Relief Therapeutics Holding SA

Condensed consolidated interim financial statements for the half-year ended 30 June 2019

(unaudited)

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Relief Therapeutics Holding SA (condensed consolidated interim financial statements)

Relief Therapeutics Holding SA

Consolidated interim balance sheet (in TCHF)

TCHF	Notes	30 June 2019	31 December 2018
ASSETS			
Property, plant and equipment	6	-	1
Intangible assets	7	30'800	35'224
Non-current assets		**30'800**	**35'225**
Other current assets and other receivables		141	86
Cash and cash equivalents		100	265
Current assets		**241**	**351**
Total assets		**31'041**	**35'576**
EQUITY AND LIABILITIES			
Share capital	8	21'139	20'889
Reserves		20'660	20'910
Accumulated losses		(21'072)	(20'516)
Equity		**20'727**	**21'283**
Non-current payables	9	-	4'312
Defined benefit obligation		567	567
Deferred tax liabilities		7'454	7'454
Non-current liabilities		**8'021**	**12'333**
Trade payables		130	119
Financial liabilities due to third parties	10	742	725
Financial liabilities due to related parties	11	636	328
Provisions		247	258
Other current payables and liabilities	12	538	530
Current liabilities		**2'293**	**1'960**
Total equity and liabilities		**31'041**	**35'576**

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

Relief Therapeutics Holding SA

Consolidated interim statement of comprehensive income (in TCHF)

TCHF	Notes	1.1. - 30.6.2019	1.1. - 30.6.2018
CONTINUING OPERATIONS			
Service expense		(37)	(16)
Personnel expense		(207)	(162)
Other administrative expense	13	(176)	(244)
Other gains and losses	7	(112)	2
EBITDA		**(532)**	**(420)**
Depreciation and amortisation expense		(1)	(2)
Operating loss		**(533)**	**(422)**
Finance income	14	14	94
Finance expense		(37)	(37)
Loss before income taxes		**(556)**	**(365)**
Income taxes		-	-
Loss for the period		**(556)**	**(365)**
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX			
Total other comprehensive income for the year, net of income tax		**-**	**-**
Total comprehensive income for the period		**(556)**	**(365)**
EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Basic and diluted earnings per share (in CHF)	15	(0.000)	(0.000)

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

Relief Therapeutics Holding SA

Consolidated interim cash flow statement (in TCHF)

TCHF	1.1. - 30.6.2019	1.1. - 30.6.2018
Cash flow used in operating activities	**(465)**	**(497)**
Interest received	-	-
Cash flow from investing activities	**-**	**-**
Proceeds from capital increase	-	551
Transaction cost in relation to capital increase	-	(53)
Proceeds from borrowings	300	-
Cash flow from financing activities	**300**	**498**
Net (decrease)/increase in cash and cash equivalents	(165)	1
Cash and cash equivalents at beginning of period	265	135
Net effect of currency translation on cash and cash equivalents	-	-
Cash and cash equivalents at end of period	**100**	**136**

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

Relief Therapeutics Holding SA

Consolidated interim statement of changes in equity (in TCHF)

Balance at 1 January 2018	**20'066**	**20'961**	**(20'082)**	**20'945**
Loss for the period	-	-	(365)	**(365)**
Other comprehensive income for the period, net of income tax	-	-	-	**-**
Total comprehensive income for the period	**-**	**-**	**(365)**	**(365)**
Capital increase	448	103	-	551
Transaction cost in relation to capital increase	-	(53)	-	(53)
Reclassification due to registeration of SSF draw-downs from 2017	375	(375)		
Balance at 30 June 2018	**20'889**	**20'636**	**(20'447)**	**21'078**
Balance at 1 January 2019	**20'889**	**20'910**	**(20'516)**	**21'283**
Loss for the period	-	-	(556)	(556)
Other comprehensive income for the period, net of income tax	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**(556)**	**(556)**
Reclassification due to registeration of SSF draw-downs from 2018 (note 8.1)	250	-250	-	-
Balance at 30 June 2019	**21'139**	**20'660**	**(21'072)**	**20'727**

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

Notes to the consolidated interim financial statements

1 General information

RELIEF THERAPEUTICS Holding SA ("Relief", the "Company" or the "Group") is a Swiss stock corporation listed on the SIX Swiss Exchange whose registered office is Avenue de Sécheron 15, 1202 Geneva, Switzerland.

