



PHARNEXT
IFRS FINANCIAL REPORT
FIRST HALF 2020

Disclaimer

This English version of IFRS Financial Report for First Half 2020 has been prepared to help foreign readers of the French version, incorporated to auditors' report, and filed to the stock market. This version in French remains the only valid reference for IFRS accounts.

SUMMARY OF FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

<i>In Euros</i>	<i>Note</i>	June, 30 2020	December, 31 2019
Assets			
Intangible assets		13 802	12 141
Property, plant and equipment		211 715	293 199
Right-of-use assets		423 370	586 065
Other receivables	11	437 022	433 895
Other financial assets		201 235	201 235
Non-current assets		1 287 145	1 526 536
Trade and other receivables	11	3 409 028	5 398 524
Prepayments		0	0
Other financial assets		0	0
Cash and cash equivalents	12	23 671 303	16 246 565
Current assets		27 080 331	21 645 089
Total assets		28 367 475	23 171 625
Equity			
Share capital	13	192 043	152 502
Share premium	13	113 242 022	99 299 706
Retained earnings and reserves	13	-105 185 014	-83 388 966
Profit (loss) for the period	13	-9 093 311	-23 309 169
Total equity		-844 260	-7 245 926
Liabilities			
Loans and borrowings	14	18 679 102	19 596 270
Lease liabilities		108 363	259 125
Employee benefits	8	515 878	471 400
Provisions	16	603 139	131 154
Non-current liabilities		19 906 482	20 457 949
Loans and borrowings	14	3 000 337	3 806 342
Lease liabilities		338 931	360 548
Current tax liabilities	14	0	0
Trade and other payables	15	5 965 985	5 792 712
Current liabilities		9 305 253	9 959 602
Total liabilities		29 211 735	30 417 551
Total equity and liabilities		28 367 475	23 171 625

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the first half of each year	
<i>in Euros</i>	<i>Note</i>	30/06/2020	30/06/2019
Continuing operations			
Revenue	6	39 830	213 372
Other income	6	1 179 453	1 777 437
Administrative expenses	6	-2 686 827	-2 251 542
Marketing expenses	6	-891 274	-1 962 778
Research and development expenses	6	-5 480 998	-8 007 960
Operating profit		-7 839 817	-10 231 471
Finance income	7	5 721	193 914
Finance costs	7	-1 259 215	-2 250 357
Net finance costs		-1 253 494	-2 056 443
Profit before tax		-9 093 311	-12 287 914
Income tax expense		0	0
Profit (loss) from continuing operations		-9 093 311	-12 287 914
Income from associated companies under equity method		0	0
Profit (loss) for the period		-9 093 311	-12 287 914
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
<i>Remeasurements of the defined benefit liability (asset)</i>			
Total comprehensive income for the period		-9 093 311	-12 287 914
Earnings per share			
Basic earnings (loss) per share (euro)		-1	-1
Diluted earnings (loss) per share (euro)		-1	-1
Profit for the period attributable to:			
Owners of the Company		-9 093 311	-12 287 914
Profit (loss) for the period		-9 093 311	-12 287 914
Total comprehensive income attributable to:			
Owners of the Company		-9 093 311	-12 287 914
Total comprehensive income for the period		-9 093 311	-12 287 914

STATEMENT OF CHANGES IN EQUITY

For the first half of 2020

<i>In Euros</i>	Note	Share Capital	Share Premiums	Reserves		Profit (loss) for the year	Total Equity
				retained earnings	other Reserves		
December 31, 2019		152 502	99 299 706	-84 128 981	740 014	-23 309 169	-7 245 926
Allocation of 2019 comprehensive Income				-23 309 169		23 309 169	0
Net income						-9 093 311	-9 093 311
Other Items					0		0
Total		0	0	-23 309 169	0	14 215 858	-9 093 311
Contributions and distributions to company owners							
Ordinary shares issuing	12	39 541	13 942 316				13 981 857
Own shares purchase				-88 254			-88 254
Convertible Bonds Issuing					1 547 193		1 547 193
Share based Payments	8			54 182			54 182
Total		39 541	13 942 316	-34 072	1 547 193	0	15 494 979
June 30, 2020		192 043	113 242 022	-107 472 222	2 287 207	-9 093 311	-844 260

STATEMENT OF CHANGES IN EQUITY

For the first half of 2019

<i>In Euros</i>	Note	Share Capital	Share Premiums	Reserves		Profit (loss) for the year	Total Equity
				retained earnings	other Reserves		
December 31, 2018		120 803	56 686 345	-62 545 358	709 439	-21 316 664	-26 345 437
Allocation of 2018 comprehensive Income				-21 316 664		21 316 664	0
Net income						-12 287 914	-12 287 914
Other Items					0		0
Total		0	0	-21 316 664	0	9 028 750	-12 287 914
Contributions and distributions to company owners							
Ordinary shares issuing	12	31 700	42 613 362				42 645 062
Own shares purchase				-109 109			-109 109
Convertible Bonds Issuing							0
Share based Payments	8			-74 967			-74 967
Total		31 700	42 613 362	-184 077	0	0	42 460 986
June 30, 2019		152 502	99 299 706	-84 046 099	709 439	-12 287 914	3 827 637

