# Kinarus Therapeutics Holding AG

# Unaudited Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2023

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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 | 01.01.23 - 30.06.23 | 01.01.22 - 30.06.22 |
|---|---|---|---|
| External research and development expenses | | (272) | (236) |
| Payroll expenses | 6 | (487) | (107) |
| General and administrative expenses | 7 | (862) | (416) |
| **Loss before financial result, taxes and depreciation and amortization** | | **(1'621)** | **(759)** |
| Depreciation of property, plant and equipment | | (4) | - |
| Amortization of intangible assets | 12 | (319) | (217) |
| Impairment of intangible assets | 12 | (143) | - |
| Financial income | 8 | - | 131 |
| Financial expenses | 8 | (2) | (6) |
| Exchange differences | 8 | (3) | 1 |
| **Loss before taxes** | | **(2'092)** | **(850)** |
| Income tax income | | 41 | 28 |
| **Loss for the period** | | **(2'051)** | **(822)** |
| | | | |
| **Loss attributable to:** | | | |
| Owners of the parent company | | (2'051) | (795) |
| Minority interests | | - | (27) |
| | | **(2'051)** | **(822)** |
| | | | |
| **Loss per share** | | | |
| Basic and diluted loss per share (in CHF) | 9 | (0.00172) | (0.0026) |

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 2023 | 31 December 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | 150 | 1'342 |
| Other current assets | 10 | 122 | 294 |
| **Current assets** | | **272** | **1'636** |
| Property, plant and equipment | 11 | 6 | 10 |
| Intangible assets | 12 | 11'937 | 12'400 |
| **Non-current assets** | | **11'943** | **12'410** |
| **Total assets** | | **12'215** | **14'046** |
| **LIABILITIES AND EQUITY** | | | |
| Trade account payables | 13 | 70 | 152 |
| Other current liabilities | 14 | 517 | 1'695 |
| **Current liabilities** | | **587** | **1'847** |
| Non-current borrowings (subordinated) | 15 | 3'000 | 3'000 |
| FOPH accrual | 16 | 1'064 | 1'064 |
| Deferred tax liabilities | | 1'341 | 1'382 |
| **Non-current liabilities** | | **5'405** | **5'446** |
| **Total liabilities** | | **5'992** | **7'293** |
| Share capital | 17.1 | 12'794 | 11'436 |
| Share premium | | 32'641 | 32'478 |
| Treasury shares | 17.2 | (1) | (1) |
| Accumulated losses | | (39'211) | (37'160) |
| **Total equity** | | **6'223** | **6'753** |
| **Total liabilities and equity** | | **12'215** | **14'046** |

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 (Restated HY22)* | Treasury shares | Accumulated losses | Attributable to owners of the parent company (Restated HY22)* | Minority interests (Restated HY22)* | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2022** | **1'810** | **220** | **-** | **-** | **(2'430)** | **(400)** | **-** | **(400)** |
| Issuance of shares for the acquisition of subsidiary (note 3) | 8'885 | 70'889 | (40'508) | (1) | | 39'264 | 1'936 | 41'200 |
| Transaction costs | - | (72) | - | - | - | (72) | - | (72) |
| Loss for the period | - | - | - | - | (795) | (795) | (27) | (822) |
| **Balance at 30 June 2022** | **10'695** | **71'037** | **(40'508)** | **(1)** | **(3'225)** | **37'997** | **1'909** | **39'907** |
| | | | | | | | | |
| **Balance at 1 January 2023** | **11'436** | **32'478** | **-** | **(1)** | **(37'160)** | **6'753** | **-** | **6'753** |
| Capital increase | 1'358 | 183 | | | | 1'541 | | 1'541 |
| Transaction costs | - | (20) | - | - | - | (20) | - | (20) |
| Loss for the period | - | - | - | - | (2'051) | (2'051) | - | (2'051) |
| **Balance at 30 June 2023** | **12'794** | **32'641** | **-** | **(1)** | **(39'211)** | **6'223** | **-** | **6'223** |

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

*Refer to note 3 for more details regarding the restatement.