The combined Group is focused on the development and/or licensing of its portfolio of medicinal product candidates (MPCs). Its two most promising MPCs are aviptadil (for respiratory indications such as sarcoidosis and pulmonary hypertension) and atexakin alfa (for the treatment of neuropathies). In addition to these initial MPCs, in April 2018 Relief acquired from the privately held French biotechnology company Genclis SA ("Genclis") two products under development that are artificial colostrum and hypoallergenic milk produced without hydrolysis. Both products have successfully completed pre-clinical validation. Artificial colostrum is intended to provide highly reactive immunoglobulins that closely mimic natural colostrum. Non-hydrolyzed hypoallergenic milk has the potential to constitute a novel therapeutic strategy for preventing milk allergies. In September 2018, Relief, in collaboration with Genclis executed a collaboration and sublicense agreement with the Hong Kong-based Health and Happiness ("H&H") group whereby the three companies are actively collaborating to develop the final product following mutually agreed plans and milestones. During the first six months of 2019 the collaboration agreement with Genclis was cancelled and the rights for the two products were returned to Genclis. In addition, the sublicensing agreement with H&H was also terminated in June 2019. Further, subsequent to 30 June 2019, the Group executed a Share Exchange Agreement with the US-based, privately held biotechnology company Sonnet whereby Sonnet will acquire the Group's subsidiary Relief Therapeutics SA with the aim to develop its hosted MPC atexakin once condition precedent will be fulfilled by Sonnet.

The consolidated financial statements are presented in Swiss Francs (CHF).

2 Application of new and revised International Financial Reporting Standards ("IFRSs)

2.1 Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

The consolidated financial statements of the Group have been prepared using the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2018 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2019, and will be adopted in the 2019 annual financial statements.

IFRS 16

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 "Leases" ("IAS 17") and its associated interpretative guidance. IFRS 16 applies a right to control model to the identification of leases, distinguishing between leases and service contracts. In accordance with IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The date of initial application of IFRS 16 for the Company was 1 January 2019.

Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and the requirement for lease liabilities and right of use assets to be recognized on the balance sheet for almost all leases (subject to limited exceptions for short-term leases and leases of low value assets). For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16 (i.e. the same accounting treatment as under superseded IAS 17).

The Group made use of the practical expedient available on transition to IFRS 16, and did not reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 "Determining whether an Arrangement Contains a Lease" ("IFRIC 4") continued to apply to those leases entered or modified before 1 January 2019.

As of 1 January 2019, the Group had non-cancellable operating lease commitments of TCHF 8. The entire lease commitments relate to short term leases with a cancellation period of maximum six months, and hence, as of 1 January 2019, the Group did not have any impact on first-time application of IFRS 16.

The Group made use of the practical expedient available on transition to IFRS 16, and did not reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 "Determining whether an Arrangement Contains a Lease" ("IFRIC 4") will continue to apply to those leases entered or modified before 1 January 2019.

None of the new or revised Standards and Interpretation mentioned below has had a material impact on these financial statements. The details of each of the new or revised Standards and Interpretation adopted by the Group are detailed below:

	New, amended and revised Standards and Interpretations
IAS 19	Amends IAS 19 Employee Benefits to clarify the following aspects: ***Past service cost (or the gain or loss on settlement)*** The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income. ***Current service cost and net interest on the net defined benefit liability (asset)*** An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).
IFRS 9	Amends IFRS 9 Prepayment Features with Negative Compensation, to clarify the following aspects: The amendments clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim condensed financial statements of the Company.
Various	***Amendments resulting from annual improvements 2015-2017 Cycle:*** IAS 12 Income Taxes - clarifies that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. IAS 23 Borrowing Costs - clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
IFRIC 23	The Interpretation requires an entity to: - determine whether uncertain tax positions are assessed separately or as a group; and - assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: - if yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings - if no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

2.2 Standards and Interpretations in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not adopted the following Standards and Interpretations that have been issued but are not yet effective. They will be effective on or after the dates described below.

