Mabion S.A
Financial Statements
For the year
ended December 31, 2018

Konstantynów Łódzki, 9th April 2019

STATEMENT OF COMPREHENSIVE INCOME

PLN thousand, except if otherwise stated	Note	2018	2017
Revenues from research and development services		-	-
Cost of services sold		-	-
Gross profit		-	-
Research and development costs	8, 9	(44 931)	(43 257)
General and administrative expenses	8	(21 005)	(21 322)
Other operating income	10	2 062	2 203
Other operating cost	10	(751)	-
Operating loss		(64 625)	(62 376)
Finance income	11	915	6 432
Finance costs	11	(5 160)	(1 943)
Loss before tax		(68 870)	(57 887)
Income tax expense	12	-	-
NET LOSS		(68 870)	(57 887)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		(68 870)	(57 887)
Basic and diluted loss per share (in PLN per share)	25	(5.26)	(4.91)

The Notes on pages 5 to 27 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

PLN thousand	Note	December 31, 2018	December 31, 2017
Property, plant and equipment and intangible assets	13	72 445	72 276
Long-term receivables		110	194
Total non-current assets		72 555	72 470
Inventory	14	10 298	7 159
Trade and other receivables	15	2 606	1 649
Prepaid expenses		840	129
Cash and cash equivalents	16	58 418	1 038
Total current assets		72 162	9 975
TOTAL ASSETS		144 717	82 445
Share capital		1 372	1 180
Share premium		108 923	2 549
Other reserve capital		714	-
Accumulated losses		(68 870)	(57 887)
Total equity	17	42 139	(54 158)
Deferred income	18	32 656	12 067
Borrowings	20	1 386	1 858
Finance leases	21	2 027	2 308
Total non-current liabilities		36 069	16 233
Refundable prepayments for distribution rights	19	43 969	36 435
Trade and other payables	22	16 770	18 495
Borrowings	20	900	60 910
Deferred income	18	3 546	3 575
Finance leases	21	1 324	955
Total current liabilities		66 509	120 370
TOTAL LIABILITIES		102 578	136 603
TOTAL EQUITY AND LIABILITIES		144 717	82 445

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STATEMENT OF CASH FLOWS

PLN thousand	Note	2018	2017
Loss before income tax		(68 870)	(57 887)
Adjustments for:			
Depreciation	13	10 662	8 045
Interest income	11	(915)	(31)
Interest expense	11	1 923	1 720
Government grant income	18	(1 994)	(1 945)
Government grant expense	18	-	258
Incentive scheme based on shares	17	714	-
Changes in assets and liabilities:			
(Increase) / decrease in inventory		(3 139)	(2 927)
(Increase) / decrease in trade and other receivables		(812)	2 182
(Increase) / decrease in prepaid expenses		(711)	12
Increase / (decrease) in trade and other payables		(4 496)	5 230
Increase / (decrease) in deferred income		14 007	-
Increase / (decrease) in refundable prepayments for distribution rights		(11 001)	(7 079)
Cash used in operating activities		(64 631)	(52 422)
Government grants received		8 775	-
Repayments of government grants for research and development	18	(228)	(258)
Received refundable prepayments for distribution rights	19	18 535	-
Interest received		770	31
Paid interest		(2 158)	(1 478)
Net cash used in operating activities		(38 938)	(54 127)
Purchase of property, plant and equipment and intangible assets	13	(6 851)	(7 027)
Increase in other non-current assets		84	(84)
Net cash flows used in investing activities		(6 767)	(7 111)
Proceeds from issuance of common shares	17	174 790	-
Costs of issuance of common shares	17	(10 337)	-
Proceeds from borrowings	20, 24	178 158	7 309
Proceeds from bank loans	20	15 000	72 500
Repayments of borrowings	20, 24	(178 404)	(4 783)
Repayment of bank loans	20	(75 000)	(25 000)
Repayments of the capital element of finance leases		(1 121)	(2 576)
Net cash flows from financing activities		103 086	47 450
Net increase / (decrease) in cash and cash equivalents		57 380	(13 788)
Cash and cash equivalents at the beginning of the period		1 038	14 826
Change in cash and cash equivalents due to exchange rate differences		-	-
Cash and cash equivalents at the end of the period		58 418	1 038

