kinarus

Annual Report

2022

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Letter to Our Shareholders

Dear shareholders,

2022 was an important transition year for Kinarus Therapeutics. We have continued to develop our lead drug candidate, KIN001 for Covid-19, but have focused primarily on exploring all options to enable the initiation of Phase 2 clinical trials in wet age-related macular degeneration (wet AMD) and idiopathic pulmonary fibrosis (IPF).

In June, we completed a reverse takeover transaction ("RTO") with Perfect Holding, a company listed on the SIX Swiss Exchange as PRFN, by way of a share exchange. As a result, we became a public listed company and changed our name to Kinarus Therapeutics Holding and the PRFN ticker symbol to KNRS.

In August, we signed a CHF 20 M financing deal with Yorkville Advisors, which – when certain technical trading requirements are met – would allow Kinarus to opportunistically draw down tranches of funds to finance our operations and bolster our balance sheet. Nevertheless, this has not been sufficient and our cash for operations is not sufficient to initiate Phase 2 clinical testing of KIN001 outside of Covid-19.

In September, the independent Data and Safety Monitoring Board (DSMB) recommended discontinuation of the Phase 2 KINETIC study of KIN001 in hospitalized Covid-19 patients, having concluded there was a low probability that it would show a statistically significant benefit in these hospitalized patients. Broadly speaking the industry's experience in testing many drugs, in addition to KIN001, in the hospitalized Covid-19 patient population has also shown that it is challenging to show positive impact of therapeutic interventions in hospitalized patients who often have highly complicated pathophysiology. Therefore, we are continuing to study KIN001 as planned in KINFAST, a second Phase 2 study in ambulatory COVID-19 patients with less complicated disease, who are not hospitalized.

Also in 2022, we received a U.S. patent covering the KIN001 pharmaceutical combination of pamapimod and pioglitazone until at least 2037, adding to the previously granted European patent. These provide patent protection irrespective of therapeutic indication. A second patent application, covering KIN001 in AMD, was also granted by the U.S. Patent and Trademark Office in 2022.

Importantly, the underlying scientific rationale for KIN001 as a broad anti-inflammatory therapeutic candidate remains robust as p38 MAP kinase, the key biological target of KIN001, is well characterized and clearly implicated as a key player in biological pathways that lead to a variety of chronic inflammatory diseases. As such, the outcome of KINETIC study has not impacted our conviction or plans to develop KIN001 for inflammation indications.

Many of you will know that we founded Kinarus to pursue wet AMD and IPF, as we had demonstrated in preclinical testing that KIN001 has strong potential to provide meaningful improvements for these patients. Now that it is again possible to conduct clinical trials in non-Covid-19 indications - which was not the case during the height of the pandemic - we are re-doubling efforts to advance KIN001 into Phase 2 clinical trials in wet AMD and IPF.

However, due to the challenging financial markets our cash for operations has remained lower than required to initiate these trials. We therefore continue to aggressively pursue the required financing and, in parallel, other avenues for realizing the value of KIN001 in order to protect and ultimately create shareholder value. To this end, we have engaged Great Health Companion Group Ltd, a subsidiary of Hakim Unique Group, a global conglomerate from China, to explore partnering options for these studies in Asia. We recently signed a CHF 1.5 M financing agreement with ChaoDian (Hangzhou) Investment Management (CDIM), a Chinese investor and the proceeds are expected in the near future upon receipt of regulatory approval by CDIM from Chinese authorities. This agreement forms the basis of a collaboration for development and commercialisation of KIN001 for treating IPF patients in China. Separately, we are working with other third parties to explore business opportunities globally for KIN001, which may include licensing or other corporate actions.

I would like to take this opportunity to thank our shareholders, for their continuing support for our work at Kinarus, and our employees for their dedication and commitment. Together, we look forward to continuing to develop the company and KIN001 in 2023.

Sincerely,

Dr. Hari Kumar
Chairman of the Board of Directors

Dr. Alexander Bausch
Chief Executive Officer

2022 Business Review & 2023 Outlook

Executive Summary

Kinarus Therapeutics transitioned in 2022 from a privately held company to a SIX Swiss Exchange publicly listed company via a reverse takeover transaction. The transition to the public markets facilitated access to new tools for financing, allowing Kinarus to execute an agreement for a CHF 20 M financing facility with Yorkville Advisors in August 2022. In addition, the evolution of the Covid-19 crisis from pandemic to endemic, opened the possibility of re-focusing the company's efforts on advancing development of our lead product, KIN001, for the treatment of wet age-related macular degeneration (wet AMD) and idiopathic pulmonary fibrosis (IPF).

Although the Phase 2 KINETIC trial of KIN001 in hospitalized Covid-19 patients was discontinued in September 2022, data analyses did not diminish the likelihood that KIN001 may prove effective in ambulatory (e.g. less severe and/or earlier stage) Covid-19 patients as well as patients with other diseases due to inflammatory or fibrotic processes. KINFAST, a Phase 2 trial of KIN001 in ambulatory Covid-19 patients who are not hospitalized, was initiated as planned in 2022 and continues. The launch of the KINFAST trial was enabled by a significant grant awarded to Kinarus by the Programme for Covid-19 medicines of the Swiss Federal Office for Public Health.

The amounts available from the Yorkville SEDA financing facility have been limited by the share price development and trading volumes and have been insufficient to finance further clinical trials. As a result, in H2 2022, the Company accelerated and broadened its efforts to finance the wet AMD and IPF clinical proof of concept trials. Kinarus has since redoubled its efforts in this regard, exploring new partnering and additional financing options in parallel to advance KIN001 through clinical proof of concept trials.

One example of the partnering options being explored for advancement of KIN001 was the engagement of the Great Health Companion Group Ltd (GHCG), a subsidiary of Hakim Unique Group, a global conglomerate from China. GHCG will explore further business opportunities, which may include licensing rights to KIN001 or other strategic partnerships in China. This was undertaken because KIN001 is a Phase 2 clinical asset with proven potential to address unmet medical needs in China, and Chinese partners have historically shown strong interest in such assets. Our signing a CHF 1.5 M financing agreement with ChaoDian (Hangzhou) Investment Management may lead to a collaboration with a Chinese pharma partner for development and commercialisation of KIN001 for treating IPF patients in China.

Management and external consultants are also pursuing multiple other avenues to obtain backing for our programs.

KIN001 intellectual property portfolio strengthened in 2022

The United States Patent and Trademark Office (USPTO) issued US Patent No. 11285155 entitled "Pharmaceutical Combinations for Treating Cancer", covering KIN001. The composition of matter claim of the granted U.S. Patent protects the KIN001 pharmaceutical combination of pamapimod and pioglitazone until at least 2037. This allowance adds to the prior granted European patent, EP3468604 B1, which has been validated in the majority of European countries. The composition of matter claim of the granted U.S. and European patents provides protection of the KIN001 pharmaceutical combination irrespective of therapeutic indication, affording Kinarus one the broadest protections possible for a therapeutic candidate.

In addition, Kinarus Therapeutics received a Notice of Allowability from the United States Patent and Trademark Office (USPTO) for US Patent Application No. 16/500,504 “Methods of preventing or treating Ophthalmic Diseases“, covering KIN001 in AMD. The method of use patent adds another layer of protection to the granted US Patent No. 11285155, whose composition of matter protection is independent of therapeutic indication and is the foundation for the robust IP protection for KIN001.

Potential for KIN001 as the first oral treatment for wet AMD bolstered by compelling research data and validated by key opinion leader

Kinarus Therapeutics reported preclinical data supporting the potential efficacy of KIN001 as an oral treatment for wet AMD. In a mouse model, KIN001 reduced pathological choroidal neovascularization (CNV) after laser induced retinal damage. KIN001 reduced the growth and leakiness of new blood vessels and reduced histological markers of retinal fibrosis. In a second study in a non-human primate model of AMD, KIN001 reduced the development of clinically relevant stage 4 CNV lesions by approximately 75%.

In June, as part of its fundraising efforts, Kinarus hosted a key opinion leader (KOL) event for investors in Zurich on KIN001 and its science supporting its potential for the treatment of eye diseases. Management conducted a second event with a similar group of investors in Geneva. In Zurich, we hosted Prof. Christian Prünte MD, who is internationally recognized as a leading clinical expert on wet AMD and other ocular diseases, and will serve as the principal investigator of the KIN001 wet AMD trial. Prof. Prünte discussed wet AMD as the leading cause of blindness in older people and provided an overview of current treatment strategies, putting into context the differentiation of Kinarus' KIN001 therapeutic candidate. Part of Prof. Prünte's recorded speech was played for investors in Geneva and the entire event is available for viewing on the Kinarus website.

Kinarus has received approval to conduct a Phase 2 clinical trial of KIN001 in wet AMD patients in Germany and Switzerland. Financing from partners or investors is required to start the trial.

KIN001 demonstrated robust and durable efficacy against SARS-CoV-2 and emerging variants

In June, Kinarus Therapeutics announced publication of data showing KIN001's strong antiviral efficacy against the original SARS-CoV-2 strain and variants of concern in the peer-reviewed *International Journal of Molecular Sciences*. The collaboration between virologists at the Friedrich-Alexander-Universität Erlangen-Nürnberg and Kinarus showed that KIN001 blocked virus replication in multiple human cell lines of all SARS-CoV-2 strains, including the variants of concern delta and omicron.

Kinarus Therapeutics reported additional data in December, showing KIN001's continued potent antiviral efficacy against the newer SARS-CoV-2 Omicron subvariants BA.2 and BA.5. The research demonstrated the durability of KIN001's antiviral activity irrespective of the subvariant, differentiating KIN001 from vaccines and blocking antibodies, which are more easily evaded by the rapidly mutating SARS-CoV-2. These studies bolster the rationale for continuing to develop KIN001 and its likelihood to remain effective against potential future variants.

Clinical testing of KIN001 to treat Covid-19 progressing: KINFAST trial in ambulatory patients ongoing; KINETIC trial in hospitalized patients suspended

The first patient was dosed in the Phase 2 KINFAST trial in August. KINFAST is a multicenter placebo-controlled trial evaluating KIN001 in mild or moderate Covid-19 patients in an outpatient setting. The trial is enrolling patients at clinical trial sites in Switzerland and Germany. The primary endpoint of the trial is the reduction in the severity and duration of Covid-19 symptoms. The KINFAST trial is financed by Kinarus with support from a research grant from the Programme for Covid-19 medicines of the Swiss Federal Office of Public Health.

In August, Kinarus Therapeutics hosted a virtual webinar on the potential of KIN001 as a treatment for Covid-19. The webinar featured a presentation by Dr Thierry Fumeaux M.D., MBA, Chief Medical Officer of Kinarus and former Chairman of the Clinical Expert Group of the Swiss National Covid-19 Scientific Task Force. Attendees heard how, at a molecular level, KIN001 works by depriving the SARS-CoV-2 virus access to critical human cellular proteins that the virus requires to replicate in the human body. The fact that KIN001 targets human cellular proteins and not the virus itself, explains why it is not likely to be evaded by new viral mutations. Moreover, Kinarus Therapeutics has previously shown that KIN001 has broad anti-inflammatory and anti-fibrotic activity, supporting its potential to treat Covid-19-related chronic health issues, often called "long-Covid", which many patients face.

However, the KINETIC trial in hospitalized patients in September was stopped after an interim analysis for efficacy and safety. The independent Data and Safety Monitoring Board (DSMB) had completed a first safety review of the Phase 2 KINETIC trial in April after the first 40 patients had completed treatment and follow up and recommended that the trial continue as designed. No treatment related issues were identified in patients who had received KIN001 indicating that it was safe and well-tolerated in this patient population.

In September, the DSMB completed its second prespecified data review of the KINETIC trial focused both on safety and efficacy and recommended that the trial be discontinued. The DSMB concluded that, due to the lower incidence of severe disease in the sample population as compared to earlier trials, there was low probability that KINETIC would be able to show statistically significant benefit on the primary objective with a reasonable number of patients. The primary objective of KINETIC was to show a reduction in mortality or severe respiratory failure, as determined by the need for non-invasive ventilation, high-flow nasal oxygen, invasive mechanical ventilation, or extracorporeal membrane oxygenation (ECMO), by the end of treatment at 28 days. Importantly, safety data from this second interim analysis of the KINETIC trial continued to demonstrate an excellent safety profile with no imbalance in the incidence of treatment-emergent adverse events in comparison to placebo-treated patients. These first clinical safety data for KIN001 support the likelihood that KIN001 also will be safe and well tolerated in the wet AMD, IPF and other patient populations.

We have frequently been asked why we believe that KIN001 may be beneficial in ambulatory Covid-19 patients despite lack of efficacy in the hospital setting. The answer is related to a change in the medical need. Because of the combined immune protection brought by vaccines and/or previous infections and new mutations of the virus, the incidence of severe disease has significantly decreased, and only a small percentage of patients now require hospitalization. Moreover, the management of hospitalized patients has improved, with a decrease in the number of patients progressing to critical severity or death. This makes it challenging to detect an additional benefit of an experimental drug on top of aggressive care, especially when measuring objectives like the ones KINETIC was designed to test.

However, despite the decrease in the severity of infection, mild-to-moderate disease remains a public health priority due to the high burden of disease symptoms, lost productivity and the continued incidence of long-Covid. These factors, together, often lead to disabling consequences and high healthcare costs. For these reasons, we believe new therapeutics that decrease the severity and duration of Covid-19 symptoms (the primary objectives of KINFAST) will prove highly valuable. Based on these reasons, Kinarus Therapeutics is continuing the KINFAST trial to determine if KIN001 may offer significant benefit in this patient population.

The underlying scientific rationale for KIN001 also remains intact in non-Covid indications. The p38 MAP kinase pathway, the key cellular target of KIN001, is well characterized and broadly implicated in biological mechanisms that lead to a variety of inflammatory, autoimmune, and fibrotic diseases, including wet AMD and IPF. Our efforts in Covid-19 have not altered the founding strategy of Kinarus, which is to develop KIN001 for the treatment of wet AMD, IPF and other inflammatory diseases.

2023 Outlook

The current sentiment in the biotech industry has led to challenging conditions for raising capital to finance the KIN001 clinical development programs in wet AMD and IPF. Therefore, we have intensified our efforts to establish strategic partnerships and to identify other funding sources to progress the clinical development of KIN001. We continue to strongly believe that KIN001 offers the potential for meaningful therapeutic benefit for patients as well as value for our shareholders.

Corporate Governance Report

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General Information

The Company's corporate governance principles are laid out in its articles of incorporation (**Articles**), the organizational regulations (**Organizational Regulations**; *Organisationsreglement*), and a comprehensive set of Group directives, including insider trading rules, as well as an internal control system. All the above-mentioned documents can be downloaded from: https://ir.kinarus.com/corporate-governance/.

The information published below conforms to the Directive Corporate Governance (**DCG**) of the SIX Swiss Exchange (**SIX**). In order to avoid redundancies, references are inserted to other parts of the annual report (**Annual Report**). More detailed information can also be found on Kinarus' website: https://www.kinarus.com/about-us/company-overview.htm.

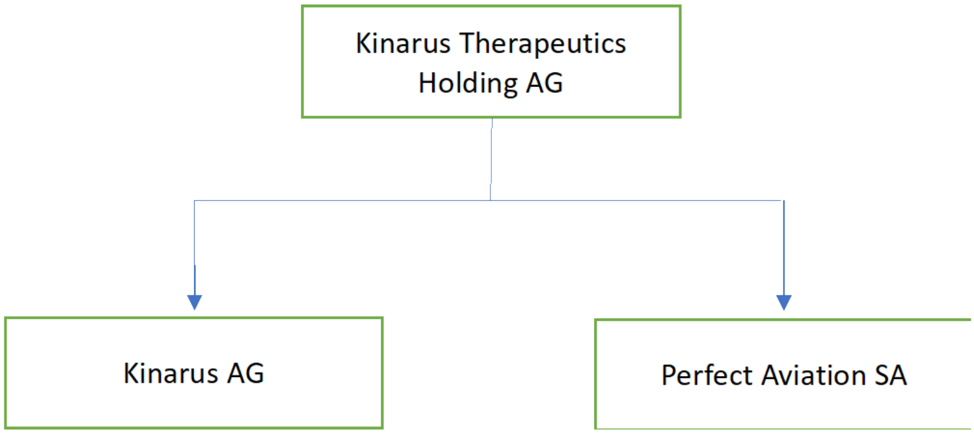
Group Structure and Shareholders (DCG 1)

Group structure (DCG 1.1)

Listed company

Name	Kinarus Therapeutics Holding AG (**Company**, together with its affiliates, Kinarus or Group)
Legal domicile	c/o Kinarus AG, Hochbergerstrasse 60C, 4057 Basel, Switzerland
Register number	CHE-103.574.108
Listing	SIX Swiss Exchange (SIX)
Symbol	KNRS
Valor Number	911512
ISIN	CH0009115129
Market capitalization	CHF 13 million
Website	https://www.kinarus.com/about-us/company-overview.htm
Duration of Company	Not limited
Subsidiaries	See following section as well as note 3.2 *"Investments in shareholdings"* to the statutory financial statements of the Company.

The Company operates through its wholly owned subsidiaries: (DCG 1.1.3):



Company	Share Capital	Registered Office	Activities
Kinarus AG	CHF 609,345	Basel, CH	Headquarters; development of pharmaceutical drugs, administrative functions
Perfect Aviation SA	CHF 650,000	Geneva, CH	Administrative (liquidation proceedings in process)

None of these subsidiaries are listed on a stock exchange. The development activities are managed by Kinarus AG and are mostly performed in Switzerland and the EU. The Company directly holds 100% of the shares in the aforementioned subsidiaries.

Significant shareholders (DCG 1.2)

See note 4.2 *"Significant Shareholders"* to the statutory financial statements of the Company.

Cross-shareholdings (DCG 1.3)

There are no cross-shareholdings.

Capital Structure (DCG 2)

Ordinary, conditional and authorized capital (DCG 2.1/2.2)

The Company has one class of registered shares with a nominal value of CHF 0.01 each (**Shares**).

As of 31 December 2022, the Company had the following ordinary, authorized and conditional share capital:

Type of capital	**Capital as per commercial register**			
	Amount in CHF	**As % of ordinary capital**	**Expiry**	**Section in Articles**
Ordinary capital	11,436,030.38	100.0		3
Authorized capital	4,861,796.87	42.5	2 May 2024	3b
Conditional capital for certain employees (ESOP) as well as for warrants/option rights granted in connection with debt instruments	4,996,743.42	43.7	For conversion rights: 6 months from issue date	3a

For details with regard to terms and conditions of potential share issues under the Company's authorized and conditional share capital, see sections 3a and 3b of the Articles, which can be downloaded from https://ir.kinarus.com/corporate-governance/ and the section on DCG 2.7 below.

Changes in share capital (DCG 2.3)

For changes that took place in 2022, 2021 and 2020, see note 17 "Share Capital" to the consolidated financial statements of the Company and the table below.

	Number of shares			Nominal value of share capital (in TCHF)		
	01.01.22-31.12.22	01.01.21-31.12.21	01.01.20-31.12.20	01.01.22-31.12.22	01.01.21-31.12.21	01.01.20-31.12.20
Balance at 1 January	181'018'281	181'018'281	181'018'281	1'810	1'810	1'810
Issuance of shares through acquisition of Kinarus AG (1.	888'514'758	-		8'885	-	-
Issuance of shares through acquisition of Kinarus AG (2.	43'782'327			438	-	-
Issuance of shares through conversion of convertible loans	30'287'672	-		303	-	-
Balance at 31 December	**1'143'603'038**	**181'018'281**	**181'018'281**	**11'436**	**1'810**	**1'810**

Shares, participation and dividend right certificates (DCG 2.4/2.5)

As of 31 December 2022, the issued share capital of the Company amounted to CHF 11,436,030.38 divided into 1,143,603,038 registered Shares with a nominal value of CHF 0.01 each. Each Share carries one vote and entitles to dividends. Other than the rights provided by statutory law, there are no preferential rights attached to the Shares.

