CODON

VALUATION ADVISORS

SAMPLE REPORT

Valuation of the Common Stock of Tarnholme Therapeutics, Inc.

IRC 409A fair market value

VALUATION DATE	REPORT DATE	PREPARED FOR
September 30, 2026	October 9, 2026	The Board of Directors, Tarnholme Therapeutics, Inc.

Tarnholme Therapeutics, Inc. is a fictional company. This sample of a Codon IRC 409A valuation report uses illustrative facts, figures and dates. It is not a valuation of any company, and no one may rely on it for any purpose.

About This Sample

This sample shows the report a company receives when it grants share options to a US taxpayer.

THE COMPANY AND THE PLANNED GRANTS

Tarnholme Therapeutics, Inc. is the new Delaware parent of a UK life science company. The group completed a share-for-share exchange (a Delaware flip) on September 14, 2026 and closed a Series Seed financing on September 18, 2026. Its first US employee joined on October 5, 2026.

The Board plans to grant options to the US employee. The grant needs the fair market value of the Common Stock under Section 409A of the US Internal Revenue Code (IRC 409A).

WHAT THE REPORT CONTAINS

- The fair market value of the Common Stock under IRC 409A.
- The equity value of the Company, its allocation between the share classes, and the discount for lack of marketability.
- The sensitivity of the value to the main inputs.

WHAT THE SAMPLE OMITS

The sample keeps the full method and every calculation. It shortens the company description and omits these supporting schedules of an engagement report:

- the capitalization table by holder;
- the guideline public companies and the volatility calculation;
- the review of the financial statements and the operating plan;
- the summary of the financing documents.

ILLUSTRATIVE INPUTS

The exchange rate, the risk-free rate and the volatility are illustrative figures. They are not market data for the valuation date. The discount is a judgment made for this example.

THE OTHER SAMPLES

Codon's other samples use the same company and the same analysis: a report on the HMRC Enterprise Management Incentive (EMI) values, and a combined report that states the 409A value and the HMRC values with a written reconciliation. The company chooses the form.

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Summary of Conclusions

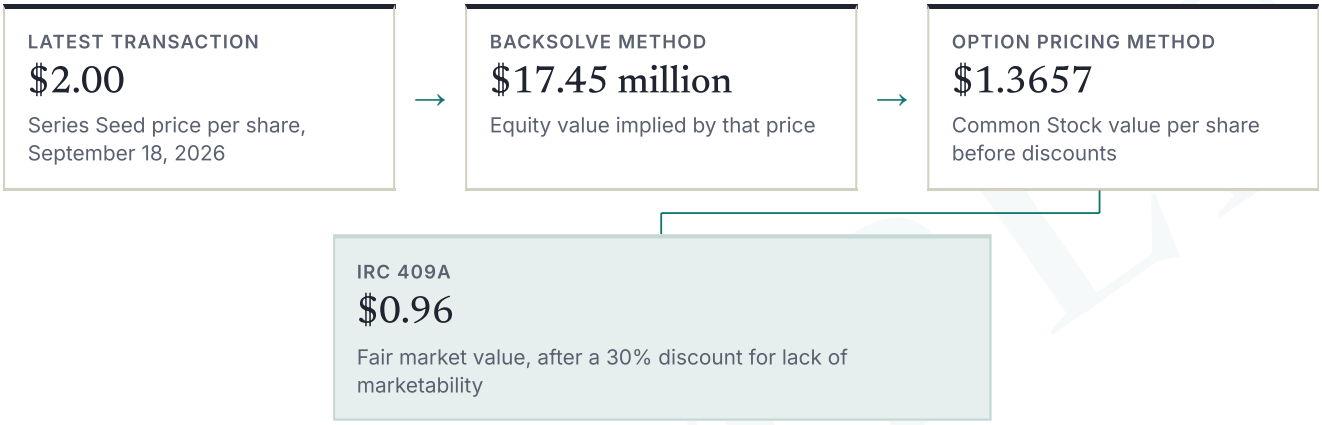
The Board of Directors of Tarnholme Therapeutics, Inc. (“the Company”) engaged Codon Valuation Advisors LLC (“Codon”) to value the Company's Common Stock as of September 30, 2026 (“the Valuation Date”). The value supports option grants to a US taxpayer.