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STATEMENT OF CHANGES IN EQUITY

PLN thousand	Note	Share capital	Share premium	Other reserve capital	Accumulated loss	Total equity
As of December 31, 2016	17	1 180	140 805	-	(138 256)	3 729
Net loss / Total comprehensive income		-	-	-	(57 887)	(57 887)
Transactions with owners						
Reduction of share premium to cover prior year net loss	17	-	(138 256)	-	138 256	-
As of December 31, 2017		1 180	2 549	-	(57 887)	(54 158)
Net loss / Total comprehensive income		-	-	-	(68 870)	(68 870)
Transactions with owners						
Reduction of share premium to cover prior year net loss	17	-	(57 887)	-	57 887	-
Issue of Series P shares	17	192	174 598	-	-	174 790
Cost of issue of Series P shares	17	-	(10 337)	-	-	(10 337)
Cost of incentive scheme based on shares	17	-	-	714	-	714
As of December 31, 2018		1 372	108 923	714	(68 870)	42 139

The Notes on pages 5 to 27 are an integral part of these financial statements.

NOTES

1. The Company

Mabion S.A. ("Mabion" or the "Company") was established on May 30, 2007 as a limited liability company in Poland. The legal form of the Company was changed on October 29, 2009 as a result of the transformation of Mabion's limited liability legal status into a joint-stock company organized under the laws of the Republic of Poland. Mabion is currently entered in the Register of Enterprises of the National Court Register in Poland managed by the Łódź-Śródmieście District Court in Łódź, 20th Commercial Division of the National Court Register, at KRS number 0000340462. The Company was also assigned a tax identification number NIP: 7752561383 and a statistical identification number REGON: 100343056. The Company's registered office is in Konstantynów Łódzki, Poland, ul. Gen. Mariana Langiewicza 60.

The Company was founded by several domestic pharmaceutical companies: Celon Pharma S.A, one of the leading manufacturers of drugs used in specialized (including oncological) therapies in Poland, Polfarmex S.A. a prescription drug market leader in Poland, IBSS Biomed, Poland's largest and Europe's leading manufacturer of vaccines, and Genexo which operates mostly in the area of diabetic drugs and medical products. Two other founding entities conducting scientific research in biotechnology were: BioCentrum Sp. z o.o. and Bio-Tech Consulting Sp. z o.o. The current shareholders' structure is presented in Note 17.

The Company's shares are listed on the regulated market of the Warsaw Stock Exchange.

Mabion is the first Polish biotechnology company focused on developing and launching modern biotechnology drugs based on monoclonal antibody technology, which today forms the foundation for combatting against the most serious diseases due to two special characteristics – specificity and safety. The drugs developed by the Company are targeted treatments, characterized by the drug's ability to recognize the factor causing the cancer and interact with this factor only. Such targeted treatment requires the proper engineering of the structure of the drugs, making them resemble a molecule of the patient's body, therefore the patient's immune system treats the antibody as its own protein. This approach, as opposed to a chemical delivery, significantly reduces the toxicity of the therapy and is highly beneficial for the patient. In effect, the Company is creating the "generic" version of biotech-based drugs (as opposed to chemically based drugs), it focuses on those drugs that have an existing market acceptance and are reasonably close to the expiry of their patent protection.

The Company is in the final stage of research and development of its main priority drug, referred to as MabionCD20. MabionCD20 is a biosimilar to MabThera (Rituximab), which is the existing reference drug already in the market. The therapeutic uses of MabionCD20 are for Non-Hodgkin's lymphoma ("NHL"), Leukemia and Rheumatoid Arthritis ("RA").

2. Basis of preparation

The financial statements of Mabion S.A. as of and for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards as issued by IASB ("IFRS"). These financial statements comply also with IFRS as adopted by the European Union ("IFRS UE") due to fact that there are no differences between IFRS as issued by IASB and IFRS as adopted by EU that are applicable to the Company.

The principal accounting policies applied in the preparation of these financial statements are set out in Note 4. These policies have been consistently applied to all years presented, unless otherwise stated. The impact of the new or amended standards which have been issued but are not yet effective and these which are applied from 1 January 2018 is presented in Note 5.

