addex Therapeutics

Allosteric Modulators for Human Health

Q1 2020 Interim Report

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ADDEX THERAPEUTICS LTD

Unaudited Condensed Consolidated Balance Sheets

as at March 31, 2020 and December 31, 2019

	Notes	March 31, 2020	December 31, 2019
		Amounts in Swiss francs	
ASSETS			
Current assets			
Cash and cash equivalents	6	27,126,173	31,536,803
Other financial assets	7	11,370	13,968
Receivables	7	67,450	118,028
Prepayments	7	1,118,391	720,063
Total current assets		**28,323,384**	**32,388,862**
Non-current assets			
Right-of-use assets	8	449,831	543,340
Property, plant and equipment	9	33,111	27,626
Non-current financial assets	10	68,856	68,911
Total non-current assets		**551,798**	**639,877**
Total assets		**28,875,182**	**33,028,739**
LIABILITIES AND EQUITY			
Current liabilities			
Current lease liabilities		354,998	373,025
Payables and accruals	11	4,602,546	4,196,411
Contract liability	15	530,411	945,737
Deferred income	16	177,702	165,389
Total current liabilities		**5,665,657**	**5,680,562**
Non-current liabilities			
Non-current lease liabilities		103,653	177,220
Retirement benefits obligations	14	1,216,352	1,481,738
Deferred income	16	108,652	165,390
Total non-current liabilities		**1,428,657**	**1,824,348**
Equity			
Share capital	12	32,848,635	32,848,635
Share premium	12	286,392,907	286,375,977
Reserves		7,692,536	7,146,506
Accumulated deficit		(305,153,210)	(300,847,289)
Total equity		**21,780,868**	**25,523,829**
Total liabilities and equity		**28,875,182**	**33,028,739**

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

ADDEX THERAPEUTICS LTD

Unaudited Condensed Consolidated Statements of Comprehensive Loss

for the three months ended March 31, 2020 and 2019

	Notes	For the three months ended March 31, 2020	2019
		Amounts in Swiss francs	
Revenue from contract with customer	15	**904,060**	**700,868**
Other income	16	**48,396**	**400**
Operating costs			
Research and development		(3,552,611)	(2,482,858)
General and administration		(1,672,523)	(1,342,016)
Total operating costs		**(5,225,134)**	**(3,824,874)**
Operating loss		**(4,272,678)**	**(3,123,606)**
Finance income		21,926	123,470
Finance expense		(55,169)	(40,666)
Finance result	19	**(33,243)**	**82,804**
Net loss before tax		**(4,305,921)**	**(3,040,802)**
Income tax expense		—	—
Net loss for the period		**(4,305,921)**	**(3,040,802)**
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company	20	**(0.16)**	**(0.12)**
Other comprehensive loss			
Items that will never be reclassified to the statement of income:			
Remeasurements of retirement benefits obligations		184,951	(331,028)
Items that may be classified subsequently to the statement of income:			
Exchange difference on translation of foreign operations differences		(33)	(27)
Other comprehensive income / (loss) for the period, net of tax		**184,918**	**(331,055)**
Total comprehensive loss for the period		**(4,121,003)**	**(3,371,857)**

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

ADDEX THERAPEUTICS LTD

Unaudited Condensed Consolidated Statements of Changes in Equity

for the three months ended March 31, 2020 and 2019

Amounts in Swiss francs

	Notes	Share Capital	Share Premium	Treasury Shares Reserve	Foreign Currency Translation Reserve	Other Reserves	Accumulated Deficit	Total
Balance at January 1, 2019…....		**28,564,031**	**286,476,912**	**(2,513,148)**	**(652,323)**	**13,431,873**	**(286,066,685)**	**39,240,660**
Net loss for the period……		—	—	—	—	—	(3,040,802)	(3,040,802)
Other comprehensive loss for the period….		—			(27)	(331,028)		(331,055)
Total comprehensive loss for the period….		**—**	**—**	—	**(27)**	**(331,028)**	**(3,040,802)**	**(3,371,857)**
Value of share-based services.....…….....		—	—	—	—	500,519	—	500,519
Movement in treasury shares:	12	—	—	—	—	—	—	—
Settlement of supplier invoices….....		—	19,091	26,987	—	—	—	46,078
Net purchases under liquidity agreement.....		—	257	(144)	—	—	—	113
Balance at March 31, 2019……		**28,564,031**	**286,496,260**	**(2,486,305)**	**(652,350)**	**13,601,364**	**(289,107,487)**	**36,415,513**
Balance at January 1, 2020…....		**32,848,635**	**286,375,977**	**(6,572,316)**	**(653,161)**	**14,371,983**	**(300,847,289)**	**25,523,829**
Net loss for the period……..		—	—	—	—	—	(4,305,921)	(4,305,921)
Other comprehensive Income for the period.		—	—	—	(33)	184,951	—	184,918
Total comprehensive loss for the period….		—	—	—	**(33)**	**184,951**	**(4,305,921)**	**(4,121,003)**
Value of share-based services.....…….....		—	—	—	—	297,708	—	297,708
Movement in treasury shares:	12	—	—	—	—	—	—	—
Settlement of supplier invoices……..		—	20,123	62,808	—	—	—	82,931
Net sales under liquidity agreement....		—	(3,193)	596	—	—	—	(2,597)
Balance at March 31, 2020……		**32,848,635**	**286,392,907**	**(6,508,912)**	**(653,194)**	**14,854,642**	**(305,153,210)**	**21,780,868**

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

ADDEX THERAPEUTICS LTD

Unaudited Condensed Consolidated Statements of Cash Flows

for the three months ended March 31, 2020 and 2019

	Notes	For the three months ended March 31, 2020	2019
		Amounts in Swiss francs	
Net loss for the period		(4,305,921)	(3,040,802)
Adjustments for:			
Depreciation	8/9	96,156	76,431
Value of share-based services	13	297,708	500,519
Pension costs		(80,435)	28,715
Finance costs		38,848	172,424
Decrease/(increase) in other financial assets	7	2,598	(112)
Decrease/(increase) in receivables	7	50,578	(51,066)
Increase in prepayments	7	(398,328)	(508,268)
Increase in payables and accruals	11	515,302	427,547
Decrease in contract liability	15	(415,326)	(199,208)
Decrease in deferred income	16	(44,425)	—
Services paid in shares		82,931	46,078
Net cash used in operating activities		**(4,160,314)**	**(2,547,742)**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(8,510)	(18,725)
Net cash used in investing activities		**(8,510)**	**(18,725)**
Cash flows from financing activities			
Costs paid on issue of shares subscribed by the Group		(109,167)	—
Sale/(purchase) of treasury shares		(2,597)	113
Principal element of lease payment		(91,594)	(72,368)
Interest received	19	21,926	—
Interest paid	19	(28,559)	(40,666)
Net cash used in financing activities		**(209,991)**	**(112,921)**
Decrease in cash and cash equivalents		**(4,378,815)**	**(2,679,388)**
Cash and cash equivalents at beginning of the period	6	31,536,803	41,670,158
Exchange difference on cash and cash equivalents		(31,815)	(131,779)
Cash and cash equivalents at end of the period	6	**27,126,173**	**38,858,991**

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

Notes to the Condensed Consolidated Financial Statements

(Amounts in Swiss francs)

1. General information

Addex Therapeutics Ltd (the "Company"), formerly Addex Pharmaceuticals Ltd, and its subsidiaries (together, the "Group") are a clinical stage pharmaceutical group applying its leading allosteric modulator drug discovery platform to discovery and development small molecule pharmaceutical products, with an initial focus on central nervous system disorders.