**Kinarus Therapeutics Holding AG**

**Interim consolidated statement of cash flows (in TCHF)**

| TCHF | Notes | 01.01.23 - 30.06.23 | 01.01.22 - 30.06.22 |
|---|---|---|---|
| Loss for the period | | (2'051) | (822) |
| Adjustments for non-monetary items: | | | |
| - Depreciation expenses | | 4 | - |
| - Amortization expenses | 12 | 319 | 217 |
| - Impairment intangible asset | 12 | 143 | |
| - Loan waiver income | 8 | - | (131) |
| - Interest and taxes, net | | (37) | (23) |
| Change in working capital | | 52 | (366) |
| Interest and taxes, paid | | (1) | (6) |
| **Net cash used in operating activities** | | **(1'571)** | **(1'131)** |
| Cash inflow from acquisition of subsidiary | 3 | - | 5'483 |
| **Net cash provided by investing activities** | | **-** | **5'483** |
| Transaction costs directly related to capital increase | | (20) | (72) |
| Proceeds from borrowings | | 400 | 179 |
| **Net cash provided by financing activities** | | **380** | **107** |
| Net increase/(decrease) in cash and cash equivalents | | (1'192) | 4'459 |
| Cash and cash equivalents at beginning of the period | | 1'342 | 124 |
| **Cash and cash equivalents at end of the period** | | **150** | **4'583** |

The accompanying notes form an integral part of the interim condensed 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 Kinarus Group consisting of the Company and its subsidiaries ("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 unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 were authorized for issuance by the Group's Board of Directors on 28 August 2023.

## 2 Summary of significant accounting policies

### 2.1 Basis of preparation

These unaudited condensed consolidated financial statements of the six months ended 30 June 2023 have been prepared in accordance with all of the existing guidelines of the accounting and reporting recommendations of Swiss GAAP FER 31 and should be read in conjunction with the consolidated annual financial statements 2022. They are based on the accounting principles presented in the Annual Report 2022 which were applied with no changes.

As Kinarus was acquired on 2 June 2022, the previous year interim condensed consolidated financial statements 2022 only include one months of profit and loss of Kinarus whereas the interim consolidated financial statements 2023 include six months 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.

## 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 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) | 1'936 |
| ./. 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 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 40’508 was not recognized in the interim consolidated income statement 2022.

The intangible asset acquired in the business combination and the impairment test 30 June 2023 is described in more detail in note 12.

***Goodwill restatement due to finalisation of the purchase price allocation***

Due to the finalisation of the purchase price allocation for the financial statements ended 31 December 2022 minorities were restated by TCHF 54 from previously TCHF 1’990 to TCHF 1’936 for the period ended 30 June 2022. As a result, the goodwill is restated for the period ended 30 June 2022 by TCHF 54 from previously TCHF 40’562 to TCHF 40’508. This restatement has no income statement effect since goodwill was offset with equity.

***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 2023 and 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.

## 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 2023 | 31 December 2022 |
| Kinarus AG | Basel, Switzerland | CHF | 609'345 | 100.00% | 100.00% |
| Perfect Aviation SA, en liquidation | 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, en liquidation is since 21 March 2023 (entry into the commercial trade register) in the liquidation process.

## 6 Payroll expenses

| TCHF | 01.01.23-30.06.23 | 01.01.22-30.06.22 |
|---|---|---|
| Salary and bonus expenses | 405 | 87 |
| Social contribution expenses | 82 | 17 |
| Other personnel expenses | - | 3 |
| **Total** | **487** | **107** |

## 7 General and administrative expenses

| TCHF | 01.01.23 - 30.06.23 | 01.01.22 - 30.06.22 |
|---|---|---|
| Professional services expenses | 741 | 319 |
| Office and other administrative expenses | 121 | 97 |
| **Total** | **862** | **416** |

## 8 Financial income/(expenses)

| TCHF | 01.01.23 - 30.06.23 | 01.01.22 - 30.06.22 |
|---|---|---|
| Loan waiver income (i) | - | 131 |
| **Total financial income** | **-** | **131** |
| Interest expenses on borrowing due to related parties | - | (4) |
| Bank charges | (2) | (2) |
| **Total financial expenses** | **(2)** | **(6)** |
| Foreign currency exchange gains | - | 2 |
| Foreign currency exchange losses | (3) | (1) |
| **Exchange differences** | **(3)** | **1** |

(i) In March 2022, TCHF 131 loan amounts and related accrued interest granted to the Group under a bridge facility were waived. See note 18.

## 9 Loss per share

| | 01.01.23 - 30.06.23 | 01.01.22 - 30.06.22 |
|---|---|---|
| Loss for the period attributable to owners of the parent company (in TCHF) | (2'051) | (795) |
| Weighted average number of shares | 1'195'101'631 | 305'781'182 |
| **Basic and diluted loss per share (in CHF)** | **(0.00172)** | **(0.0026)** |

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 2023, the weighted average number of shares outstanding varied as a result of capital increases (see note 17.1).

