Kinarus Therapeutics Holding AG

Unaudited Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2022

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Kinarus Therapeutics Holding AG (unaudited interim condensed consolidated financial statements)

Kinarus Therapeutics Holding AG

Interim consolidated income statement (in TCHF)

TCHF	Notes	01.01.22 - 30.06.22	01.01.21 - 30.06.21
External research and development expenses		(236)	-
Payroll expenses	6	(107)	-
General and administrative expenses	7	(416)	(243)
Loss before financial result, taxes and depreciation and amortization		**(759)**	**(243)**
Amortization of intangible assets	12	(217)	-
Financial income	8	131	280
Financial expenses	8	(6)	(4)
Exchange differences	8	1	-
(Loss)/profit before taxes		**(850)**	**33**
Income tax income/(expenses)		28	-
(Loss)/profit for the period		**(822)**	**33**
(Loss)/profit attributable to:			
Owners of the parent company		(795)	33
Minority interests		(27)	-
		(822)	**33**
(Loss)/profit per share			
Basic and diluted (loss)/profit per share (in CHF)	9	(0.0026)	0.0002

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

Kinarus Therapeutics Holding AG

Interim consolidated balance sheet (in TCHF)

TCHF	Notes	30 June 2022	31 December 2021
ASSETS			
Cash and cash equivalents		4'583	124
Other current assets	10	174	12
Current assets		**4'757**	**136**
Property, plant and equipment	11	9	-
Intangible assets	12	51'880	-
Non-current assets		**51'889**	**-**
Total assets		**56'646**	**136**
LIABILITIES AND EQUITY			
Trade account payables	13	342	86
Current provisions	17.5	1'140	-
Other current liabilities	14	869	21
Current liabilities		**2'351**	**107**
Non-current borrowings	15	3'478	429
Non-current prepayments	16	4'400	-
Deferred tax liabilities		6'510	-
Non-current liabilities		**14'388**	**429**
Total liabilities		**16'739**	**536**
Share capital	17.1	10'695	1'810
Share premium		30'475	220
Treasury shares	17.2	(1)	-
Accumulated losses		(3'225)	(2'430)
Total equity attributable to owners of the parent company		**37'944**	**(400)**
Minority interests		1'963	-
Total equity		**39'907**	**(400)**
Total liabilities and equity		**56'646**	**136**

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

Kinarus Therapeutics Holding AG

Interim consolidated statement of changes in equity (in TCHF)

TCHF	Share capital	Share premium	Goodwill	Treasury shares	Accumulated losses	Attributable to owners of the parent company	Minority interests	Total
Balance at 1 January 2021	**1’810**	**220**	**-**	**-**	**(2’287)**	**(257)**	**-**	**(257)**
Profit for the period	-	-	-	-	33	33	-	33
Balance at 30 June 2021	**1’810**	**220**	**-**	**-**	**(2’254)**	**(224)**	**-**	**(224)**
Loss for the period	-	-	-	-	(176)	(176)	-	(176)
Balance at 31 December 2021	**1’810**	**220**	**-**	**-**	**(2’430)**	**(400)**	**-**	**(400)**
Balance at 1 January 2022	**1’810**	**220**	**-**	**-**	**(2’430)**	**(400)**	**-**	**(400)**
Issuance of share for acquisition of subsidiary (note 3)	8’885	70’889	(40’562)	(1)	-	39’211	1’990	41’201
Transaction costs	-	(72)	-	-	-	(72)	-	(72)
Loss for the period	-	-	-	-	(795)	(795)	(27)	(822)
Balance at 30 June 2022	**10’695**	**71’037**	**(40’562)**	**(1)**	**(3’225)**	**37’944**	**1’963**	**39’907**

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

Kinarus Therapeutics Holding AG

Interim consolidated statement of cash flows (in TCHF)

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TCHF	Notes	01.01.22 - 30.06.22	01.01.21 - 30.06.21
(Loss)/profit for the period		(822)	33
Adjustments for non-monetary items:			
- Amortization expenses	12	217	-
- Loan waiver income	8	(131)	(280)
- Interest and taxes, net		(23)	4
Change in working capital		(366)	117
Interest and taxes, paid		(6)	(2)
Net cash used in operating activities		**(1'131)**	**(128)**
Cash inflow from acquisition of subsidiary	3	5'483	-
Net cash provided by investing activities		**5'483**	**-**
Transaction costs directly related to capital increase		(72)	-
Proceeds from borrowings		179	235
Net cash provided by financing activities		**107**	**235**
Net increase/(decrease) in cash and cash equivalents		4'459	107
Cash and cash equivalents at beginning of the period		124	63
Cash and cash equivalents at end of the period		**4'583**	**170**