The financial statements of Mabion S.A. as of and for the year ended December 31, 2018 have been prepared on a going concern basis (further information on the going concern assumption is presented in Note 3).

The financial statements are prepared on the historical cost basis.

Preparation of the financial statements in accordance with IFRS requires application of certain critical accounting estimates. It also requires management to make judgments regarding the application of accounting principles adopted by the Company. Critical accounting estimates and judgments of the management are presented in Note 6.

3. Going concern assumption

Since inception, the Company has been focused on performing research and development activities in order to develop and market its products commercially. As a result, the Company has incurred losses from operations and has been generating negative operating cash flows which are expected to continue for the foreseeable future. As of December 31, 2018, the Company had significant accumulated losses and negative working capital positions. So far, the Company has been financing its operations with cash obtained from shareholder loans, equity issuances, bank borrowings, government grants and proceeds from future distribution partners.

As of December 31, 2018, the Company has obtained letter of financial support from one of its shareholders indicating that the Company will be financed by this shareholder to support its operations in the foreseeable future, for a period not shorter than 12 months from the financial statement preparation date. Also, the Company's also has at its disposal credit line at Santander Bank Polska S.A. (former Bank Zachodni WBK S.A.) at 31 December 2018 in the amount of PLN 30,000 thousand (see further information in Note 20a), out of which PLN 15,000 thousand will be available after issuing positive recommendation by European Medicine Agency ("EMA") regarding market authorization for MabionCD20 drug.

As further discussed in Note 17, the Company has successfully raised in April 2018 PLN 174,790 thousand in private placement of equity. These proceeds have been used to repay outstanding debt and borrowings as well as to finance current operations of the Company, particularly research and development works.

In management's view further raising of financing available in the market, including the strategic agreements with future distribution partners (see also Note 19) and potential support of shareholders, both long term investors and local market participants, the Company will have sufficient funding to complete its primary drug development. Additional information on the current status of development of MabionCD20 is provided in section 4.2 of the Directors Report for the year 2018.

The Company's success is dependent on securing continued funding of its operations as well as being able to register and commercially sell its products.

These financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future. Accordingly, no adjustments have been made to the financial statements that might be necessary should the entity not be able to continue as a going concern.

4. Significant accounting policies

a) Functional currency and presentation currency

The Company's functional currency is Polish zloty ("PLN"). The financial statements are presented in thousands of PLN as rounded to full thousands, unless indicated otherwise.

b) Transactions and balances in foreign currencies

Transactions expressed in foreign currencies as at the transaction date are recorded in PLN using the exchange rate applicable as of the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated as at the end of the reporting period using the National Bank of Poland ("NBP") exchange rate for a given currency applicable on that date.

Foreign exchange gains/losses arising from settlements of transactions denominated in foreign currencies as well as resulting from the periodic translation of monetary assets and liabilities are recognized in the profit or loss.

Foreign currency non-monetary items measured at historical cost are translated using the National Bank of Poland exchange rate applicable on the transaction date.

c) Revenue recognition

In the reporting periods covered by these financial statements, the Company has not recognized any revenue. Before 2017, the Company has generated revenue from research and development services rendered for among others the Company's shareholders, including new drugs development. The total consideration resulting from a contract is allocated to separately identifiable components of a single transaction. All separately identifiable components are accounted for separately. The revenue is recognized in the period when the performance resulting from each component takes place.

The Company does not recognize any other revenue at this stage of its operation. As at the date hereof, whether revenue will be recognized from the sale of products depends on the outcome of the assessment of the Company's Marketing Authorization Application regarding MabionCD20, which the Company submitted to EMA in June 2018.

d) Government grants

The Company occasionally receives financial assistance from governmental agencies to facilitate the development and production of drugs. Subsidies are received in the form of transfers of cash in return for past and future compliance with certain conditions related to the operating activities of the Company. Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and that grants will be received.

If these conditions are not met, any cash received from governmental bodies is recognized as deferred income as long as the terms of the grant do not require repayment of the grant in the event of the occurrence or non-occurrence of uncertain future events which are beyond the control of the Company.

Typically, these grants come with audit related requirements from the local authorities; the experience of the Company is that the local governmental or quasi-governmental agencies that distribute the grants exercise these audit rights regularly. The Company generally defers recognition of the related grant until all aspects of the audit requirement have been met.

