital, voting rights, participation in the results and other shareholders rights

After the Former Capital Increase, the net equity of the Company is expected to amount to EUR 25,198,801, represented by 26,524,726 ordinary shares, each representing one 26,524,726th of the capital of the Company. The capital is fully and unconditionally subscribed and fully paid up.

In addition, 598,500 warrants issued by the Company have been granted and are outstanding at the date of this special report.

Each share in the Company currently represents an equal part of the share capital of the Company. In accordance with article 31 of the articles of association, certain shares carry double voting rights. At the date of this report, 2,368,375 shares carry double voting rights. The total number of voting rights is therefore

24,962,331. The issuance of the New Shares will result in the dilution of the former shareholders and the voting rights attached to each share in the Company. However, if the New Shares were to remain in registered form, they will also acquire double voting rights after a period of two years and significantly dilute the voting rights of the existing (dematerialised) shareholders. It is also expected that 6,500,000 shares owned by Fortress will automatically carry double voting rights as of 8th December 2023

Subject to the clarification regarding the double voting right attached to 2,368,375 shares, the dilution with respect to the voting right also applies, *mutatis mutandis*, to the participation of each share in the profit and liquidation proceeds and the other rights attached to the shares of the Company, such as the preferential subscription right in case of a capital increase in cash by issuance of shares or by issuance of new subscription rights or convertible bonds.

In case of the New Shares in the framework of the Capital Increase, the New Shares to be issued will have the same rights and benefits as, and rank *pari passu* in all respects with, the existing and outstanding shares of the Company at the moment of their issuance and delivery and will be entitled to distributions in respect of which the relevant record date or due date falls on or after the date of issuance and delivery of the New Shares. As a result and to the extent that the New Shares will be issued, the participation of the existing shares in the profit and liquidation proceeds of the Company and their holder's the statutory preferential right in case of a capital increase in cash, shall be diluted proportionally.

In case the New Shares are issued, the dilution of the existing shareholders is 36.0% (obtained by dividing the number of the New Shares by the total number of existing shares after the issuance of the New Shares, and multiplying this figure by 100). The dilution caused by the Capital Increase represents 16.28% (see table below for more details).

Taking into account the warrants already issued by the Company, the dilution caused by the issuance of the New Shares represents 33,2% (obtained by dividing the number of the New Shares by the sum of the number of existing shares following the issuance of the New Shares and the existing warrants, and multiplying this figure by 100). The share of the existing shareholders in the profit and in the share capital of the Company will be diluted in the same proportion.

3.2 Financial dilution caused by the Capital Increase

As of December 31, 2022, the shareholders' equity of the Company on a statutory basis amounted to EUR 23,154,800.75 or EUR 1.02 per share (on a non-diluted basis). As the Subscription Price is lower that this amount, the Capital Increase will adversely affect the Company's equity per share as follows:

Evolution of the statutory net equity Celyad Oncology S.A	After issuance of the shares linked to the PIPE 2
Situation de départ 31-12-2022 (incluant actions émises suite au PIPE 1 et l'émission du nouveau Plan Warrant 2023	
Statutory Net Equity	25,198,801
Number of outstanding shares	26,524,726
Statutory Net Equity per shares	0.95
Number of outstanding warrants	3,451,413
Number of outstanding shares (diluted basis)	29,976,139
Equity per share (diluted basis)	0.84
The operations	
PIPE 2 Operation	
Capital Increase	7,750,000
Number of New Shares to Issue	14,903,846
After Operations - Final View	
Statutory Capital	32,948,801
Number of outstanding shares	41,428,572
Capital per share	0.80
Number of outstanding warrants	3,451,413
Number of outstanding shares (diluted shares)	44,879,985
Capital per share (diluted basis)	0.73
Dilution caused by capital increase	-16.28%
Dilution diluted basis	-12.67%
Number of voting rights before operations	28,893,101
Number of voting rights after operations	43,796,947
Dilution of social rights PIPE2	-34.03%
dilution due to creation of new shares	36.0%
dilution due to creation of new shares (including warrants)	33.2%

3.3 Evolution of the Market Capitalisation and Financial dilution caused by the Capital Increase

As of 23th August 2023, the market capitalization of the Company amounted to EUR 11,974,797 or EUR 0.53 per share (on a non-diluted basis). As the Subscription Price of the Capital Increase is lower than this amount, the Capital Increase will adversely affect the Company's equity per share (see in the table below).

	Evolution of Market Capitalization and financial dilution
Starting Situation as of 23-08-2023	
Market Capitalization	14,018,797
Number of outstanding shares	26,524,726
Market Capitalization per shares	0.529
Number of outstanding warrants	3,451,413
Number of outstanding shares (diluted basis)	29,976,139
Market Capitalization per share (diluted basis)	0.468
The operations	
Capital Increase	7,750,000
Number of New Shares to Issue	14,903,846
After Operations - Final View	
Market Capitalization	21,768,797
Number of outstanding shares	41,428,572
Market Capitalization per shares	0.525
Number of outstanding warrants	
Number of outstanding warrants	3,451,413
Number of outstanding shares (diluted basis)	44,879,985
Market Capitalization per share (diluted basis)	0.485
Dilution	-0.58%
Dilution diluted basis	3.72%
Company Value increase	7,750,000

4. CONCLUSION

Taking into account the above-mentioned reasons, the Board is of the opinion that the capital increase in cash, subscribed by Fortress, with dis-application of the preferential subscription rights of the existing shareholders for the benefit of Fortress is in the interest of the Company.

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Signed on 24 August 2023,

For the board of directors,

DocuSigned by:
Hilde Windels
1F40575C61B24F4...

Name: Hilde Windels

Function: Chair of the Board of Director

DocuSigned by:
Dominic Piscitelli
0C81439174B44FD...

Name: Dominic Piscitelli

Function: Director