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

Notes to the interim condensed consolidated financial statements

1 General information

The company, 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. Historically, the activities of the Company and its subsidiaries ("the Group") have mainly consisted of the analysis, valuation and negotiation of several potential acquisitions.

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. Kinarus shareholders representing 95.3% of the Kinarus issued share capital have tendered their shares in exchange for newly issued shares of the Company, and such new shares have been admitted for listing and trading on the SIX Swiss Exchange as from 3 June 2022. Subsequently, 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 unaudited interim condensed consolidated financial statements for the six months ended 30 June 2022 were authorized for issuance by the Group's Board of Directors on 24 August 2022.

2 Summary of significant accounting policies

2.1 Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2022, have been prepared in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER 31. These interim condensed consolidated financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, such financial information should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2021, which have been prepared in accordance with Swiss GAAP FER 31.

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

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

2.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's audited consolidated financial statements for the year ended 31 December 2021, except for the following accounting policies which have either been amended due to the acquisition of Kinarus and the significant change in the Group's activities following the acquisition (Goodwill) or have become significant as a result of the acquisition of Kinarus (pension plan, leases, property, plant and equipment, intangible assets, impairment of non-financial assets) and are therefore disclosed :

Pension plans

Contributions related to the reporting period are presented as payroll 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 30 June 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.

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 six months ended 30 June 2022 is not material.

Goodwill

Net assets taken over in an acquisition are valued at actual values; any surplus of acquisition cost over the newly valued net assets is designated as goodwill and offset against equity at the date of acquisition. Goodwill is disclosed separately in the consolidated statement of changes in equity as well as in the notes.

The impact of the change in the accounting policy from the recognition of goodwill as an asset which is amortized over 5 years using a straight-line amortization method, compared to the changed accounting policy of offsetting goodwill against equity upon acquisition, for the six months ended 30 June 2022, is a reduction in the amortization expense by TCHF 657. As goodwill was fully impaired as of 30 June 2022 (refer to note 3 for further details), there will be no further impact of the change in accounting policy after 30 June 2022.

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 project as based on the progress of the development project 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.

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 depreciated respectively amortized systematically over the newly estimated useful life.

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 and reassessed its segment reporting (refer to note 4 for further details).

2.3 Critical judgements and accounting estimates

The preparation of the Group's interim condensed 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.

2.4 Interim measurement note

The Group's business is not subject to any seasonality. Expenses largely depend on the phase of the respective projects, particularly with regard to external research and development expenses. In particular, the criteria for the accrual of costs at the interim balance sheet date are the same as at the annual balance sheet date.

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 is 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.

Assets acquired and liabilities assumed at the date of acquisition

The provisionally determined 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)	1'990
./. Net assets acquired	(41'200)
Goodwill	**40'562**

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 40'562 was allocated to goodwill. The goodwill is 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 between 2 June and 30 June 2022, 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 at 30 June 2022. As goodwill was offset directly against equity, the impairment loss of TCHF 40'562 is not recognized in the consolidated income statement.

The intangible asset acquired in the business combination 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 30 June 2022, the Group operates in one segment, which primarily focuses on the development of its 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	
				30 June 2022	31 December 2021
Kinarus AG	Basel, Switzerland	CHF	609'345	95.30%	-
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

6 Payroll expenses

TCHF	01.01.22-30.06.22	01.01.21-30.06.21
Salary and bonus expenses	87	-
Social contribution expenses	17	-
Other personnel expenses	3	-
Total	**107**	**-**

7 General and administrative expenses

TCHF	01.01.22 - 30.06.22	01.01.21 - 30.06.21
Professional services expenses (i)	319	182
Office and other administrative expenses	97	61
Total	**416**	**243**

(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.