The Company has not issued any participation certificates or any profit-sharing certificates.

The Company may issue its Shares in the form of uncertificated securities, single certificates or global certificates. A registered shareholder may, at any time, request the Company to confirm in writing its shareholding as entered into the share register.

Limitations on transferability and nominee registrations (DCG 2.6)

Share transfers, as well as the establishing of a usufruct (**Share Transfer**), require the approval of the Board. A Share Transfer may only be refused if the shareholder does not expressly declare the acquisition in their own name. Approval for Share Transfers due to inheritance or matrimonial property law may not be refused. Share Transfers approved based on false representations of the transferee may be revoked and the shareholder deleted from the share register. A Share Transfer is deemed to have been approved if it has not been declined within 20 days.

The implementation of (further) transfer restrictions requires shareholder approval with a quorum of at least two thirds of the represented votes and the absolute majority of the represented nominal share capital, whilst the abolishment of such share transfer restrictions requires the absolute majority of the represented nominal share capital.

During the financial year 2022, no exceptions to the limitations on transferability were granted.

The Articles do not contain any special regulations with regard to the registration of nominees.

The Board delegated the administration of the share register to AREG.

Convertible bonds and warrants/options (DCG 2.7)

Convertible bonds

On 21 August 2022, the Company executed a financing agreement with Yorkville Advisors Global LP respective their fund YA II PN, LTD (together "Yorkville") to raise up to TCHF 20,000 over three years by issuance of convertible notes. The unsecured convertible notes each have a term of six months and are convertible into Shares during the term by the holder of the convertible notes. The conversion price shall be determined as the lower of (i) 120% the volume-weighted 10-day trading price of the Shares prior to Company's decision to issue the convertible notes, or (ii) 92% of the lowest daily volume-weighted 10-day trading price of the Shares prior to conversion. Interest is paid at an annual rate of 4% during the term of the notes. In additional to the convertible notes, the Company will issue 3-year warrants to acquire the Shares linked to the nominal value of the convertible notes at an exercise price of 120% of the Share price prior to funding. Until 31 December 2022, the Company received TCHF 300 as convertible loan from Yorkville and issued 8,928,571 warrants to Yorkville to purchase Shares at an exercise price of CHF 0.0336 per Share. In December 2022 the convertible loan of TCHF 300 (plus interests) was converted into Shares. See note 17 and note 31.1 to the consolidated financial statements of the Company for further drawdowns and conversions in 2023.

Options, warrants

There are no other options or warrants outstanding as of 31 December 2022.

Board of Directors (DCG 3)

Board and committee memberships (DCG 3.1/3.2/3.3/3.4 and 3.5.2)

The composition of the Board, the Audit Committee, the Compensation Committee and the Nomination Committee is as follows:

	Year of birth	Nationality	First elected	BoD	AC	CC	NC
Hari Kumar[1]	1956	UK	2022	◉	○	○	○
Eugene Tierney[1]	1958	IE	2022		○	○	○
Silvio Inderbitzin[1]	1965	CH	2022		○	○	○
Alexander Bausch[1,2]	1962	DE	2022				

◉ = Chairman ○ = Member

1 Elected for the first time at the 2022 AGM of Perfect Holding SA held on 2 May 2022

2 Vice-Chairman of Board, CEO of the Company

Hari Kumar

Hari Kumar served at Roche before joining Eisai Ltd as European Marketing Director. He then returned to Roche as Global Head of Transplant Immunosuppressives. He moved to Amira Pharmaceuticals Inc. in 2007 as Chief Business Officer. In 2013 Dr. Kumar became Chief Executive Officer of Adheron Therapeutics In his career, Dr. Kumar oversaw the launch of the immunosuppressive, CellCept®, the Alzheimer's drug, Aricept® and the gastric ulcer drug, Aciphex®. His experience in almost all aspects of the pharmaceutical industry has given him a unique understanding of what makes a successful pharmaceutical business. At Amira Pharmaceuticals, Dr. Kumar led the process that resulted in its acquisition by Bristol Myers Squibb in 2011. He also navigated the acquisition of Adheron Therapeutics by Roche, in his roles both as CEO and board member. These transactions have delivered over a billion dollars in returns to investors. Dr. Kumar has a BSc from University of Malaya, Kuala Lumpur and a PhD from University College London, UK.

Eugene Tierney

Eugene Tierney is an experienced business strategist with achievements across the whole pharma value chain. He spent several years as Head of Global Pharma Business Strategy with Roche, before assuming Therapeutic Area Leadership for Anti-infectives & Transplantation. He later led the Neuroscience Disease Biology Area where he was responsible for all aspects of Discovery and Early Development, as well as Commercialization. Mr. Tierney has also worked in Pharma Partnering and was the lead representative on a number of strategic alliances with biotech companies. Prior to his global experience, Eugene held several Affiliate Sales & Marketing roles of increasing seniority, including Country Manager for Genentech in the UK & Ireland. Since 2013 he has worked as a Consultant in Fletcher Associates GmbH, providing decision support to pharma and biotech companies. Mr. Tierney has BSc Hons in Psychology from Queen's University, Belfast, Northern Ireland.

Silvio Inderbitzin

Dr. Silvio Inderbitzin is a member of the Board and a principal shareholder in the Company. Dr. Inderbitzin has held multiple senior positions in the pharmaceutical industry during the last 20 years. With his origin in pharmaceutical manufacturing, he built a corporate-wide good manufacturing practice-quality assurance infrastructure as Head of Quality Assurance and was responsible for product release as a Qualified Person in a medium-sized Swiss pharmaceutical company. He was later elected to the position of Technical Director and served on the Corporate Management Team, ultimately joining the Board of Directors and becoming co-owner of the privately held 450 employee company. Prior to the successful sale of the company, he served as CEO and was responsible for its foreign subsidiaries. He is an active investor, consultant and board member of several life science start-up companies. Dr. Inderbitzin studied Pharmacy at the University of Berne, holds a Ph.D. in Pharmacology from the University of Zurich/ETH, and obtained an Executive MBA from the University of St. Gallen.

Alexander Bausch

Dr. Alexander Bausch serves as CEO and Vice Chairman of the Board and is the Founder of Kinarus AG, where he was the CEO since inception. Dr. Bausch has extensive commercial, development and executive leadership expertise from a 20-year career in the pharmaceutical industry. Prior to founding Kinarus AG, he worked as an independent consultant strategically supporting venture capital funds and small biotech companies. While at Roche, Dr. Bausch led Research and Development teams across seven therapeutic areas, most recently as Life Cycle Leader for a global phase 3 program where he developed the strategic roadmap for commercialization up to product launch. He has entered more than ten drugs into clinical development including four molecules successfully into phase 2 and one into phase 3. In his early career, Dr. Bausch served as head of Solid Dosage Form Development at Roche. He is an expert in formulation research, aerosol development, and powder technology. Dr. Bausch is a pharmacist by training and obtained his Ph.D. from the University of Basel.

Business connections between Board members and the Company (DCG 3.1.c).

See note 23 “Related Party Transactions” to the consolidated financial statements.

Other activities and vested interests (DCG 3.2)

	Organisation	Role	Conflict with Kinarus
Hari Kumar	UCL Global Business School for Health, UK	External Advisory Board Member	No
	Mantra Bio, USA	Advisor	No
Eugene Tierney	Versameb, CH	Board Member	No
	MicroQuin, USA	Advisor	No
Silvio Inderbitzin	Hänseler, CH	Chairman of BoD	No
	Just International, CH	Board Member	No
	High Tech Home Care, CH	Chairman of BoD	No
	Aurealis Therapeutics, CH	Board Member	No
	Cellestia Biotech, CH	Board Member	No
	obvioTec, CH	Board Member	No
	Swiss Cancer Research Foundation, CH	Board Member	No
	Swiss Cancer Foundation, CH	Board Member	No
	Helvecura, CH	Board Member	No

Other than described above, none of the members of the Board has any position in governing or supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private or public law, nor any permanent management or consultancy function for important Swiss and foreign interest groups, nor any official function or political posts.

Permitted mandates in other companies (DCG 3.3)

See table in section on DCG 4.3.

Elections and terms of office (DCG 3.4)

According to the Articles, the Board shall consist of two or more members. All members of the Board, including the chairman in, are elected or removed by the shareholders' meeting of the Company. The Board members are elected on an individual basis for a term of office of one year, whereby a year means the period between two annual shareholders' meeting of the Company. The terms of the current Board members end at the shareholders' meeting 2023 of the Company. The members of the Board may be re-elected. There is no maximum tenure provided for in the Articles. There are no provisions in the Articles that differ from legal provisions with regard to the appointment of the chairman, the members of the Compensation Committee and the independent proxy.

Organizational structure/areas of responsibility and information flow (DCG 3.5)

Allocation of tasks within the Board (DCG 3.5.1)

Except for the election of the chairperson and the members of the Compensation Committee, the Board constitutes itself. The Board may appoint a vice-chairman from amongst its members. The Board further appoints a secretary who does not need to be a member of the Board.

The chairman convenes and presides over the Board meetings. The other members of the Board may request that items be placed on the agenda.

The Board committees (DCG 3.5.2)

The **Compensation Committee** assists the Board in establishing the compensation policy and the compensation of the members of the Board, the CEO and Executive Committee. It consists of three Board members, Hari Kumar, Eugene Tierney and Silvio Inderbitzin. The members of the Compensation Committee are elected individually by the annual shareholders' meeting for a term of office until the end of the next annual shareholders' meeting.

The **Audit Committee** monitors (i) the integrity of the financial statements, (ii) the independent audit in compliance with applicable legal and regulatory requirements, (iii) the accounting and financial reporting processes and (iv) the intern control, risk and compliance management processes of the Company. It consists of three Board members, Hari Kumar, Eugene Tierney and Silvio Inderbitzin. The members of the Audit Committee are appointed by the Board.

The **Nomination Committee** assists the Board in the identification of suitable candidates for the Board and the Executive Committees. It consists of three Board members, Hari Kumar, Eugene Tierney and Silvio Inderbitzin. The members of the Nomination Committee are elected by the Board.

Board - organizational structure and areas of responsibility (DCG 3.5/3.6)

Core tasks of the Board

The Board is entrusted with the ultimate direction of the Company and supervision of Executive Committee. The Board’s non-transferable and inalienable duties include the following:

- The ultimate management of the Company, by determining the strategy of the Company based on discussions with Executive Committee, e.g., whether to evaluate, pursue or execute a financing, M&A or licensing transaction or a strategy before regulatory authorities such as the European Medicines Agency (**EMA**) and the U.S. Food and Drug Administration (**FDA**).
- The determination of the organizational structure of the Company, in terms of both organization by departments and organization through the legal structure of the Group.
- The oversight of the accounting system, financial control (including the Company’s internal control system, risk management as well as financial planning), through structured processes of budgeting/forecasting (both bottom up and top down), variance analyses, regular latest estimates and invoice approvals.
- The appointment, recall and supervision of the Executive Committee, the determination of their areas of

responsibility and their signing authorities.

The Board is also responsible for the preparation of the Annual Report, AGM and EGMs (if any), carrying out shareholders' resolutions, and notification to the judge in case of over-indebtedness of the Company.

The Board has delegated the day-to-day management of the Company to the Executive Committee under the leadership of the CEO. The Executive Committee is supported by a management team where major functions are represented.

Work methods of the Board and its Committees (DCG 3.5.3)

Board

The adoption of resolutions and elections by the Board requires a majority of the votes cast. To validly pass a resolution, more than half of the members of the Board must be present at the meeting. In case of an impasse, the chairman has a casting vote. Meetings of the Board may also be held by tele- or videoconference and resolutions may be taken by circular.

In 2022, all resolutions by the Board were taken unanimously.

Information and control instruments vis-à-vis the Executive Committee (DCG 3.7)

As a rule, the whole Executive Committee participates in the Board meetings and reports to the Board on the current course of business and all significant issues and transactions. Other employees may be invited to attend to present and discuss certain agenda items covering their area of expertise, for example, to discuss results and progress of clinical studies and submissions to regulatory authorities. From time to time, the Board also invites the Company's auditors and tax or legal advisors to its meetings.

Extraordinary transactions and issues must be reported by the CEO to the Board immediately. The CEO is in regular contact with the Board. Each member of the Board is entitled to request and receive information on all matters of the Company and has access to the Company's and the Company's subsidiaries' property, records and personnel.

The CEO, other members of the Executive Committee and additional executives provide regular reports to the Board and to the Board committees. Reported topics include business developments and transactions, claims, reserving, reserve movements, corporate developments, key projects, financial highlights from an accounting as well as from an economic perspective, liquidity, treasury activities.

Due to its size, the Company does not have an internal audit function, but parts of this function have been allocated to its finance team.

Gender Guidelines (DCG 3.8)

Not Applicable.

Executive Management (DCG 4 and 3.6)

In 2022, the Executive Management consisted of five executives.

Executive	Function	Nationality
Alexander Bausch	CEO	DE
Matthew Wright	COO and Head of Research	USA, CH
Thierry Fumeaux	CMO	CH
Claudia Berger	CCDO	CH
Subhasis Roy	Interim CFO	CH

The members of the Executive Management are appointed by the Board after evaluation of the Nomination Committee.

During the Board and Board committee meetings, the CEO reports to the Board as well as whenever required on an ad hoc basis.

The CEO, together with Executive Management, is responsible for implementation of the strategy and the decisions taken by the Board and its Committees within the approved budget. With the support of the management team - consisting of the members of Executive Management, he prepares the business strategy and business plan for decision by the Board. The CEO approves material contracts, decides on the Company's intellectual property rights and the handling of lawsuits. He also allocates financial, personnel and other resources within Kinarus and supervises the members of the management team. The management team has regular meetings that usually cover the following topics: development programs and clinical studies, regulatory strategies, resource allocation, business development, competitive situation, risk management and internal control system, corporate affairs including important contracts, supply chain and information on subsidiaries, financing situation and strategies, internal and external financial reporting, financial controlling, public and investor relations, human resources, taxes, legal and compliance.

Alexander Bausch

Please refer to CV above.

Alexander Bausch has no other activities and vested interests.

Matthew Wright

Dr. Matthew Wright is a seasoned scientific leader with over 20 years of experience in drug discovery research. Prior to joining Kinarus, Dr. Wright served as Research Leader and Scientific Expert at Roche. During this time, he led teams that implemented novel drug discovery approaches for the identification of small molecule modulators of nuclear hormone receptors, and for identification of drug targets in cardiovascular and metabolic health. During his tenure, he also directed academic collaborations, drug discovery and strategic alliances. Dr. Wright previously held a post-doctoral fellowship at the University of Washington, Department of Pathology, with Dr. D. F. Bowen-Pope, researching mechanisms of vessel restenosis and tissue repair. He has authored numerous articles in the fields of nuclear hormone receptors (NHR) drug discovery, signal transduction and vascular biology, and is an inventor of over 25 issued and pending patents. He holds a Ph.D. in biochemistry, molecular biology, and cell biology from Northwestern University.

Matthew Wright has no other activities and vested interests.

Thierry Fumeaux

Dr. Thierry Fumeaux, a specialist in intensive care medicine and internal medicine, is the former executive president of the Swiss Society of Intensive Care Medicine, former president of the Clinical Care expert group of the Swiss National COVID-19 Scientific Task Force, former head of the Internal Medicine ward and the ICU of a Swiss regional hospital, and former adjunct Professor of Medicine at the University of Geneva. After an EMBA at IMD Lausanne, he left his clinical activities to join Kinarus as CMO. He is also active as President of the Swiss Foundation for Intensive Care Medicine.

Thierry Fumeaux is CEO, CMO and board member of Acthera Therapeutics, Switzerland.

Claudia Berger

Claudia Berger gained her expertise from more than 15 years in the pharmaceutical industry and is leading all clinical trial projects at Kinarus in collaboration with external vendors. Prior to this, Ms. Berger headed the clinical trial operations unit at Delenex Therapeutics AG in Zurich. In her former role as Principal Clinical Scientist at Novartis in Basel, she led clinical trial teams responsible for the conduct of global clinical studies encompassing profiling, biomarker and more than 12 proof of concept studies. Further responsibilities addressed the management of Novartis' early development portfolio as well as 4 associates. Ms. Berger is a pharmacist and obtained her Master of Science degree in Pharmacy at the University of Basel. She also holds a Diploma as a University Professional of Advanced Studies in Pharmaceutical Medicine (ECPM Course), also performed at the University of Basel.

Claudia Berger is Senior VP of Clinical Development of ImmunOs Therapeutics, Switzerland.

Subhasis Roy

Subhasis Roy has over 20 years of healthcare industry experience initially as a healthcare banker/advisor and later as a biopharmaceutical company leader. Prior to Kinarus, he was Interim CFO of NLS Pharmaceutics, a Nasdaq listed clinical-stage Swiss biopharmaceutical company developing therapies for rare CNS disorders. Previously, he was CEO/COO of Novaremed, a clinical-stage private Swiss biopharmaceutical company developing therapies for diabetic neuropathy. Prior to his operating roles in the biopharmaceutical industry, he was Managing Partner and Co-Founder of Sirius Healthcare Partners, a healthcare advisory boutique advising and executing transactions for emerging healthcare companies. Prior to Sirius, he was a healthcare banker at various investments banks (UBS, HSBC, DKB), where he advised large and mid-size healthcare companies and executed numerous financing and M&A transactions. He holds an MBA in Finance and General Management from Fuqua School of Business at Duke University, NC, USA and Masters' and Bachelors' degrees in Commerce from University of Mumbai, India.

Subhasis Roy is a board member of Vaccentis, Switzerland.

Other activities and vested interests (DCG 4.2)

Other than described above, no member of Executive Committee has any position in governing or supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private or public law, nor any permanent management or consultancy function for important Swiss and freeing interest groups, nor any official function or political posts.

Permitted activities in other companies (DCG 3.3 and 4.3)

The Articles provide for the following maximum numbers of permitted activities in other companies:

Body	**Maximum number of activities in listed companies**	**Maximum number of activities in non-listed companies**
Board members	4	15
Members of Executive Management	2	10

Management contracts (DCG 4.4)

There are no management contracts between the Company and third parties.

Gender Guidelines (DCG 4.5)

Not Applicable.

Compensation, Shareholdings and Loans (DCG 5)

An extensive description of the compensation system and the amounts paid in the year under review are available in the separate Compensation Report of this Annual Report.

Shareholders' Participation (DCG 6)

Voting rights restrictions and representation (DCG 6.1)

There are no voting right restrictions and no statutory group clauses. Consequently, there were no exceptions to be granted and there is no procedure or requirements for the abolishment of voting restrictions and/or statutory group clauses.

A shareholder may be represented by any third party based on written proxy. In addition, any shareholder may have his or her Shares represented by the independent proxy. There are no provisions in the Articles that differ from statutory provisions regarding the participation of shareholders in the shareholders' meetings.

Statutory quora (DCG 6.2)

The Articles contain no quora which differ from the applicable legal provisions.