CASH FLOW STATEMENT

<i>In Euros</i>	<i>Note</i>	June 30, 2020	June 30, 2019
Cash flows from operating activities			
Profit for the period		-9 093 311	-12 287 914
Adjustments for:			
– Amortisation of tangible and intangible assets		259 666	255 724
– Provision for risk		471 985	0
– Movement in pensions	8	44 478	43 236
– Net finance costs and loan transaction costs		1 253 494	2 056 443
– Gain on sale of property, plant and equipment		-22 000	
– Share-based payment expense (accounted as staff costs or other expenses)	9	54 183	-74 967
– Reversal of non cash IFRS retreatments		-213 838	
– Reversal OSEO's subsidies		-90 135	-133 167
Cash flow from P&L operations		-7 335 477	-10 140 644
Change in:			
– Trade and other receivables		1 941 996	-1 986 466
– Prepayments		0	0
– Trade and other payables		-29 488	-1 733 225
– Provisions and employee benefits		0	0
Cash flow generated from changes in operating working capital		1 912 508	-3 719 691
Cash generated from operating activities		-5 422 969	-13 860 335
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		22 000	0
Proceeds from sale of financial assets		676 217	2 136 538
Acquisition of property, plant and equipment and intangible assets		-17 147	-66 944
Acquisition of financial assets		-679 344	-2 246 420
Capitalized Development expenditures		0	
Net cash used in investing activities		1 726	-176 826
Cash flows from financing activities			
Acquisition of treasury shares		-88 255	
Proceeds from the issued of convertible notes		0	
Proceeds from new shares issue	13	15 764 681	16 694 185
Proceeds from loans and borrowings		0	
Repayment of loans and borrowings		-1 975 000	
Transaction costs related to loans and borrowings		-188 632	
Interests and fees paid on bank borrowings		-666 814	-708 502
<i>Proceeds from settlement of derivatives</i>		0	
<i>Payment of lease liabilities</i>			
Net cash (used in) financing activities		12 845 980	15 985 682
Net increase (decrease) in cash and cash equivalents		7 424 737	1 948 523
Cash and cash equivalents at January 1st	12	16 246 565	22 761 418
Effect of exchange rate fluctuations on cash held		0	0
Cash and cash equivalents at June 30	12	23 671 303	24 709 939

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NOTES TO IFRS FINANCIAL REPORT FIRST HALF 2020

1. PRESENTING THE FINANCIAL STATES AND CHARACTERISTICS OF THE PERIOD

Pharnext is an advanced clinically stage biopharmaceutical company that develops new therapies for orphan and common neurodegenerative diseases currently without a satisfactory therapeutic solution.

Pharnext is pioneering a new drug discovery paradigm based on genomic big data and artificial intelligence: PLEOTHERAPY™. The purpose of this platform is to identify synergistic combinations of drugs called PLEODRUG™. Pharnext owns two products in clinical development.

The PLEODRUG™, coded PXT3003 to address Charcot-Marie-Tooth type 1 disease, Pharnext's most advanced product from PLEOTHERAPY R and D platform™, is a new low-dose fixed synergic combination of baclofen, naltrexone and sorbitol. PXT3003 benefits "orphan drug" status in Europe and the United States. The U.S. Food and Drug Administration (FDA) has granted the "Fast Track" designation for the development of PXT3003 for the treatment of patients with Charcot-Marie-Tooth disease type 1A (CMT1A), a serious disease for which there is an unmet medical need. This "Fast Track" status designation allows for a close and regular relationship with the FDA to define the drug's development plans and its evaluation process, as well as the sequential review of NDA files.

In March 2020, the MHRA (UK) granted PIM designation to PXT3003 for the treatment of CMT1A in patients of 16 years and older. A PIM designation is an early indication that a medicinal product is a promising candidate for the Early Access to Medicines Scheme in the treatment, diagnosis or prevention of life-threatening or seriously debilitating conditions with unmet need.

Based on our most recent interactions, the FDA has provided guidance on the path to the approval of PXT3003 and has agreed with the key elements of our proposed approach for the developmental pathway to approval for PXT3003. Specifically, the FDA has indicated that a single pivotal Phase III Study in CMT1A delivering positive results, together with positive results from a preclinical factorial design study to demonstrate the contribution of each component of PXT3003, could be sufficient for submitting a dossier requesting marketing approval of PXT3003, depending on the robustness of the trial results. The FDA has agreed that the primary endpoint for the Additional Phase III Study will again be change from baseline in the ONLS.