8 Financial income/ (expenses)

TCHF	01.01.22 - 30.06.22	01.01.21 - 30.06.21
Loan waiver income (i)	131	280
Total financial income	**131**	**280**
Interest expenses on borrowing due to related parties	(4)	(4)
Bank charges	(2)	-
Total financial expenses	**(6)**	**(4)**
Foreign currency exchange gains	2	-
Foreign currency exchange losses	(1)	-
Exchange differences	**1**	**-**

(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 15.

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 then contemplated transaction. As per the terms of the bridge facility agreement, the interruption of the negotiations related to the then contemplated transaction in the six months ended 30 June 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)/profit per share

	01.01.22 - 30.06.22	01.01.21 - 30.06.21
(Loss)/profit for the period attributable to owners of the parent company (in TCHF)	(795)	33
Weighted average number of shares	305'781'182	163'768'280
Basic and diluted (loss)/profit per share (in CHF)	**(0.0026)**	**0.0002**

Basic and diluted loss per share is calculated by dividing the loss attributable to the owners of the parent company by the weighted average number of shares outstanding during the period. In the six-months period of 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	30 June 2022	31 December 2021
Prepaid research and development expenses	65	-
Other prepaid expenses	13	10
VAT receivables	96	2
Total	**174**	**12**

Other current assets are neither impaired in value nor do they include receivables which are overdue as of 30 June 2022 and 31 December 2021, respectively.

11 Property, plant and equipment

Property, plant and equipment mainly include IT equipment of the acquired subsidiary. There were no additions or disposals since the acquisition of the subsidiary.

12 Intangible assets

The intangible asset in the amount of TCHF 51’880 as of 30 June 2022 represents an exclusive, worldwide license to patent families and a license (the "Roche License") from Hoffmann La Roche ("Roche") for the development and world-wide 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 AMD (Wet Age-Related Macular Degeneration), and IPF (Idiopathic Pulmonary Fibrosis). Currently, the Group focuses on the development of KIN001 in hospitalized and 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 which expired in February 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 June 2022

As at 30 June 2022, the carrying amount of the intangible asset (as well as the goodwill offset in equity (note 3)) is based on a value in use calculation of a third-party valuation expert, which was also used to determine the fair value of Kinarus following the acquisition (note 3). The main input factors for this valuation were the share price derived from the last private financing round of Kinarus prior to the acquisition by the Group as well as the expected marketability premium upon integrating Kinarus’ operating activities in a listed Group through the acquisition. As none of the input factors changed until 30 June 2022 and there were no negative adjustments to the development plans of the intangible assets, the carrying amount of TCHF 51’880 was supported by the recoverable amount calculated as result from the value in use calculation. However, as the recoverable amount only covered the carrying amount of the intangible asset, goodwill offset against equity is fully impaired as a result of the impairment test (note 3).

13 Trade account payables

TCHF	30 June 2022	31 December 2021
Related to research and development expenses	72	-
Related to payroll expenses	3	-
Related to general and administrative expenses	267	86
Total	**342**	**86**

14 Other current liabilities

TCHF	30 June 2022	31 December 2021
Payables in relation to social contributions	70	-
Accrued research and development expenses	199	-
Accrued professional services expenses	397	21
Accrued bonuses and holidays	152	-
Other accrued expenses	51	-
Total	**869**	**21**

15 Non-current borrowings

TCHF	30 June 2022	31 December 2021
Due to related parties - subordinated (i)	478	429
Due to third parties - subordinated (ii)	3’000	-
Total	**3’478**	**429**

(i) 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 Group 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 and the interest capped to TCHF 3 as part of the terms and conditions of the transaction with Kinarus (note 3).

As at 30 June 2022, the principal amount drawn under the facility is TCHF 475 (31 December 2021: TCHF 420). The accumulated amount of interest as of 30 June 2022 is TCHF 3 (31 December 2021: TCHF 9) and is shown together with the principal amount.

Further the lender notified the Group to convert the bridge facility amount of TCHF 478 into shares of the Group pursuant to the Transaction Agreement, which is expected to be implemented later in 2022.

(ii) In May 2021, Kinarus, the newly acquired subsidiary of the Group, signed a subordinated loan in the amount of TCHF 3’000 with Basler Kantonalbank, as amended on 25 March 2022, of which 90% are guaranteed by the Canton of Basel-Stadt and 10% by the Eckstein-Geigy-Stiftung. The subordinated loan is due on 2 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.