## 10 Other current assets

| TCHF | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Receivable from Yorkville | - | 110 |
| Prepaid research and development expenses | 19 | 26 |
| Prepaid social contribution | 28 | 8 |
| Other prepaid expenses | 32 | 57 |
| VAT receivables | 43 | 93 |
| **Total** | **122** | **294** |

Other current assets are neither impaired in value nor do they include receivables which are overdue as of 30 June 2023 and 31 December 2022, respectively.

## 11 Property, plant and equipment

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

## 12 Intangible assets

| TCHF | 2023 | 2022 |
|---|---|---|
| **Cost** | | |
| **Balance at 1 January** | **52'097** | **-** |
| Addition through acquisition of subsidiary | - | 52'097 |
| **Balance at 30 June** | **52'097** | **52'097** |
| **Balance at 31 December** | | **52'097** |
| | | |
| **Accumulated depreciation** | | |
| **Balance at 1 January** | **(39'696)** | **-** |
| Amortization expense 1 HY | (319) | (217) |
| Impairment expense 30 June | (143) | - |
| **Balance at 30 June** | **(40'158)** | **(217)** |
| Amortization expense 2 HY | - | (1'302) |
| Impairment expense 31 December | - | (38'177) |
| **Balance at 31 December** | **-** | **(39'696)** |
| | | |
| **Carrying amount** | | |
| **Balance at 1 January** | **12'400** | **-** |
| **Balance at 30 June** | **11'937** | **51'880** |
| **Balance at 31 December** | **-** | **12'400** |

The intangible asset in the amount of TCHF 11'937 as of 30 June 2023 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 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 2023***

Between 31 December 2022 and 30 June 2023 the share price of the Company went further down from CHF 0.0114 at 31 December 2022 to CHF 0.0098 at 30 June 2023.

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 30 June 2023. 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 30 June 2023 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 0.0098 at 30 June 2023 and based on the outstanding shares at 30 June 2023 and considering selling costs an impairment loss of TCHF 143 was calculated.

See table below for details:

| | 30 June 2023 |
|---|---|
| Kinarus Therapeutics Holding shares | 1'279'406'659 |
| Less treasury shares of the Group | (10'557'244) |
| **Outstanding Kinarus Therapeutics shares** | **1'268'849'415** |
| | |
| Closing share price Kinarus Therapeutics Holding (CHF) | 0.00980 |
| **Market value outstanding shares (TCHF)** | **12'435** |
| Less selling costs 4% (TCHF) | (497) |
| **Market value outstanding shares less selling costs (TCHF)** | **11'937** |
| Intangible asset values 30 June 2023 after amortisation and before impairment (TCHF) | 12'081 |
| Impairment (TCHF) | (143) |
| **Intangible asset value after impairment (TCHF)** | **11'937** |

## 13 Trade account payables

| TCHF | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Related to research and development expenses | - | 51 |
| Related to general and administrative expenses | 70 | 101 |
| **Total** | **70** | **152** |

## 14 Other current liabilities

| TCHF | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Payables in relation to social contributions | 35 | 37 |
| Accrued commitment fees due to Yorkville (i) | 200 | 200 |
| Accrued commitment fees due to GEM (ii) | - | 1'140 |
| Accrued research and development expenses | 63 | 112 |
| Accrued professional services expenses | 118 | 155 |
| Accrued holidays | 27 | 22 |
| Other accrued expenses and liabilities | 74 | 29 |
| **Total** | **517** | **1'695** |

(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 30 June 2023 (see note 17.6).

(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 Commitment Fee of TCHF 1'140 was settled in April 2023 by issuance of Company shares (see note 17.5 ).

## 15 Non-current borrowings

| TCHF | 30 June 2023 | 31 December 2022 |
|---|---|---|
| Due to third parties - subordinated | 3'000 | 3'000 |
| **Total** | **3'000** | **3'000** |

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. The lender has the right to charge an interest from 1 January 2023 until the loan matures on 1 June 2025 but no interest has been charged for the six months period ended 30 June 2023.

As compensation for the surety and bank guarantee, Kinarus (subsidiary of the Company) 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 at an exercise price of CHF 5.632 per Kinarus share.

## 16 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 certain prepayments for its lead COVID-19 drug candidate (KIN001 to finance two COVID-19 clinical trials.

The Company has made an internal assessment regarding the amount which may have to be paid back to the Federal Office of Public Health (FOPH). This estimate has not changed since 31 December 2022. The Company estimates that an amount of TCHF 1'064 may have to be paid back to FOPH, subject to confirmation by FOPH upon completion of its ongoing audit.