The Company is a Swiss stockholding corporation domiciled c/o Addex Pharma SA, Chemin des Aulx 12, CH1228 Plan-les-Ouates, Geneva, Switzerland and the parent company of Addex Pharma SA, Addex Pharmaceuticals France SAS and Addex Pharmaceuticals Inc., company created on May 29, 2019 registered in Delaware with its principal business location in San Francisco, California, United States. Its registered shares are traded at the SIX, Swiss Exchange, under the ticker symbol ADXN. On January 29, 2020, the Group listed on the Nasdaq Stock Market, American Depositary Shares (ADSs) under the symbol "ADXN", without a new issuance of securities. ADSs represents ordinary shares that continues to be admitted to trading on SIX Swiss Exchange.

These condensed consolidated financial statements have been approved for issuance by the Board of Directors on May 19, 2020.

2. Basis of preparation

These condensed consolidated interim financial statements for the three months ended March 31, 2020, have been prepared under the historic cost convention and in accordance with IAS 34 "Interim Financial Reporting" and are presented in a format consistent with the consolidated financial statements under IAS 1 "Presentation of Financial Statements". However, they do not include all of the notes that would be required in a complete set of financial statements. Thus, this interim financial report should be read in conjunction with the consolidated financial statements for the year ended December 31, 2019.

The preparation of financial statements in accordance with IAS 34 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment which are significant to the condensed consolidated interim financial statements are disclosed in note 4 to the consolidated financial statements for the year ended December 31, 2019.

A number of new or amended standards and interpretations became applicable for financial periods beginning on or after January 1, 2020. The Group noted that the latter did not have a material impact on the Group's financial position or disclosures made in condensed consolidated interim financial statements.

Due to rounding, numbers presented throughout these condensed consolidated financial statements may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

3. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. These estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities or may have had a significant impact on the reported results are disclosed below:

Going concern

The Group's accounts are prepared on a going concern basis. To date, the Group has financed its cash requirements primarily from share issuances and licensing certain of its research and development stage products. The Group is a

development stage enterprise and is exposed to all the risks inherent in establishing a business. The Group maintains detailed financial forecasts and monitors actual results on a regular basis so that measures can be taken to ensure the Group remains solvent.

COVID-19

In early 2020 a coronavirus disease (COVID-19) pandemic developed globally resulting in a significant number of infections and negative effects on economic activity. The Group is actively monitoring the situation and is taking any necessary measures to respond to the situation in cooperation with the various stakeholders. On March 18, 2020 the Group announced the suspension of the initiation of a placebo-controlled Phase 2b/3 pivotal clinical trial of dipraglurant in levodopa-induced dyskinesia associated with Parkinson's disease. Depending on the duration of the COVID-19 crisis and continued negative impact on global economic activity, the Group may have to take additional measures that will have a negative impact on the Group's business continuity and may experience certain liquidity restraints as well as incur impairments on its assets. The exact impact on the Group's activities in the short and medium terms cannot be reasonably predicted. However, based on the risk mitigation measures undertaken, the Group concluded that there is no material uncertainty that may cast a significant doubt upon the Group's ability to continue as a going concern.

Revenue recognition

Revenue is primarily from fees related to licenses, milestones and research services. Given the complexity of the relevant agreements, judgements are required to identify distinct performance obligations; allocate the transaction price to these performance obligations and determine when the performance obligations are met. In particular, the Group's judgement over the estimated stand alone selling price which is used to allocate the transaction price to the performance obligations is disclosed in note 15.

Grants

Grants are recorded at their fair value when there is reasonable assurance that they will be received and recognized as income when the group has satisfied the underlying grant conditions. In certain circumstances, grant income may be recognized before explicit grantor acknowledgement that the conditions have been met.

Accrued research and development costs

The Group records accrued expenses for estimated costs of research and development activities conducted by third party service providers. The Group records accrued expenses for estimated costs of research and development activities based upon the estimated amount of services provided but not yet invoiced, and these costs are included in accrued expenses on the balance sheets and within research and development expenses in the statements of loss. These costs are a significant component of research and development expenses. Accrued expenses for these costs are recorded based on the estimated amount of work completed in accordance with agreements established with these third parties.

To date, the Group has not experienced significant changes in the estimates of accrued research and development expenses after a reporting period. However, due to the nature of estimates, the Group may be required to make changes to the estimates in the future as it becomes aware of additional information about the status or conduct of its research activities.

Research and development costs

The Group recognizes expenditure incurred in carrying out its research and development activities, including development supplies, until it becomes probable that future economic benefits will flow to the Group, which results in recognizing such costs as intangible assets, involving a certain degree of judgement. Currently, such development supplies are associated with preclinical and clinical trials of specific products that do not have any demonstrated technical feasibility.

Share-based compensation

The Group recognizes an expense for share-based compensation based on the valuation of equity incentive units using the Black-Scholes valuation model. A number of assumptions related to the volatility of the underlying shares and to the risk free rate are made in this model. Should the assumptions and estimates underlying the fair value of these instruments vary significantly from management's estimates, then the share-based compensation expense would be materially different from the amounts recognized.

Pension obligations

The present value of the pension obligations depends on a number of assumptions that are determined on an actuarial basis such as discount rates, future salary and pension increases, and mortality rates. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the beginning of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

4. Interim measurement note

Seasonality of the business: The business is not subject to any seasonality, but expenses and corresponding revenue are largely determined by the phase of the respective projects, particularly with regard to external research and development expenditures.

Costs: Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

5. Segment reporting

5.1 Reportable segments

The Group operates in one segment, which is the business of developing drugs for human health.

5.2 Entity wide information

Information about products, services and major customers
External income of the Group for the three-month periods ended March 31, 2020 and 2019 is derived from the business of discovery development and commercialization of pharmaceutical products. Income was earned from the sale of license rights and rendering of research services to a pharmaceutical company and grants earned.