16 Non-current prepayments

In December 2021, Kinarus was accepted in the Swiss Federal Funding Programme for COVID-19 Medicines which allows the Group to receive prepayments up to the total amount of TCHF 7’000 (before deduction of VAT) to further finance the necessary clinical trials of its lead COVID-19 drug candidate (KIN001). In December 2021, Kinarus received the first two tranches of the prepayment in the total amount of TCHF 4’400 (before deduction of VAT) based on milestones already achieved. Further tranches totalling up to TCHF 2’600 are due upon reaching additional milestones.

The received prepayments are offsetable against future product sales for the COVID-19 drug candidate and are repayable within 5 years after the final prepayment has been made if the Company makes any financial gains derived from the COVID-19 drug candidate.

17 Share capital

	Number of shares		Nominal value of share capital (in TCHF)	
	01.01.22-30.06.22	01.01.21-30.06.21	01.01.22-30.06.22	01.01.21-30.06.21
Balance at 1 January	181’018’281	181’018’281	1’810	1’810
Issuance of shares	888’514’758	-	8’885	-
Balance at 30 June	**1’069’533’039**	**181’018’281**	**10’695**	**1’810**

17.1 Issued share capital

At 30 June 2022, the issued share capital amounts to TCHF 10’695, consisting of 1’069’533’039 fully paid registered shares with a nominal value of CHF 0.01 each. 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 (refer to note 3 for further details), resulting in an increase of the share capital of TCHF 8’885 and share premium of TCHF 70’889. For further details, refer to note 3.

17.2 Treasury shares

At 30 June 2022, the Group held a total of 19’408’372 (31 December 2021: 17’250’001) own shares. On acquisition of Kinarus (note 3), the 14’107 Kinarus shares held by Kinarus were exchanged for 2’158’371 shares of the Company. The treasury shares are valued at the historical purchase price of TCHF 1. Further, the Group held at 30 June 2022 17’250’000 own shares valued at CHF 0 (31 December 2021: 17’250’000 own shares with a value of total CHF 0).

17.3 Authorized capital

At 30 June 2022, the authorized share capital amounts to TCHF 5’300, consisting of 529’962’014 shares with a nominal value of CHF 0.01 (31 December 2021: none).

17.4 Conditional capital

At 30 June 2022, the conditional share capital amounts to TCHF 5’300, consisting of 529’962’014 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.

17.5 GEM Global Yield LLC SCS

On 16 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 acquisition of Kinarus and the listing of the therefore newly issued shares of the Company on 2 June 2022 a share subscription facility for the Company’s shares of up to TCHF 57’000 for a period of 36 months following the completion of the acquisition. Drawdowns under the agreement are subject to certain pre-conditions and the amount of a possible drawdown depends on the liquidity of the Company’s shares after listing of the shares issued for the acquisition of Kinarus.

In connection with this GEM agreement, the Group has to pay TCHF 1’140 in commitment fee in shares or cash (at the option of the Group) which is recognized as current provisions as at 30 June 2022 and issue 5-year warrants in 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.

18 Related parties

18.1 Related party transactions

TCHF	01.01.22-30.06.22	01.01.21-30.06.21
Loan waiver income (i)	131	280
General & Administrative expenses (ii)	(40)	(12)
Total	**91**	**268**

(i) On 3 March 2021 and as amended by addendum on 22 February 2022, the Group 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 30 June 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.

(ii) General and administrative expenses relate to key management compensation as well as fees paid for external CFO services.

18.2 Related party balances

TCHF	30 June 2022	31 December 2021
Non-current borrowings due to related parties - subordinated	478	429
Total	**478**	**429**

19 Non-cash transactions

During the six-months period ended 30 June 2022 and 2021, there were no significant non-cash investing and financing activities except for the acquisition of Kinarus (note 3).

20 Commitments and contingent liabilities

In relation to the intangible asset "Pamapimod" (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 royalties between 3.0% and 4.25% on net sales in the future.

Further, the Group has contingent royalty payments of 2% in relation to the sales in 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, for a period of 18 months from 31 March 2022, 7% fees on any drawdown from the GEM facility (note 17.5). Ventac may have additional claims against the Group beyond the settlement payment of TCHF 500 executed between the Group 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 provision 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 is owed to GEM, pursuant to a share subscription facility executed between Kinarus and GEM (note 17.5).