The FDA has also agreed that the factorial study requirement for fixed-dose combination drugs can be carried out in a preclinical CMT1A disease animal model, and not in a human Phase III clinical trial, as typically required. The animal factorial study, a requirement for NDA filing, will be conducted under GLP or GLP-like conditions and will have a similar study design and use the same CMT1A disease animal model as our previously successful preclinical factorial study conducted at the Max Planck Institute in Germany.

The second coded product PXT864 achieved encouraging Phase II results in Alzheimer's disease.

On April 16, 2020, Pharnext announced the appointment of Dr. David Horn Solomon as Pharnext C.E.O. Professor Daniel Cohen, co-founder of Pharnext in 2007, will serve as Chairman of the Scientific Council.

2020 Capital transactions and other significant financial facts

Two significant capital transactions that took place in the first half of the year 2020 should be noted:

- on March 5, 2020, Pharnext completed an ABSA private placement for gross proceeds of € 7.7 million by issuing 1,799,061 new shares. To each of these shares is attached a share warrant. These ABSA have been subscribed by current shareholders, management members and new institutional shareholders in the United States;
- share warrants exercise by Kepler- Cheuvreux. On November 18, 2019, Pharnext decided to issue 3 million Share Warrants (BSAs), which could result in the issuance of up to 3 million new shares. A series of exercises of these warrants took place from March 31 to May 18, 2020. These exercises translated to the issuance of 2,155,000 new shares for a gross product of just over € 8 million.

As of June 30, 2020, the company has collected the full Research Tax Credit (CIR) of 2019, i.e. € 3,165,026.

Impact of the COVID-19 pandemic on society's operations

The COVID-19 pandemic creates a situation of great uncertainty. At this stage, it remains difficult to predict its impact on the Company's business activities, financial position and results of operations. However, the Company has put in place a series of measures to avoid or minimize the impact of COVID-19 on its employees and its business, and to ensure their health and safety, while promoting the continuity of the development of its research programs.

The Company cannot rule out disruptions and delays in the conduct of its clinical trial programs, including delays in patient recruitment, due to the priority given to critical resources for hospitals that would be involved in the fight against COVID-19.

2. BASIS OF PREPARATION AND IFRS STANDARDS

The financial statements presented are those of Pharnext SA (the Company”).

As part of the agreements with the Chinese pharmaceutical Tasly, a joint and development company was created in China in 2017, in the form of a "Sino-Foreign cooperative joint-venture." This joint venture will be based on the know-how of Pharnext and the financing of Tasly. In fact, it is Tasly which contributes alone to the necessary contributions of funds and which bears any possible losses. Pharnext, in addition to the phased contributions of Tasly, has a 30% interest in this joint venture. In addition, it holds jointly with Tasly veto rights on strategic decisions of this joint-venture and, especially, the choice of research subjects.

According to IFRS (IFRS 10 and IFRS 11), the situation would be that of joint control, leading to consolidation by the equity method. The activities of this joint venture since its creation until June 30, 2020 are not significant, apart from the acquisition for € 2 million of a license from Pharnext for the marketing of the PXT 3003 in China. This license sale was recorded in the accounts for the 2018 financial year.

In relation to the objective of accounts giving a faithful image of the assets, the financial situation and the result of the group constituted by Pharnext and the interest that it deserves in this joint venture, the taking into account of financial data of as of June 30, 2020, is of negligible interest. Consequently, Pharnext intends to benefit from the exemption from drawing up and publishing consolidated account, provided for in article L.233-17-1 of the French Commercial Code.

These financial statements have been prepared in accordance with IFRS, as adopted in the European Union, to anticipate future recourse to the financial markets and present accounting data that is comparable with the majority of companies in its sector of activity, and in particular other listed companies in the sector.

The accounting rules and methods set out in Note 4 have been applied for the purposes of preparing the financial statements presented above.

The company has not used any optional exemptions provided for in IFRS 1.

These semi-annual IFRS financial statements were drawn up on October 14, 2020, by the Board of Directors of the Company on a voluntary basis.

The accounts are prepared based on historical cost, with the exception of certain categories of assets and liabilities which are measured at fair value, in accordance with IFRS. These are mainly derivative financial instruments, recognized at fair value through the income statement.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Euro which is the company's functional currency. The amounts are rounded to the nearest Euro, unless otherwise indicated.

4. ACCOUNTING RULES AND METHODS

The assumption of continuity of operations was accepted by the Company's management, taking into account the significant new financings raised during the first half of 2020.

Pharnext presents its accounts in accordance with the International Financial Reporting Standards (IFRS) in force as of December 31, 2019 as adopted by the European Union.

The IAS/IFRS International Accounting Standards repository is available on the European Commission's website at http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm

For texts affecting Pharnext's accounts, there are no discrepancies between the EU-approved repository and the standards and interpretations published by the IASB.