Information about geographical areas
External income is exclusively recorded in the Swiss operating company.

Analysis of revenue from contract with customer and other income by nature is detailed as follows:

	For the three months ended March 31,	
	2020	**2019**
Collaborative research funding.....	904,060	700,868
Grants earned.....	44,425	—
Other service income.....	3,971	400
**Total.....	**952,456**	**701,268**

Analysis of revenue from contract with customer and other income by major counterparties is detailed as follows:

	For the three months ended March 31,	
	2020	**2019**
Indivior PLC.....	904,060	700,868
Eurostars (Innosuisse).....	44,425	—
Other counterparties.....	3,971	400
**Total.....	**952,456**	**701,268**

For more detail, refer to note 15, “Revenue from contract with customer” and note 16 “Other income”.

The geographical allocation of long-lived assets is detailed as follows:

	March 31, 2020	December 31, 2019
Switzerland	426,248	498,066
United States of America	125,169	141,420
France	381	391
Total	**551,798**	**639,877**

The capital expenditure during the three-month period ended March 31, 2020 is CHF 8,510 (CHF 18,725 for the three-month period ended March 31, 2019).

The geographical analysis of operating costs is as follows:

	For the three months ended March 31,	
	2020	2019
Switzerland	5,199,752	3,822,808
United States of America	24,541	—
France	841	2,066
Total operating costs (note 17)	**5,225,134**	**3,824,874**

6. Cash and cash equivalents

	March 31, 2020	December 31, 2019
Cash at bank and on hand	21,895,331	26,889,923
Short term deposits in USD	5,230,842	4,646,880
Total cash and cash equivalents	**27,126,173**	**31,536,803**

Split by currency:

	March 31, 2020	December 31, 2019
CHF	66.76%	64.31%
USD	33.10%	35.03%
GBP	0.03%	0.40%
EUR	0.11%	0.26%
Total	**100%**	**100%**

The Group pays interest on CHF cash and cash equivalents and earns interest on USD cash and cash equivalents. The Group invests its cash balances into a variety of current and deposit accounts with Swiss banks. In addition, the Group invests a portion of its USD cash in line with its treasury guidelines.

All cash and cash equivalents were held either at bank or on hand as at March 31, 2020 and December 31, 2019.

7. Other current assets

	March 31, 2020	December 31, 2019
Other financial assets	11,370	13,968
Receivables	67,450	118,028
Prepayments	1,118,391	720,063
Total other current assets	**1,197,211**	**852,059**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses (“ECL”), which uses a lifetime expected loss allowance for all trade receivables and contract assets. As of March 31, 2020, the receivables comprise of four non-governmental debtors whose combined outstanding balances are CHF 19,097 (five non-governmental debtors for CHF 88,075 as of December 31, 2019). The Group has considered these customers to have a low risk of default based on historic loss rates and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. As a result, excepted loss allowance has been deemed as nil as of March 31, 2020 and December 31, 2019.

The prepayments mainly relate to contract research organization and the increase is due to insurances and retirement benefits paid annually at the beginning of the year.

8. Right-of-use assets

	Properties	Equipment	Total
Year ended December 31, 2019			
Opening net book amount…….	—	—	—
Adoption of IFRS16 as at January 1, 2019……...	483,350	61,160	544,510
Additions……...	308,987	13,541	322,528
Depreciation charge……...	(296,656)	(27,487)	(324,143)
Exchange differences……	445	—	445
Closing net book amount……	**496,126**	**47,214**	**543,340**
At December 31, 2019			
Cost……	792,337	74,701	867,038
Accumulated depreciation…….	(296,211)	(27,487)	(323,698)
Net book value……	**496,126**	**47,214**	**543,340**

	Properties	Equipment	Total
Period ended March 31, 2020			
Opening net book amount…….	496,126	47,214	543,340
Additions……...	—	—	—
Depreciation charge……...	(86,691)	(6,440)	(93,131)
Exchange differences……	(378)	—	(378)
Closing net book amount……	**409,057**	**40,774**	**449,831**
At March 31, 2020			
Cost……	496,126	47,214	543,340
Accumulated depreciation…….	(87,069)	(6,440)	(93,509)
Net book value…….	**409,057**	**40,774**	**449,831**

9. Property, plant and equipment

	Equipment	Furniture & fixtures	Chemical library	Total
Year ended December 31, 2019				
Opening net book amount…….	8,868	—	—	8,868
Additions……..	28,459	—	—	28,459
Depreciation charge……..	(9,701)	—	—	(9,701)
Closing net book amount……..	**27,626**	**—**	**—**	**27,626**
At December 31, 2019				
Cost……...	1,622,865	7,564	1,207,165	2,837,594
Accumulated depreciation……	(1,595,239)	(7,564)	**(1,207,165)**	(2,809,968)
Net book value……	**27,626**	**—**	**—**	**27,626**

	Equipment	Furniture & fixtures	Chemical library	Total
Period ended March 31, 2020				
Opening net book amount…….	27,626	—	—	27,626
Additions……..	8,510	—	—	8,510
Depreciation charge……..	(3,025)	—	—	(3,025)
Closing net book amount……..	**33,111**	**—**	**—**	**33,111**
At March 31, 2020				
Cost……...	1,631,375	7,564	1,207,165	2,846,104
Accumulated depreciation……	(1,598,264)	(7,564)	(1,207,165)	(2,812,993)
Net book value……	**33,111**	**—**	**—**	**33,311**

10. Non-current financial assets

	March 31, 2020	December 31, 2019
Security rental deposits ……	68,856	68,911
Total non-current financial assets ……	**68,856**	**68,911**

11. Payables and accruals

	March 31, 2020	December 31, 2019
Trade payables……..	2,242,649	2,216,147
Social security and other taxes……..	99,008	107,415
Accrued expenses…….....	2,260,889	1,872,849
Total payables and accruals……..	**4,602,546**	**4,196,411**

All payables mature within 3 months. Accrued expenses relate primarily to amounts accrued under R&D service contracts and professional fees. At March 31, 2020 amounts have increased in line with increased R&D activities. The carrying amounts of trade payables do not materially differ from their fair values, due to their short-term nature.