The Company obtains grants to both acquire assets and grants to finance research and development expenditures.

Grants related to research and development expenses are recognized in other operating income on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grant is intended to compensate.

Government grants related to depreciable assets are initially recognized in the statement of financial position as deferred income. Subsequently these grants are recognized in profit or loss (in the line item "other operating income") over the useful life of the related assets.

In the event a government grant becomes repayable, it is accounted for as a change in estimate and the repayment is recognized immediately first against any unamortized deferred income and any excess is recognized in profit or loss of the current period.

e) Research and development costs

Research costs are recognized as an expense when they are incurred and no effects of research works are recognized as intangible assets in accordance with IAS 38.

Costs associated with the subsequent development phase are also expensed as incurred unless all of the following conditions are met in which case development costs are capitalized as intangible assets: (i) technical feasibility exists for completing the intangible asset in order to make it available for use or sale; (ii) there is an intention and ability to complete the intangible asset and use or sell it, (iii) evidence exists that the asset will generate probable future economic benefits; (iv) adequate technical, financial and other resources are available to complete the development and to use or sell it; (v) expenditures attributable to the intangible asset during its development can be reliably measured.

The Company treats the criterion of technical feasibility to be not met until the Company receives approval for the drug from the relevant regulatory authority.

f) Refundable prepayments for distribution rights

The Company has entered into a number of strategic arrangements to commercialize its drugs by providing the counterparty with an exclusive right to eventually sell the drug in the designated markets. Counterparties to those arrangements make advance payments to the Company in exchange for the rights and licenses to be granted when the drug is approved for commercialization. The Company classifies the prepayments as a financial liability because the Company does not have an unconditional right to avoid cash delivery to settle the obligation, as the repayment of these amounts may be triggered by occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of the Company. Such liabilities are measured initially at fair value and subsequently at amortized cost. Due to the fact that the event that may trigger the repayment could happen at any time, the amortized cost equals the amount due on demand. Once the uncertainty will be resolved, the respective amounts will be reclassified to deferred income and accounted for as an element of the consideration from the sale of the distribution rights in accordance with IFRS 15.

g) Income tax

Income tax expense comprises the current and deferred portion. Current and deferred income tax is recognized as profit or loss for the period, except for situations when it relates to items recognized directly in equity or as other comprehensive income.

The current tax is the expected amount of income tax liabilities or receivables on taxable income for a given year, determined using the tax rates enacted as of the reporting date.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities and their value determined for tax purposes. Deferred tax is measured using the tax rates which are expected to apply when the asset is realized, or liability is settled, and the adopted basis are the tax regulations enacted or substantively enacted by the end of the reporting date.

Deferred income tax assets and liabilities are offset as the Company has an enforceable legal title to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to income tax imposed on the Company by the same tax authority.

Deferred tax assets on tax loss carryforwards, unutilized tax credits and deductible temporary differences are recognized up to the amount of probable future taxable income that would enable their utilization.

h) Property, plant and equipment and intangible assets

Property, plant and equipment ("PPE") is measured at cost less accumulated depreciation and accumulated impairment losses.

The cost comprises the purchase price of an asset and costs directly attributable to the purchase and a preparation of an asset for its intended use.

Purchased software necessary for the proper functioning of the related asset is capitalized as part of the device.

When a PPE item is composed of separate and significant components with different useful lives, these components are depreciated separately. When the components are replaced, the carrying amount of removed components of a property, plant and equipment item is derecognized and the new component is recognized in the cost of the asset.

Subsequent expenditures on PPE are capitalized when their cost can be reliably estimated, and it is probable that economic benefits associated with the item will flow to the Company.

Expenses incurred in connection with ongoing repair and maintenance are recognized as profit or loss when incurred.

The basis for depreciation ("depreciable amount") is the cost of a given asset, less its residual value. Depreciation is calculated using the straight-line method applying the depreciation rates which reflect the estimated useful lives of the assets.

The Company has adopted the following useful lives for the individual categories of PPE and intangible assets:

Land	not subject to depreciation
Buildings and structures	20 – 40 years
Machinery and equipment	2 – 14 years
Other property, plant and equipment	5 – 7 years
Intangible assets	2 – 15 years

The Company depreciates the fixed assets used under finance lease contracts over the shorter of the lease term or the useful life.