The semi-annual accounts summarized as of June 30, 2020 have been prepared in accordance with the IAS 34 "Intermediate Financial Information" standard. As such, they must be read in conjunction with the IFRS financial statements from December 31, 2019.

The accounting rules and methods applied in the financial statements are identical to those used in the IFRS accounts as of December 31, 2019, with the exception of the specific provisions for the establishment of interim accounts.

Amendments to IFRS 9, IAS 39 and IFRS 7 relating to the reform of reference interest rates and IFRS 3 relating to business combinations had been published by the IASB. The application of these amendments has been mandatory since January 1, 2020. These amendments have no impact on the company's financial statements.

No standard, amendment or interpretation that have been published and are not yet applicable as of June 30, 2020 could have a significant impact on the Company's financial statements.

The Company has not anticipated application of standards, amendments and interpretations, published by the IASB, but not yet approved by the European Union as of June 30, 2020, or not yet entered into force on January 1, 2020.

5. SE OF ESTIMATES AND HYPOTHESIS

The preparation of financial statements requires the company's management to make judgments, make estimates and make assumptions that may affect the book value of certain assets and liabilities, revenues and expenses, as well as the information provided in the associated notes. Actual values may differ from estimated values.

In the purpose of establishing the semi-annual social accounts established under the IFRS accounting repository, the significant judgments exercised by management to apply the Company's accounting methods and key estimates are identical to those described in the financial statements prepared under the IFRS accounting standards for the year ended December 31, 2019. The COVID-19 pandemic has not led to the use of significant new estimates or judgments.

6. OPERATING REVENUES AND EXPENSES

Over the period presented, the Company has only a research and development activity.

The Company has retained a functional presentation of its revenues and expenses. This presentation distinguishes three categories of expenses in the generation of operating income: research and development expenses, administrative expenses and marketing expenses.

The table, below, details the components of operating income in the statement of Profit or loss and Other comprehensive income for the first half of 2020 and 2019.

	June 30, 2020	June 30, 2019
R&D expenses		
Procurement	-209 755	-362 320
Services	-3 038 945	-5 570 312
Personal Expenses	-2 068 043	-2 045 244
Other expenses	0	124 920
Pensions	-33 358	-31 519
Depreciation	-130 896	-123 485
Total R&D expenses	-5 480 998	-8 007 960
Administrative expenses		
Procurement	-98 747	-203 837
Services	-548 529	-393 665
Taxes	-3 122	-1 618
Personal expenses	-915 977	-764 960
Other expenses	-508 577	-743 505
Pensions	-11 120	-11 717
Depreciation	-600 754	-132 239
Total administrative expenses	-2 686 827	-2 251 542
Marketing expenses		
Procurement	-12 202	-79 110
Services	-451 950	-656 276
Taxes	0	0
Personal expenses	-365 590	-342 337
Other expenses	-61 533	-885 055
Pensions	0	
Depreciation	0	
Total marketing expenses	-891 274	-1 962 778
Total Expenses	-9 059 099	-12 222 279
Income		
Continuing operations	39 830	213 372
Subsidies and tax credits	1 179 453	1 777 437
Other income	0	0
Total Income	1 219 283	1 990 809
Total Revenue	1 219 283	1 990 809
Operating Profit	-7 839 817	-10 231 471

Operating revenues include tax credits and subsidies in the details presented below:

- For its activities in France, the Company benefits from the Research Tax Credit (CIR). The amounts recorded under the CIR for the first half of the year, € 1,089,318 in the first half of 2020 and € 1,644,770 in the first half of 2019, are recorded on the line "Subsidies and tax credits" of the Statement of net Income. These amounts, if not collected, are listed in the "Other debtors" item on the current assets of the Financial Situation. The line "Subventions and other tax credits" also includes the spread of OSEO grant for € 90,135.
- Operating expenses (research and development costs, administrative and marketing costs) include the cost of acquiring BSA and BCE.

7. NET FINANCIAL RESULT

Interest income for the two semesters presented corresponds to cash investment income.

The other financial products correspond in 2019 to the cancellation of the derivative linked to Kréos BSA, following the exercise of these BSA.

Financial expenses are related to interest expenses on bonds, discounting financial flows related to OSEO repayable advances, and the unwinding of the lease debt associated with the implementation of IFRS 16.

Other financial expenses in 2020, include bank fees and exchange service charges. In 2019, in addition, for € 747,437, they included the cancellation of the smoothing of the loan fees via the Effective Interest Rate (EIR), for Tasly convertible Bonds, converted before the repayment deadline.