12. Share capital

	Number of shares		
	Common shares	Treasury shares	Total
Balance at January 1, 2019……	**28,564,031**	**(2,158,476)**	**26,405,555**
Settlement of supplier invoices……	—	26,987	26,987
Net purchase of treasury shares….....	—	(144)	(144)
Balance at March 31, 2019…..……..……...	**28,564,031**	**(2,131,633)**	**26,432,398**
Balance at January 1, 2020……	**32,848,635**	**(6,243,487)**	**26,605,148**
Settlement of supplier invoices……	—	62,808	62,808
Net sale of treasury shares…….....	—	596	596
Balance at March 31, 2020…….	**32,848,635**	**(6,180,083)**	**26,668,552**

The Company maintains a liquidity contract with Kepler Capital Markets SA ("Kepler"). Under the agreement, the Group has provided Kepler with cash and shares to enable them to buy and sell the Company's shares. At March 31, 2020 , 27,329 (December 31, 2019: 27,925) treasury shares are recorded under this agreement in the treasury share reserve and CHF 11,370 (December 31, 2019: CHF 13,968) is recorded in other financial assets.

At March 31, 2020, the total issued share capital is CHF 32,848,635 (CHF 28,564,031 as of March 31, 2019), consisting of 32,848,635 shares (28,564,031 as of March 31, 2019). All shares have a nominal value of CHF 1.

During the three-month period ended March 31, 2020, the Group used 62,808 treasury shares (26,987 for the first quarter 2019) to purchase services from consultants including 37,932 (20,672 for the first quarter 2019) shares for Roger Mills, the Group's Chief Medical Officer. The total value of consulting services settled in shares was CHF 82,931 (CHF 46,078 for the first quarter 2019).

13. Share-based compensation

The total share-based compensation expense recognized in the statement of comprehensive loss for equity incentive units granted to directors, executives, employees, consultants and investors for the three-month period ended March 31, 2020 amounts to CHF 297,708 (CHF 500,519 for the first quarter 2019).

As of March 31, 2020, 5,579,087 options were outstanding (5,540,600 options as of December, 31 2019). During the three-month period ended March 31, 2020, the exercise period of 194,687 vested options have been extended for 5 years. Included in share-based compensation for the three-month period ended March 31, 2020, CHF 5,052 relates to options granted in the period and CHF 15,502 relates to the fair value adjustment for exercise period extensions of vested options. As of March 31, 2020 and December 31, 2019, a total of 198,750 Equity Sharing certificates (ESCs) were outstanding.

14. Retirement benefits obligations

The amounts recognized in the statement of comprehensive loss are as follows:

	For the three months ended March 31,	
	2020	2019
Current service cost..……	(78,932)	(71,628)
Past service cost…..…….....	102,764	—
Interest cost…….…….....	(5,501)	(20,458)
Interest income……..	3,551	18,024
**Company pension amount (note 18)……..	**21,882**	**(74,062)**

The conversion rates have changed as at January 1, 2020, which has led to a positive past service cost for the three-month period ended March 31, 2020.

The amounts recognized in the balance sheet are determined as follows:

	March 31, 2020	December 31, 2019
Defined benefit obligation.....……	(8,239,024)	(8,583,214)
Fair value of plan assets…….……...	7,022,672	7,101,476
Funded status…….....	**(1,216,352)**	**(1,481,738)**

15. Revenue from contract with customer

License & research agreement with Indivior PLC

On January 2, 2018, the Group entered into an agreement with Indivior PLC (Indivior) for the discovery, development and commercialization of novel GABAB PAM compounds for the treatment of addiction and other CNS diseases. This agreement included the selected clinical candidate, ADX71441. In addition, Indivior agreed to fund a research program at the Group to discover novel GABAB PAM compounds.

The contract contains two distinct material promises and performance obligations: (1) the selected compound ADX71441 which falls within the definition of a licensed compound, whose rights of use and benefits thereon was transferred in January 2018 and, (2) the research services to be conducted by the Group and funded by Indivior to discover novel $GABA_B$ PAM compounds for clinical development that may be discovered over the research term of the agreement and selected by Indivior.

Indivior has sole responsibility, including funding liability, for development of selected compounds under the agreement through preclinical and clinical trials, as well as registration procedures and commercialization, if any, worldwide. Indivior has the right to design development programs for selected compounds under the agreement. Through the Group's participation in a joint development committee, the Group reviews, in an advisory capacity, any development programs designed by Indivior. However, Indivior has authority over all aspects of the development of such selected compounds.

Under terms of the agreement, the Group granted Indivior an exclusive license to use relevant patents and know-how in relation to the development and commercialization of product candidates selected by Indivior. Subject to agreed conditions, the Group and Indivior jointly own all intellectual property rights that are jointly developed and the Group or Indivior individually own all intellectual property rights that the Group or Indivior develop individually. The Group has retained the right to select compounds from the research program for further development in areas outside the interest of Indivior including Charcot-Marie-Tooth type 1A neuropathy, or CMT1A. Under certain conditions, but subject to certain consequences, Indivior may terminate the agreement.

The Group received in January 2018, a non-refundable upfront fee of USD 5.0 million for the right to use the clinical candidate, ADX71441, including all materials and know-how related to this clinical candidate. In addition, the Group is eligible for payments on successful achievement of pre-specified clinical, regulatory and commercial milestones totaling USD 330 million and royalties on net sales of mid-single digits to low teens double-digit.

On February 14, 2019, Indivior terminated the development of their selected compound,ADX71441. Separately, Indivior funds research at the Group, based on a research plan to be mutually agreed between the parties, to discover novel $GABA_B$ PAM compounds. These future novel $GABA_B$ PAM compounds, if selected by Indivior, become licensed

compounds. The Group agreed with Indivior to an initial research term of two years, that can be extended by twelve-month increments and a minimum annual funding of USD 2 million for the Group's R&D costs incurred. Following Indivior's selection of one newly identified compound, the Group has the right to also select one additional newly identified compound. The Group is responsible for the funding of all development and commercialization costs of its selected compounds and Indivior has no rights to the Group's selected compounds. The initial two-year research term was expected to run from May 2018 to April 2020. On October 7, 2019 and December 20, 2019, Indivior agreed an additional research funding of USD 0.8 million, increasing the research funding by USD 1.6 million, for the research period. For the three-month period ended March 31, 2020, the Group recognized CHF 0.9 million as revenue (CHF 0.7 million in the first quarter 2019) and recorded CHF 0.5 million as contract liability (CHF 0.9 million as of December 31, 2019).

Janssen Pharmaceuticals Inc. (formerly Ortho-McNeil-Janssen Pharmaceuticals Inc).

On December 31, 2004, the Group entered into a research collaboration and license agreement with Janssen Pharmaceuticals Inc. (JPI). In accordance with this agreement, JPI has acquired an exclusive worldwide license to develop mGluR2PAM compounds for the treatment of human health. The Group is eligible to receive up to EUR 109 million in success-based development and regulatory milestone, and low double digit royalties on net sales. The Group considers these various milestones to be variable consideration as they are contingent upon achieving uncertain, future development stages and net sales. For this reason the Group considers the achievement of the various milestones as binary events that will be recognized as revenue upon occurrence. No amounts have been recognized under this agreement in the three-month periods ended March 31, 2020 and 2019.