As of 30 June 2022, there were no other contingent liabilities.

21 Liquidity and going concern

As of 30 June 2022, the Group had accumulated losses of TCHF 3'225 and incurred a loss for the period ended 30 June 2022 of TCHF 822. As of 30 June 2022, the Group's cash balance was TCHF 4'583. 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 30 June 2022, due to its recurring net losses and negative operating cash flows as of 30 June 2022 and for the foreseeable future.

To date, the Group has financed its cash requirements primarily from its share issuances, convertible instruments and non-current prepayments. The Group is a clinical-stage group and is exposed to all the risks inherent to establishing a business. 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.

The board of directors of the Company has concluded that 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 interim condensed 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 the signing of a TCHF 20'000 financing agreement with Yorkville after the balance sheet date and the previously executed TCHF 57'000 financing agreement with GEM.

22 Subsequent events

Capital increase August 2022

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 holds 100% of the Kinarus shares.

Financing agreement August 2022

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 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 will pay Yorkville a commitment fee of up to TCHF 400 in cash or shares (at the option of the Group) and issue 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis 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 unaudited interim condensed consolidated financial statements and related notes as of and for the six months ended 30 June 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 management's discussion and analysis. 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 discussion and analysis are in Swiss Francs.

This discussion and analysis is dated as of 31 August 2022.

Business Overview

The Group is a Swiss clinical-stage 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 two Phase 2 clinical trials in COVID-19. The "KINETIC" trial is a randomized placebo-controlled Phase 2 clinical trial in hospitalized COVID-19 patients, interim data from which is expected to be released in Q3 2022. 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) in the near future, subject to raising additional funding.

Interim 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. Through the RTO and listing, Kinarus shareholders were able to find some liquidity and the Group would be able to access additional sources of funding to finance its clinical development projects.

- 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.

Results of Operations

The numbers below have been derived from our unaudited interim condensed 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 Six Months Ended 30 June 2022 and 2021

In TCHF	For the Six Months Ended 30 June	
	2022	2021
External research and development expenses	(236)	-
Payroll expenses	(107)	-
General and administrative expenses	(416)	(243)
Loss before financial result, taxes and depreciation and amortization	(759)	(243)
Amortization of intangible assets	(217)	-
Financial income	131	280
Financial expenses	(6)	(4)
Exchange differences	1	-
(Loss)/profit before taxes	(850)	33
Income tax income/(expense)	28	-
(Loss)/profit for the period	(822)	33

Comparative figures for the six months ended 30 June 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 interim condensed consolidated financial statements only include one months of profit and loss of Kinarus.

External research and Development Expenses

Research and development (R&D) activities are essential to our business and represent the majority 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 programs 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 R&D projects, because the employees within our R&D team are typically deployed across multiple R&D programs.

The following table presents our R&D expenses during the six months ended 30 June 2022 and 2021:

In TCHF	For the Six Months Ended 30 June	
	2022	2021
Third party services and material expenses	226	-
Patent application and maintenance expenses	10	-
Total	236	-

Our research and development expenses totalled TCHF 236 for the six months ended 30 June 2022. The expenses were attributable to our ongoing Phase 2 clinical study in COVID-19 for hospitalized patients, the preparation of our upcoming Phase 2 clinical study COVID-19 for mild-to-moderate patients, production of drug products for the clinical studies, engagement of a clinical research organization to conduct the clinical studies, pre-clinical studies for the follow-on indications in our pipeline as well as expenses related to new IP filing and maintenance of existing IP.

Payroll Expenses

Our salaries and related costs totalled TCHF 107 for the six months ended 30 June 2022, primarily related to management and employees' salaries and bonuses.

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 416 for the six months ended 30 June 2022, representing an increase of TCHF 173, or 71%, compared to TCHF 243 for the six months ended 30 June 2021. The increase was attributable to one-off costs of TCHF 295 associated with RTO transaction expenses, hiring of additional consultants, insurance costs related to D&O insurance coverage for members of board and management, payment of board fees and costs related to increased public and investor relations activities.