Convocation of the Shareholders' Meeting (DCG 6.3)

The Articles contain no provision on the convocation of the shareholders' meetings that differ from the applicable legal provisions.

Agenda rules (DCG 6.4)

The Board decides on agenda items and motions of the shareholders' meetings. Shareholders may, up to 45 days before the date of the shareholders' meeting, request that items be included in the agenda. Such a request must be in writing and must specify the items and the motions to be submitted.

Registrations in the share register (DCG 6.5)

Shareholders entered into the share register as shareholders on a specific qualifying day designated by the Board (record date) are entitled to attend and vote on such shareholders' meeting.

Changes of Control and Defense Measures (DCG 7)

Duty to make an offer (DCG 7.1)

The Company's shareholders resolved for the opting out provision in 2022. As a result, art. 135 FMIA does not apply to the shareholders and purchasers of equity securities of the Company.

Clauses on changes of control (DCG 7.2)

As of 31 December 2022, there are no clauses on changes of control in any agreements and scheme from which members of the Board and/or the Executive Committee or other employees benefit or may benefit.

Auditors (DCG 8)

Duration of the mandate and term of office of the lead auditor (DCG 8.1)

Ernst & Young, Basel, assumed the auditing engagement for the Company in 2022. The shareholders' meeting elects the Company's auditors for a term of office of one year. The auditor in charge is Fabian Meier. He assumed his responsibility in 2022.

Auditing fees and additional fees (DCG 8.2/8.3)

The following fees were charged for professional services rendered by Ernst & Young in 2022 (audit-related fees have been incurred in connection with capital increases and related comfort letters and review procedures):

In TCHF	2022	2021
Audit services	112	-
Audit-related services	107	-

-

Audit services are defined as the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of Kinarus and to issue reports on the local statutory financial statements. It also includes services that can only be provided by the Group auditor and includes the verification of the implementation of new or revised accounting policies.

Audit-related services include those other services provided by auditors but not restricted to those that can only be provided by the auditor signing the audit report. They comprise services in relation to general accounting matters. For reasons of good corporate governance, Kinarus contracted the provision of tax and accounting services to a company other than Ernst & Young.

Supervisory and control instruments pertaining to the audit (DCG 8.4)

The Board performs its supervisory and control functions towards the external auditors. In particular, the Board meets with the auditors at the end of an audit or review to discuss in depth the audit procedures, any findings made, and recommendations proposed. The auditor's reports to the Board are also extensively discussed.

Information Policy (DCG 9)

Kinarus reports to its shareholders, employees, business partners and other public stakeholders in an open, transparent and timely manner. Equal treatment of all stakeholders is the guiding principle behind its partnership- based approach. In doing so, Kinarus is able to promote an understanding of its objectives, strategy and business activities, and to ensure an increasing degree of awareness about Kinarus. The Company has adopted a comprehensive disclosure policy to protect Kinarus' interests and assets, to release material information in a timely and controlled manner, to observe the legal requirements and rules and in particular to also distinguish competencies and responsibilities of corporate and strategic disclosure and those applicable in clinical development.

The most important information tools are news releases, the AGMs, the Annual Report, the Interim Reports and the website https://www.kinarus.com/about-us/company-overview.htm

In addition, the Company communicates on social media, such as LinkedIn.

Investors and other parties interested in subscribing to the Company's news service may do so by registering themselves on: https://ir.kinarus.com/ir-contact-service/

For contact details, see: https://www.kinarus.com/contact.htm

Corporate events 2023

The 2023 Annual General Meeting will be held on 28 June 2023. See also Kinarus' financial calender on its website: https://ir.kinarus.com/financial-calendar/

Quiet Periods (DCG 10)

According to Kinarus' Insider Trading Guidelines, quiet Periods (i) begin on the day following the financial statements date of the annual- or semi-annual-report respectively and end at the close of business two trading days following the date of publication of the respective annual- or semi-annual report and (ii) begin 10 calendar days before the meeting of the board of directors adopting the publication of the agenda of any shareholders' meeting and end at the close of business two trading days following the date of publication of the agenda. For the 2022 Annual Report, the Quiet Period has started on 1 January 2023 and will end on 1

June 2023, at close of business. As at the date of this report, no decision has been made with respect to subsequent reporting dates, therefore it is not yet possible to exactly determine the related Quiet Periods. During the quiet periods, the members of the Board and all persons, whose activities or function give them access to financial results or other material information of Kinarus that is not yet public are prohibited to trade Shares or financial instruments related to such Shares.

Contact

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COMPENSATION REPORT

Introduction

The compensation report contains information about the principles of remuneration, procedures for determining remuneration and components of compensation for the Board of Directors and Executive Management of Kinarus Therapeutics Holding AG ("Company"). It is based on the provisions of the Articles of Association, the transparency requirements set out in Article 663b and Article 663c of the Swiss Code of Obligations, Articles 13-16 and Article 20 of the Swiss Ordinance against Excessive Remuneration at listed Companies (OaEC), the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the Swiss Code of Best Practice for Corporate Governance drawn up by Economiesuisse.

Compensation Governance

The Compensation Committee ("CC") currently consists of three members of the Board of Directors. The members of the CC are elected individually by the shareholders' meeting for a term of office running until completion of the following annual shareholders' meeting. At the Annual General Meeting ("AGM") of 2 May 2022 of Perfect Holding SA (now Kinarus Therapeutics Holding AG), Hari Kumar (Chairman of the Board of Directors), Eugene Tierney and Silvio Inderbitzin (Board members) were elected as members of the CC.

The CC assists the Board of Directors in establishing and periodically reviewing the Company's compensation strategy and guidelines as well as in preparing the proposals to the General Meeting regarding the compensation of the members of the Board of Directors and of the Executive Management. It may submit proposals and recommendations to the Board of Directors regarding other compensation-related issues. The Board of Directors may promulgate regulations to determine for which positions of the Board of Directors and of the Executive Management the CC, together with the Chairman of the Board of Directors or on its own, shall submit proposals for the compensation, and for which positions it shall determine the compensation in accordance with the Articles of Association and the compensation guidelines established by the Board of Directors. The Board of Directors may delegate further tasks and powers to the CC.

General Compensation Principles

The Board of Directors submits proposals to the General Meeting regarding the maximum amounts of the fixed compensation (for the following business year) and variable compensation (for the past business year). Within such limits, the Board of Directors, upon a proposal of the CC, decides upon the fixed and variable compensation elements, their components, and the possible performance metrics for the variable compensation. Compensation may be paid or granted in the form of cash, share options, other benefits or in kind. The Board of Directors, upon proposal of the CC determines grant, vesting, blocking, exercise, and forfeiture conditions; it may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation assuming target achievement or for forfeiture, for example in case of pre-determined events such as o termination of on employment or mandate agreement. The Board of Directors evaluates compensation according to the principles that apply to the compensation report.

The Company's compensation policy is designed to attract, motivate and retain talent in order to support the achievement of the Company's financial and strategic objectives and also to ensure that the total compensation package is market competitive. By combining short- and long-term incentive elements, the Board believes that the compensation system is designed in a way that the interests of the management are aligned with the interests of the Company and its shareholders. The Company's compensation system does not set any unintended enticements or contain any components that could be counterproductive to the objectives of the compensation system. The compensation system shall ensure compliance and best practice. In addition, compensation elements are focused on rewarding the delivery of outstanding and sustainable results without inappropriate risk-taking.

Compensation Elements

I. Board of Directors Compensation Elements

The Board of Directors are remunerated in relation to their responsibilities. The compensation for members of the Board of Directors consists of:

- Cash fees
- Option grants (long-term incentive)

Both components, cash fees and option grants, do not depend on the achievement of corporate goals or the individual performance of a board member. Additionally, the Company pays social security contributions due on the annual cash fees.

II. Executive Management Compensation Elements

The Executive Management members are remunerated in relation to their position, responsibilities, experience, skills and performance. The compensation for members of the Executive Management consists of:

- Fixed compensation
- Variable compensation:
    - Performance bonus (short-term incentive)
    - Option grants (long-term incentive)

Fixed compensation

The fixed compensation for the Executive Management members includes base salary, allowances, social security contributions and payments to the pension fund by the Company. Base salary of the CEO and members of the Executive Management are reviewed annually by the CC and CEO, respectively.

Variable compensation: Performance Bonus

The performance bonus, accrued for the calendar year, is usually paid in cash at the end of first quarter of the calendar year, is based on the individual Executive Management member's performance during the previous year and if the Company's financial situation allows for a cash payment. At the discretion of the CC, the performance bonus is determined individually for each member of the Executive Management as a percentage of the base salary, ranging from 20-30%.

Variable compensation: Option Grants

The objective of the option grants is to align the variable long-term compensation of the Executive Management with the Company's strategy. Currently the Company does not have an Employee Stock Option Plan ("ESOP") in place to grant options to members of the Board of Directors and Executive Management.

Compensation of the Members of Board of Directors (audited)

The current members of the Board of Directors of the Company, as shown below, were elected by the shareholders at the AGM of Perfect Holding SA (now Kinarus Therapeutics Holding AG) on 2 May 2022. Upon the completion of the acquisition of Kinarus AG by the Company and change of name and domicile of the Company on 2 June 2022, the previous board members of Perfect Holding AG, Anouck Ansermoz (Chairperson) and Stephen Grey (member) resigned from the board.

Disclosure of Compensation of members of the Board of Directors for the financial year 2022:

TCHF	Cash Fees	Option grants
Anouck Ansermoz, Chairperson (until 2 June 2022)	0	0
Stephen Grey, Member (until 2 June 2022)	0	0
Hari Kumar, Chairman (from 2 June 2022)	0	0

Alexander Bausch, Vice-Chairman and Member (from 2 June 2022)*	0	0
Eugene Tierney, Member (from 2 June 2022)	0	0
Silvio Inderbitzin, Member (from 2 June 2022)	0	0

Disclosure of Compensation of members of the Board of Directors for the financial year 2021:

TCHF	Cash Fees	Option grants
Anouck Ansermoz, Chairperson	0	0
Stephen Grey, Member	0	0

* Alexander Bausch's compensation as CEO of the Company is disclosed under Executive Management compensation

No remuneration was paid to current or former members of the Board of Directors in 2022 and 2021. Out-of-pocket expenses are reimbursed to all members of the Board of Directors.

Compensation of the Members of Executive Management (audited)

The current members of the Executive Management, as shown below, took over the operational responsibility of the Company on 2 June 2022 upon the completion of the acquisition of Kinarus AG by the Company. Anouck Ansermoz, CFO of Perfect Holding SA, was part of the Executive Management until 2 June 2022 and resigned from the position upon completion of the acquisition.

Disclosure of Compensation of members of the Executive Management for the financial year 2022:

TCHF	Base salary***	Performance bonus	Social security & pensions***	Total compensation***	Option grants
Anouck Ansermoz, CFO* (until 2 June 2022)	50	0	0	50	0
Alexander Bausch, CEO (from 2 June 2022)	151	0	30	181	0

Matthew Wright, COO (from 2 June 2022)	122	0	24	146	0
Thierry Fumeaux, CMO (from 2 June 2022)	70	0	15	85	0
Claudia Berger, CCDO (from 2 June 2022)	70	0	15	85	0
Subhasis Roy, Interim CFO** (from 2 June 2022)	84	0	0	84	0
Total	**547**	**0**	**84**	**631**	**0**

* Anouck Ansermoz, as an external consultant, received fixed monthly fees of TCHF 10, excluding VAT.

** Subhasis Roy, as an external consultant, received fixed monthly fees of TCHF 12, excluding VAT.

*** The figures (except for Anouck Ansermoz) account for only seven months of compensation of current members of the Executive Management.

Disclosure of Compensation of members of the Executive Management for the financial year 2021:

TCHF	Base salary	Performance bonus	Social security & pensions	Total compensation	Option grants
Anouck Ansermoz, CFO*	120	0	0	120	0

* Anouck Ansermoz, as an external consultant, received fixed monthly fees of TCHF 10, excluding VAT.

Employment Contracts

Subhasis Roy, Interim CFO has a written external consulting agreement that can be terminated on 30 days’ notice.

There is no contractual provision regarding a severance pay for members of the Board of Directors. The members of the Executive Management have 1 month of severance pay.

Indirect Benefits

The Company contributes to pension plans which are based on defined contributions, for old age pension, disability and death. The risk portion provides benefits for widowers (spouse), orphans and long-term disability in case of sickness. The amount of pension benefits depends on the employee's age and insured compensation. Both employee and employer contribute to the pension plans.

Comparison between Actual Figures and Figures Approved by the Annual General Meeting (Prospective Vote)

TCHF	Actual figures 2022*	Figures approved by AGM for 2022
Total compensation of the current members of the Board of Directors	0	300
Total compensation of the current members of the Executive Management	581	2,000

* The figures account for only seven months of compensation of current members of the Executive Management.

Loans and Credits

At 31 December 2022 and at 31 December 2021, there were no loans and/or credits granted by any company of the Kinarus Therapeutics Holding Group to any current or former member of the Board of Directors or Executive Management.

Shareholdings of Members of the Board of Directors and Executive Management

Disclosure of Shareholdings of members of the Board of Directors as at 31 December 2022:

	Number of Shares	Number of options
Anouck Ansermoz, Chairperson (until 2 June 2022)	0	0
Stephen Grey, Member (until 2 June 2022)	7,840,361	0

Hari Kumar*, Chairman (from 2 June 2022)	1,874,250	0
Alexander Bausch, Vice-Chairman and Member (from 2 June 2022)	122,167,556	0
Eugene Tierney, Member (from 2 June 2022)	6,063,696	0
Silvio Inderbitzin**, Member (from 2 June 2022)	44,684,874	0

* Hari Kumar's shareholding is held by his wife, Jacqueline Wallach, a related party.

** Silvio Inderbitzin's shareholding includes shares held by his wife, Mrs. Gabriele Inderbitzin-Köhler, a related party.

Disclosure of Shareholdings of members of the Board of Directors as at 31 December 2021:

	Number of Shares	Number of options
Anouck Ansermoz, Chairperson	0	0
Stephen Grey, Member	7,940,361	0

Disclosure of Shareholdings of members of the Executive Management as at 31 December 2022:

	Number of Shares	Number of options
Anouck Ansermoz, CFO (until 2 June 2022)	0	0
Alexander Bausch, CEO (from 2 June 2022)	shown above	shown above
Matthew Wright, COO (from 2 June 2022)	16,589,790	0
Thierry Fumeaux, CMO (from 2 June 2022)	2,279,394	0
Claudia Berger, CCDO (from 2 June 2022)	7,189,692	0
Subhasis Roy, Interim CFO (from 2 June 2022)	0	0

Disclosure of Shareholdings of members of the Executive Management as at 31 December 2021:

	Number of Shares	Number of options
Anouck Ansermoz, CFO	0	0

No options have currently been granted to any member of the Board of Directors and/or Executive Management under any stock option plan.

Outlook

Outlook for Board of Directors Compensation

The Board of Directors will propose an amount of TCHF 120 of compensation to be paid to the members of the Board of Directors for the term in office from the 2023 ordinary AGM to 2024 ordinary AGM at the 2023 ordinary AGM.

Outlook for Executive Management Compensation

The Board of Directors will propose an amount of TCHF 1,000 of fixed compensation to be paid in 2023 to the members of the Executive Management at the 2023 ordinary AGM. This figure is based on the annualized base salaries paid to the members of the Executive Management in 2022.

The Board of Directors will not propose any variable compensation to be paid in 2023 to the members of the Executive Management at the 2023 ordinary AGM.

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To the General Meeting of
Kinarus Therapeutics Holding AG, Basel

Basle, 30 May 2023

Report of the statutory auditor on the audit of the compensation report

Opinion

We have audited the compensation report of Kinarus Therapeutics Holding AG (the Company) for the year ended 31 December 2022. The audit was limited to the information on remuneration, loans and advances pursuant to Art. 14-16 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften, VegüV) in the tables marked “audited” on page 28 to 30 of the compensation report.

In our opinion, the information on remuneration, loans and advances in the compensation report complies with Swiss law and Art. 14-16 VegüV.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the compensation report” section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The compensation report for the year ended 31 December 2021 were audited by another statutory auditor who expressed an unmodified opinion on those compensation report on 31 March 2022.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the tables marked ”audited” on page 28 to 30 in the compensation report, the consolidated financial statements, the stand-alone financial statements and our auditor’s reports thereon.

Our opinion on the compensation report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the compensation report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the audited financial information in the compensation report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities for the compensation report

The Board of Directors is responsible for the preparation of a compensation report in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of a compensation report that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibilities for the audit of the compensation report

Our objectives are to obtain reasonable assurance about whether the information on remuneration, loans and advances pursuant to Art. 14-16 VegüV is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this compensation report.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the compensation report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Ernst & Young Ltd

Fabian Meier Licensed audit expert (Auditor in charge)	René Buchmann Licensed audit expert

Kinarus Therapeutics Holding AG

Consolidated Financial Statements
for the year ended 31 December 2022

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Kinarus Therapeutics Holding AG

Consolidated income statement (in TCHF)

TCHF	Notes	01.01.22 - 31.12.22	01.01.21 - 31.12.21
Other income	14	3'336	-
External research and development expenses		(1'507)	-
Payroll expenses	6	(516)	-
General and administrative expenses	7	(1'631)	(410)
Loss before financial result, taxes and depreciation and amortization		**(318)**	**(410)**
Depreciation of property, plant and equipment	11	(3)	-
Amortization of intangible assets	12	(1'519)	-
Impairment of intangible assets	12	(38'177)	
Financial income	8	131	280
Financial expenses	8	(10)	(13)
Exchange differences	8	(3)	-
Loss before taxes		**(39'899)**	**(143)**
Income tax income	19	5'156	-
Loss for the period		**(34'743)**	**(143)**
Loss attributable to:			
Owners of the Company		(34'732)	(143)
Minority interests		(11)	-
		(34'743)	**(143)**
Loss per share			
Basic and diluted (loss)/profit per share (in CHF)	9	(0.04947)	(0.00087)

The accompanying notes form an integral part of the consolidated financial statements.

Kinarus Therapeutics Holding AG

Consolidated balance sheet (in TCHF)

TCHF	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents		1’342	124
Other current assets	10	294	12
Current assets		**1’636**	**136**
Property, plant and equipment	11	10	-
Intangible assets	12	12’400	-
Non-current assets		**12’410**	**-**
Total assets		**14’046**	**136**
LIABILITIES AND EQUITY			
Trade account payables	13	152	86
Other current liabilities	15	1’695	21
Current liabilities		**1’847**	**107**
Non-current borrowings (subordinated)	16	3’000	429
FOPH accrual	14	1’064	-
Deferred tax liabilities	19	1’382	-
Non-current liabilities		**5’446**	**429**
Total liabilities		**7’293**	**536**
Share capital	17	11’436	1’810
Share premium		32’478	220
Treasury shares	18	(1)	-
Accumulated losses		(37’160)	(2’430)
Total equity attributable to owners of the Company		**6’753**	**(400)**
Minority interests		-	-
Total equity		**6’753**	**(400)**
Total liabilities and equity		**14’046**	**136**

The accompanying notes form an integral part of the consolidated financial statements.