16. Other income

Under a grant agreement with Eurostars/Innosuisse the Group is required to complete specific research activities within a defined period of time. The Group's funding is fixed and received based on the satisfactory completion of the agreed research activities and incurring the related costs.

In October 2019, the Group received CHF 380,184 from Eurostars/Innosuisse.

During the three-month period ended March 31, 2020, the Group has recognized CHF 44,425 as other income and as at March 31, 2020, the Group recognized CHF 286,354 (CHF 330,079 as of December 31, 2019) as deferred income, including CHF 177,702 (CHF 165,389 as of December 31, 2019) as short term (less than one year) and CHF 108,652 (CHF 165,390 as of December 31, 2019) as long term (more than one year), in accordance with the grant conditions.

17. Operating costs

	For the three months ended March 31,	
	2020	2019
Staff costs (note 18)…….....	938,970	1,061,196
Depreciation (notes 8/9) ……...	96,156	76,431
External research and development costs……..	2,806,557	1,800,026
Laboratory consumables…….....	57,738	40,854
Patent maintenance and registration costs…….	65,650	60,333
Professional fees……	583,253	431,828
Short-term leases……...	7,693	6,005
Other operating costs…….	669,117	348,201
Total operating costs……...	**5,225,134**	**3,824,874**

During the three-month period ended March 31, 2020 compared to the same period ended in March 31, 2019 the total operating costs have increased by CHF 1.4 million due to expanded R&D activities and costs related to operating as a Nasdaq listed Group.

18. Staff costs

	For the three months ended March 31,	
	2020	2019
Wages and salaries……	683,820	540,283
Social charges and insurances…..…….	66,219	51,467
Value of share-based services ……..	210,813	395,384
Retirement benefit (note 14)……..	(21,882)	74,062
Total staff costs……	**938,970**	**1,061,196**

19. Finance result, net

	For the three months ended March 31,	
	2020	2019
Interest income…….....	21,926	—
Interest cost……	(22,397)	(34,940)
Interest expense on leases……..	(6,162)	(5,726)
Foreign exchange (losses)/gains…..……..	(26,610)	123,470
Finance result, net……...…….	**(33,243)**	**82,804**

20. Loss per share

Basic and diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of shares in issue during the year excluding shares purchased by the Group and held as treasury shares.

	For the three months ended March 31,	
	2020	2019
Loss attributable to equity holders of the Company..	(4,305,921)	(3,040,802)
Weighted average number of shares in issue…….....	26,605,148	26,349,028
Basic and diluted loss per share……	**(0.16)**	**(0.12)**

The Company has three categories of dilutive potential shares as at March 31, 2020 and 2019 : equity sharing certificates (ESCs), share options and warrants. For the three-month periods ended March 2020 and 2019, equity sharing certificates, share options and warrants have been ignored in the calculation of the loss per share, as they would be anti-dilutive.

21. Related party transactions

Related parties include members of the Board of Directors and the Executive Management of the Group. The following transactions were carried out with related parties:

Key management compensation	For the three months ended March 31,	
	2020	2019
Salaries, other short-term employee benefits and post-employment benefits…….	269,207	265,169
Consulting fees…….....	114,218	77,781
Share-based compensation…..……...	222,962	440,176
Total…….	**606,387**	**783,126**

Salaries, other short-term employee benefits and post-employment benefits relate to members of the Board of Directors and Executive Management who are employed by the Group. Consulting fees relate to Roger Mills, a member of the Executive Management who delivers his services to the Group under a consulting contract. The Group has a net payable to the Board of Directors and Executive Management of CHF 228,726 at March 31, 2020 (December 31, 2019: CHF 176,089).

22. Events after the balance sheet date

There were no material events between the balance sheet date and the date on which these financial statements were approved by the board of directors that would require adjustement to the financial statements or disclosure under this heading.

Financial Review

Overview

We are a clinical-stage pharmaceutical company focused on the development and commercialization of an emerging class of novel orally available small molecule drugs known as allosteric modulators. Allosteric modulators target a specific receptor or protein and alter the effect of the body's own signaling molecules on their target through a novel mechanism of action. These innovative small molecule drug candidates offer several potential advantages over conventional non-allosteric molecules and may offer an improved therapeutic approach to existing drug treatments. To date, our research and development efforts have been primarily focused on building a portfolio of proprietary candidates based on our allosteric modulator development capability. The allosteric modulator principle has broad applicability across a wide range of biological targets and therapeutic areas, but our primary focus is on G-protein coupled receptors, or GPCR, targets implicated in neurological diseases, where we believe there is a clear medical need for new therapeutic approaches.

Using our allosteric modulator discovery capabilities, we have developed a pipeline of proprietary clinical and preclinical stage drug candidates. We or our partners are developing these clinical and preclinical stage proprietary drug candidates for diseases for which there are no approved therapies or where improved therapies are needed. These include levodopa induced dyskinesia associated with Parkinson's disease, non-parkinsonian dystonia, addiction, epilepsy, Charcot-Marie-Tooth type 1A neuropathy, or CMT1A, and other neurodegenerative diseases. Some of these indications are classified as rare diseases that may allow for orphan drug designation by regulatory agencies in major commercial markets, such as the United States, Europe and Japan. Orphan drug designation may entitle the recipient to benefits in the jurisdiction granting the designation, such as market exclusivity following approval and assistance in clinical trial design, a reduction in user fees or tax credits related to development expense.

Our Partner, Janssen Pharmaceuticals Inc., or Janssen, has licensed worldwide rights to our second clinical program, ADX71149 (mGlu2 PAM), and is responsible for development, manufacture and commercialization. Janssen has completed two Phase 2 studies in schizophrenia and anxious depression generating mixed results. Janssen has conducted several preclinical studies in epilepsy and continues to evaluate the program in other neurological disorders.

Our Partner, Indivior PLC, or Indivior, has licensed worldwide rights to our $GABA_B$ PAM, program and is responsible for all development, manufacture and commercialization of any selected $GABA_B$ PAM drug candidate. Under the agreement, we are responsible for executing a research program funded by Indivior to discovery novel $GABA_B$ PAM drug candidates. Indivior's primary therapeutic focus is addiction and under the agreement we have the right to select certain drug candidates for future independent development in certain exclusive indications including CMT1A. The program is currently in late lead optimization.

In addition, we are conducting a number of early stage research programs including mGlu7 NAM, mGlu2 NAM, mGlu4 PAM and mGlu3 PAM.