Value of one share of Common Stock	Conclusion	Standard	Use
IRC 409A fair market value	$0.96	Treas. Reg. 1.409A-1(b)(5)(iv)(B)	Exercise price of options granted to US taxpayers

The value is per share of Common Stock, in US dollars.

How the Value Is Derived

The value comes from one analysis of the Company. The analysis starts from the Series Seed price, derives the equity value that the price implies and allocates that value between the share classes. The discount for lack of marketability is then applied to the value of a share of Common Stock.



How the Value Compares with the Series Seed Price

- **Preferential rights.** The Series Seed carries a liquidation preference and other rights that the Common Stock does not have. The allocation values a share of Common Stock at 68.3% of the Series Seed price before any discount.
- **Lack of a market.** A holder of Common Stock cannot sell it freely before a sale or public offering. The 30% discount for lack of marketability measures that difference.
- **Result.** The concluded value is 48.0% of the Series Seed price.

Sections 5 and 6 set out each step.

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1 Engagement

Purpose and Use

The report values the Company's Common Stock for one purpose: to set the exercise price of stock options granted to persons subject to US tax, under IRC 409A.

The subject is one share of Common Stock, valued as part of a non-controlling holding, as of September 30, 2026, on a going-concern premise. The report is for the Board of Directors and management. The Company may give it to its auditors and to the US Internal Revenue Service (IRS).

Standard of Value

	IRC 409A
Value concluded	Fair market value of the Common Stock
Definition	A value determined by the reasonable application of a reasonable valuation method (Treas. Reg. 1.409A-1(b)(5)(iv)(B)(1))
Factors and assumptions	The regulation lists the value of assets, the present value of future cash flows, the market value of similar companies, recent arm's-length transactions in the stock, and control premiums or discounts for lack of marketability
Restrictions on the shares	Lapse restrictions are disregarded (Treas. Reg. 1.409A-1(b)(5)(i)(A)(1))
Certainty	An independent appraisal dated no more than 12 months before the grant is presumed reasonable (Treas. Reg. 1.409A-1(b)(5)(iv)(B)(2)(i))

The valuation is prepared to support the presumption of reasonableness for an independent appraisal.

Professional Standards

We performed a valuation engagement, as defined in the Statement on Standards for Valuation Services of the American Institute of Certified Public Accountants (AICPA), VS Section 100. We applied the guidance in the AICPA Accounting and Valuation Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*.

Scope of Work

- We read the certificate of incorporation, the Series Seed financing documents, the share exchange agreement, the 2026 Equity Incentive Plan and the replacement option agreements.
- We analyzed the capitalization table and the rights of each class of shares, and read the UK subsidiary's 2025 financial statements, its management accounts to August 31, 2026 and the operating plan.
- We discussed the business, the financing, the planned grants and events after the financing with management.

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2 The Company

Business

Tarnholme Therapeutics, Inc. is a preclinical-stage biotechnology company. Through its wholly owned subsidiary, Tarnholme Therapeutics Limited, it develops oral small-molecule therapies for fibrotic lung disease. The lead program is in the studies required before a first clinical trial. The group has no revenue and has funded its work with equity and research grants.

The UK subsidiary was incorporated in England and Wales in March 2023 as a spin-out from a university research group. At the Valuation Date the group had 14 employees, 13 of them in England. It held cash of $6.3 million and had no borrowings.

The Share-for-Share Exchange

The Company was incorporated in Delaware in August 2026 to become the group's parent. On September 14, 2026 it acquired every ordinary share of Tarnholme Therapeutics Limited. Each shareholder received one share of Common Stock for each ordinary share, so each held the same proportion of the group before and after the exchange.

On the same date, each holder of an EMI option over the UK subsidiary's shares released it for a replacement option over the Company's Common Stock. No US taxpayer held an option at the exchange, so the US substitution tests in Treas. Reg. 1.409A-1(b)(5)(v)(D) were not needed. The capitalization in section 3 includes the replacement options.

The Series Seed Financing

On September 18, 2026 the Company issued 3,000,000 shares of Series Seed Preferred Stock (“Series Seed”) at $2.00 a share, for $6.0 million. A US venture capital fund that held no shares before the financing led the round, and two other new institutional investors joined it. The price was negotiated at arm's length.

The proceeds fund the lead program through its first clinical trial. Management expects the Company to need further equity financing before any sale or public offering.