Kinarus Therapeutics Holding AG

Consolidated statement of changes in equity (in TCHF)

TCHF	Share capital	Share premium	Goodwill	Treasury shares	Accumulated losses	Attributable to owners of the Company	Minority interests	Total
Balance at 1 January 2021	**1'810**	**220**	**-**	**-**	**(2'287)**	**(257)**	**-**	**(257)**
Loss for the period	-	-	-	-	(143)	(143)	-	(143)
Balance at 31 December 2021	**-**	**-**	**-**	**-**	**(143)**	**(143)**	**-**	**(143)**
Balance at 1 January 2022	**1'810**	**220**	**-**	**-**	**(2'430)**	**(400)**	**-**	**(400)**
Issuance of shares for acquisition of subsidiary (note 3)	8'885	70'889	(40'508)	(1)	-	39'265	1'936	41'201
Issuance of shares for acquisition of non-controlling interests (note 3)	438	1'487				1'925	(1'925)	-
Issuance of shares through conversion of loans	303	-	-	-	-	303	-	303
Disposal of treasury shares through conversion of loans (note 16)	-	478	-	-	-	478	-	478
Transaction costs	-	(88)	-	-	-	(88)	-	(88)
Reclassification of fully impaired goodwill (note 30)	-	(40'508)	40'508	-	-	-	-	-
Loss for the period	-	-	-	-	(34'732)	(34'732)	(11)	(34'743)
Balance at 31 December 2022	**11'436**	**32'478**	**-**	**(1)**	**(37'160)**	**6'753**	**-**	**6'753**

The accompanying notes form an integral part of the consolidated financial statements.

Kinarus Therapeutics Holding AG

Consolidated statement of cash flows (in TCHF)

TCHF	Notes	01.01.22 - 31.12.22	01.01.21 - 31.12.21
Loss for the period		(34'743)	(143)
Adjustments for non-monetary items:			
- Depreciation expenses	11	3	-
- Amortization expenses	12	1'519	
- Impairmant intangible asset	12	38'177	
- Income from government grants	14	(3'336)	-
- Loan waiver income	8	(131)	(280)
- Interest expense		10	9
- Foreign exchange differences		3	-
- Income tax income	19	(5'156)	-
Change in working capital			
- (Increase)/decrease in other current assets		(149)	52
- Increase/(decrease) in trade accounts payables		(15)	55
- Increase/(decrease) in other current liabilities		(828)	(52)
Interest paid		(7)	-
Net cash used in operating activities		**(4'653)**	**(359)**
Payments for property, plant and equipment		(4)	-
Cash inflow from acquisition of subsidiary	3	5'483	-
Net cash provided by investing activities		**5'479**	**-**
Transaction costs directly related to capital increase		(88)	-
Proceeds from borrowings		479	420
Net cash provided by financing activities		**392**	**420**
Net increase/(decrease) in cash and cash equivalents		1'218	61
Cash and cash equivalents at beginning of the period		124	63
Cash and cash equivalents at end of the period		**1'342**	**124**

The accompanying notes form an integral part of the consolidated financial statements.

Kinarus Therapeutics Holding AG

Notes to the consolidated financial statements

1 General information

Kinarus Therapeutics Holding AG, formerly known as Perfect Holding SA ("the Company") was originally incorporated in Yverdon-les-Bains, Switzerland, as a company limited by shares on 8 April 1997 with the Register of Commerce of the Canton of Vaud.

On 2 June 2022, the Company completed the acquisition of Kinarus AG ("Kinarus"), resulting in a reverse takeover of the Company by the former Kinarus shareholders. Kinarus is a clinical-stage biopharmaceutical company engaged in the discovery and development of novel therapeutics for the treatment of viral, respiratory, and ophthalmic diseases, which represent the new operating activities of the Group. The Company acquired Kinarus by way of a share for share exchange. In a first step, Kinarus shareholders representing 95.3% of the Kinarus issued share capital tendered their shares in exchange for newly issued shares of the Company, and such new shares were admitted for listing and trading on the SIX Swiss Exchange as from 3 June 2022. On 17 August 2022 the Company acquired the remaining 4.7% outstanding Kinarus shares. These shares were also listed on the SIX Swiss Exchange.

On 13 June 2022 the name of the Company was changed from Perfect Holding SA to Kinarus Therapeutics Holding AG and the Company moved its domicile to Basel, Switzerland. For further details on this transaction refer to note 3.

These consolidated financial statements for the year ended 31 December 2022 were authorized for issuance by the Group's Board of Directors on 30 May 2023.

2 Summary of significant accounting policies

2.1 Basis of preparation

The Group's consolidated financial statements provide a true and fair view of the Group's consolidated statement of financial position, statement of income, statement of changes in equity and the statement of cash flows and have been prepared in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER. The financial statements of the Group are established in accordance with the standardised reporting and accounting policies. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with Swiss GAAP FER requires the use of certain critical accounting estimates and judgements. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are assumed to be reasonable under the given circumstances. Real results may differ from those estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Any changes are recognised in the period in which the estimate is revised.

As Kinarus was acquired on 2 June 2022, the consolidated financial statements only include seven months of profit and loss of Kinarus.

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand Swiss francs (“TCHF”) unless otherwise stated.

2.2 Significant accounting policies

Consolidation

The Group’s consolidated financial statements include the assets, liabilities, income and expenses and cash flows of the subsidiaries which the Company directly or indirectly controls (see Note 5 for further details). In this respect, control is defined as the power to control the financial and operating activities of the respective entity, so as to obtain benefits from its operations. The control is normally evidenced by the holding of more than half of the voting rights on share capital of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group’s accounting policies.

Companies acquired over the course of the year are revalued and consolidated in accordance with Group principles upon the date of acquisition. The Group applies the acquisition method of accounting to account for business combinations. Goodwill from business combinations represents the amount of the acquisition costs which exceeds the proportional actual value of the revalued net identifiable assets of the acquired company at the time of purchase.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the country in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Swiss francs (“CHF” or “Swiss francs”), which is the Company’s functional and the Group’s presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All foreign exchange gains and losses are presented in the income statement within “Exchange differences”.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and on consolidation, exchange difference arising from the translation of the net investment in foreign operations are taken to “Cumulative translation adjustment” without affecting the income statement. On the disposal of a foreign operation (that is, a disposal of the Group’s entire interest in a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the income statement as part of the gain or loss on sale.

Property, plant and equipment
Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical costs include expenditures that are directly attributable to the acquisition of the assets. Subsequent costs are capitalized if it is probable that future economic benefits will flow to the Group and the costs can be measured reliably. All other costs, e.g., for repairs and maintenance, are expensed as incurred. Gains and losses on disposals are determined as difference between proceeds and the carrying amount of the asset prior to disposal and are recognized in the income statement.

Depreciation of property, plant and equipment is calculated using the diminishing balance method to allocate costs to residual values over each asset’s estimated useful life as follows:

- Furniture and fixtures: 25% of the residual carrying amount;
- Office equipment: 40% of the residual carrying amount.

The impact of the change in the accounting policy from the straight-line depreciation method to the diminishing balance depreciation method for the year ended 31 December 2022 is not material.

Goodwill
Contrary to the accounting policy chosen by the former Perfect Holding SA to recognize goodwill as an asset which is amortized over 5 years using a straight-line amortization method, Kinarus Therapeutics Holding AG chose to directly offset goodwill against equity upon acquisition in its financial statements for the period ended 31 December 2022. Although this represents a deviation from the principle of consistency, offsetting goodwill against equity was considered to be a more adequate option for the financial statements and the future of the Group. Since a previously capitalized goodwill was fully amortized before the beginning of the comparative period presented in these financial statements (i.e., before 1 January 2021) the presentation of a restatement as required by Swiss GAAP FER Framework 30 would have no impact on these financial statements. Maintaining the previous accounting policy also for the financial statements 2022 would have resulted in an impairment charge against the income statement of TCHF 40’508 instead of an offset against equity and a disclosure of the theoretical impact of a capitalization and amortization on the consolidated result for the period and the consolidated equity of the Group.

Intangible assets
Acquired intangible assets are recognized as assets if they yield measurable economic benefits for the Group over several years.

Intangible assets generated internally can only be recognized as an asset if they meet all of the following conditions at the time of the initial recognition:

- The intangible assets generated internally are identifiable and are controlled by the Group;

- The intangible assets generated internally will yield a measurable future benefit for the Group over several years;
- The expenses which arise from the creation of the intangible assets generated internally can be recognized and measured reliably;
- It is likely that the resources needed for the Group to complete and sell or to use the intangible assets are available or will be made available.

Costs for identifiable intangible assets that cannot be capitalized are expensed as incurred. Costs for intangible assets generated internally that have been expensed as incurred cannot be capitalized subsequently. Currently, the Group does not capitalize any development costs for its development projects as based on the progress of the development projects the future benefit to the Group is still uncertain.

Intangible assets acquired from third parties are capitalized at acquisition cost.

Amortization of intangible assets is calculated on a straight-line basis over 20 years, which is the estimated useful life of the intangible asset which is based on the expected use of the extensive preclinical and clinical safety and efficacy data, which the Company can freely use for development purposes, and which are, in the Company's view, supportive documentary evidence to conduct clinical studies relating to Pamapimod.

Based on the impairment test at 31 December 2022 the intangible asset was impaired to the market capitalisation of the Company at 31 December 2022. For further details see note 12.

Impairment of non-financial assets

The carrying amounts of non-financial assets are assessed at least annually for impairment or whenever there is an indication for impairment. The Group recognizes an impairment if the carrying amount of the non-financial asset exceeds its recoverable amount in the amount of the excess of the carrying value above the recoverable amount, which is the higher of the net selling price and the value in use.

If, as a result of the impairment assessment, the useful life of a non-financial asset changes, the remaining carrying amount is amortized systematically over the newly estimated useful life.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at nominal value. Cash and cash equivalents include cash in hand, other short-term highly liquid investments with original maturities of three months or less. This position is readily convertible to known amounts of cash.

Trade account payables

Trade account payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business reduce the proceeds from the equity issue and are recognised directly in equity as a deduction, net of tax, from the proceeds.

Treasury shares
Treasury shares are recognised at acquisition cost and deducted from shareholders' equity at the time of acquisition, until they are cancelled. When such shares are subsequently sold, any consideration received is included in shareholders' equity.

Current and deferred income taxes
The tax expense for the period comprises current income taxes and deferred taxes. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised directly in equity (capital reserve).

Current income taxes

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities. The current income tax charge is calculated on the basis of the tax rates and tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Taxes on income are accrued in the same periods as the revenues and expenses to which they relate.

Deferred taxes

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pension plans
Contributions related to the reporting period are presented as employee benefit expenses. The respective prepayment or accrued liability resulting from contractual, regulatory or legal bases are recognized as assets or liabilities on the balance sheet.

On an annual basis, the Group assesses for each individual pension plan whether an economic benefit or economic obligation from such pension plan exists. The basis for the assessment is contracts, financial statements of the pension institutions and other calculations presenting the financial situation, the existing surplus or deficit for each pension institution. Changes in the economic benefit or obligation are recognized in personnel expenses.

Economic benefits are recognized as long-term financial assets under "assets from pension institutions". Economic obligations are recognized as long-term liabilities.

Employer contribution reserves or similar items are recognized as assets. If the Group has granted to pension institutions a conditional waiver of use, or intends to do so, the Group recognizes a corresponding provision on the asset from employer contribution reserves. To the extent a deficit is covered through a provision on the employer contribution reserves, the Group does not recognize an additional liability for such deficit.

Employer contribution reserves are recognized as long-term financial assets under "assets from employer contribution reserve", with changes being recognized in personnel expenses.

As of 31 December 2022, as well as 31 December 2021, the Group does neither have assets from pension institutions nor employer contribution reserves.

Leases
The Group leases office space. The Group classifies these leases as operating leases as the risks and rewards incidental to ownership are not substantially transferred to the Group. Payments made under operating lease agreements are recognized in income on a straight-line basis over the lease term.

Changes in presentation and disclosures

Given the significant change in the Group's activities following the acquisition of Kinarus, the Group also renamed certain line items and sub-totals to better align to its current operating activities.

2.3 Critical judgements and accounting estimates
The preparation of the Group's consolidated financial statements in conformity with Swiss GAAP FER requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management continuously reviews and, if necessary, adapts the estimates and underlying assumptions. Revisions to accounting estimates are recognized in the period in which the estimates are revised. The judgements and accounting estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Intangible assets and goodwill

Assumptions used to determine the recoverable amount of intangible assets and goodwill can change due to new estimates and assumptions in relation to progress of clinical development or changes in the timing of forecasted cash flows. Such changes will have an impact on the value in use calculation and ultimately on the recoverable amount of such non-financial assets and could result in impairment in future financial years.

3. Acquisition of subsidiary

On 2 June 2022, the Company acquired 95.3% of Kinarus' share capital by way of a share for share exchange, acquiring Kinarus shares in exchange for newly issued shares of the Company. For further details refer to note 1.

Consideration transferred

	TCHF
Non-cash (Kinarus Therapeutics Holding AG shares)	79'772
Total consideration transferred	**79'772**

The consideration transferred was based on the market value of the Company's listed shares on the acquisition date and was determined as follows: 886'356'387 (888'514'758 shares of the Company issued to acquire 95.3% of the total share capital of Kinarus, less 2'158'371 shares of the Company thereof issued to acquired Kinarus shares held in treasury by Kinarus at the acquisition date and therefore not part of the consideration) multiplied by the fair value (market price) of CHF 0.09 per share resulting in a total consideration of TCHF 79'772.

On 17 August 2022, the Company completed an authorized capital increase of TCHF 2'447. This capital increase relates to the contribution in kind of the remaining 286'159 shares in Kinarus (4.7% of the total share capital of Kinarus), which were not yet held by the Group. After completion of the capital increase, the Company held 100% of the Kinarus shares.

Assets acquired and liabilities assumed at the date of acquisition

The fair values of the assets acquired and the liabilities assumed of Kinarus as at the acquisition date (2 June 2022) are as follows:

	TCHF
Current assets	
Cash and cash equivalents	5’483
Other current assets	133
Non-current assets	
Property, plant and equipment	9
Intangible assets	52’097
Current liabilities	
Trade account payables	(80)
Current provisions	(1’140)
Other current liabilities	(1’363)
Non-current liabilities	
Non-current borrowings	(3’000)
Non-current prepayments	(4’400)
Deferred tax liabilities	(6’539)
Net assets acquired	**41’200**

Goodwill arising from the acquisition

Consideration transferred	79’772
+ Minority interests (valued based on the net assets acquired)	1’936
./. Net assets acquired	(41’200)
Goodwill	**40’508**

The purchase price allocation included the revaluation of the existing intangible asset by TCHF 50’297 (TCHF 52’097 fair value of existing intangible asset minus TCHF 1’800 carrying amount of existing intangible asset) and a related deferred tax liability of TCHF 6’539. As no other individually identifiable assets meeting the recognition criteria were identified, the residual amount of the consideration transferred in the amount of TCHF 40’508 was allocated to goodwill. The goodwill was attributable to Kinarus' established organization and progress of its clinical development. The goodwill was offset against equity at the date of acquisition.

As a result of the drop in share price of the Company since acquisition, the net selling price, dropped below the value in use calculation, which is explained in note 12. As the recoverable amount, being the higher of selling price and value in use, only covers the carrying amount of the intangible asset, the entire goodwill was impaired. As goodwill was offset directly against equity, the impairment loss of TCHF 40’508 was not recognized in the consolidated income statement.

Beside the goodwill the value of the intangible asset was impaired. The intangible asset acquired in the business combination and the impairment test at 31 December 2022 is further described in note 12.

Net cash inflow from the acquisition

	TCHF
Cash and cash equivalent balance acquired	5’483
./. Consideration paid in cash and cash equivalents	-
Total net cash inflow	**5’483**

4 Segment information

4.1 Description of segment

As of 31 December 2022, the Group operates in one segment, which primarily focuses on the development of its drug product candidates. Since the Group has not yet achieved any revenues, no revenues by geography or product group can be disclosed yet.

In the comparative period, the Group operated in the segment Aircraft Charter, which was sold in April 2021. After the sale of this business segment, the Group did not have an operating business segment until the acquisition of Kinarus.

5 Subsidiaries

The following table lists the subsidiaries controlled by the Company at the end of the reporting period:

Name	Domicile	Currency	Share capital	Equity interest	
				31 December 2022	31 December 2021
Kinarus AG	Basel, Switzerland	CHF	609'345	100.00%	-
Perfect Aviation SA	Lausanne, Switzerland	CHF	650'000	100.00%	100.00%

The equity interest percentage shown in the table also represents the share in voting rights in those entities. Perfect Aviation SA is since 21 March 2023 (entry into the commercial trade register) in the liquidation process.

6 Payroll expenses

TCHF	01.01.22-31.12.22	01.01.21-31.12.21
Salary expenses	434	-
Social contribution expenses	79	-
Other personnel expenses	3	-
Total	**516**	**-**

7 General and administrative expenses

TCHF	01.01.22 - 31.12.22	01.01.21 - 31.12.21
Professional services expenses (i)	956	327
Commitment fees and other fees to Yorkville (ii)	449	-
Office and other administrative expenses	226	83
Total	**1'631**	**410**

(i) Professional services expenses increased mainly due to legal and listing costs in relation to the acquisition of Kinarus, which is further described in note 3.

(ii) In relation with the Yorkville financing agreement, the Company has to pay Yorkville a commitment fee of TCHF 400 in cash or shares (at the option of the Company). TCHF 200 was paid in cash in August 2022 and TCHF 200 remain outstanding at 31 December 2022 as accrued liability. See note 15. In addition, further fees of TCHF 49 were paid to Yorkville in 2022 in relation to the establishment of the Yorkville agreement and the conversion of the convertible loans in 2022.

8 Financial income/ (expenses)

TCHF	01.01.22 - 31.12.22	01.01.21 - 31.12.21
Loan waiver income (i)	131	280
Total financial income	**131**	**280**
Interest expenses on borrowing due to related parties	(6)	(9)
Bank charges	(4)	(4)
Total financial expenses	**(10)**	**(13)**
Foreign currency exchange gains	6	-
Foreign currency exchange losses	(9)	-
Exchange differences	**(3)**	**-**

(i) In March 2022, certain loan amounts and related accrued interest granted to the Group under a bridge facility were waived. For further details refer to note 16.

In May 2020, the Group had signed a bridge facility agreement with a potential investor in order to fund the Group's continued operations until the possible implementation of a contemplated transaction. As per the terms of the bridge facility agreement, the interruption of the negotiations related to the contemplated transaction in 2021 resulted in both, the termination of the remaining drawdown possibilities and in the waiver of all instalments already paid (TCHF 280) at the time of interruption.

9 Loss per share

	01.01.22 - 31.12.22	01.01.21 - 31.12.21
Loss for the period attributable to owners of the Company (in TCHF)	(34'732)	(143)
Weighted average number of shares	702'105'120	163'768'280
Basic and diluted (loss)/profit per share (in CHF)	**(0.04947)**	**(0.00087)**

Basic and diluted loss per share is calculated by dividing the loss attributable to the owners of the Company by the weighted average number of shares outstanding during the period. In 2022, the weighted average number of shares outstanding varied as a result of capital increases (see note 17 for further details).

10 Other current assets

TCHF	31 December 2022	31 December 2021
Receivable from Yorkville (i)	110	-
Prepaid research and development expenses	26	-
Prepaid social contributions	8	-
Other prepaid expenses	57	10
VAT receivables	93	2
Total	**294**	**12**

Other current assets are neither impaired in value nor do they include receivables which are overdue as of 31 December 2022 and 31 December 2021, respectively.

(i) The Company paid TCHF 110 in order to redeem the fourth tranche of the Yorkville convertible loan of TCHF 100 plus TCHF 10 for early redemption costs to Yorkville in cash, but Yorkville decided to convert the TCHF 100 of the convertible loan into Company shares after the cash transfer was made. As a result, Yorkville paid back TCHF 110 to the Company. As of 31 December

2022, this funds transfer was in process and the funds were credited to the Company on 9 January 2023.