	June 30, 2020	June 30, 2019
Financial expenses		
Interest expenses	-1 057 957	-1 201 717
Repayment premium	0	0
Unwinding of discount effect	-163 756	-212 797
Financial depreciation	0	0
Other financial expenses	-37 502	-835 843
Total financial expenses	-1 259 215	-2 250 357
Financial Income		
Interest income	5 630	5 120
Provision release	0	0
Other financial expenses	0	188 143
Net foreign exchange gain	91	650
Total financial income	5 721	193 914
Net finance costs recognised in profit or loss	-1 253 494	-2 056 443

8. EMPLOYEE BENEFITS

8.1. Defined benefit obligation

Each year, the Company conducts an external assessment of its Defined Benefit Obligation, related to retirement benefits. The amount recorded for the first half of 2020, € 44,478, is half of the forecast estimate made by the evaluator; the first half of 2019 was € 43,236.

8.2. Share based payments for staff

Most of staff have Corporate Creators Share Subscription option (designated by the acronym "BCE") assigned by the Company when people take office. The presentation of these instruments is made in the hereafter paragraph.

9. SHARE BASED PAYMENTS

Since its creation in 2007, the Company has granted various plans (Corporate Creators Shares Subscription option - "BCE" to employee and Share Purchase Warrant - "BSA") to board members, individuals or companies.

These plans, which fall within the scope of the IFRS 2 standard, are for the most recent in vesting process as of June 30, 2020.

The options are not subject to any market conditions. They are subject to "vesting" conditions, usually over a 48-month period, with conditions of acceleration of "vesting", for some of them, in the event of the occurrence of certain capital transactions or on the basis of the achievement of "technical milestones". Options features were detailed in IFRS accounts as of December 31, 2019.

The half year expense associated with all share-based payments is as follows:

BCE/BSA		
<i>In Euros</i>	1st half 2020	1st half 2019
BCE fair value during the year	49 383	42 628
BSA fair value during the year	4 800	- 117 595
Total global loss (gain) of the year	54 183	-74 967

The cost of allocating BCE is covered on each fiscal year, on the basis of fair values at the date of award and based on the percentages effectively vested. This cost is listed on the "Staff Costs" line in the table presented for operating revenues and expenses. Since the French law "PACTE", it is possible to assign BCE to directors; this is what was decided in June 2020 for one of the members of the Board of Directors.

The cost of acquiring the BSAs is covered on each year, based on fair values on the date of award and on the percentages actually vested. This cost is listed on the "Other expenses" line in the table presented for operating revenues and expenses. As of June 30, 2020, the expense is low as BSA entering the field of IFRS 2 are already widely vested). In 2019, the negative charge of the BSA line corresponds to the cancellation of options that have become obsolete.

10. INCOME TAXES

In view of its current situation, focusing on research and development activities, Pharnext has accumulated tax losses of € 168,672,751 at the end of 2019, last period for which a Tax Result has been reported.

These deficit reports are not time-limited. However, in light of the uncertainties regarding the effective recoverability of these deficits, the Company has not recognized any deferred tax asset.

11. TRADE DEBTORS AND OTHER RECEIVABLES

The table, below, details the non-current and current positions of "Trade debtors and other receivables":

<i>In Euros</i>	June, 30 2020	December, 31 2019
Other non-current receivables		
Deposits and guarantees	437 022	433 895
Total other non-current receivables	437 022	433 895
Trade and other receivables		
Added value Tax	390 670	480 736
Subsidies and Tax credits	1 109 029	3 182 879
Other current receivables	1 004 458	978 140
Prepaid expenses	904 870	756 769
Total current receivables	3 409 028	5 398 524

The sharp decline in the "Subsidies and Tax Credits receivable" line is due to the fact that the 2018 Research Tax Credit (CIR) was still not cashed as of June 30, 2019, while, at the same time, the CIR receivable in the first half of 2019, € 1,644,270, had been booked. The € 1,109,029 figure in first half 2020 is mainly including the Research Tax Credit amount for the first half of 2020, € 1,089,318, as the CIR at the end of 2019 has been fully repaid at the end of June 2020.

12. CASH AND CASH EQUIVALENTS

<i>In euros</i>	June 30, 2020	December, 31 2019	December, 31 2018
Term deposit	2 000 000	2 000 000	2 004 000
Investment securities	0	0	0
Bank and cash	21 671 303	14 246 565	20 757 418
Cash and cash equivalents	23 671 303	16 246 565	22 761 418
Bank overdrafts used for cash management purposes	0	0	0
Cash and cash equivalents in Cash flow statement	23 671 303	16 246 565	22 761 418

Term deposit remain available without penalties. This availability results in all of these deposits being considered as cash.

13. EQUITY

Shares

The share capital as of June 30, 2020 is set at the sum of € 192,042.96. Compared to the situation as of December 31, 2019, where it was € 152,502.35, it increased by € 39,540.61 due to the issuance of ABSA (share with warrant) in March 2020 for € 17,990.61 and the exercise of a part of the BSA (share purchase warrant) subscribed by Kepler-Chevreur in 2019, for € 21,550. As a result of these transactions, the number of shares increased by 3,954,061, bringing the total number of shares subscribed and issued to 19,204,296 as of June 30, 2020.