## 17 Share capital

| | Number of shares | | Nominal value of share capital (in TCHF) | |
|---|---|---|---|---|
| | 01.01.23-30.06.23 | 01.01.22-30.06.22 | 01.01.23-30.06.23 | 01.01.22-30.06.22 |
| Balance at 1 January | 1'143'603'038 | 181'018'281 | 11'436 | 1'810 |
| Issuance of shares through acquisition of Kinarus (1. closing) | | 888'514'758 | | 8'885 |
| Issuance of shares GEM comittment fee | 103'636'364 | | 1'036 | |
| Issuance of shares Yorkville convertible loans | 32'167'257 | | 322 | - |
| **Balance at 30 June** | **1'279'406'659** | **1'069'533'039** | **12'794** | **10'695** |

### 17.1 Issued share capital

At 30 June 2023, the issued share capital amounts to TCHF 12'794, consisting of 1'279'406'659 fully paid registered shares with a nominal value of CHF 0.01 each. As the capital increase through the conversion of the Yorkville convertible loans and the conversion of the GEM commitment fee have not been registered in the commercial trade register, the registered share capital in the commercial trade register amounted to TCHF 11'436, consisting of 1'143'603'038 fully paid shares.

Since 31 December 2022 the share capital increased as follows:

- Between January and March 2023 the Company received in total TCHF 400 convertible loans from Yorkville. These TCHF 400 convertible loans (plus TCHF 1 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. The new shares were created from conditional capital.
- The conversion of the GEM commitment fee of TCHF 1'140 in April 2023 resulted in an increase of the share capital of TCHF 1'036 and a share premium of TCHF 104. The new shares were created from conditional capital.

### 17.2 Treasury shares

At 30 June 2023, the Group held a total of 10'557'244 (31 December 2022: 10'557'244) 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 CHF 0.1 per share totalling to CHF 1'410 (31 December 2022: CHF 1'410).

### 17.3 Authorized capital

At 30 June 2023, 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 2022: TCHF 4'862, consisting of 486'179'687 shares with a nominal value of CHF 0.01).

### 17.4 Conditional capital

As the capital increases though the conversion of the convertible loans and the conversion of the GEM commitment fee (see note 17.1) has not yet been registered in the commercial trade register, at 30 June 2023, the conditional capital amounts to TCHF 3'639, consisting of 363'870'721 shares with a nominal value of CHF 0.01 (31 December 2022: 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 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 was 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.

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 (see note 17.1) and issued on 11 April 2023 54'405'351 5-year warrants to GEM at an exercise price of CHF 0.071 per warrant.

### 17.6 Yorkville agreement

On 21 August 2022 and as amended in March 2023 and April 2023, 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 until 30 June 2023 27'362'914 (31 December 2022: 8'928'571) 3-year warrants to acquire the Company's common shares linked to the nominal value of the convertible notes at an exercise price of all outstanding

warrants of CHF 0.01. At 30 June 2023 commitment fee of TCHF 200 in cash or shares (at the option of the Company) are outstanding and accrued for in other liabilities (see note 14).

## 18 Related party transactions

| TCHF | 01.01.23-30.06.23 | 01.01.22-30.06.22 |
|---|---|---|
| Loan waiver income (i) | - | 131 |
| General & Administrative expenses | - | (40) |
| **Total** | **-** | **91** |

(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.

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.

On 26 June 2023, the Company announced the signing of subordinated bridge loan agreements totalling to TCHF 120 with existing shareholders to ensure further liquidity is available to the Group during the period of time required for bridging the pending transfer of funds pursuant to a TCHF 1'500 convertible loan investment from CDIM in Kinarus. The bridge loans are immediately available and the Company can decide when to request delivery of funds (see note 22).

## 19 Non-cash transactions

During the six-months period ended 30 June 2023 and 2022, there were non-cash investing and financing activities (see note 3 (acquisition of subsidiary) and note 17.5 (conversion of the TCHF 1'140 GEM commitment fee)).

## 20 Commitments and contingent liabilities

*Milestone and royalty payments*

In relation to the intangible asset Pamapimod (see note 12), the Group has contingent liabilities regarding 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.

*Other contingent liabilities*

Ventac Partners Ltd ("Ventac"), an advisory firm, will receive, until the expiry of the GEM agreement on 6 September 2026 and expiry of the 54'405'351 warrants on 11 April 2028, 7% fees on any amount drawdown from the GEM facility and proceeds of the exercise of warrants (see note 17.5). Ventac may have additional claims against the Group beyond the settlement payment of TCHF 500 executed between Kinarus and Ventac on 16 May 2022.