Loss before Financial Result, Taxes and Depreciation and Amortization

As a result of the foregoing, our loss before financial result, taxes and depreciation and amortization totalled TCHF 759 for the six months ended 30 June 2022, representing an increase of TCHF 516, or 212%, compared to TCHF 243 for the six months ended 30 June 2021.

Amortization of Intangible Assets

As detailed under Note 12 of our interim condensed consolidated financial statements for the period ended 30 June 2022, amortization of intangible assets related to the Group's lead product candidate, KIN001 totalled TCHF 217 for the six months ended 30 June 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 interim condensed consolidated financial statements for the period ended 30 June 2022. We recognized financial income of TCHF 131 for the six months ended 30 June 2022, representing a decrease of TCHF 149, or 53%, compared to financial income of TCHF 280 for the six months ended 30 June 2021.

Financial Expenses

Financial expenses consist of interest expenses on third-party loans and bank charges. Financial expenses were TCHF 6 for the six months ended 30 June 2022 representing an increase of TCHF 2, or 50%, compared to TCHF 4 for the six months ended 30 June 2021.

Net Loss

As a result of the foregoing, our net loss totalled TCHF 822 for the six months ended 30 June 2022, representing an increase of TCHF 855 compared to a net profit of TCHF 33 for the six months ended 30 June 2021.

Liquidity and Capital Resources

To date, the Group has financed its cash requirements primarily from its share issuances, convertible instruments and non-current prepayments. The Group is a clinical-stage group and is exposed to all the risks inherent to establishing a business. 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 30 June 2022, we had a cash balance of TCHF 4'583.

Our primary uses of capital are, and we expect will continue to be, R&D expenses, payroll expenses and other operating expenses including rent. 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 our product candidate, KIN001 in various stages of clinical development. We also intend to further screen additional indications for our product candidate.

We plan to continue to fund our operating and capital funding needs through equity or other forms of financing. For example, in Q3 2021 we entered into a Share Subscription Facility (SSF) Agreement with GEM Global Yield LLC SCS (GEM), a Luxembourg based alternative asset manager, which provides that, upon the terms and subject to the conditions and limitations set forth in the SSF Agreement, we may elect to issue and sell, from time to time, our common shares having an aggregate offering price of up to TCHF 57'000. We will pay GEM a commitment fee of up to TCHF 1'140 in cash or shares (at the option of the Group) and issue 5-year warrants to acquire our common shares worth 4.9% of our fully diluted outstanding shares capital at an exercise price of CHF 0.071. We are not obligated to make any sales of common shares under the SSF Agreement, and we have not yet sold any common shares pursuant to the SSF Agreement.

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 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. We will pay Yorkville a commitment fee of up to TCHF 400 in cash or shares (at the option of the Group) and issue 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.

We may also consider entering into additional financing agreements for funding our clinical development projects.

Cash Flows

The table below summarizes the Group's cash flows for the six months ended 30 June 2022 and 2021:

In TCHF	For the Six Months Ended 30 June	
	2022	2021
Net cash used in operating activities	(1'131)	(128)
Net cash provided by investing activities	5'483	-
Net cash provided by financing activities	107	235
Net increase in cash and cash equivalents	4'459	107

Operating Activities

Net cash used in operating activities was TCHF 1'131 for the six months ended 30 June 2022, compared with net cash used in operating activities of TCHF 128 for the six months ended 30 June 2021. The change in cash used in operating activities for the six months ended 30 June 2022 was due to the Group reporting a net loss of TCHF 822 for the six months ended 30 June 2022, compared with a net profit of TCHF 33 for the same period in 2021, adjusted by non-cash items TCHF 217 in amortisation for the six months ended 30 June 2022. Additionally, during the six months ended 30 June 2022, there was TCHF 366 of net working capital movement-and we paid TCHF 6 of accrued interest.

Investing Activities

Net cash provided by investing activities of TCHF 5'483 during the six months ended 30 June 2022 was related to cash inflow from the Company's acquisition of Kinarus.

Financing Activities

Net cash provided by financing activities of TCHF 107 for the six months ended 30 June 2022, consisted of proceeds from borrowings of TCHF 179 partly netted off by capital increase cost of TCHF 72.

Current 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 30 June 2022, we had a cash balance of TCHF 4'583. Based on our currently contemplated R&D strategy and despite our signing of financing agreements with Yorkville and GEM, 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 30 June 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.