	New, amended and revised Standards and Interpretations	**Effective from**
IFRS 3	Amends IFRS 3 Business Combinations to clarify the definition of business based on the defined terms, the application guidance and illustrative examples.	Annual periods beginning on or after 1 January 2020
Various	The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of “material” and align the definition used in the Conceptual Framework and the standards.	Annual periods beginning on or after 1 January 2020

The Group is currently assessing whether these changes will impact the consolidated financial statements in the period of initial application. The Group does not expect any significant impact from the new or amended Standards mentioned above.

3 Summary of significant accounting policies

3.1 Basis of preparation

These interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 2018 annual report and are neither audited nor reviewed.

3.2 Significant accounting policies

The same accounting policies, presentation and methods of computation are followed in the interim consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018 except for the following accounting policies in relation to leases:

Leases

<u>The Group as lessee</u>

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Currently the Group only has one short-term lease. The lease payments are recognised on a straight-line basis within other administrative expense in the statement of comprehensive income.

4 Summary of critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

4.1 Critical judgements in applying accounting policies

Critical judgements in applying accounting policies were the same as those applied to the consolidated financial statements of the year ended 31 December 2018 except for the following:

Going concern

In 2019, as well as in previous years, Relief reduced its capital needs significantly. The Company mainly relied on its current cash balance and financial support from its main shareholding Global Emerging Market as well as out-licensing opportunities. Management is working in this sense to reach a positive conclusion on the current discussions. This might generate enough cash to support the planned activities of the Group and its subsidiaries.

It is to be noted that on June 30, 2019, both Mr. Hedou, then CEO, and and Mr. Dreano, then CFO of Relief have tendered their resignation. Mr. Yves Sagot remains hence the sole executive of the company. The current Board of Directors of RTH is actively pursuing the recruitment of a new member of the management and actively supports Mr. Sagot in his day-to-day activities. In addition, at the last Annual General Meeting, Mr. Thomaz Burckhardt has been elected by the Company shareholder as new member of the Board of Directors. The wide experience and expertise of Mr. Burckhardt will certainly help the Company to progress on different fronts to improve efficacy and completion of current objectives. Finally, the former members of the management remain available to ensure a proper transition. The Group hence considers that all the elements are or will soon be in place to ensure the Company will remain in a going concern.

Divestment of its subsidiary is a strategy that Management has serious followed and led to positive outcome. Indeed, subsequent to the closing of the financials of the Group, a Share Exchange Agreement ("SEA") has been executed with the US-based, private company Sonnet BioTherapeutics Inc. ("Sonnet"), according to which, following fulfilment of certain conditions precedent, Sonnet will acquire all shares of the Group's subsidiary Relief Therapeutics SA (RTSA) that will become a fully owned subsidiary of Sonnet, against newly created Sonnet's shares. Conditions for the closing of this transaction include proper funding of Sonnet as well as its listing on a public market via reverse merger with a listed company. Both fund raising and identification of a listed shell company are actively pursued by Sonnet. The acquisition of RTSA will provide the Group with liquids shares that will eventually be freely tradable on the market.

The discussions regarding the out-licencing of the TMX-discovery hosted project aviptadil are still ongoing in the framework of an option agreement signed in 2018. The conclusion of a definitive agreement might ensure long term revenues to this subsidiary that will benefit the Group as a whole.

Finally, efforts to raise cash through traditional financing methods such as attracting new investors, the issuance of debt and equity instruments are still made in order to finance its continuing operations for the upcoming years.

Given the recent significant achievements as well as the objectives of the Group, management is confident that the Group's fund-raising and business efforts will be sufficient to fund the Group's operations for the foreseeable future.