We were founded in May 2002 and completed our initial public offering of ordinary shares on the Swiss SIX Exchange in May 2007. On January 29, 2020, we listed American Depositary Shares (ADSs) representing our ordinary shares on the Nasdaq Stock Market following the United States Securities and Exchange Commission (SEC) having declared our registration statements on Forms F1 and F6 effective.

Our operations to date have included organizing and staffing our company, raising capital, out-licensing rights research stage programs including our mGlu2 PAM and $GABA_B$ PAM programs and conducting preclinical studies and clinical trials. To date, we have generated CHF 57 million of revenue from the sale of license rights and conducting funded research activities for certain of our research programs. We have historically financed our operations mainly through the sale of equity. As of March 31, 2020, we had raised an aggregate of CHF 325 million of gross proceeds.

We have never been profitable and have incurred significant net losses in each period since our inception. Our net losses were CHF 14.8 million, CHF 1.7 million and CHF 3.3 million for years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, we had accumulated losses of CHF 300.8 million. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will increase significantly in connection with our ongoing activities as we:

- continue to invest in the research and development of our allosteric modulator discovery platform and pipeline, and specifically in connection with our Phase 2b/3 clinical trial of dipraglurant for the treatment of PD-LID and any additional clinical trials that we may conduct for product candidates;
- hire additional research and development, and general and administrative personnel;
- maintain, expand and protect our intellectual property portfolio;
- identify and in-license or acquire additional product candidates; and
- incur additional costs associated with operating as a public company in the United States.

We will need substantial additional funding to support our operating activities as we advance our research and product candidates through clinical development, seek regulatory approval and prepare for, and if any of our product candidates are approved, proceed to commercialization. Adequate funding may not be available to us on acceptable terms, or at all.

We have no manufacturing facilities, and all of our manufacturing activities are contracted out to third parties. Additionally, we currently utilize third-party clinical research organizations, or CROs, to carry out our clinical development and trials. We do not yet have a sales organization.

License Agreement with Indivior

In January 2018, we entered into an agreement with Indivior for the discovery, development and commercialization of novel $GABA_B$ PAM compounds for the treatment of addiction and other CNS diseases. This agreement included the selected clinical candidate, ADX71441. In addition, Indivior agreed to fund a research program at Addex to discover novel $GABA_B$ PAM compounds.

Indivior has sole responsibility, including funding liability, for development of selected compounds under the agreement through preclinical and clinical trials, as well as registration procedures and commercialization, if any, worldwide. Indivior has the right to design development programs for selected compounds under the agreement. Through our participation in a joint development committee, we review, in an advisory capacity, any development programs designed by Indivior. However, Indivior has authority over all aspects of the development of such selected compounds.

Under terms of the agreement, we have granted Indivior an exclusive license to use relevant patents and know-how in relation to the development and commercialization of product candidates selected by Indivior. Subject to agreed conditions, Addex and Indivior jointly own all intellectual property rights that are jointly developed, and Addex or Indivior individually own all intellectual property rights that Addex or Indivior develop individually. Addex has retained the right to select compounds from the research program for further development in areas outside the interest of Indivior including Charcot-Marie-Tooth type 1A neuropathy, or CMT1A. Under certain conditions, but subject to certain consequences, Indivior may terminate the agreement.

Under terms of the agreement, we received a non-refundable upfront fee of $5.0 million for the right to use the clinical candidate, ADX71441, including all materials and know-how related to this clinical candidate. In addition, we are eligible for payments on successful achievement of pre-specified clinical, regulatory and commercial milestones totaling $330 million, and royalties on net sales of mid-single digits to low teens double-digit. On February 14th, 2019, Indivior terminated the development of their selected compound, ADX71441.

Separately, Indivior funds research at Addex, based on a research plan to be mutually agreed between the parties, to discover novel $GABA_B$ PAM compounds. These future novel $GABA_B$ PAM compounds, if selected by Indivior, become licensed compounds. We agreed with Indivior to an initial research term of two years, that can be extended by twelve-month increments and a minimum annual funding of $2 million for the Addex R&D costs incurred. Following Indivior's selection of one newly identified compound, Addex has the right to also select one additional newly identified compound. Addex is responsible for the funding of all development and commercialization costs of its selected compounds and Indivior has no rights to the Addex selected compounds. The initial two-year research term was expected to run from May 2018 to April 2020. In 2019, Indivior agreed an additional research funding of $1.6 million, for the research period.

The contract contains two distinct material promises and performance obligations: (1) the selected compound ADX71441 which falls within the definition of a licensed compound, whose rights of use and benefits thereon was transferred in January 2018 and, (2) the research services to be conducted by Addex and funded by Indivior to discover

novel $GABA_B$ PAM compounds for clinical development that may be discovered over the research term of the agreement and selected by Indivior.

License Agreement with Janssen

Under our agreement with Janssen Pharmaceuticals Inc. (formerly known as Ortho-McNeil-Janssen Pharmaceuticals Inc), or Janssen, we granted Janssen an exclusive license to use relevant patents and know-how in relation to the development and commercialization of product candidates selected by Janssen under the agreement and a non-exclusive worldwide license to conduct research on the collaboration compounds using relevant patents and know-how. Subject to certain conditions, we and they agreed to own, jointly, all intellectual property rights that we develop jointly and, individually, all intellectual property rights that either party develops individually. Under certain conditions, but subject to certain consequences, Janssen may terminate the agreement for any reason, subject to a 90-day notice period.

Janssen has sole responsibility, including funding liability, for development of selected compounds under the agreement through preclinical and clinical trials, as well as registration procedures and commercialization, if any, in the United States, Japan, the United Kingdom, Germany, France, Spain and Italy. Janssen has the right to design development programs for selected compounds under the agreement. Through our participation in a joint development committee, we review, in an advisory capacity, any development programs designed by Janssen. However, Janssen has authority over all aspects of the development of selected compounds and may develop or commercialize third-party compounds.

Under the terms of the Janssen agreement, we received an upfront fee of CHF 4.6 million and research funding of CHF 6.4 million during the research period, which ran from 2005 to 2007. In addition, we are eligible for payments on successful achievement of pre-specified clinical and regulatory milestones and a low double-digit royalty on net sales. We received a CHF 1.5 million milestone payment in relation to the entry of ADX71149 into Phase 1 in July 2009 and a CHF 2.6 million milestone payment in relation to the entry of ADX71149 into Phase 2 in June 2011. We are eligible for a further €109 million in success-based development and regulatory milestones and low double digit royalties on net sales.