These subscriptions for the first half of 2020 also explain the change in the "Share premium" line, € 13,942,316, after reclassification to "Retained earnings and reserves" of the fair value of these BSA, € 1,547,192.46. These two capital increases represented a total of € 15,764,681. Taking into account € 188,632 in issuance costs, the net cash inflow associated with these transactions amounted to € 15, 576,049.

Equity

Equity consists of:

<i>In Euros</i>	June, 30 2020	December, 31 2019
Equity		
Share capital	192 043	152 502
Share premium	113 242 022	99 299 706
Retained earnings and reserves	-107 472 222	-84 128 981
OCI and equity component of financial instruments	2 287 207	740 015
Profit (loss) for the period	-9 093 311	-23 309 169
Total equity	-844 260	-7 245 926

14. LOANS, FINANCIAL DEBTS AND OTHER FINANCIAL LIABILITIES

<i>In Euros</i>	June 30, 2020	December 31, 2019
Convertible bonds	0	0
Repayable advances	8 574 810	8 414 903
Bond loans	10 104 292	11 181 366
Non-current financial liabilities	18 679 102	19 596 269
Convertible bonds	0	0
Repayable advances	0	0
Bond loans	3 000 000	3 805 659
Other financial liabilities	0	0
Bank borrowing	337	683
Current financial liabilities	3 000 337	3 806 342
Total financial liabilities	21 679 439	23 402 612

Convertible bonds 2017 subscribed by Tasly Group

As part of the comprehensive agreement signed with Tasly Pharmaceutical Group on May 10, 2017, a convertible bond issue was carried out for the benefit of the Tasly Pharmaceutical Group. This issue covered 15 convertible bonds ("OC" as French acronym) in common shares with a face value of € 1,000,000 each, paid in cash.

These bonds, which were carrying interest at an annual fixed rate of 6.9%, were to be either:

- Reimbursed on the maturity date of July 27, 2020, three years after the subscription date, if no conversions have occurred previously; in addition, the issuer has ability to prepay and to partially repay;
- Convert in shares. This conversion was to take place in three cases:
 - . automatically, if the stock price reaches an average of € 13 per share, the number of shares remitted is then obtained by dividing by 13 the outstanding balance including the interest accrued,
 - . in the investor's hand: in this case, the number of shares is then obtained by dividing by 13 the outstanding balance, including the interest accrued,
 - . automatically at maturity date for non-converted and unpaid bonds on that date. In the latter case, the number of shares will be obtained by dividing the outstanding balance, including accrued interest, by 80% of the average stock price of the twenty days prior to the maturity date.

The accounting treatment of these Convertible Bonds was analyzed against IAS 32 and IAS 39. Depending on the characteristics of the conversion option, the Convertible Bond must be processed:

- . either as an instrument according to IAS 32 with an equity component and financial debt component;
- . or a hybrid instrument according to IAS 39 comprising an embedded derivative to be separately accounted for.

The last conversion case (at maturity date) has an element of variability on the conversion ratio (via the stock exchange price). In this case, you should refer to IAS 39 and there will be a derivative. On the date of origin, the evaluation of this derivative will determine the value of the financial debt portion. This last part is recalculated with an effective interest rate incorporating all associated fees of this operation.

The external evaluator selected for this work concluded by considering that, given the conversion conditions, the incorporated derivative is of zero value, both on the date of subscription and December 31, 2017 and on December 31, 2018.

On this basis, the calculation of the amortized cost was carried out on the basis of a financial debt equal to the nominal of the issue, i.e. € 15,000,000.

The agreed position at 31 December 2017 and at 31 December 2018 has no impact at 30 June 2020 as the conversion occurred during the first half of 2019. Indeed, calculation effects on EIR have been cancelled.

Tasly Group Convertible bonds 2018

One new tranche of bonds was underwritten by Tasly Pharmaceutical, for € 10 million, of which € 9 million were paid on June 29, 2018. As the conditions are strictly the same as for the 2017 issue, the conclusions on the zero value of the derivative have been retained for the valuation of the derivative as of December 31, 2018.

Conversion of Tasly Group Bonds

The bonds of the two tranches of this loan and the associated accrued interest were automatically converted during first half of 2019 in light of the evolution of the Share market price.

2018 Share purchase warrants IPF

Following the conclusion of a financing agreement with IPF Partners through the establishment of a bond loan consisting of 3 tranches of OBSA for an envelope of € 20 million (five-year maturity bearing interest at a rate of EURIBOR + 11% per annum), Pharnext received net proceeds of € 14,700,000 from the first two tranches in July 2018. For the surety of the repayment of the tranches actually drawn and not repaid, this bond required the establishment of a senior guarantee on a set of patents held by Pharnext in several countries and a guarantee of the deposit account in the books of the account holder opened in the name of Pharnext.