The Planned Grants

The Company's first US employee, a Vice President of Clinical Development based in Massachusetts, joined on October 5, 2026. The Board plans to make this grant under the 2026 Equity Incentive Plan:

Grant	Shares	Tax regime	Value the grant needs
Options to the US employee	150,000	United States: IRC 409A	Fair market value of the Common Stock

The Board also plans EMI options for UK employees. Those grants need HMRC values of the Common Stock, which are outside the scope of this report.

Key Dates

September 14, 2026	Share-for-share exchange; replacement EMI options granted
September 18, 2026	Series Seed financing closed at $2.00 a share
September 30, 2026	Valuation Date
October 5, 2026	First US employee joined
October 9, 2026	Date of this report

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3 Capital Structure

The table shows the Company's securities at the Valuation Date.

Security	Shares	Share of total	Terms
Common Stock	8,000,000	64.0%	Issued in the share exchange to the founders, the university and the pre-seed investors
Series Seed Preferred Stock	3,000,000	24.0%	Issued at $2.00 a share on September 18, 2026
Options outstanding	400,000	3.2%	Replacement EMI options over Common Stock, exercise price £0.10 ($0.13) a share
Securities included in the allocation	**11,400,000**	**91.2%**	
Shares reserved for future grants	1,100,000	8.8%	2026 Equity Incentive Plan; no grant made at the Valuation Date
Fully diluted	**12,500,000**	**100.0%**	

The allocation in section 5 includes the outstanding options. It excludes the 1,100,000 reserved shares, because no option over them existed at the Valuation Date.

Rights of the Series Seed Preferred Stock

Liquidation preference	On a liquidation or a sale of the Company, each Series Seed share receives the greater of $2.00 and the amount it would receive if converted to Common Stock. The preference is non-participating. It totals $6.0 million.
Conversion	Each share converts into one share of Common Stock at the holder's option, and automatically on a qualified public offering. The conversion price has broad-based weighted-average protection against dilution.
Dividends	Non-cumulative, payable only when the Board declares them. None has been declared.
Voting and control	Votes with the Common Stock as converted. The holders elect one director and must consent to specified actions, including a sale of the Company and the issue of senior securities.
Other rights	Information rights, a right to take part in later financings, a right of first refusal and co-sale over founder transfers, and drag-along rights.

The Common Stock has none of these rights and ranks behind the Series Seed's preference on a sale or liquidation.

The Financing Terms

At $2.00 a share, the fully diluted shares total $25.0 million, the post-money figure in the financing documents. That figure prices every share at the Series Seed price, although the Common Stock carries fewer rights. Section 5 derives the equity value that the Series Seed price implies.

Restrictions on the Common Stock

The bylaws, the Voting Agreement and the 2026 Equity Incentive Plan restrict shares of Common Stock acquired on the exercise of an option:

- a holder may transfer shares only with the Board's consent;
- the Company has a right of first refusal over any proposed transfer;
- the holder must sell on a sale of the Company that the required majority approves (drag-along);
- the Company may buy back shares from a holder dismissed for cause, at the lower of cost and market value.

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4 Valuation Approach

We considered the three approaches to value and selected the method that the facts at the Valuation Date best support.

Approach	Method	Use	Reason
Market	Backsolve from the Series Seed financing	Selected	New institutional investors priced the Series Seed at arm's length 12 days before the Valuation Date. The regulation lists recent arm's-length transactions in the stock among the factors that a reasonable valuation method considers.
Market	Guideline public companies and transactions	Volatility input only	Multiples of revenue or earnings cannot be applied to a company with no revenue.
Income	Risk-adjusted net present value (rNPV)	Considered; not relied on	The lead program has not entered the clinic. Cash flow forecasts would rest on assumptions that the financing price already reflects.
Asset	Adjusted net assets	Not applied	The balance sheet excludes the internally developed intellectual property, which holds most of the value.

The Backsolve Method

The backsolve method derives the total equity value implied by the price investors paid in the latest priced round, given the rights of their shares. It solves for the equity value at which the allocation model values a Series Seed share at its $2.00 issue price.

Allocation Between Share Classes

The allocation method divides the equity value between the Series Seed, the Common Stock and the options. We considered four methods.