Components of Results of Operations

Revenue

From the beginning of January 2017 through March 2020, we recognized CHF 9.7 million as revenue primarily under our license agreement with Indivior. We do not have approval to market or commercialize any of our product candidates, we have never generated revenue from the sale of products and we do not expect to generate any revenue from product sales for the foreseeable future. Prior to approval of a product candidate, we will seek to generate revenue from a combination of license fees, milestone payments in connection with collaborative or strategic relationships, royalties resulting from the licensing of our drug candidates and payments from sponsored research and development activities.

Revenue from collaborative arrangements comprises the fair value for the sale of products and services, net of value-added tax, rebates and discounts. Revenue from the rendering of services is recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided. Revenue from collaborative arrangements may include the receipt of non-refundable license fees, milestone payments, and research and development payments. When we have continuing performance obligations under the terms of the arrangements, non-refundable fees and payments are recognized as revenue by reference to the completion of the performance obligation and the economic substance of the agreement.

Our revenue has varied, and we expect revenue to continue to vary, substantially from year to year, depending on the structure and timing of milestone events, as well as our development and commercialization strategies and those of our collaboration partners for our product candidates. We, therefore, believe that historical period to period comparisons are not meaningful and should not be relied upon as an indicator of our future revenue and performance potential.

Other Income

From the beginning of January 2017 through March 2020, we recognized CHF 1.2 million as other income primarily relating to grants from The Michael J. Fox Foundation for Parkinson's Research, or MJFF, relating to certain clinical activities related to dipraglurant development in Parkinson's disease levodopa-induced dyskinesia, or PDLID, and TrKB PAM discovery activities.

Grants are recognized at their fair value where there is reasonable assurance that the grant will be received and that we will comply with all associated conditions. Grants relating to costs are recognized as other income in the statement of comprehensive loss over the period necessary to match them with the costs that they are intended to compensate.

Operating Expenses

Research and Development Costs

From the beginning of January 2017 through March 2020, we incurred CHF 23.6 million in research and development costs. They consist mainly of direct research costs, which include: costs associated with the use of contract research organizations, or CROs, and consultants hired to assist in our research and development activities, personnel costs, share-based compensation for our employees and consultants, costs related to regulatory affairs and intellectual property, as well as depreciation for assets used in research and development activities.

We typically use our employee, consultant and infrastructure resources across our research and development programs. We track by program the directly attributable costs from CROs and consultants.

The following table provides a breakdown of our outsourced research and development costs that are directly attributable to the specified programs for the three-month periods ended March 31, 2020 and 2019:

	For the three months ended March 31,	
	2020	2019
	(CHF in thousands)	
Dipraglurant—PD-LID……...	2,250	1,158
$GABA_B$ PAM……..	362	453
Other discovery programs……...	133	156
Total outsourced research and development costs.	**2,745**	**1,767**

We expect our research and development costs will increase for the foreseeable future as we seek to advance the development of our programs. At this time, we cannot reasonably estimate or know the nature, timing and estimated costs of the efforts that will be necessary to complete the development of our product candidates. We are also unable to predict when, if ever, material net cash inflows will commence from sales of our product candidates. This is due to the numerous risks and uncertainties associated with developing such product candidates, including:

- uncertainty to discover efficacious clinical candidate;
- uncertainty to be able to efficiently manufacture and distribute drug products;
- competitor intellectual property restraining our freedom to operate;
- the number of patients and sites required for clinical trials;
- the length of time required to enroll patients, run the clinical study and analyze the results;
- the duration, severity and impact on our operation of the COVID-19 pandemic that currently delays the initiation of a placebo-controlled Phase 2b/3 pivotal clinical trial of dipraglurant in levodopa induced dyskinesia associated with Parkinson's disease or PD-LID; and
- the results of our clinical trials.

In addition, the probability of success for any of our product candidates will depend on numerous factors, including competition, manufacturing capability and commercial viability. A change in the outcome of any of these variables with respect to the development of any of our product candidates would significantly change the costs, timing and viability associated with the development of that product candidate.

General and Administrative Costs

General and administrative costs consist primarily of personnel costs, including salaries, benefits and share-based compensation cost for our employees as well as corporate facility costs not otherwise included in research

and development expenses, legal fees related to corporate matters and fees for accounting and financial or tax consulting services.

We anticipate that our general and administrative costs will remain significant in the future to support continued research and development activities. We also anticipate that we will incur increased accounting, audit, legal, compliance and director and officer insurance costs, as well as investor and public relations expenses, associated with being listed on the Nasdaq stock market.

Finance Result, Net

Finance result net, consists mainly of currency exchange differences, interest expenses relating to the negative interest rates on Swiss franc cash deposits since January 2018 partially offset by positive interest income on USD bank deposits and short term deposits since September 2019.

Analysis of Results of Operations

The following table presents our consolidated results of operations for the three-month periods ended March 31, 2020 and 2019:

	For the three months ended March 31,	
	2020	**2019**
	(CHF in thousands)	
Revenue……..	904	701
Other Income……..	48	—
Research and development costs…….	(3,553)	(2,482)
General and administrative costs…….	(1,672)	(1,342)
Operating loss……	**(4,273)**	**(3,123)**
Finance income……..	22	123
Finance expense……..	(55)	(41)
Net loss……	**(4,306)**	**(3,041)**

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Revenue

The following table sets forth our revenue in the three-month periods ended March 2020 and 2019:

	For the three months ended March 31,	
	2020	**2019**
	(CHF in thousands)	
Collaborative research funding……..	904	701
Total……	**904**	**701**

Revenue increased by CHF 0.2 million in the three-month period ended March 31, 2020 compared to the three-month period ended March 31, 2019 due to amounts received under our licences and research agreement with Indivior related to our $GABA_B$ PAM program.

Other Income

The following table sets forth the other income in the three-month periods ended March 31, 2020 and 2019:

	For the three months ended March 31,	
	2020	**2019**
	(CHF in thousands)	
Research grants……..	44	—
Other service income……..	4	—
Total……	**48**	**—**

Other income increased to CHF 48 thousand in the three-month period ended March 31, 2020, compared to zero in the three-month period ended March 31, 2019 primarily due to Eurostar/Innosuisse grant award.

Research and Development Expenses

The following table sets forth our research and development expenses in the three-month periods ended March 31, 2020 and 2019:

	For the three months ended March 31,	
	2020	2019
	(CHF in thousands)	
Dipraglurant—PD-LID……....	2,250	1,158
$GABA_B$ PAM……..	362	453
Other discovery programs……...	133	156
Subtotal outsourced R&D per program……..	**2,745**	**1,767**
Staff costs……	462	446
Depreciation and amortization……	78	61
Professional fees……...	70	42
Laboratory consumables……	58	41
Patent maintenance and registration costs……...	66	60
Short-term leases…….	7	6
Other operating expenses……	67	59
Subtotal unallocated R&D expenses……	**808**	**715**
Total……	**3,553**	**2,482**

Our research and development costs increased by CHF 1.1 million in the three-month period ended March 31, 2020 compared to the three-month period ended March 31, 2019 primarily due to increased outsourced R&D expenses related to our dipraglurant PD-LID program.