*Outstanding warrants*

One warrant entitles to the right to purchase one share.

| | 30 June 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | Number of warrants | Exercise price per warrant (CHF) | Number of warrants | Exercise price per warrant (CHF) |
| *Warrants on Company shares* | | | | |
| GEM warrants (i) | 54'405'351 | 0.071 | - | - |
| Yorkville warrants (ii) | 27'362'914 | 0.01 | 8'928'571 | 0.0336 |
| **Total** | **81'768'265** | | **8'928'571** | |
| *Warrants on Kinarus shares (subsidiary of the Company)* | | | | |
| *CHF 3m loan Basler Kantonalbank (iii)* | 532'670 | 5.632 | 532'670 | 5.632 |
| **Total** | **532'670** | | **532'670** | |

(i) The Company issued in April 2023 54'405'351 5-year warrants to GEM for Company shares at an exercise price of CHF 0.071 per warrant (see note 17.5).

(ii) Related to the Yorkville agreement the Company issued until 30 June 2023 27'362'914 3-year warrants to Yorkville at an exercise price of CHF 0.01 per warrant (see note 17.6 ).

(iii) In connection with the TCHF 3'000 loan from Basler Kantonalbank, Kinarus granted 532'670 warrants of Kinarus shares to the guarantors (see note 15).

As of 30 June 2023, there were no other contingent liabilities.

## 21 Liquidity and going concern

As of 30 June 2023, the Group had accumulated losses of TCHF 39'211 and incurred a loss for the period ended 30 June 2023 of TCHF 2'051.

As of 30 June 2023, the Group's cash and cash equivalents were TCHF 150. 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 2023, due to its recurring net losses and negative operating cash flows as of 30 June 2023 and for the foreseeable future.

From the completion of the Reverse Takeover 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.

As further immediate action to ensure going concern the board of directors have decreased the operating costs and ensured bridge financing of total TCHF 120 and further bridge financing of TCHF 100 (see note 22).

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 with high priority through non-dilutive payments from future pharma partnerships. In light of the low operational spend the company has the time to select the best partnership securing a growth of the company.

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 unaudited interim 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 executed in May 2023 and potential access to financing through the previously executed financing agreement with Yorkville Advisors and importantly through income from pharmaceutical partnerships.

## 22 Subsequent events

At 25 July 2023 the Company received TCHF 120 in relation to the subordinated bridge loan from shareholders to ensure further liquidity is available to the Group during the period of time required for bridging the pending transfer of funds pursuant to a TCHF 1'500 convertible loan investment from CDIM into the Company (see note 18).

At 25 August 2023 the Company signed a licensing agreement with a group of existing shareholders to ensure further liquidity. In exchange for a cash payment, the group of shareholders received an exclusive license to develop and market KIN001 for treatment of idiopathic pulmonary fibrosis (IPF) with the exception of the territory of the People's Republic of China and Asian Pacific countries. Kinarus retained the right to repurchase the license.

## FINANCIAL PERFORMANCE & FINANCIAL OUTLOOK – MANAGEMENT REPORT

*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 2023.*
*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 28 August 2023.*

**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. This proprietary drug combination is patent protected up to 2037 with a composition of matter claim in the US, Europe, and China with additional countries

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 one Phase 2 clinical trials 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) and potentially other indications in the near future, subject to raising additional funding or collaborating with a licensing partner for the respective indication.

**Interim 2023 Group Highlights**

In light of the low operational expenses the Group is now in the position to carefully select the best partners in the best indication and the best area for a collaboration. Several discussions with potential partners are ongoing.

**Results of Operations**

The discussion below should be read along with these financial statements, and it is qualified in its entirety by reference to them.

**External Research and Development Expenses**

Research and development (R&D) activities are essential to our business. 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. The group has a significant patent portfolio protecting the proprietary drug combination in five indications with a number of patents already granted in key markets. 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, clinical 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 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 strategy is that a significant part of the R&D costs for new clinical studies is paid by licensing partnerships which allows the group to broaden the basis of clinical studies.

**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 2023, we had a cash & cash equivalent balance of TCHF 150. 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. The majority of the increased spend will be done in collaboration with a pharmaceutical partner.

**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 2023, we had a cash and cash equivalent balance of TCHF 150. Based on our currently contemplated R&D strategy and despite our signing of financing agreements with Yorkville and GEM together with potential license agreements, 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 2023.

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 or licensing agreements with respective milestone payments. 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;

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.