4.2 Key sources of estimation uncertainty

Key sources of estimation uncertainty were the same as those applied to the consolidated financial statements of the year ended 31 December 2018.

5 Segment information

5.1 Description of segment

The Group has only one business stream which is further explained in note 1.

5.2 Geographical information

As the Group currently only operates in Switzerland, no separate geographical information is presented.

6 Property, plant and equipment

There were no additions or disposals in the first half of 2019. The property, plant and equipment is fully written down as at 30 June 2019.

7 Intangible assets

Intangible assets of TCHF 30’800 relate to medicinal product candidate “aviptadil” which was acquired during the business combination in 2016. Once the intangible asset is available for use, the assets will be depreciated over its useful life. In consideration of the fact that business and development plans remained unchanged in the first half of the financial year 2019, the Group considered that there is no indication of impairment of these intangible assets and therefore has not carried out an impairment test on them.

In April 2018, the Group in-licensed two assets from Genclis, a private company in France for a net amount of TCHF 4’438. The intangible assets were to be further developed in collaboration with Genclis and Relief’s sublicensee H&H. Payment of the assets was deferred until 2020 and 2022. Therefore, the acquisition price was discounted to its present value. For further details refer to note 9.

As of 26 June 2019, the collaboration agreement with Genclis was cancelled and the sublicense agreement with H&H was terminate with the Company and established directly between H&H and Genclis. The licenses for the two assets recognised as intangibles with a carrying amount of TCHF 4’424 were returned to Genclis and derecognised. As a consequence, the liabilities in relation to the deferred payments of TCHF 4’312 were cancelled and also derecognised without any further consideration to be paid. The loss of TCHF 112 resulting from the difference between the carrying amount of the intangible assets and the carrying amount of the non-current payables (note 9) is recognised as other losses in the statement of comprehensive income.

8 Share capital

8.1 Issued share capital

At 30 June 2019, the issued share capital amounts to TCHF 21’139, consisting of 2’113’919’272 registered shares with a par value of CHF 0.01.

In May 2019, the 2018 draw-down of the SSF of CHF 250, which was not yet registered in the commercial register as at 31 December 2018, was registered. As the unregistered draw-down of the SSF in 2018 so far was shown within share premium reserve and not as increase in share capital, the registration led to a reclassification from share premium reserve to issued share capital.

8.2 Authorized share capital

At 30 June 2019, the Company had authorized, but not yet issued, nominal share capital of TCHF 10’569, consisting of 1’056’959’600 registered shares with a par value of CHF 0.01 each, that the Board of Directors is authorized to issue at any time until 14 June 2021.

8.3 Conditional share capital

The conditional share capital of the Company as at 30 June 2019 was TCHF 10’569, consisting of 1’056’959’622 registered shares with a par value of CHF 0.01 each, of which 190’000’000 to be used for share options for members of the Board of Directors and Executive Management, employees and consultants as well as 866’959’622 to be used for the exercise of conversion option rights granted in connection with bonds, notes or similar debt instruments issued by the Company.

8.4 Significant shareholders

The following significant shareholders are known to the company:

	30.06.2019		31.12.2018	
	Number of shares	**%**	**Number of shares**	**%**
GEM	566'154'033	26.8%	563'155'233	27.0%
Founders of Relief Therapeutics SA	525'881'384	24.9%	530'981'384	25.4%
FIN POSILLIPO S.p.A	126'506'835	6.0%	286'824'849	13.7%
PIERREL S.p.A.	1'649'740	0.1%	43'747'149	2.1%
Others	893'727'280	42.3%	664'211'857	31.8%
Total shares	**2'113'919'272**	**100.0%**	**2'088'920'472**	**100.0%**

9 Non-current payables

Non-current payables in the total amount of TCHF 4'312, which related to the acquisition of the licences in 2018 (note 7), for which payment was deferred until April 2020 and 2022, were derecognised in June 2019 due to the cancellation of the collaboration with Genclis. For further information refer to note 7.