Method	Use	Reason
Option pricing method (OPM)	Selected	The OPM treats each share class as a call option on the Company's equity value, with exercise prices set by the liquidation preference and the conversion terms. It is appropriate where a liquidity event is some years away and its timing and form are difficult to forecast.
Probability-weighted expected return method (PWERM)	Not applied	The PWERM models specific exit scenarios. The Company cannot yet define such scenarios or assign probabilities to them.
Hybrid method	Not applied	The hybrid method adds one or two defined scenarios to an OPM. The Company has no defined near-term scenario to model before the first clinical data.
Current value method	Not applied	The current value method assumes an immediate sale, which the Company does not expect.

Events After the Financing

We considered whether the Series Seed price needed adjustment for events between September 18, 2026 and the report date. Management reported no change to the lead program, the operating plan or the Company's financing, and none in market conditions that would change the price. We therefore used the Series Seed price without adjustment. The conclusion in section 6 uses the equity value and the allocation in section 5.

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5 Equity Value and Allocation

Inputs

Input	Value	Basis
Series Seed issue price	$2.00	Financing documents, September 18, 2026
Time to a liquidity event	4.0 years	Management's expected timing of a sale or public offering
Volatility	85%	Illustrative; a report uses guideline public companies over the term
Risk-free rate	3.80%	Illustrative; a report uses the US Treasury yield for the term
Dividend yield	Nil	The Company has paid no dividend and plans none
Option exercise price	$0.13	£0.10 at the illustrative exchange rate of $1.30 to £1.00

Breakpoints

A breakpoint is an equity value at which the sharing of further value between the classes changes.

Range	Equity value	Event at the upper limit	Classes that share the range
1	$0 to $6,000,000	Series Seed preference paid in full	Series Seed 100.0%
2	$6,000,000 to $7,040,000	Common Stock at $0.13 a share: the options exercise	Common Stock 100.0%
3	$7,040,000 to $22,748,000	Common Stock at $2.00 a share: the Series Seed converts	Common Stock 95.2%; Options 4.8%
4	Above $22,748,000	None	Series Seed 26.3%; Common Stock 70.2%; Options 3.5%

Breakpoint 2 is $6,000,000 plus 8,000,000 shares at $0.13. Breakpoint 3 is $7,040,000 plus 8,400,000 shares at $1.87 ($2.00 less $0.13).

Allocation of the Equity Value

The value of each range is the difference between two call options on the equity value, priced with the Black-Scholes-Merton model. Each class takes its share of each range.

Range	Value of the range	Series Seed	Common Stock	Options
1	$3,326,303	$3,326,303	–	–
2	$382,623	–	$382,623	–
3	$3,583,980	–	$3,413,314	$170,666
4	$10,160,048	$2,673,697	$7,129,858	$356,493
Equity value	**$17,452,954**	**$6,000,000**	**$10,925,795**	**$527,159**
Shares or options		3,000,000	8,000,000	400,000
Value per share or option		**$2.0000**	**$1.3657**	**$1.3179**

The backsolve gives an equity value of $17,452,954. At that value the model prices a Series Seed share at $2.0000, its issue price, and a share of Common Stock at $1.3657 before any discount. The Common Stock value is 68.3% of the Series Seed price, and the difference of 31.7% measures the Series Seed's preferential rights. The conclusion in section 6 starts from $1.3657.

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6 IRC 409A Fair Market Value

The Requirement

An option granted to a US taxpayer with an exercise price below the fair market value of the underlying stock at grant is treated as deferred compensation under IRC 409A. For stock that is not publicly traded, fair market value is a value determined by the reasonable application of a reasonable valuation method.

Discount for Lack of Marketability

The allocation values the Common Stock as if a holder could sell it freely. A holder of Common Stock in a private company cannot do so until a sale or public offering. The discount for lack of marketability (DLOM) measures that difference.

We estimated the DLOM with two put option models, using the term and volatility in section 5.

Model	Indicated DLOM	What the model measures
Finnerty (2012), average-strike put	29.3%	The cost of losing the ability to sell at the average price over the restriction period
Chaffe (1993), protective put	49.3%	The cost of a put option that secures today's price at the end of the restriction period
Concluded DLOM	**30.0%**	

We placed most weight on the Finnerty model. The Chaffe model prices full protection against a fall in value over the whole term, and its result rises steeply at long terms and high volatilities. We also considered the size of the Series Seed financing, the Company's need for further funding and the expected time to a liquidity event. We concluded a DLOM of 30%.