The useful lives, depreciation methods and residual values of property, plant and equipment are reviewed at each balance sheet date and adjusted prospectively as appropriate.

i) Impairment of property, plant and equipment

The carrying amount of property, plant and equipment is assessed at the end of each reporting period in order to determine whether there is objective evidence of their impairment. When such indications do occur, the Company estimates the recoverable amount of the individual assets or the cash generating unit if the asset does not generate cash inflows independently from other assets ("CGU"). The Company, as it is a single operating entity focused on the development and commercialization of MabionCD20, considers the entire Company to be one CGU at this stage of its operation.

The recoverable amount of the assets or CGU is defined as the higher of their fair value less cost to sell and value in use.

Impairment loss is recognized when the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment loss is allocated to each asset within the CGU on the pro-rate basis and is recognized in profit or loss for the period.

Impairment loss recognized in previous periods are assessed at the end of each reporting period to determine whether there are indications for its reversal. Impairment losses are reversed when the estimates applied to estimate recoverable amounts have changed. Impairment losses are reversed only up to the carrying amount of a given asset (less depreciation) that would have been determined had the impairment loss not been recognized. No impairments or reversals have been recorded in these financial statements.

j) Inventory

As the Company has not yet started manufacturing and selling its products, inventories are comprised only of materials and are used for research and development ("R&D") purposes. Materials are measured at the cost (i.e. purchase price and the transaction costs) which is assessed to be their net realizable value. The inventory purchased for the research and development activities is not expensed when acquired but when used because such inventory items are not specific only for the research and development activities and have an alternative use. Inventory that is close to its expiration date is reserved for and the associated cost charged to the statement of income.

Cost is determined using the first-in, first-out (FIFO) method.

k) Long-term receivables

The long-term receivables comprise the refundable deposits provided by the Company to its landlord in accordance with an operating lease agreement, as well as refundable deposits provided by the Company to its suppliers of materials and services in accordance with purchase agreements. These receivables are non-interest bearing, thus they are initially measured at fair value. In the case of lease agreement, the difference between nominal amount of deposit transferred and the initial fair value is treated as an element of the operating lease payments, if that difference is material. Subsequently, these receivables are measured at amortized costs.

The Company applies simplified methods of valuation of long-term receivables measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment date is not long and impact of initial discounting is not material, the amortized cost equals the nominal amount of the deposit.

l) Trade and other receivables

The trade receivables and other receivables are measured initially at fair value. Subsequently, these assets are measured at amortized cost, using the effective interest rate method, less any impairment losses.

The Company applies simplified methods of valuation of receivables measured at amortized cost if it does not distort information included in the statement of financial position, in particular when the period until the repayment date is not long and does not exceed 12 months, the amortized cost equals the nominal amount of the underlying receivable.

The receivables which are not financial assets (e.g. VAT receivables) are measured at the amount due.

At the end of each reporting period the Company assesses whether there is objective evidence of impairment of trade receivables and other receivables which are financial assets. Impairment with respect to financial assets measured at amortized cost is estimated as the difference between their carrying amounts and the present value of estimated future cash flows discounted using the original effective interest rate. Any losses are recognized in profit or loss for the period and they reduce the carrying amount of the receivables.

m) Prepaid expenses

Prepaid expenses are recognized as an asset at the nominal value upon payment. The costs are recognized in profit or loss over the period in which the economic benefits from the prepayment are consumed based on the contractual arrangements.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits with an initial maturity date not exceeding twelve months.

The Company applies simplified methods of valuation of cash and cash equivalents and if it does not distort information included in the statement of financial position, they are values at nominal amount.

o) Share capital

Ordinary shares are classified as equity. The share capital is recognized at the nominal price of shares issued. The shares are presented as "share capital" only when registered in the Court Register. The excess of the consideration received or receivable for the shares over their nominal amount is presented as "share premium".

Shares issued but not yet registered are presented within equity in a separate line as "shares capital issued but not yet registered".