11 Property, plant and equipment

TCHF	Office Equipment	Total
Cost		
Balance at 1 January 2021	-	-
Balance at 31 December 2021	-	-
Additions	3	3
Additions through acquisition of subsidiary	10	10
Balance at 31 December 2022	**13**	**13**
Accumulated depreciation		
Balance at 1 January 2021	-	-
Balance at 31 December 2021	-	-
Additions through acquisition of subsidiary	(0)	(0)
Depreciation expense	(3)	(3)
Balance at 31 December 2022	**(3)**	**(3)**
Carrying amount		
Balance at 1 January 2021	-	-
Balance at 31 December 2021	-	-
Balance at 31 December 2022	**10**	**10**

Property, plant and equipment mainly include IT equipment of the acquired subsidiary as well as further IT equipment acquired after the acquisition of the subsidiary.

12 Intangible assets

TCHF	2022	2021
Cost		
Balance at 1 January	-	-
Addition through acquisition of subsidiary	52’097	-
Balance at 31 December	**52’097**	**-**
Accumulated depreciation		
Balance at 1 January	-	-
Amortization expense	(1’519)	-
Impairment expense	(38’177)	-
Balance at 31 December	**(39’696)**	**-**
Carrying amount		
Balance at 1 January	-	-
Balance at 31 December 2022	**12’400**	**-**

The intangible asset in the amount of TCHF 12’400 as of 31 December 2022 represents an exclusive, worldwide license to patent families and a license (the "Roche License") from Hoffmann La Roche ("Roche") for the development and worldwide commercialization of products with the active substance Pamapimod, which is the active substance used in the Group's acquired product candidate KIN001.

The value of the Roche License primarily relates to extensive preclinical and clinical safety and efficacy data, which the Group can freely use for development purposes, and which are, in the Group's view, supportive documentary evidence to conduct clinical studies relating to Pamapimod.

Diseases, the treatment of which the patent families for KIN001 under the Roche License cover, include cancer, lung diseases, eye diseases, infectious diseases and fibrotic diseases.

Currently, the main target markets of the Group's product candidate KIN001 – a combination treatment consisting of Pamapimod, a late-stage p38 mitogen-activated kinase inhibitor, and of Pioglitazone, an approved and marketed oral therapy for the treatment of type 2 diabetes – are patients in need of treatment for COVID-19, Wet Age-Related Macular Degeneration (Wet AMD), and Idiopathic Pulmonary Fibrosis (IPF). Currently, the Group focuses on the development of KIN001 in non-hospitalized COVID-19 patients but plans to develop KIN001 for Wet AMD and IPF subject to obtaining additional financing.

The actual underlying patent granting the Group the freedom to operate the combination patents the Group has filed and access to which expired in 2022 is of ancillary value only. This is also the reason why the license has no expiry date and is not linked to the patent.

Impairment test December 2022

Since completion of the reverse takeover of Kinarus AG by the Company on 2 June 2022 and 31 December 2022 the share price of the Company went down from CHF 0.09 (closing price at 2 June 2022) to CHF 0.0114 at 31 December 2022.

During this period, the highest share price was CHF 0.09 on 2 June 2022 and lowest share price was CHF 0.0082 on (4 November 2022).

The lack of recovery of the share price can be attributed to the Company’s termination of a clinical trial of its lead drug in hospitalized COVID-19 patients in September 2022 and also due to the Group’s inability to find sufficient sources of capital to initiate its planned clinical trials in Wet AMD and IPF.

For intangible assets the recoverable amount is determined as the higher of the net selling price and value in use. In order to determine the recoverable amount of the intangible asset for impairment test purposes, the board of directors has explored various strategic options since October 2022 such as licensing and trade sale discussions with potential pharma partners. Those discussions have not been successful in generating any third-party offer validating the net selling price until 31 December 2022. The board of directors have also concluded that the value in use may be lower than the net selling price due to the diminished prospects of generating any meaningful revenues from the development of KIN001 due to the Group’s termination of its clinical trial in COVID-19 hospitalized patients and its inability to initiate any further development of KIN001 in wet-AMD and IPF.

The board of directors has therefore deemed that the traded market value as at 31 December 2022 to be an appropriate benchmark for the net selling price and for establishing the fair value of the intangible asset.

Based on the closing share price of CHF 0.0114 at 31 December 2022 and based on the outstanding shares at 31 December 2022 and considering selling costs an impairment loss of TCHF 38’177 was calculated.

See table below for details:

	31 December 2022
Kinarus Therapeutics Holding shares	1’143’603’038
Less treasury shares of the Group	(10’557’244)
Outstanding Kinarus Therapeutics shares	**1’133’045’794**
Closing share price Kinarus Therapeutics Holding (CHF)	0.01140
Market value outstanding shares (TCHF)	**12’917**
Less selling costs 4% (TCHF)	(517)
Market value outstanding shares less selling costs (TCHF)	**12’400**
Intangible asset values 31 December 2022 after amortisation and before impairment (TCHF)	50’577
Impairment (TCHF)	(38’177)
Intangible asset value after impairment (TCHF)	**12’400**

13 Trade account payables

TCHF	31 December 2022	31 December 2021
Related to research and development expenses	51	-
Related to general and administrative expenses	101	86
Total	**152**	**86**

14 Other income / FOPH accrual

In December 2021, the Group’s subsidiary Kinarus was accepted in the Swiss Federal Funding Programme for COVID-19 Medicines which allowed Kinarus to receive prepayments for its lead COVID-19 drug candidate (KIN001) up to the total amount of TCHF 7’000 to finance two COVID-19 clinical trials. In December 2021, Kinarus received the first two tranches of the prepayment in the total amount of TCHF 4’400 based on milestones already achieved.

Based on the contract between Kinarus and the Federal Office of Public Health (FOPH) at 31 December 2021 the received payments are offsetable against future product orders for the COVID-19 drug candidate and are repayable within 5 years after the final prepayment has been made if Kinarus makes any financial gains derived from the COVID-19 drug candidate. As a result, the payment of TCHF 4'400 was qualified as prepayment in the balance sheet at 31 December 2021 of Kinarus.

In December 2022 Kinarus renegotiated the contract with FOPH. As a result, the FOPH accepted that the funding amount will not be considered as a down payment should FOPH exercise its option to buy the product, but 95% of the purchase price of the product for all purchases up to the funding amount shall be immediately due to FOPH. If the immediate payment is lower than the funding amount or should FOPH decide not to exercise its option to buy the product, FOPH will receive 60% of the sales to a third party up to the funding amount.

As a result of this amendment, the prepayment of TCHF 4'400 is not qualified any longer as prepayment in the Kinarus balance sheet but as a grant and the liability in the balance sheet could be released. The Company has made an internal assessment of the estimated amount of TCHF 1’064 may have to be paid back to FOPH, subject to confirmation by FOPH upon completion of its ongoing audit. In relation with the release of the prepayment of TCHF 4'400 an amount of TCHF

3'336 was booked as other income which is the difference between the original prepayment of TCHF 4'400 from FOPH and the expected repayment of TCHF 1’064.

15 Other current liabilities

TCHF	31 December 2022	31 December 2021
Payables in relation to social contribution	37	-
Accrued commitment fees due to Yorkville (i)	200	-
Accrued commitment fees due to GEM (ii)	1’140	
Accrued research and development expenses	112	-
Accrued professional services expenses	155	21
Accrued holidays	22	-
Other current liabilities	29	-
Total	**1’695**	**21**

(i) On 21 August 2022, the Company executed a financing agreement with Yorkville to raise up to TCHF 20’000 over three years by issuance of convertible notes. The Company has to pay Yorkville a commitment fee of TCHF 400 in cash or shares (at the option of the Company). TCHF 200 was paid in cash in August 2022 and TCHF 200 remain outstanding at 31 December 2022 (see note 15).

(ii) On 6 September 2021, Kinarus signed an agreement with GEM Global Yield LLC SCS (“GEM”), a Luxembourg-based private, alternative investment group. Under the agreement, GEM commits to provide the Group after completion of the reverse takeover between Kinarus and Perfect Holding (now: Kinarus Therapeutics Holding) on 2 June 2022 a share subscription facility of up to TCHF 57’000 for a period of 36 months following the completion of the reverse takeover. The Company has to pay GEM a commitment fee of TCHF 1’140 in cash or shares (at the option of the Company). The entire TCHF 1,140 remain outstanding at 31 December 2022 (see note 22).

The Commitment Fee of TCHF 1’140 was settled in April 2023 by issuance of Company shares (see note 31.2).

16 Non-current borrowings (subordinated)

TCHF	31 December 2022	31 December 2021
Due to related parties - subordinated (i)	-	429
Due to third parties - subordinated (ii)	3’000	-
Total	**3’000**	**429**

(i) On 3 March 2021, the Company signed a bridge facility agreement with a related party for a total amount of up to TCHF 510 which was increased to TCHF 600 on 22 February 2022. The maximum facility amount was drawn down in monthly disbursements to cover the average estimated financial needs of the Company for the relevant months.

Pursuant to the transaction agreement dated 29 March 2022 entered between the Company, Kinarus and the lender of the bridge facility (the “Transaction Agreement”) an amount of TCHF 125 was waived which was booked as financial income, and the interest capped to TCHF 3 as part of the terms and conditions of the transaction with Kinarus (see note 8).

In October 2022, the Company repaid the remaining bridge facility amount of TCHF 478 by issuing 8’851’128 treasury shares of the Company at a price of CHF 0.05405 per treasury share. There is no impact on the overall share capital in relation to this treasury share transaction since these own shares have been already issued (See note 18).

(ii) In May 2021 Kinarus signed a subordinated loan in the amount of TCHF 3'000 with Basler Kantonalbank, of which 90% were guaranteed by the Canton of Basel-Stadt and 10% by the Eckstein-Geigy-Stiftung. The loan was interest free until 31 December 2022 and the lender retains the right to charge an interest from 1 January 2023 until the loan matures on 1 June 2025.

As compensation for the surety and bank guarantee, Kinarus granted warrants to the guarantors mentioned above, which allow them to subscribe for 532'670 of Kinarus shares during the term of the subordinated loan.

17 Share capital

	Number of shares		Nominal value of share capital (in TCHF)	
	01.01.22-31.12.22	01.01.21-31.12.21	01.01.22-31.12.22	01.01.21-31.12.21
Balance at 1 January	181'018'281	181'018'281	1'810	1'810
Issuance of shares through acquisition of Kinarus AG (1. closing)	888'514'758	-	8'885	-
Issuance of shares through acquisition of Kinarus AG (2. closing)	43'782'327		438	-
Issuance of shares through conversion of convertible loans	30'287'672	-	303	-
Balance at 31 December	**1'143'603'038**	**181'018'281**	**11'436**	**1'810**

At 31 December 2022, the issued share capital amounts to TCHF 11'436, consisting of 1'143'603'038 fully paid shares with a nominal value of CHF 0.01 each. As the capital increases through the conversion of the convertible loans were not yet been registered as at 31 December 2022 in the commercial trade register, the registered share capital in the commercial trade register amounted to TCHF 11'133, consisting of 1'113'315'366 fully paid shares.

Since 31 December 2021 the share capital increased as follows:

- June 2022: Issuance of a total of 888'514'758 shares with a nominal value of CHF 0.01 at CHF 0.09 per share through contribution in kind of Kinarus shares, resulting in an increase of the share capital of TCHF 8'885 and share premium of TCHF 40'765 in connection with the 95.3% acquisition of the Kinarus shares in June 2022 in the course of the completion of the reverse takeover. The new shares were created from authorised capital.
- August 2022: Issuance of a total of 43'782'327 shares with a nominal value of CHF 0.01 at CHF 0.09 per share through contribution in kind of the residual Kinarus shares, resulting in an increase of the share capital of TCHF 438 and share premium of TCHF 2'009 in connection with the remaining 4.7% acquisition of the Kinarus shares in August 2022. The new shares were created from authorised capital.
- Q4 2022: Issuance of a total of 30'287'672 shares with a nominal value of CHF 0.01 at CHF 0.01 per share through conversion of convertible notes received from Yorkville (see note 23), resulting in an increase of the share capital of TCHF 303 and no share premium. The new shares were created from conditional capital.

18 Treasury shares

Number of registered shares	31 December 2022 Acquisition cost CHF	31 December 2022 Number of shares	31 December 2021 Acquisition cost CHF	31 December 2021 Number of shares
Owned by Kinarus Therapeutics Holding (i)	-	8’398’873	-	17’250’001
Owned by Kinarus AG (ii)	1’410	2’158’371	-	-
Total	**1’410**	**10’557’244**	**-**	**17’250’001**

At 31 December 2022, the Group held a total of 10’557’244 (31 December 2021: 17’250’001) treasury shares.

(i) A subordinated bridge loan of TCHF 478 was repaid in October 2022 by issuing 8’851’128 treasury shares of the Company at a price of CHF 0.05405 per treasury share. There was no impact on the overall share capital in relation to this treasury share transaction since these treasury shares have been already issued. See note 17.

(ii) On acquisition of Kinarus (see note 3), the 14’107 treasury shares held by Kinarus were exchanged against 2’158’371 shares of the Company. The treasury shares of Kinarus were valued at the historical purchase price of CHF 0.1 per share totalling to CHF 1’410.

19 Income tax income / Deferred tax liabilities

TCHF	31 December 2022	31 December 2021
Taxable temporary differences		
Intangible assets	12’400	-
Less statutory value Intangible assets in Kinarus AG	(1’800)	
Net deductible temporary difference	**10’600**	**-**
Tax rate	13.04%	
Deferred tax liabilites	**1’382**	**-**

2022 TCHF	Opening balance	Acquisition of subsidiary	Recognised in profit or loss (Income tax income)	Closing balance
Intangible assets	-	6’539	(5’156)	1’382
Total deferred tax liabilites	**-**	**6’539**	**(5’156)**	**1’382**

20 Authorized capital

At 31 December 2022, the authorized share capital amounts to TCHF 4’862, consisting of 486’179’687 shares with a nominal value of CHF 0.01 (31 December 2021: none).

21 Conditional capital

As the capital increases through the conversion of the convertible loans has not yet been registered as at 31 December 2022 in the commercial trade register, at 31 December 2022, the conditional share capital amounted to TCHF 5’000, consisting of 499’674’342 shares with a nominal value of CHF 0.01 (31 December 2021: TCHF 905, consisting of 90’500’000 shares with a nominal value of CHF 0.01) to be used for future capital increases involving conversion and/or option rights.

22 GEM agreement

On 6 September 2021, Kinarus signed a financing agreement with GEM Global Yield LLC SCS ("GEM"), a Luxembourg-based private, alternative investment group. Under the agreement, GEM committed to provide Kinarus after completion of the reverse takeover between Kinarus and Perfect Holding (now: Kinarus Therapeutics Holding) on 2 June 2022 a share subscription facility of up to TCHF 57'000 for a period of 36 months following the completion of the reverse takeover. Drawdowns under the agreement are subject to certain pre-conditions and the volume of a possible drawdown depends on the liquidity of the Company shares.

In connection with this GEM agreement, Kinarus has to pay TCHF 1'140 in commitment fee in shares or cash (at the option of Kinarus), which is accrued in the balance sheet as at 31 December 2022, and issue 5-year warrants of the Company equal to 4.9% of the fully diluted outstanding share capital of the Company as of 2 June 2022 at an exercise price of CHF 0.071 per warrant.

23 Yorkville agreement

On 21 August 2022, the Company executed a financing agreement with Yorkville Advisors Global LP respective their fund YA II PN, LTD (together "Yorkville") to raise up to TCHF 20'000 over three years by issuance of convertible notes. The unsecured convertible notes each have a term of 6 months and are convertible into the Company's shares during the term by the holder of the convertible notes. The conversion price shall be determined as the lower of (i) 120% the volume-weighted 10-day trading price of the Company's shares prior to Company's decision to issue the convertible notes, or (ii) 92% of the lowest daily volume-weighted 10-day trading price of the Company's shares prior to conversion. Interest is paid at an annual rate of 4% during the term of the notes. The Company issued 3-year warrants to acquire the Company's common shares linked to the nominal value of the convertible notes at an exercise price of 120% of the Company's share price prior to funding. Until 31 December 2022 the Company received TCHF 300 as convertible loan from Yorkville and issued 8'928'571 warrants to Yorkville to purchase the Company's shares at an exercise price of CHF 0.0336 per share. In December 2022 the convertible loans of TCHF 300 (plus interests) were converted into Company shares. See note 17 for conversions in 2022 and note 31.1 for further Yorkville drawdowns and conversions in 2023.

24 Related parties

24.1 Related party transactions

TCHF	01.01.22-31.12.22	01.01.21-31.12.21
Loan waiver income (i)	131	280
General & Administrative expenses		(24)
Interest expense	-	(9)
Total	**131**	**247**

(i) On 3 March 2021 and as amended by addendum on 22 February 2022, the Company secured a bridge loan facility from The Fighter Collection, an entity related to one of its shareholders for an amount of TCHF 600. The loan waiver income of TCHF 131 in the period 1 January 2022 until 31 December 2022 relates to the waiver of an amount of TCHF 125 of the bridge loan facility and TCHF 6 of interests by The Fighter Collection as agreed in the signed Transaction Agreement between the Company and Kinarus.

24.2 Related party balances

TCHF	31 December 2022	31 December 2021
Non-current borrowings due to related parties - subordinated	-	429
Total	**-**	**429**

See note 16 for further details.

24.3 Key management compensation

The compensation paid to the Executive Management (please refer to the section Compensation Report) is shown below:

TCHF	01.06.22-31.12.22	01.01.21-31.12.21
Employee benefit expenses (including social insurances)	581	-
General & administrative expenses	-	120
Total	**581**	**120**

The compensation for the Executive Management of TCHF 581 comprises the period after RTO from June 2022 to December 2022.

In 2022 (and 2021), no other compensation elements were granted to key management (neither share options, nor any other compensation).

25 Operating lease arrangements

25.1 The Company as lessee

Description of leasing arrangements
Operating leases relate to office leases. The Company does not have an option to purchase these leased assets at the end of the lease term.

Payments recognised as expense in the year

TCHF	2022	2021
Lease payments	10	-
Total leasing expense from operating leases	**10**	**-**

Non-cancellable future minimum operating lease payments

TCHF	31 December 2022	31 December 2021
Within one year	21	-
Later than one year and not later than five years	11	-
Total future minimum lease payments	**32**	**-**

26 Non-cash transactions

During the year ended 31 December 2022 and 2021, there were no significant non-cash investing and financing activities except for the acquisition of Kinarus (see note 3) as well as the conversion of the loans and notes (see note 17).

27 Commitments and contingent liabilities

In relation to the intangible asset Pamapimod (see note 12), the Group has contingent development and commercialization payments in the total amount of TCHF 41’000 upon reaching certain milestones in the future. Further, the Group will have to pay a single digit royalty on net sales in the future.

Further, the Group has contingent royalty payments of 2% in relation to the sales of potential future cancer and rheumatoid arthritis indications which are based on a combination patent which the Group licensed in from a third party. Currently no research and development activities are being performed related to these indications.

Ventac Partners Ltd (“Ventac”), an advisory firm, will receive, until the expiry of the GEM agreement and expiry of the warrants to be issued to GEM on 3 June 2025 and 6 September 2026, respectively, 7% fees on any amount drawdown from the GEM facility and proceeds of the exercise of warrants (see note 22). Ventac may have additional claims against the Group beyond the settlement payment of TCHF 500 executed between Kinarus and Ventac on 16 May 2022.