Conclusion

Value of a share of Common Stock before discounts (section 5)	$1.3657
Less: discount for lack of marketability, 30.0%	($0.4097)
Fair market value per share, unrounded	**$0.9560**
IRC 409A fair market value per share of Common Stock	**$0.96**

Reasonableness

The concluded value is 48.0% of the Series Seed price. Two factors account for the difference: the Series Seed's preferential rights (31.7%) and the lack of a market for the Common Stock (30.0%). Section 7 shows how the value changes with the term and the volatility.

Period of Use

The value can support grants made within 12 months after the Valuation Date. It cannot support a grant made after information arises that may materially affect the value of the Company. Examples are a new financing, clinical or regulatory results, and an offer to buy the Company.

The fair market value of the Common Stock is normally also the share price input for stock compensation expense under ASC 718.

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7 Sensitivity

The table shows the conclusion at other terms and volatilities. For each row the backsolve is solved again, and the discount is held at the concluded level. The shaded row is the conclusion.

Volatility	Term	Equity value	Common Stock before discounts	409A fair market value
75%	3.0 years	$16,197,216	$1.2170	$0.85
75%	4.0 years	$16,948,628	$1.3060	$0.91
75%	5.0 years	$17,594,127	$1.3825	$0.97
85%	3.0 years	$16,629,899	$1.2682	$0.89
85%	**4.0 years**	**$17,452,954**	**$1.3657**	**$0.96**
85%	5.0 years	$18,146,457	$1.4479	$1.01
95%	3.0 years	$17,100,424	$1.3239	$0.93
95%	4.0 years	$17,982,466	$1.4284	$1.00
95%	5.0 years	$18,709,849	$1.5147	$1.06

Across these cases the 409A value ranges from $0.85 to $1.06. A longer term or a higher volatility raises the value, because each raises the equity value that the Series Seed price implies.

A Assumptions and Limiting Conditions

1. The report is valid only for the purpose in section 1 and only as of the Valuation Date. It is not a fairness opinion, an investment recommendation or an opinion on the price at which any share will trade.
2. We relied on financial and other information from the Company's management without audit or verification. We assumed it is complete and accurate.
3. We assumed the Company's documents are valid and that the capitalization table is correct at the Valuation Date.
4. The report reflects facts and conditions at the Valuation Date and information available at the report date. Later events may change the value, and we have no duty to update the report unless engaged to do so.
5. The value depends on the estimates in sections 5 and 6, including the time to a liquidity event, the volatility and the discount. Actual outcomes will differ from estimates.
6. The report is not tax or legal advice. The US tax treatment of each option holder is a matter for the Company's tax and legal advisers.
7. The IRS is not bound by the report, and the presumption of reasonableness under IRC 409A can be rebutted.
8. The report must be read as a whole. No part may be quoted or given to a third party, other than those named in section 1, without Codon's written consent.
9. Codon's liability is limited as stated in the engagement letter between Codon and the Company.

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B Representation

- The analyses and conclusions in this report are limited only by the stated assumptions and limiting conditions. They are Codon's unbiased professional analyses and conclusions.
- Codon has no present or prospective financial interest in the Company and no relationship with the parties that would impair its independence.
- Codon's fee does not depend on the value concluded or on any event that follows from its use.
- The engagement was performed in accordance with the AICPA's Statement on Standards for Valuation Services, VS Section 100.
- The engagement team's credentials are UK Chartered Accountant (ACA) and Accredited in Business Valuation (ABV), a credential of the AICPA.

Codon Valuation Advisors LLC

October 9, 2026

C Standards and Sources

United States	Internal Revenue Code, Section 409A. Treasury Regulations, 26 CFR 1.409A-1(b)(5)(i), (iv) and (v). AICPA, Statement on Standards for Valuation Services, VS Section 100. AICPA Accounting and Valuation Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. FASB ASC 718.
Models	F. Black and M. Scholes, "The Pricing of Options and Corporate Liabilities", *Journal of Political Economy*, 1973. R. C. Merton, "Theory of Rational Option Pricing", *Bell Journal of Economics and Management Science*, 1973. D. B. H. Chaffe, "Option Pricing as a Proxy for Discount for Lack of Marketability in Private Company Valuations", *Business Valuation Review*, 1993. J. D. Finnerty, "An Average-Strike Put Option Model of the Marketability Discount", *Journal of Derivatives*, 2012.
Law as at	October 9, 2026.

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