This loan was analyzed to determine the IFRS treatment.

The main question is, in this type of transaction, to check whether one is facing an instrument of equity (so governed by IAS 32) or a derivative, if the instrument does not meet the characteristics of equity instrument (so regulated, then, by IAS 39).

In the case of this loan, the BSA instrument will only be unwound by the exchange of a fixed number of shares (set up in the contract) against a fixed amount of cash per share subscribed:

- the number of shares corresponding to the exercise of each BSA is well defined for each of the tranches drawn, i.e. 0.0415 shares / BSA for Tranche A (€ 11.5 million), and 0.0278 shares/BSA for Tranche B (€ 3.5 million).
- the exercise price is also frozen on the day of the issue, i.e. 95% of the weighted average of the prices of the last three trading sessions before the issue date of the relevant tranche.

So this is the case of IAS 32.22, and it is an equity instrument.

The valuation of the purchase warrant on the date of subscription was made by an independent appraiser. The overall valuation of BSAs stands at € 661,245. This amount was raised as equity. Taking into account the costs associated with this loan, a calculation of effective interest rate was carried out and the debt as of December 31, 2019, for the two tranches including capitalized interest was € 14,687,025. As of June 30, 2020, the debt moved to € 13,104,292.

Interests booked on the first half of 2020 were € 1,053,419.

OSEO repayable advances

- **CMT Project**

As part of the CMT1A project, Pharnext received a repayable advance from OSEO between 2008 and 2010 for a total amount of € 3,400,000. The original agreement provided for refunds from 2009 until 2015.

By endorsement, repayments were limited to € 500,000 in 2012 and € 500,000 in 2013, with the balance of € 2,400,000 being deferred in half in 2019 and 2020. Advances for this project are not bearing interest.

At the end of 2019 a new endorsement was signed, extending the deadlines and providing for the repayment of € 2,400,000, in three maturities, € 300,000 in 2020, € 1,000,000 in 2023 and € 1,100,000 in 2024. The € 300,000 maturity was paid in the first half of 2020.

In 2009, for the same CMT1A project, the AFM, a research association, paid an advance of € 150,000. In this case, too, the advance is of no interest.

- **ALZHEIMER / DIPPAL Project**

In June 2010, OSEO approved the project presented by Pharnext on Alzheimer's disease. The project is divided into four stages over six years. OSEO is committed to fund Pharnext as part of the project with € 705,000 corresponding to industrial research expenses and € 6,500,000 corresponding to the pre-clinical and clinical development part.

Following the payment of four first advances, Pharnext has received a total advance of € 5,586,016 since 2012 and a grant of € 599,508.

Pharnext has committed the sum of € 13,123,047 to this project which give right to a total advance of € 6,561,524 subject to validation by OSEO. This validation took place in January 2017 and the last advance amount of € 975,608 was collected in February 2017.

The original agreement, which provided for repayments in the early years, was amended by endorsements, and from now on all the amounts collected will have to be repaid in 2023. The advances carry interest at a rate of 2.24%, with basis for the calculation of interest capped at € 7,950,000.

The agreement provides, subject to full repayment of advances (plus the capitalized interest of 2.24%), the payment during four years of royalties up to 4% of the turnover in excess of a turnover of € 150,000,000. Those royalties are capped at € 14,000,000.

For both projects, CMT and ALZHEIMER/DIPPAL, it was considered that when these projects started, the market rate to be retained for advances of this duration was 5% per annum. This 5% rate was used in reference to the market rates of bonds over two years (data from Banque de France) and the rate of return on private bonds (Source Tresor). At these rates, a risk premium of 2% was incorporated in reference with the Company's position in terms of financing structure.

End-of-period repayments (as well as interest if applicable) have therefore been discounted at this rate and are listed on the "Repayable advances" line, and the difference with the amount originally collected that constitutes the "subsidy" part is included in the line "Supplier Debts and Other Creditors".

The total of refundable advances, for the two OSEO projects and the AMF project amounts to € 8.574.810, per end of June2020.

15.SUPPLIER DEBT AND OTHER CREDITORS

<i>In Euros</i>	June 30, 2020	December, 31 2019
Trade payables	3 301 959	3 710 190
Trade payables	3 301 959	3 710 190
Subsidy part of repayable advances (to be spread over duration)	981 652	1 109 396
Other payables	1 682 374	973 125
Total other payables	2 664 026	2 082 522
Total trade and other payables	5 965 985	5 792 712

The "Trade payables" line refers to debts to staff, social contributions and taxes.

The line "Subsidy part of repayable advances (to be spread over duration)" is the amount of subsidy part of OSEO advances not yet released as other income.