A commitment fee of TCHF 1’140 in cash or shares (at the option of the Group) which is recognized as current liabilities and 5-year warrants equal to 4.9% of the fully diluted outstanding share capital of the Company as of 2 June 2022 at an exercise price of CHF 0.071 per warrant are owed to GEM, pursuant to a share subscription facility executed between Kinarus and GEM (see note 22).

A commitment fee of TCHF 200 in cash or shares (at the option of the Company) which is recognized as current liabilities is owed to Yorkville, pursuant to a financing agreement executed between the Company and Yorkville.

As of 31 December 2022, there were no other contingent liabilities.

28 Liquidity and going concern

As of 31 December 2022, the Company had accumulated losses of TCHF 37’160 and incurred a loss for the period ended 31 December 2022 of TCHF 34’743. As of 31 December 2022, the Company’s cash and cash equivalents were TCHF 1’342. There is a material uncertainty about the Group’s ability to continue as a going concern and to meet its liquidity and equity requirements for at least 12 months from 31 December 2022, due to its recurring net losses and negative operating cash flows as of 31 December 2022 and for the foreseeable future.

From the completion of the RTO to date, the Group has financed its cash requirements primarily from convertible instruments. For instance, in August 2022, January and February 2023, the Company raised TCHF 700 through issuance of Convertible Notes with Yorkville Advisors as per a TCHF 20’000 financing agreement executed in August 2022. In May 2023, the Company executed an agreement for a TCHF 1’500 Convertible Loan from ChaoDian (Hangzhou) Investment Management (CDIM). CDIM has submitted all documents to the Chinese regulatory authorities for approval to transfer the funds from China to Switzerland and is awaiting their approval. As of the date of publication of these financial statements, the proceeds have not yet been received by the Company, but the board of directors are confident of receiving the proceeds in the near future.

However, the existing resources may not be sufficient to initiate new clinical trials beyond the ongoing clinical trial in COVID-19 non-hospitalized patients The Group therefore intends to raise additional liquidity through debt and equity as well as through non-dilutive payments from future pharma partnerships.

The Group is a clinical-stage group and is exposed to all the risks inherent to a company in the life sciences sector. Inherent to the Group's business are various risks and uncertainties, including the substantial uncertainty as to whether the current projects will succeed. The Group's success may depend in part upon its ability to (i) establish and maintain a strong patent position and protection; (ii) enter into collaborations with partners in the pharmaceutical and biopharmaceutical industries; (iii) successfully move its product candidates through clinical development; (iv) attract and retain key personnel; and (v) acquire capital to support its operations.

These circumstances represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore its ability to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, the board of directors believes that it is appropriate to prepare these consolidated financial statements on a going concern basis, considering the Group's ability to obtain the necessary additional funds to ensure business continuity, as evidenced by executing an agreement for a TCHF 1'500 Convertible Loan with CDIM after the balance sheet date and potential access to financing through the previously executed financing agreement with Yorkville Advisors.

29 Significant shareholders

in % of share capital	31 December 2022		31 December 2021	
Alexander Bausch		10.68%		0%
Adrian Gut		8.64%		0%
Concert party				
Haute Vison SA, Mauritius	5.56%		35.15%	
Grover Ventures Inc., British Virgin Islands	0.96%		6.85%	
Nicholas Grey	0.85%		5.39%	
The Fighter Collection, United Kingdom	0.77%		0%	
Stephen Grey	0.69%	8.84%	4.39%	51.79%
Messieurs Pictet & Cie, Switzerland		5.26%		0%
Silvia Hansel		4.74%		0%
Mr. and Mrs. Inderbitzin		3.91%		0%
Thomas Sander		3.34%		0%
SO Holding AG, Switzerland		3.20%		0%
Kinarus Therapeutics Holding AG / Perfect Holding SA (see note 18)		< 3%		9.53%

Haute Vision SA, Grover Ventures Inc, Nicholas Grey, The Fighter Collection and Stephen Grey, who are deemed to form a group based on their family and business relationships and voting, hold in aggregate 101'049'112 shares which represent 8.84% of the current outstanding share capital of CHF 11'436'030.38 (31 December 2021: 51.79% of the then outstanding share capital of 93'741'973 shares).

Mr. Silvio Inderbitzin and his wife, Mrs. Gabriele Inderbitzin-Köhler form a related party. Together they held 44'684'874 Company shares at 31 December 2022 i.e., 3.91% of the current outstanding share capital of CHF 11'436'030.38.

30 Treatment of goodwill

Goodwill is offset against equity when it is created. Such goodwill was created with the acquisition of Kinarus (refer to note 3 for further details), in the amount of TCHF 40’508. The impact of theoretical goodwill capitalisation on shareholder’s equity and net income with subsequent depreciation of a useful life of 5 years as well as impairment is presented below.

Impact of the theoretical capitalisation of goodwill on the balance sheet:

TCHF	31 December 2022	31 December 2021
Reported equity	**6’753**	**(400)**
Net book value of goodwill		
As at the beginning of the financial period	-	-
Additions	40’508	-
Impairment for the current period	(40’508)	-
As at the end of the financial period	-	-
Theoretical equity including net book value of goodwill	**6’753**	**(400)**

Impact of the theoretical capitalisation of goodwill on loss for the period:

TCHF	01.01.22 – 31.12.22	01.01.21 – 31.12.21
Loss for the period	**(34'732)**	**(143)**
Theoretical impairment for the period	(40'508)	-
Theoretical loss for the period after impairment of goodwill	**(75'240)**	**(143)**

31 Subsequent events

31.1 Yorkville convertible loans

In January 2023 the Company received further TCHF 200 convertible loans from Yorkville. The Company issued 8’333’333 warrants at an exercise price of CHF 0.024 per share in connection with this convertible loan tranche. In February 2023 the Company received additional TCHF 200 convertible loans from Yorkville. The Company issued 10’101’010 warrants at an exercise price of CHF 0.0198 per share in connection with this convertible loan tranche.

Of these TCHF 400 convertible loans received in January and February 2023, TCHF 400 (plus interests) were converted into Company shares between January and March 2023, resulting in an increase of the share capital of TCHF 322 and a share premium of TCHF 79.

In March 2023, the Company and Yorkville amended the terms of the warrant agreement related to the financing agreement executed on 21 August 2022. This amendment was related to resetting the exercise prices of all outstanding warrant tranches based on a 15% discount to the lower of (i) the Company’s share price of CHF 0.015 or (ii) lowest VWAP of 5 days prior to the amendment date. As a result, the amended exercise price for all outstanding warrant tranches was set at CHF 0.01258. In a subsequent amendment of the terms of warrant agreement in April 2023, the Company and Yorkville decided to revise the exercise price for all outstanding warrant tranches to CHF 0.01.

31.2 GEM commitment fees

On 10 April 2023 the Company, Kinarus, GEM and GEM Yield Bahamas Ltd. entered into an agreement whereas Kinarus assigned and the Company assumed the rights and obligations under the GEM agreements. As a result, the Company assumed the TCHF 1'140 commitment fees towards GEM.

The Commitment Fee of TCHF 1'140 and the issuance of warrants due to GEM as described in Note 27 were executed in April 2023. The Company issued 103'636'364 shares for the full settlement of the Commitment Fee and issued 54'405'351 warrants to GEM, resulting in an increase of share capital of TCHF 1'036 and a share premium of TCHF 104.

31.3 Liquidation of Perfect Aviation SA

The 100% subsidiary of the Company Perfect Aviation SA, Genève (see note 5) is since 21 March 2023 (entry into the commercial trade register) in the liquidation process.

31.4 Convertible loan agreement with ChaoDian (Hangzhou) Investment Management

The Company signed on 8 May 2023 a convertible loan agreement for a CHF 1.5 million investment by ChaoDian (Hangzhou) Investment Management Co., Ltd., an investment company based in Hangzhou City, China ("CDIM"). Under the terms of the loan agreement, CDIM granted a subordinated loan in the amount of CHF 1.5 million to the Company for a fixed term of three years without any interest. During the term of the agreement, the outstanding loan amount can be converted at any time into Company shares with a nominal value of CHF 0.01 at a fixed conversion price of CHF 0.01 per Company share. CDIM has submitted all documents to the Chinese regulatory authorities for approval to transfer the funds from China to Switzerland and is awaiting their approval. As of the date of publication of these financial statements, the proceeds have not yet been received by the Company, but the board of directors of the Company are confident of receiving the proceeds in the near future.

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To the General Meeting of
Kinarus Therapeutics Holding AG, Basel

Basle, 30 May 2023

Report of the statutory auditor

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Kinarus Therapeutics Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2022, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 36 to 63) give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the “Auditor's responsibilities for the audit of the consolidated financial statements” section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to note 28 of the consolidated financial statements, which indicates that the Group incurred a net loss of TCHF 34’743 during the year ended 31 December 2022. As stated in note 28, this event or condition, along with other matters as set forth in note 28, indicate that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

In addition to the matter described in the Emphasis of matter paragraph highlighting the material uncertainty regarding going concern in our report, we have determined the matters described below to be the key audit matters to be communicated in our report. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the “Auditor's responsibilities for the audit of the consolidated financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the [accompanying] consolidated financial statements.

Reverse takeover of Kinarus AG by Kinarus Therapeutics Holding AG

Risk	In June and August 2022, Perfect Holding AG (renamed Kinarus Therapeutics Holding AG) acquired in two transactions 100% of the outstanding capital stock of Kinarus AG by issuing 888’514’758 shares as part of the first acquisition in June 2022 and 43’782’327 shares for the second acquisition in August 2022. The consolidated financial statements represent the continuation of the financial statements of the legal entity Kinarus Therapeutics Holding AG (“the Group”), which is from an accounting (Swiss GAAP FER) and legal perspective considered to be the acquirer that obtained control of Kinarus AG. Accordingly, the identifiable assets and liabilities of Kinarus AG have been included in the financial statements at their acquisition date fair values, resulting in a goodwill of TCHF 40’508 which has been offset against equity at the date of acquisition. Further information on the transaction is disclosed in note 3 to the consolidated financial statements. The accounting for the acquisition was considered significant to our audit due to its complexity and the estimations and assumptions required from management.
Our audit response	Our audit procedures included, amongst others, reading the transaction agreement, board minutes and inquiries of management and the Board of Directors to obtain an understanding of the key terms and rationale for the transaction. We evaluated management’s conclusion that Kinarus Therapeutics Holding AG is the acquirer from a legal and accounting perspective and assessed the impact thereon on the presentation and preparation of the consolidated financial statements. With the support from our internal valuation specialists, we inspected the valuation prepared by management to determine the fair value of the consideration transferred, the fair value of the assets acquired and liabilities assumed and the resulting goodwill. We also assessed the completeness of the Group's disclosure with those required by the relevant accounting standards. Our audit procedures did not lead to any reservations concerning the accounting and disclosure of the reverse takeover.

Recoverable amount of the intangible asset

Risk	In connection with the acquisition of Kinarus AG, a license for the development and worldwide commercialization of products with the active substance "Pamapimod", which is also used in the product candidate KIN001, was identified as intangible assets. The value assigned to the intangible asset amounts to TCHF 52'097 which is amortized over a useful life of 20 years. For intangible assets the recoverable amount is determined as the higher of the net selling price and the value in use. To determine the recoverable amount of the intangible asset for impairment test purposes, the Board of Directors has concluded that the value in use may be lower than the net selling price due to the diminished prospects of generating any meaningful revenues from the development of KIN001. The Board of Directors has concluded that the traded market value of Kinarus Therapeutics Holding AG as of 31 December 2022 would be an appropriate benchmark for the net selling price and for establishing the fair value of the intangible asset. Based on the closing share price of CHF 0.0114 on 31 December 2022 and based on the outstanding shares on 31 December 2022 and considering selling costs an impairment loss of TCHF 38'177 was recognized. Further information on the recoverable amount of the intangible assets is disclosed in note 12 to the financial statements. The valuation of the intangible assets was considered significant to our audit due to the remaining carrying amount of the intangible asset as well as due to the impairment recognized in the current year.
Our audit response	Our audit procedures included the assessment of the appropriateness of the impairment model used, the testing of the mathematical accuracy of the calculation of the recoverable amount and the impairment recognized as well as the reasonableness of the key assumptions in the model like the net selling price. Further we assessed the appropriateness and completeness of the related disclosures in note 12 of the Group financial statements. Our audit procedures did not lead to any reservations concerning the recoverable amount of the intangible asset.

Federal Office of Public Health (FOPH) accrual

Risk	In December 2021, the Group's subsidiary Kinarus AG was accepted in the Swiss Federal Funding Programme for COVID-19 Medicines. Kinarus AG received the first two tranches of the payment in the total amount of TCHF 4'400. In December 2022 Kinarus AG renegotiated the contract. Based on the amended contract, Kinarus AG estimated that an amount of TCHF 1'064 will have to be redeemed to the FOPH, subject to completion of an ongoing audit required by FOPH.

Further information in relation to the FOPH accrual is disclosed in the note 14 to the consolidated financial statements.

We have identified the amount due to the FOPH as a key audit matter because of the judgement required in assessing the assumptions used by management to quantify the accrued amount and date of repayment.

Further information in relation to the FOPH accrual is disclosed in the note 14 to the consolidated financial statements.

We have identified the amount due to the FOPH as a key audit matter because of the judgement required in assessing the assumptions used by management to quantify the accrued amount and date of repayment

Our audit response

Our audit procedures to assess the FOPH accrual included evaluating the model, methodology and key assumptions adopted by management in estimating the accrual amount.

We discussed the key assumptions used in the calculation with the CEO as well as with managers in the R&D department responsible for the calculation and we performed a detailed testing on a sample basis of the expenses and payroll costs considered in the calculation.

Further we verified the qualitative and quantitative information included in the notes to the consolidated financial statements.

Our audit procedures did not lead to any reservations concerning the valuation of the FOPH accrual.

Other matter

The consolidated financial statements for the year ended 31 December 2021 were audited by another statutory auditor who expressed an unmodified opinion with an emphasis of matter regarding going concern on those financial statements on 31 March 2022.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the tables labelled audited of the compensation report (page 28 to 30)and our auditor’s reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors’ responsibilities for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements, which give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on EXPERTsuisse’s website at: https://www.expertsuisse.ch/en/audit-report. This description forms an integral part of our report.

Report on other legal and regulatory requirements

In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Fabian Meier Licensed audit expert (Auditor in charge)	René Buchmann Licensed audit expert

FINANCIAL PERFORMANCE & FINANCIAL OUTLOOK – MANAGEMENT REPORT

The following review is designed to provide you with a narrative explanation of our financial condition and results of operations. We recommend that you read this in conjunction with our audited consolidated financial statements and related notes as of and for the year ended 31 December 2022.

We prepare and report our consolidated financial statements and financial information in accordance with Swiss GAAP FER. We maintain our books and records in Swiss Francs (CHF). We have made rounding adjustments to some of the figures included in this review. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that precede them. Unless otherwise indicated, all references to currency amounts in this review are in Swiss Francs.

This discussion and analysis is dated as of 30 May 2023.

Group Overview

The Group is a clinical-stage Swiss biopharmaceutical group focused on bringing differentiated treatments to patients suffering from viral, respiratory, and ophthalmic diseases. Kinarus' differentiated product candidate, KIN001 is an orally administered combination of two drugs, pamapimod and pioglitazone. Pamapimod is a potent inhibitor of the p38 mitogen-activated protein kinase (MAPK), central for the cellular response in many diseases. Pioglitazone is an agonist of the peroxisome proliferator-activated receptor (PPAR) gamma, a marketed therapy for the treatment of type 2 diabetes. Kinarus has discovered that the drug combination increases the efficacy and durability of therapeutic response in preclinical models reflecting various diseases with substantial unmet medical need. KIN001 possesses anti-viral, anti-inflammatory, and anti-fibrotic activity, supporting its potential broad utility.

Our primary goal is to build a cash-generating, profitable, and sustainable business around our core competences in the clinical development of KIN001 for the treatment of patients suffering from diseases with high unmet medical needs. The Group's' strategy is to in-license known, considered safe compounds – in particular small molecules possessing anti-inflammatory, antifibrotic, and antiviral activities, conduct phase 2 proof of concept ("PoC") trials and out-license these assets to third parties (such as pharmaceutical and biopharmaceutical companies) after successful completion of the PoC trials.

KIN001 is currently under evaluation in a Phase 2 clinical trial in COVID-19. The "KINFAST" trial is a randomized placebo-controlled Phase 2 clinical trial in ambulatory COVID-19 patients, which was initiated in Q3 2022. We plan to initiate Phase 2 clinical trials in Wet Age-related Macular Degeneration (wet AMD) and Idiopathic Pulmonary Fibrosis (IPF), subject to raising additional funding.

2022 Group Highlights

- The Company completed a RTO transaction with Kinarus and the Company's shares resumed trading on SIX Swiss Exchange from 3 June 2022.

- The Group received a recommendation from Data and Safety Monitoring Board (DSMB), following its interim safety review, to continue with the KINETIC Phase 2 clinical trial in hospitalized COVID-19 patients.

- The Company's subsidiary, Kinarus was issued US Patent No. 11285155 covering the pharmaceutical composition of KIN001 and its use in certain types of cancers, conferring protection until at least 2037.

- The Company executed a financing agreement with Yorkville Advisors for a TCHF 20,000 Convertible Notes and warrants issuance over three years.

- The Company initiated the KINFAST Phase 2 clinical trial in ambulatory COVID-19 patients.

- The Company discontinued the KINETIC Phase 2 clinical trial in hospitalized COVID-19 patients based on a recommendation from DSMB, follow its prespecified interim analysis of efficacy and safety.

- The Company's subsidiary, Kinarus received a notice of allowance from United States Patent and Trademark Office (USPTO) for US Patent Application No. 16/500,504 "Methods of preventing or treating Ophthalmic Diseases" covering KIN001 in age-related macular degeneration (AMD).

Financial Performance

The numbers below have been derived from our audited consolidated financial statements. The discussion below should be read along with these financial statements, and it is qualified in its entirety by reference to them.

Comparison of the Year Ended 31 December 2022 and 2021

In TCHF	For the Year Ended 31 December	
	2022	2021
Other Income	3'336	-
External research and development expenses	(1'507)	-
Payroll expenses	(516)	-
General and administrative expenses	(1'631)	(410)
Loss before financial result, taxes and depreciation and amortization	(318)	(410)
Depreciation of property, plant and equipment	(3)	-
Amortization of intangible assets	(1'519)	-
Impairment of intangible assets	(38'177)	-
Financial income	131	280
Financial expenses	(10)	(13)
Exchange differences	(3)	-
Loss before taxes	(39'899)	(143)

Income tax income	5’156	-
Loss for the period	(34’743)	(143)

Comparative figures for the year ended 31 December 2021 reflect the Group’s status pre-RTO as a non-operating entity concentrating its activities on the search and evaluation of potential acquisition targets. As Kinarus was acquired on 2 June 2022, the audited consolidated financial statements only include seven months of profit and loss of Kinarus.

Other Income

As detailed under Note 14 of our consolidated financial statements, in 2022, the Group reported Other Income of TCHF 3’336 (2021: CHF 0). The Other Income was generated by the requalification of a prepayment received from Federal Office of Public Health (FOPH) to part fund our COVID-19 clinical trials, previously booked as a prepayment (liability), adjusted by a potential repayment to FOPH of funds remaining unused.