General and Administrative Costs

The following table sets forth our general and administrative costs in the three-month periods ended March 31, 2020 and 2019:

	For the three months ended March 31,	
	2020	2019
	(CHF in thousands)	
Staff costs……	477	615
Depreciation and amortization……	18	15
Professional fees……...	575	422
Other operating costs……...	602	290
Total……	**1,672**	**1,342**

General and administrative costs increased by CHF 0.3 million in the three-month period ended March 31, 2020 compared to the three-month period ended March 31, 2019 primarily due to higher other operating costs relating to directors and officers liability insurance. The decrease in staff costs is mainly due to a decrease in share-based compensation. Professional fees are higher due to costs related to our listing of ADSs on the Nasdaq Stock Market.

Finance Result, Net

Finance result net, decreased by CHF 0.1 million in the three-month period ended March 31, 2020 compared to the three-month period ended March 31, 2019 primarily due to currency exchange differences.

Liquidity and Capital Resources

Since our inception, we have generated CHF 58 million of revenue and have incurred net losses and negative cash flows from our operations. We have funded our operations primarily through the sale of equity. From inception through March 31, 2020, we raised an aggregate of CHF 325 million of gross proceeds from the sale of equity. As of March, 31, 2020, we had CHF 27.1 million in cash and cash equivalents.

Our primary uses of cash are to fund operating expenses, primarily research and development expenditures. Cash used to fund operating expenses is impacted by the timing of when we pay these expenses, as reflected in the changes in our outstanding accounts payable and accrued expenses. We currently have no ongoing material financing commitments, such as lines of credit or guarantees.

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue to advance our portfolio of product candidates, initiate further clinical trials and seek marketing approval for our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to program sales, marketing, manufacturing and distribution to the extent that such sales, marketing and distribution are not the responsibility of potential collaborators. Furthermore, in connection with our recent listing of ADS on the Nasdaq, we expect to incur additional costs associated with operating as a public company in the United States. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

We expect our existing cash and cash equivalents will enable us to fund our operating expenses and capital expenditure requirements for at least the next 12 months. We have based this estimate on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect. Our future capital requirements will depend on many factors, including:

- the scope, progress, results and costs of our ongoing and planned preclinical studies and clinical trials for dipraglurant;
- the timing and amount of milestone and royalty payments we may receive under our license agreements;
- the extent to which we in-license or acquire other product candidates and technologies;
- the number and development requirements of other product candidates that we may pursue;
- the costs, timing and outcome of regulatory review of our product candidates;
- the duration and severity of the COVID-19 pandemic;
- the costs associated with building out our Swiss and U.S. operations; and
- the costs and timing of future commercialization activities, including drug manufacturing, marketing, sales and distribution, for any of our product candidates for which we receive marketing approval.

Identifying potential product candidates and conducting preclinical studies and clinical trials is a time-consuming, expensive and uncertain process that takes many years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our revenue, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if at all.

Until such time, if ever, as we can generate substantial product revenue, we may finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of any additional securities may include liquidation or other preferences that adversely affect your rights as a shareholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

If we raise funds through additional collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds

through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

The following table shows a summary of our cash flows for the periods indicated:

	For the three months ended March 31,	
	2020	2019
	(CHF in thousands)	
Cash and cash equivalents at the beginning of the period…….	**31,537**	**41,670**
Net cash flows used in operating activities…….	(4,160)	(2,547)
Net cash flows used in investing activities……..	(9)	(19)
Net cash flows used in financing activities…….	(210)	(113)
Decrease in cash and cash equivalents……	**(4,379)**	**(2,679)**
Effect of the exchange rates……	(32)	(132)
Cash and cash equivalents at end of period……	**27,126**	**38,859**

Operating Activities

Net cash flows from or used in operating activities consist of the net loss adjusted for changes in working capital, that are current assets and current liabilities, and for non-cash items such as depreciation and the value of share-based services.

During the three-month period ended March 31, 2020, operating activities used CHF 4.2 million of cash primarily due to our net loss of CHF 4.3 million. Non-cash items of CHF 0.3 million relating mainly to the value of share-based services have been partially offset by a negative working capital movement of CHF 0.2 million primarily due to increased prepaid expenses.

During the three-month period ended March 31, 2019, operating activities used CHF 2.6 million of cash primarily due to our net loss of CHF 3.0 million. Non-cash items of CHF 0.6 million relating mainly to the value of share-based services have been partially offset by a negative working capital movement of CHF 0.3 million primarily due to increased prepaid expenses.

Investing Activities

Net cash used in investing activities consist primarily of investments in computer and laboratory equipment, security rental deposits related to laboratory and office space and purchase of our own shares.

During the three-month periods ended March 31, 2020 and 2019, net cash used in investing activities, close to nil, primarily related to investments in computers and laboratory equipments.

Financing Activities

Net cash flows from financing activities consists of proceeds from the sale of equity securities, whilst net cash flows used in financing activities primarily relates to the principal element of lease payments under IFRS 16 and interest expenses on Swiss francs cash deposits.

During the three-month periods ended March 31, 2020 and 2019, net cash flows used in financing activities primarily related to the principal element of lease payments and associated interest expense resulting from the adoption of IFRS16, effective from January 1, 2019 and as well as the costs paid on issue of shares subscribed by the Group.

Off-Balance Sheet Arrangements

As of the date of this discussion and analysis and during the period presented, we did not have any off-balance sheet arrangements, as defined in the rules and regulations of the U.S. Securities and Exchange Commission.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated interim financial statements, which we have prepared in accordance with International Accounting Standard 34 Interim Financial reporting as issued by the International Accounting Standards Board. .

Recent Accounting Pronouncements

The adoption of IFRS standards as issued by the IASB and interpretations issued by the IFRS interpretations committee that are effective for the first time for the financial year beginning on or after January 1, 2020 had no material impact on our financial position or disclosures made in our condensed consolidated interim financial statements.

JOBS Act Transition Period

Subject to certain conditions, as an emerging growth company, we may rely on certain of these exemptions under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, including without limitation, (1) providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (2) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier to occur of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenues of at least $1.07 billion or (c) in which we are deemed to be a "large accelerated filer" under the rules of the U.S. Securities and Exchange Commission, which means the market value of our common shares that is held by non-affiliates exceeds $700 million as of the prior June 30, and (2) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.