16. PROVISIONS

In addition to the € 131,154 amount already booked as of December 31, 2019 that corresponds to a dispute over fees with a financial intermediary, an additional provision of € 471,985 has been recorded to deal with a new risk , in accordance with the accounting rules defined by the company (see notes to the IFRS accounts of 31 December 2019).

17. COMMITMENTS

The implementation of IFRS 16 has led to the direct integration of the debt corresponding to the lease commitments into the Statement of Financial Position. The remaining commitments, listed as of December 31, 2019 in Note 21 of the 2019 IFRS Financial Statements, are unchanged as of June 30, 2020.

18. POST-CLOSURE EVENTS

No post-closing events are to be mentioned.

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PHARNEXT ACTIVITY REPORT FOR 2020 1st HALF

Statement of Profit or Loss Analysis

The Company's operating revenues, which amounted to € 1,219 thousand for first half ,2020, are significantly below compared to € 1,991 thousand, for the same period of 2019, mainly due to a decrease in the Research Tax Credit (CIR), which fell from € 1,645 thousand to € 1,089 thousand, with several research and development expenditures on current research phases not meeting the eligibility requirements.

The expenses of research and development are fully recorded in expenses: they decreased by 32% between the first half of 2019 and the first half of 2020, they amounted € 5,481 thousand at the end of June 2020, versus € 8,008 thousand at the end of June 2019. Drop in expenditures for pre-clinical and clinical developments, sub-treated to specialized companies, is the main factor for the bulk of the decline, due to the timing of clinical trial phases.

Administrative expenses are increasing (19%) between 2020 and 2019 (€ 2,687 thousand versus € 2,252 thousand).

Marketing expenses, which moved down from € 1,963 thousand to € 891 thousand, were down sharply (-55%). These marketing and advertising costs, related to the current stage of development of Pharnext's research that must necessarily be commented and largely disclosed, and to work on the possible pricing of future drugs in the various target markets, have been slowed down pending the progress of the current clinical phases.

Operating loss as of June 30, 2020 amounts to € 7.840 thousand, significantly less compared to € 10,231 thousand in June 2019. This loss decrease is due to the spending reductions detailed above.

The financial result remains negative at € 1,253 thousand in the first half of 2020 but down 39% compared to € 2,056 thousand in the first half of 2019. This decrease is due to the non-recurrence in 2020 of the € 747 thousand, impact of the Tasly Bond conversion, which resulted in the cancellation of the smoothing of the costs associated with the implementation of this convertible bond issue.

The net loss in the first half of 2020 was € 9,093 thousand compared to € 12,288 thousand for the same period of 2019.

Statement of Financial Situation analysis

Non-current assets as of June 30, 2020 are down slightly from December 31, 2019. The main explanation is the accounting for depreciation (both on tangible and intangible assets and on right -of -use assets), following the implementation of IFRS 16 on January 1, 2019. This standard applies to significant leases with a duration of more than 12 months, and requires the creation of an asset, "Right-of-use Asset Use" whose amount is the present value of non-avoidable payments of the concerned contracts. This amount is depreciated over the firm duration of the contract. The counterpart for this right-of-use is a financial debt item, "Rental debt." The implementation of this standard resulted in the accounting on January 1, 2019 of € 911 thousand, as assets and liabilities in the Statement of Financial Situation.

Current assets show an improved cash position at € 23,671 thousand, end of June 2020, versus € 16,247 thousand, end of December 2019.

This net cash increase is made of period losses combined with two fundraisings that took place during the first half of 2020, first, the capital increase of March 2020 amounting € 7,700 thousand, second, the exercise of BSA by Kepler-Chevreur amounting € 8,065 thousand.

Equity as of June 30, 2020 remained negative for € 844 thousand, but less than December 2019 by € 6,402 thousand, with the half-year's capital raisings having exceeded the loss of the period.

Non-current liabilities decreased by € 552 thousand, from € 20,458 thousand to € 19,906 thousand due to transfers to current liabilities of borrowing maturities and lease debts.

Current liabilities have decreased from € 9,960 thousand to € 9,305 thousand.

Cash Flows Analysis

<i>in Euros</i>	June 30, 2020	June 30, 2019
Cash flow from P&L operations	-7 335 477	-10 140 644
Cash flow generated from changes in operating working capital	1 912 508	-3 719 691
Net cash used in investing activities	1 726	-176 826
Net cash (used in) financing activities	12 845 980	15 985 682
Net increase (decrease) in cash and cash equivalents	7 424 737	1 948 523
Cash and cash equivalents at June 30	23 671 303	24 709 939

Cash flows level from operations changed in line with operating losses variation between the two half year periods.

Working Capital change for the six last months is an improvement corresponding to debtor positions decrease (mainly Research Tax Credit effect).

The positive financing flows for the first half of 2020, corresponds to new fundraisings.

Combining all these transactions, net cash flow decreased by € 1,039 thousand compared to the position end of June 2019, and stood at € 23,671 thousand end of June 2020.

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