External research and Development expenses

Research and development (R&D) activities are essential to our business and represent a significant part of our costs incurred. Costs for certain development activities, such as clinical trials, are recognized based on an evaluation of the progress to completion of specific tasks using information from the clinical sites and our vendors. We expect that our total future R&D costs will increase over current levels in line with strategy to progress the development of our product candidates, as well as development of new product candidates.

Our R&D costs, include direct R&D costs, manufacturing costs related to R&D and third-party vendor costs. The R&D costs not allocated to specific clinical trials include intellectual property (IP) costs. We do not assign our internal costs, such as salary and benefits, share-based compensation expenses and other direct expenses and infrastructure costs to individual clinical trial, because the employees within our R&D team are typically deployed across multiple clinical trials.

The following table presents our R&D expenses during the year ended 31 December 2022 and 2021:

In TCHF	For the Year Ended 31 December	
	2022	2021
Third party services and material expenses	1,433	-
Patent application and maintenance expenses	74	-
Total	1,507	-

Our research and development expenses totalled TCHF 1’507 for the year ended 31 December 2022. The expenses were attributable to our ongoing Phase 2 clinical trials in COVID-19 for hospitalized patients and COVID-19 ambulatory patients, production of drug products for the clinical studies, engagement of a clinical research organization to conduct the clinical trials as well as expenses related to new IP filing and maintenance of existing IP.

Payroll Expenses

Our salaries and related costs totalled TCHF 516 for the year ended 31 December 2022, primarily related to management and employees’ salaries and bonuses.

In 2022, Kinarus Therapeutics Holding AG employed less than ten full-time equivalents on an annual average basis.

General and Administrative Expenses

General and administrative expenses consist primarily of professional fees such as legal, CFO and accounting related services, infrastructure expenses and other operating expenses.

Our general and administrative expenses totalled TCHF 1’631 for the year ended 31 December 2022, representing an increase of TCHF 1’221, or 198%, compared to TCHF 410 for the year ended 31 December 2021. The increase was mainly attributable to costs associated with RTO transaction expenses, consultants, insurance costs related to D&O insurance coverage for members of board and management, and costs related to increased public and investor relations activities.

Loss before Financial Result, Taxes and Depreciation and Amortization

Our loss before financial result, taxes and depreciation and amortization totalled TCHF 318 for the year ended 31 December 2022, representing a decrease of TCHF 92, or 22%, compared to TCHF 410 for the year ended 31 December 2021.

Amortization of Intangible Assets

As detailed under Note 12 of our consolidated financial statements for the year ended 31 December 2022, amortization of intangible assets related to the Group’s lead product candidate, KIN001 totalled TCHF 1’519 for the year ended 31 December 2022.

Impairment of Intangible Assets

As detailed under Note 12 of our consolidated financial statements for the year ended 31 December 2022, impairment of intangible assets related to the Group’s lead product candidate, KIN001 totalled TCHF 38’177 for the year ended 31 December 2022.

Financial Income

Financial income consists of income related to the partial waiver of a bridge loan facility by a related party linked to one of the Group's shareholders, as detailed under Note 8 of our consolidated financial statements for the period ended 31 December 2022. We recognized financial income of TCHF 131 for the year ended 31 December 2022, representing a decrease of TCHF 149, or 53%, compared to financial income of TCHF 280 for the year ended 31 December 2021.

Financial Expenses

Financial expenses consist of interest expenses on third-party loans and bank charges. Financial expenses were TCHF 10 for the year ended 31 December 2022 representing a decrease of TCHF 3, or 23%, compared to TCHF 13 for the year ended 31 December 2021.

Net Loss

As a result of the foregoing, our net loss totalled TCHF 34'743 for the year ended 31 December 2022, representing an increase of TCHF 34'600 compared to a net loss of TCHF 143 for the year ended 31 December 2021.

Liquidity and Capital Resources

The Group is a clinical-stage group and is exposed to all the risks inherent to a company in the life sciences sector. Inherent to the Group's business are various risks and uncertainties, including the substantial uncertainty as to whether the current projects will succeed. The Group's success may depend in part upon its ability to (i) establish and maintain a strong patent position and protection; (ii) enter into collaborations with partners in the pharmaceutical and biopharmaceutical industries; (iii) successfully move its product candidates through clinical development; (iv) attract and retain key personnel; and (v) acquire capital to support its operations.

As of 31 December 2022, we had a cash balance of TCHF 1'342. Our primary uses of capital are, and we expect will continue to be, R&D expenses, payroll expenses and other operating expenses. Cash used to fund operating expenses are impacted by the timing of when we pay for expenses, as reflected in the change in our outstanding accounts payable and accrued expenses. We expect to incur substantial expenses in connection with the ongoing clinical development of our product candidate, KIN001 in non-hospitalized COVID-19 patients and continue operations as a public listed company.

To date, the Group has financed its cash requirements primarily from convertible loans. As detailed under Note 23 of our consolidated financial statements, in Q3 2022, the Company executed a financing agreement with Yorkville Advisors, a Cayman Islands registered alternative asset manager, to raise up to TCHF 20'000 over three years by issuance of convertible notes. Until 31 December 2022, we have raised TCHF 300 by issuance of convertible notes, all of which have been converted into the Company's shares. As of 31 December 2022, we still have access to TCHF 19'700 of financing from Yorkville. It is, however, noted that one of the conditions for the

Company to be able to make a drawdown under the Yorkville Financing Agreement is that the daily volume weighted average trading price of the Company's shares during the trading day preceding the closing date of the Company's drawdown request must not be less than CHF 0.02 per share. As the subsequent drawdowns are subject to the fulfilment of certain conditions, these may limit the Company's ability to execute such subsequent drawdowns under the Yorkville Financing Agreement. The Company has also issued 3-year warrants with a revised exercise price of CHF 0.01 to Yorkville, which upon their exercise would bring additional proceeds to the Company.

As detailed under Note 22 of our consolidated financial statements, the Company has access to TCHF 57'000 financing pursuant to a share subscription facility (SSF) agreement we entered into in Q3 2021 with GEM, a Luxembourg based alternative asset manager. Access to drawdowns from this SSF is also subject to certain conditions related to share price and trading volume. Until 31 December 2022, we have not drawn down any funds from the SSF facility.

As the Company's access to funding through the use of the above defined financing sources is uncertain, the Group is exploring additional financing and partnering options for funding future clinical development and operations.

Cash Flows

The table below summarizes the Group's cash flows for the year ended 31 December 2022 and 2021:

In TCHF	For the Year Ended 31 December	
	2022	2021
Net cash used in operating activities	(4'653)	(359)
Net cash provided by investing activities	5'479	-
Net cash provided by financing activities	392	420
Net increase in cash and cash equivalents	1'218	61

Operating Activities

Net cash used in operating activities was TCHF 4'653 for the year ended 31 December 2022, compared with net cash used in operating activities of TCHF 359 for the year ended 31 December 2021. The change in cash used in operating activities for the year ended 31 December 2022 was due to the Group reporting a net loss of TCHF 34'743 for the year ended 31 December 2022, compared with a net loss of TCHF 143 for the same period in 2021 and other income of TCHF 3'336 generated from requalification of a prepayment (liability), adjusted by non-cash items TCHF 1'519 in amortisation for the year ended 31 December 2022. Additionally, during the year ended 31 December 2022, there was TCHF 992 of net working capital movement-and we paid TCHF 7 of accrued interest.

Investing Activities

Net cash provided by investing activities of TCHF 5'479 during the year ended 31 December 2022 was related to cash inflow from the Company's acquisition of Kinarus.

Financing Activities

Net cash provided by financing activities of TCHF 392 for the year ended 31 December 2022, consisted of proceeds from borrowings of TCHF 479 partly netted off by capital increase cost of TCHF 88.

Financial Outlook

We do not expect to generate revenues unless we or future partners obtain regulatory approval of, and successfully commercialize our current or any future product candidates. As of 31 December 2022, we had a cash balance of TCHF 1’342. Based on our currently contemplated R&D strategy and despite our signing of financing agreements with Yorkville and GEM and executing an agreement for a TCHF 1’500 Convertible Loan from CDIM after the balance sheet date, we believe that there is a material uncertainty about our ability to continue as a going concern and to meet our liquidity and equity requirements for at least 12 months from 31 December 2022.

We expect to generate losses for the foreseeable future, and these losses could increase as we continue product development until we or our future partners successfully achieve regulatory approvals for our product candidates and begin to commercialize any approved products. We are subject to all the risks pertinent to the development of new products, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may harm our business. We expect to incur additional costs associated with operating as a public company and we anticipate that we will need substantial additional funding in connection with our continuing operations. If we need to raise additional capital to fund our operations and complete our ongoing and planned clinical studies, funding may not be available to us on acceptable terms, or at all.

Our future funding requirements will depend on many factors, including but not limited to the following:

- the scope, rate of progress, results and cost of our preclinical studies, clinical trials and other research and development activities, according to our long-term strategic plan;
- the cost of manufacturing clinical supplies and establishing commercial supplies of our product candidate and any other products we may develop;
- the cost, timing and outcomes of regulatory approvals;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish, including any required milestone and royalty payments thereunder;
- the emergence of competing technologies or other adverse market developments;
- the potential cost and timing of managing and protecting our IP portfolio.

Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our current investment policy is to invest available cash in bank deposits with banks that have a credit rating of at least A-. Accordingly, a substantial majority of our cash is held in deposits that bear interest. Given the current low rates of interest we receive, we will not be adversely affected if such rates are reduced. Our market risk exposure is primarily a result of foreign currency exchange rates.

Kinarus Therapeutics Holding AG

Statutory Financial Statements
for the years ended 31 December 2022

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Kinarus Therapeutics Holding AG

Income statement (in TCHF)

TCHF	Notes	01.01.22 - 31.12.22	01.01.21 - 31.12.21
General and administrative expenses		(970)	(396)
Other expenses	4.5	(39)	(9)
Other income	4.5	125	280
Loss before financial result, taxes and impairment		**(884)**	**(125)**
Impairment of participation	4.2	(39'697)	
Financial income		6	-
Financial expenses		(7)	(14)
Loss before taxes		**(40'582)**	**(139)**
Income tax		-	-
Loss for the period		**(40'582)**	**(139)**

The accompanying notes form an integral part of the statutory financial statements.

Kinarus Therapeutics Holding AG

Balance sheet (in TCHF)

TCHF	Notes	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents		1	119
Other current receivables			
Due from third parties	4.1	118	10
Accrued income and prepaid expenses		21	-
Current assets		**140**	**129**
Investments	4.2	12’400	-
Non-current assets		**12’400**	**-**
Total assets		**12’540**	**129**
LIABILITIES AND EQUITY			
Trade account payables			
Due to third parties		26	29
Due to statutory auditors		-	54
Oher current liabilities due to related parties	4.3	309	-
Accrued expenses and deferred income	4.4	312	21
Current liabilities		**647**	**104**
Long term liabilities due to third parties (subordinated)	4.5	-	429
Non-current liabilities		**-**	**429**
Total liabilities		**647**	**533**
Share capital	4.6	11’436	1’810
Treasury shares	4.7	-	-
Legal reserves from capital contribution	4.8	43’471	219
Reserves for treasury shares	4.9	1	
Loss brought forward		(2’433)	(2’294)
Loss for the period		(40’582)	(139)
Accumulated losses		(43’015)	(2’433)
Total shareholders' equity		**11’892**	**(404)**
Total liabilities and shareholders' equity		**12’540**	**129**

The accompanying notes form an integral part of the financial statements.

Kinarus Therapeutics Holding AG

Notes to the financial statements

1 General information

Kinarus Therapeutics Holding AG formerly known as Perfect Holding SA ("the Company") was originally incorporated in Yverdon-les-Bains, Switzerland, as a company limited by shares on 8 April 1997 with the Register of Commerce of the Canton of Vaud.

On 2 June 2022, the Company completed the acquisition of Kinarus AG, Basel ("Kinarus"), resulting in a reverse takeover of the Company by the former Kinarus shareholders. Kinarus is a clinical-stage biopharmaceutical company engaged in the discovery and development of novel therapeutics for the treatment of viral, respiratory, and ophthalmic diseases, which represent the new operating activities of the Group. The Company acquired Kinarus by way of a share for share exchange. In a first step Kinarus shareholders representing 95.3% of the Kinarus issued share capital tendered their shares in exchange for newly issued shares of the Company, and such new shares were admitted for listing and trading on the SIX Swiss Exchange as from 3 June 2022. On 17 August 2022 the Company acquired in a second step the remaining 4.7% outstanding Kinarus shares. These shares were also listed on the SIX Swiss Exchange

On 13 June 2002 the name of the Company was changed from Perfect Holding SA to Kinarus Therapeutics Holding AG and the Company moved its domicile to Basel, Switzerland.

2 Liquidity and going concern

As of 31 December 2022, the Company had accumulated losses of TCHF 43'015 and incurred a loss for the period ended 31 December 2022 of TCHF 40'582. As of 31 December 2022, the Company's cash and cash equivalents were TCHF 1. There is a material uncertainty about the Company's ability to continue as a going concern and to meet its liquidity and equity requirements for at least 12 months from 31 December 2022, due to its recurring net losses and negative operating cash flows as of 31 December 2022 and for the foreseeable future.

From the completion of the reverse takeover to date, the Company and its subsidiary Kinarus AG (the "Group") has financed its cash requirements primarily from convertible instruments. For instance, in August 2022, January and February 2023, the Company raised TCHF 700 through issuance of Convertible Notes with Yorkville Advisors as per a TCHF 20'000 financing agreement executed in August 2022. In May 2023, the Company executed an agreement for a TCHF 1'500 Convertible Loan with ChaoDian (Hangzhou) Investment Management (CDIM). CDIM has submitted all documents to the Chinese regulatory authorities for approval to transfer the funds from China to Switzerland and is awaiting their approval. As of the date of publication of these financial statements, the proceeds have not yet been received by the Company, but the board of directors are confident of receiving the proceeds in the near future.

However, the existing resources may not be sufficient to initiate new clinical trials beyond the ongoing clinical trial in COVID-19 non-hospitalized patients. The Company therefore intends to raise additional liquidity through debt and equity as well as through non-dilutive payments from future pharma partnerships.

The Group is a clinical-stage group and is exposed to all the risks inherent to a company in the life sciences sector. Inherent to the Group's business are various risks and uncertainties, including the substantial uncertainty as to whether the current projects will succeed. The Group's success may depend in part upon its ability to (i) establish and maintain a strong patent position and protection; (ii) enter into collaborations with partners in the pharmaceutical and biopharmaceutical industries; (iii) successfully move its product candidates through clinical development; (iv) attract and retain key personnel; and (v) acquire capital to support its operations.

These circumstances represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore its ability to realize its assets and discharge its liabilities in the normal course of business. Nevertheless, the board of directors believes that it is appropriate to prepare these consolidated financial statements on a going concern basis, considering the Group's ability to obtain the necessary additional funds to ensure business continuity, as evidenced by executing an agreement for TCHF 1'500 Convertible Loan with CDIM after the balance sheet date and potential access to financing through the previously executed financing agreement with Yorkville Advisors.

3 Summary of significant accounting policies

3.1 General aspects

These financial statements were prepared according to the provisions of the Swiss law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principled are described below.

3.2 Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at nominal value. Cash and cash equivalents include cash in hand. This position is readily convertible to known amounts of cash.

Investments

Investments are valued at cost less necessary depreciation and impairment expenses. See detail of impairment test 2022 in note 4.2.

Trade account payables

Trade account payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Share capital

Ordinary shares are classified as equity.

Treasury shares

Treasury shares are recognised at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized through the income statement as financial income or expense or through equity (capital reserve).

Foregoing a cash flow statement and additional disclosure notes

As Kinarus Therapeutics Holding AG has prepared its consolidated financial statements in accordance with a recognized accounting standard, it has decided to forego presenting additional information on audit fees in the notes as well as a cash flow statement in accordance with law.

4. Balance sheet and income statement items

4.1 Other current receivables

TCHF	31 December 2022	31 December 2021
Receivable from Yorkville	110	-
Other receivables	8	10
Total	**118**	**10**

The Company paid TCHF 110 in order to pay back the fourth tranche of the Yorkville convertible loan of TCHF 100 plus TCHF 10 for early redemption costs to Yorkville, but Yorkville decided to convert the TCHF 100 into Company shares after the cash transfer was made. As a result, Yorkville paid back TCHF 110 to the Company. As of 31 December 2022, this funds transfer was in process and the funds were credited to the Company on 9 January 2023.

4.2 Investments

The following table lists the subsidiaries of Kinarus Therapeutics Holding AG:

TCHF	Share Capital	31 December 2022	31 December 2021
Kinarus AG, Basel, Switzerland (100% share capital and voting rights)	TCHF 609		
Gross book value		52'097	-
Impairment at 31 December 2022 (see details below)		(39'697)	
Net book value		**12'400**	**-**
Perfect Aviation SA, Lausanne, Switzerland (100% share capital and voting rights)	TCHF 650		
Gross book value		7'774	7'774
Accumulated provision		(7'774)	(7'774)
Net book value		**-**	**-**
Total net book value		**12'400**	**-**

In June 2022 the Company acquired 95.3% of the Kinarus AG shares in connection with the reverse takeover and acquired the remaining 4.7% of the Kinarus AG shares in August 2022. The acquisition of Kinarus AG was a contribution in kind for a total amount of TCHF 52'097 and represents a total of 100% of the share capital of Kinarus AG, with a value of CHF 8.54964 per Kinarus AG share. The Kinarus AG shareholders received 932'297'085 shares of Kinarus Therapeutics Holding AG based on the exchange ratio of 153 for each Kinarus AG share. See note 4.6.

Impairment test December 2022

Since completion of the reverse takeover of Kinarus AG by the Company on 2 June 2022 and 31 December 2022 the share price of the Company went down from CHF 0.09 (closing price at 2 June 2022) to CHF 0.0114 at 31 December 2022.

During this period, the highest share price was CHF 0.09 on 2 June 2022 and lowest share price was CHF 0.0082 on (4 November 2022).

The lack of recovery of the share price can be attributed to the Group's termination of a clinical trial of its lead drug in hospitalized COVID-19 patients in September 2022 and also due to the Group's inability to find sufficient sources of capital to initiate its planned clinical trials in Wet AMD and IPF. The board of directors has explored various strategic options since October 2022 such as licensing and trade sale discussions with potential pharma partners. Those discussions have not been successful in generating any third-party offer validating the book value of the Kinarus participation until 31 December 2022. Due to the diminished prospects of generating any meaningful revenues from the development of KIN001 and due to the Group's termination of its clinical trial in COVID-19 hospitalized patients and its inability to initiate any further development of KIN001 in wet AMD and IPF the board of directors decided that the participation in Kinarus AG needs to be impaired at 31 December 2022.

The board of directors has therefore deemed that the traded market value as at 31 December 2022 to be an appropriate benchmark for the book value of the Kinarus AG participation.

Based on the closing share price of CHF 0.0114 at 31 December 2022 and based on the outstanding shares at 31 December 2022 and considering selling costs an impairment loss of TCHF 39'697 was calculated.

See table below for details.