10 Financial liabilities due to third parties

These financial liabilities are due to a former subsidiary of the Group. Until repayment, the unpaid balance accrues interest at a rate of 8% per annum. The financial liabilities do not have a fixed repayment date.

11 Liabilities due to related parties

These financial liabilities consist of a shareholders' loan due to GEM which accrues interest of 4% above the based rate of Barclays Bank PLC. The repayment date is not defined. In April 2019, GEM contributed a further TCHF 300 to the Group.

12 Other current payables and liabilities

As at 30 June 2019, other current payables and liabilities mainly consist of accrued expenses and VAT payables. A decrease in accrued expenses was netted off by an increase in VAT payables.

13 Other administrative expense

TCHF	2019	2018
Office expense	15	15
Accounting, legal and consulting expense	130	165
Travel expense	7	3
IT expense	7	6
Other operating expense	17	55
Total general and administrative expense	**176**	**244**

14 Finance income

Decrease in finance income is mainly due to lower gains on foreign exchange differences.

15 Earnings per share

TCHF	2019	2018
Loss for the period attributable to the equity holders of the Parent Company	(556)	(365)
Weighted average number of shares for the purposes of EPS	2'093'063'920	2'010'719'297
Total basic and diluted earnings per share (in CHF)	**(0.000)**	**(0.000)**

Basic and diluted losses per shares are calculated by dividing the net loss attributable to the shareholders by the weighted average shares outstanding during the period. In 2019 and 2018, the number of shares outstanding varied as a result of different transactions on the share capital structure of the Company.

The options granted as part of the EAP have not been considered in the calculation of the diluted loss per share as their effect is anti-dilutive.

16 Related party balances and transactions

Balances and transactions between the Group and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The liabilities due to the shareholder GEM are the only related party balance as at 30 June 2019 and 31 December 2018. Other than the contribution of TCHF 300 by GEM, there were no other related party transactions in the reporting period. For further details refer to note 11.

17 Fair value measurement

Unchanged to 31 December 2018, there are no assets or liabilities measured at fair value. For all financial assets and liabilities their carrying amount at amortised cost approximates fair value.

18 Non-cash transactions

There were no significant non-cash transactions during the first six months of 2019 or 2018 except for the acquisition of intangible assets in 2018 for which payment was due in 2020 and 2022 and the subsequent cancellation of the above transaction in 2019 (notes 7 and 9).

19 Contingent liabilities

Litigation

At 30 June 2019, the Company has recognised provisions in relation to current litigation cases. Other than that, the Company or any of its subsidiaries are not party to any legal, administrative or arbitral proceedings, the outcome of which, if adverse to the Group, may be material to its business, financial condition and results of operation taken as a whole.

Sale of certain old subsidiaries of Relief Therapeutics SA (CRO Sale)

The contract for the sale of the Company's major CRO subsidiaries, dated 15 June 2016, contains representation and warranties, as well as clauses for working capital true-ups, which could result in additional claims being made against the Group.

The buyer brought up a working capital true-up claim relating to various items whereas the Company brought up a counter claim to a specific matter. The Group did not record a provision on that topic assessing the likelihood of an adverse future cash outflow as not being probable.

20 Subsequent events

On 9 August 2019, the Company has executed a Share Exchange Agreement (the "Agreement") with the US-based, privately held company Sonnet BioTherapeutics Inc. ("Sonnet") in relation to its subsidiary Relief Therapeutics SA. Upon closing, Sonnet will acquire from the Company the 208'163 outstanding shares of Relief Therapeutics SA against 7,111,947 of Sonnet common shares out of the aggregate total number issued and outstanding Sonnet common stock as of the date of the Agreement. From this moment, Sonnet will immediately assume the development of the Group's asset atexakin alfa ("SON-080") together with its proprietary experimental drugs. The Agreement, subject to normal closing conditions, is expected to close at the time that Sonnet becomes a publicly traded corporation.

Other than the event mentioned above, there have been no significant subsequent events since 30 June 2019.

21 Approval of financial statements

These consolidated financial statements were approved by the Board of Directors on 16 September 2019.