	31 December 2022
Kinarus Therapeutics Holding shares	1'143'603'038
Less treasury shares of the Group	(10'557'244)
Outstanding Kinarus Therapeutics shares	**1'133'045'794**
Closing share price Kinarus Therapeutics Holding (CHF)	0.01140
Market value outstanding shares (TCHF)	**12'917**
Less selling costs 4% (TCHF)	(517)
Market value outstanding shares less selling costs (TCHF)	**12'400**
Book value of the Kinarus AG investment before impairment (TCHF)	52'097
Impairment (TCHF)	(39'697)
Book value of the Kinarus AG investment after impairment (TCHF)	**12'400**

4.3 Other current liabilities due to related parties

The subsidiary Kinarus AG provided cash and paid invoices on behalf of the Company totalling to TCHF 309 in 2022. Interests of TCHF 144 have been considered at 31 December 2022.

4.4 Accrued expenses and deferred income

TCHF	31 December 2022	31 December 2021
Commitment fee due to Yorkville	200	-
Audit fees	70	-
Other accruals	42	21
Total	**312**	**21**

On 21 August 2022, the Company executed a financing agreement with Yorkville to raise up to TCHF 20'000 over three years by issuance of convertible notes. The Company has to pay Yorkville a commitment fee of TCHF 400 in cash or shares (at the option of the Company). TCHF 200 was paid in cash in August 2022 and TCHF 200 remain outstanding at 31 December 2022. See note 5.8.

4.5 Long term liabilities due to related parties

TCHF	31 December 2022	31 December 2021
Due to related parties - subordinated	-	429
Total	**-**	**429**

On 3 March 2021, the Group signed a bridge facility agreement with a related party for a total amount of up to TCHF 510 which was increased to TCHF 600 on 22 February 2022. The maximum facility amount was drawn down in monthly disbursements to cover the average estimated financial needs of the Company for the relevant months.

Pursuant to the transaction agreement dated 29 March 2022 entered between the Company, Kinarus AG and the lender of the bridge facility an amount of TCHF 125 was waived, generating other income, and the interest capped to TCHF 3 as part of the terms and conditions of the transaction with Kinarus AG.

In October 2022, the Company converted the remaining bridge facility amount of TCHF 478 into 8'851'128 treasury shares of the Company at a price of CHF 0.05405 per treasury share. The treasury shares used for this transaction had a value of zero. The gain of TCHF 478 was directly booked into the legal reserve from capital contribution. See note 4.8. There is no impact on the overall share capital in relation to this treasury share transaction since these own shares have been already issued.

In addition, in 2022, an amount of TCHF 39 short-term loan due from the subsidiary Perfect Aviation SA, Lausanne was waived by Kinarus Therapeutics Holding AG in favour of Perfect Aviation, generating other expenses in the income statement.

4.6 Share capital

	Number of shares		Nominal value of share capital (in TCHF)	
	01.01.22-31.12.22	01.01.21-31.12.21	01.01.22-31.12.22	01.01.21-31.12.21
Balance at 1 January	181'018'281	181'018'281	1'810	1'810
Issuance of shares through acquisition of Kinarus AG (1. closing)	888'514'758	-	8'885	-
Issuance of shares through acquisition of Kinarus AG (2. closing)	43'782'327		438	-
Issuance of shares through conversion of convertible loans	30'287'672	-	303	-
Balance at 31 December	**1'143'603'038**	**181'018'281**	**11'436**	**1'810**

At 31 December 2022, the issued share capital amounts to TCHF 11'436, consisting of 1'143'603'038 fully paid shares with a nominal value of CHF 0.01 each. As the capital increases through the conversion of the convertible loans has not yet been registered as at 31 December 2022 in the commercial trade register, the registered share capital in the commercial trade register amounts to TCHF 11'133, consisting of 1'113'315'366 fully paid shares.

Since 31 December 2021 the share capital increased as follows:

- June 2022: Issuance of a total of 888'514'758 shares with a nominal value of CHF 0.01 at CHF 0.09 per share through contribution in kind of Kinarus AG shares, resulting in an increase of the share capital of TCHF 8'885 and share premium of TCHF 40'765 in connection with the 95.3% acquisition of the Kinarus AG shares in June 2022 in the course of the completion of the reverse takeover. The new shares were created from authorised capital.
- August 2022: Issuance of a total of 43'782'327 shares with a nominal value of CHF 0.01 at CHF 0.09 per share through contribution in kind of the residual Kinarus AG shares, resulting in an increase of the share capital of TCHF 438 and share premium of TCHF 2'009 in connection with the remaining 4.7% acquisition of the Kinarus AG shares in August 2022. The new shares were created from authorised capital.
- Q4 2022: Issuance of a total of 30'287'672 shares with a nominal value of CHF 0.01 at CHF 0.01 per share through conversion of convertible notes received from Yorkville (see note 5.8), resulting in an increase of the share capital of TCHF 303 and no share premium. The new shares were created from conditional capital.

4.7 Treasury shares

	31 December 2022		31 December 2021	
Number of registered shares	Acquisition cost CHF	Number of shares	Acquisition cost CHF	Number of shares
Owned by Kinarus Therapeutics Holding	-	8'398'873	-	17'250'001
Total	**-**	**8'398'873**	**-**	**17'250'001**

In October 2022, the Company used 8'851'128 treasury shares for the repayment of the outstanding bridge loan. See note 4.5.

4.8 Legal reserves from capital contribution

TCHF	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Balance at 1 January	219	219
Acquisition of 95.3% of Kinarus AG shares (see note 1)	40'765	
Acquisition of 4.7% of Kinarus AG shares (see note 1)	2'009	
Conversion of bridge loan (see note 4.5)	478	
Balance at 31 December	**43'471**	**219**

The increase in the legal reserves from capital contribution of TCHF 43'471 is not confirmed yet by the Swiss tax authorities.

4.9 Reserves for treasury shares

TCHF	Shares	TCHF
Balance at 1 January 2022	-	-
Kinarus Therapeutics Holding AG shares held by Kinarus AG (i)	2'158'371	1
Balance at 31 December 2022	**2'158'371**	**1**

(i) The subsidiary Kinarus AG held prior to the reverse takeover held 14'107 treasury shares with a value of total CHF 1'410.70. At the reverse takeover, Kinarus AG tendered their treasury shares and received 2'158'371 Perfect Holding SA (now: Kinarus Therapeutics Holding AG) shares in exchange.

5. Other information

5.1 Full time equivalents

In 2022 and 2021, Kinarus Therapeutics Holding AG employed less than ten full-time equivalents on an annual average basis.

5.2 Conditional share capital

As the capital increases through the conversion of the convertible loans has not yet been registered as at 31 December 2022 in the commercial trade register, at 31 December 2022, the conditional share capital amounts to TCHF 5'000, consisting of 499'674'342 shares with a nominal value of CHF 0.01 (31 December 2021: TCHF 905, consisting of 90'500'000 shares with a nominal value of CHF 0.01) to be used for future capital increases involving conversion and/or option rights.

5.3 Authorized share capital

At 31 December 2022, the authorized share capital amounts to TCHF 4'862, consisting of 486'179'687 shares with a nominal value of CHF 0.01 (31 December 2021: none).

5.4 Loans and credits to the Board of Directors and Executive Management

At 31 December 2022, there were no loans and/or credits granted by any company of the Kinarus Group to any current or former members of the Board of Directors or Executive Management (at 31 December 2021: none).

5.5 Contingent liabilities due to VAT Group

From the VAT point of view (art. 22 LTVA), Kinarus Therapeutics Holding AG and Perfect Aviation SA are considered as one and sole company. In case of insolvency of one of the companies, the other companies are jointly responsible for the VAT liabilities (art. 32e LTVA).

5.6 Significant shareholders

in % of share capital	31 December 2022		31 December 2021	
Alexander Bausch		10.68%		0%
Adrian Gut		8.64%		0%
Concert party				
Haute Vison SA, Mauritius	5.56%		35.15%	
Grover Ventures Inc., British Virgin Islands	0.96%		6.85%	
Nicholas Grey	0.85%		5.39%	
The Fighter Collection, United Kingdom	0.77%		0%	
Stephen Grey	0.69%	8.84%	4.39%	51.79%
Messieurs Pictet & Cie, Switzerland		5.26%		0%
Silvia Hansel		4.74%		0%
Mr. and Mrs. Inderbitzin		3.91%		0%
Thomas Sander		3.34%		0%
SO Holding AG, Switzerland		3.20%		0%
Kinarus Therapeutics Holding AG / Perfect Holding SA (see note 4.7)		< 3%		9.53%

Haute Vision SA, Grover Ventures Inc, Nicholas Grey, The Fighter Collection and Stephen Grey, who are deemed to form a group based on their family and business relationships and voting, held in aggregate 101’049’112 shares which represent 8.84% of the current outstanding share capital of CHF 11’436’030.38 (31. December 2021: 51.79% of the then outstanding share capital of 93’741’973 shares).

Mr. Silvio Inderbitzin and his wife, Mrs. Gabriele Inderbitzin-Köhler form a related party. Together they held 44’684’874 Company shares at 31 December 2022 i.e., 3.91% of the current outstanding share capital of CHF 11’436’030.38.

5.7 Shares and options held by the Board of Directors and the Executive Management

At 31 December 2022 and 31 December 2021, the shares held by the members of the Board of Directors and the Executive Management (including persons closely related to these members) were as follows:

Shareholdings of members of the Board of Directors as at 31 December 2022 and 2021:

	31 December 2022		31 December 2021	
in thousands	Shares	Option rights	Shares	Option rights
Mr. Hari Kumar, chairman of the BoD	1’874	-	-	-
Mr. Alexander Bausch, member of the BoD	122’168	-		-
Mr. Silvio Inderbitzin, member of the BoD	44’685	-		-
Mr. Eugene Tierney, member of the BoD	6’064	-		-
Mr. Stephen Grey, member of the BoD	7’840	-	7’940	-
Total	**182’631**	**-**	**7’940**	**-**

Mr. Hari Kumar’s shareholding is held by his wife, Jacqueline Wallach, a related party.

Mr. Silvio Inderbitzin’s shareholding includes shares held by his wife, Mrs. Gabriele Inderbitzin-Köhler, a related party.

Mr. Stephen Grey was the former board member of Perfect Holding SA (renamed to Kinarus Therapeutics Holding AG).

Shareholdings of members of the Executive Management as at 31 December 2022 and 2021:

In thousands	31 December 2022		31 December 2021	
	Shares	Option rights	Shares	Option rights
Anouck Ansermoz, CFO (until 2 June 2022)	-	-	-	-
Alexander Bausch, CEO (from 2 June 2022)	122’168	-	-	-
Matthew Wright, COO (from 2 June 2022)	16’590	-	-	-
Thierry Fumeaux, CMO (from 2 June 2022)	2’279	-	-	-
Claudia Berger, CCDO (from 2 June 2022)	7’190	-	-	-
Subhasis Roy, Interim CFO (from 2 June 2022)	-	-	-	-
Total	**148’227**	**-**	**-**	**-**

At 31 December 2022 no member of the Board of Directors nor the Executive Management held any options of the Company nor its subsidiaries.

5.8 Yorkville agreement

On 21 August 2022, the Company executed a financing agreement with Yorkville Advisors Global LP respective their fund YA II PN, LTD (together “Yorkville”) to raise up to TCHF 20’000 over three years by issuance of convertible notes. The unsecured convertible notes each have a term of 6 months and are convertible into the Company’s shares during the term by the holder of the convertible notes. The conversion price shall be determined as the lower of (i) 120% the volume-weighted 10-day trading price of the Company’s shares prior to Company’s decision to issue the convertible notes, or (ii) 92% of the lowest daily volume-weighted 10-day trading price of the Company’s shares prior to conversion. Interest is paid at an annual rate of 4% during the term of the notes. The Company issued 3-year warrants to acquire the Company’s common shares linked to the nominal value of the convertible notes at an exercise price of 120% of the Company’s share price prior to funding. Until 31 December 2022 the Company received TCHF 300 as convertible loan from Yorkville and issued 8’928’571 warrants to Yorkville to purchase the Company’s shares at an exercise price of CHF 0.0336 per share. In December 2022 the convertible loans of TCHF 300 (plus interests) were converted into Company shares. See note 4.6 and note 6.1 for further Yorkville drawdowns and conversions in 2023.

6. Subsequent events

6.1 Yorkville convertible loans

In January 2023 the Company received further TCHF 200 convertible loans from Yorkville. The Company issued 8’333’333 warrants at an exercise price of CHF 0.024 per share in connection with this convertible loan tranche. In February 2023 the Company received additional TCHF 200 convertible loans from Yorkville. The Company issued 10’101’010 warrants at an exercise price of CHF 0.0198 per share in connection with this convertible loan tranche.

Of these TCHF 400 convertible loans received in January and February 2023, TCHF 400 (plus interests) were converted into Company shares between January and March 2023, resulting in an increase of the share capital of TCHF 322 and a share premium of TCHF 79.

In March 2023, the Company and Yorkville amended the terms of the warrant agreement related to the financing agreement executed on 21 August 2022. This amendment was related to resetting the exercise prices of all outstanding warrant tranches based on a 15% discount to the lower of (i) the Company’s share price of CHF 0.015 or (ii) lowest VWAP of 5 days prior to the amendment date. As a result, the amended exercise price for all outstanding warrant tranches was set at CHF 0.01258. In a subsequent amendment of the terms of warrant agreement in April 2023, the Company and Yorkville decided to revise the exercise price for all outstanding warrant tranches to CHF 0.01.

6.2 GEM agreement

On 6 September 2021, Kinarus signed a financing agreement with GEM Global Yield LLC SCS (“GEM”), a Luxembourg-based private, alternative investment group. Under the agreement, GEM committed to provide Kinarus after completion of the reverse takeover between Kinarus and Perfect Holding (now: Kinarus Therapeutics Holding) on 2 June 2022 a share subscription facility of up to TCHF 57’000 for a period of 36 months following the completion of the reverse takeover. Drawdowns under the agreement are subject to certain pre-conditions and the volume of a possible drawdown depends on the liquidity of the Company shares.

In connection with this GEM agreement, Kinarus has to pay TCHF 1’140 in commitment fee in shares or cash (at the option of Kinarus), which is accrued in the Kinarus balance sheet as at 31 December 2022, and issue 5-year warrants of the Company equal to 4.9% of the fully diluted outstanding share capital of the Company as of 2 June 2022 at an exercise price of CHF 0.071 per warrant.

On 10 April 2023 the Company, Kinarus, GEM and GEM Yield Bahamas Ltd. entered into an agreement whereas Kinarus assigned and the Company assumed the rights and obligations under the GEM agreements. As a result, the Company assumed the TCHF 1’140 commitment fees towards GEM.

The commitment fee of TCHF 1’140 and the issuance of warrants due to GEM were executed in April 2023. The Company issued 103’636’364 shares for the full settlement of the Commitment Fee and issued 54’405’351 warrants to GEM, resulting in an increase of share capital of TCHF 1’036 and a share premium of TCHF 104.

6.3 Convertible loan agreement with ChaoDian (Hangzhou) Investment Management

The Company signed on 8 May 2023 a convertible loan agreement for a CHF 1.5 million investment by ChaoDian (Hangzhou) Investment Management Co., Ltd., an investment company based in Hangzhou City, China (“CDIM”). Under the terms of the loan agreement, CDIM granted a subordinated loan in the amount of CHF 1.5 million to the Company for a fixed term of three years without any interest. During the term of the agreement, the outstanding loan amount can be converted at any time into Company shares with a nominal value of CHF 0.01 at a fixed conversion price of CHF 0.01 per Company share. CDIM has submitted all documents to the Chinese regulatory authorities for approval to transfer the funds from China to Switzerland and is awaiting their approval. As of the date of publication of these financial statements, the proceeds have not yet been received by the Company, but the board of directors of the Company are confident of receiving the proceeds in the near future.

6.4 Liquidation of Perfect Aviation SA

The 100% subsidiary of the Company Perfect Aviation SA, Geneva (see note 4.2) is since 21 March 2023 (entry into the commercial trade register) in the liquidation process.

Appropriation of accumulated losses

Proposal of the Board of Directors for the appropriation of loss carried forward as of 31 December 2022:

TCHF	Proposed by the Board of Directors
Accumulated loss beginning of the year	(2’433)
Net loss for the year	(40’582)
Balance to be carried forward	**(43’015)**

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To the General Meeting of
Kinarus Therapeutics Holding AG, Basel

Basle, 30 May 2023

Report of the statutory auditor

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Kinarus Therapeutics Holding AG (the Company), which comprise the balance sheet as at 31 December 2022 and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements on pages 77 to 89 comply with Swiss law and the Company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter
We draw attention to note 2 of the financial statements, which indicates that the Company incurred a net loss of TCHF 40'582 during the year ended 31 December 2022. As stated in note 2, this event or condition, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters
In addition to the matter described in the Emphasis of matter paragraph highlighting the material uncertainty regarding going concern in our report, we have determined the matters described below to be the key audit matters to be communicated in our report. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the “Auditor's responsibilities for the audit of the financial statements” section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Capital increase through contribution in kind

Risk	Kinarus Therapeutics Holding AG increased its share capital by issuance of a total of 888’514’758 shares in June 2022 and 43’782’327 shares in August 2022 through contribution in kind of total 100% of Kinarus AG’s common stock, resulting in a share capital increase of TCHF 8’885 and share premium of TCHF 40’765 for the first tranche in June 2022 and a share capital increase TCHF 438 and share premium of TCHF 2’009 in connection with the remaining transaction in August 2022. The contribution in kind of 100% common stock in Kinarus AG was based on management valuation carried out considering the last capital increase performed by Kinarus AG including a control premium of 30%. Further information on the capital increase through contribution in kind is disclosed in note 4.6 to the financial statements. Due to the estimation included in the valuation of Kinarus AG as part of the capital increase, this matter was considered significant to our audit.
Our audit response	Our audit procedures related to the capital increase through contribution in kind included the inspection of the documents (capital increase report and bylaws) relating to the capital increase for completeness and accuracy as well as the assessment of the appropriateness of the valuation technique applied and valuation assumptions used in the management valuation report with the support of our own valuation specialists. Our audit procedures did not lead to any reservations concerning the accounting applied for the capital increase through contribution in kind.

Valuation of investment

Risk	As of 31 December 2022, the investment value of TCHF 12’400, net of an impairment charge of TCHF 39’697 from the current year, represents 99% of the total assets. Further details regarding the investment are included in the note 4.2 to these financial statements. Due to the significance of the carrying amount and the assumptions required for the valuation of the investment, this matter was considered significant to our audit.
Our audit response	During our audit of the valuation of the investment in Kinarus AG, we analyzed the assumption used by management when comparing the investment value with the traded market value as of 31 December 2022.

Our audit procedures did not lead to any reservations concerning the impairment recognized and the valuation of the investment.

Other matter
The financial statements for the year ended 31 December 2021 were audited by another statutory auditor who expressed an unmodified opinion with an emphasis of matter regarding going concern on those financial statements on 31 March 2022.

Other information
The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the tables labelled audited of the compensation report (page 28 to 30) and our auditor’s reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors’ responsibilities for the financial statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on EXPERTsuisse’s website at: https://www.expertsuisse.ch/en/audit-report. This description forms an integral part of our report.

Report on other legal and regulatory requirements

In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed carry forward of the accumulated losses complies with Swiss law and the Company’s articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Fabian Meier Licensed audit expert (Auditor in charge)	René Buchmann Licensed audit expert

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Forward-Looking Statements

The Annual Report contains statements that are, or may be deemed to be, forward-looking statements. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the words "aims", "believes", "estimates", "anticipates", "expects", "intends", "may", "will", "plans", "should" or similar terminology. These forward-looking statements include or describe matters that are not historical facts or which may not otherwise be provable by reference to past events. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and/or depend on circumstances that may or may not occur in the future.