The issuance of the Company's equity instruments to a creditor to extinguish all or part of a financial liability when the creditor is also a direct or indirect shareholder and is acting in its capacity as shareholder, is accounted for by transferring the carrying amount of the extinguished debt to equity. The debt is derecognized when, and only when the criteria set in IFRS 9 are met. The share capital is recognized at the amount resulting from the applicable local law, any difference between the amount recognized as share capital and the carrying amount of the derecognized debt is recognized in profit or loss.

p) Deferred income

Deferred income arises primarily from receipts of government grants (further policy is provided in Note 4d).

q) Trade and other payables

Trade and other payables which are financial liabilities are measured initially at fair value. Subsequently, these liabilities are measured at amortized cost.

Other payables which are not financial liabilities are measured at amounts due.

r) Borrowings

Borrowings are measured initially at fair value less the transaction costs. Subsequently, this liability is measured at amortized cost.

s) Leases

The Company is a lessee in both finance and operating leases.

Lease contracts where substantially all risks and benefits are transferred to the lessee are classified as finance lease agreements. Property leased under a finance lease is recognized as an asset at the lease commencement date at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the line item "finance leases" in the statement of financial position. The interest on a lease liability is charged over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Each lease payment is allocated between the liability and finance charges. Leased assets are measured after initial recognition in accordance with the accounting policy applied for the same class of tangible fixed assets (further policy is stated in Note 4h).

Any other lease contracts are classified as operating leases. Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

t) Share-based payments

The Company operates a cash settled share-based payments plan for its employees. Under this plan the Company receives services from employees as consideration for a cash payment based on the value of its underlying equity instruments in the event of an IPO outside of Poland. The award vests on the date of receipt of proceeds from IPO. The Company measures the employees' services and the liability incurred at the fair value of the liability. The Company recognizes the costs of the employees' services and the liability to pay for these services as the employees renders the service. The liability is recognized over the vesting period, i.e. in the period from the service commencement date to the expected IPO date, if it is probable that the IPO occurs. The liability is measured at the end of each reporting period considering the expected value of shares to be issued in the IPO outside of Poland and the expected IPO date. Any changes in re-measurement of the liability are recognized in profit or loss for the period (in the line item "general and administrative expenses").

The Company introduced a share-based incentive scheme for its employees. The Company recognizes the cost of the equity incentive scheme (payments in own shares) as expense and in the equity as an increase in share capital.

In the case of incentive schemes for employees, which are deemed to compensate employees for their services, value of subscription warrants is accounted for as operating expense: personnel expense and general and administration expense when considering costs by type and by function, respectively. Subscription warrants issued are recorded in the separate account "share capital from subscription warrants", which is presented in the financial statements jointly with share premium. Utilization of subscription warrants by the employees is connected with the issue of shares and settlement of subscription warrants recorded in the Company's equity. Cash received by the Company is recognized in assets and is not accounted for as revenues. The Company presents in its financial statements information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period.

u) Cash flow statement

The Company classifies interest paid and received in the operating activity of the cash flow statement.

5. Impact of new or amended standards and interpretations on the financial statements of the Company

<u>New standards and interpretations</u>

In the periods starting on or after January 1, 2018, some new standards, changes in standards and interpretations approved by the European Union enter into force. New or changed IFRS presented below have been applied in these financial statements with effect from January 1, 2018:

a) IFRS 15 – Revenue from Contracts with Costumers – obligatory in the financial statements for the periods starting on or after January 1, 2018 with earlier adoption allowed
b) IFRS 9 - Financial Instruments from November 12, 2009, with the subsequent changes to IFRS 9 and IFRS 7 from December 16, 2011 - obligatory in the financial statements for the periods starting on or after January 1, 2018

The Company analyzed the effects of adoption of the abovementioned new standards and interpretations on these financial statements and concluded that they do not have any material impact on these financial statements, since they do not have any material impact on financial information presented herein or they do not apply to the transactions that the Company enters into.

From 1 January 2018, in accordance with IFRS 9, the Company classifies financial assets into one of the following categories:

a) measured at amortized cost,
b) measured at fair value through other comprehensive income,

c) measured at fair value through profit or loss,

The Company classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows so called "SPPI criterion" for a given financial asset.

The Company as assets measured at amortized cost classifies trade receivables, loans granted, other financial receivables as well as cash and cash equivalents.

Trade receivables are measured initially at fair value. Subsequently, these assets are measured at amortized cost, using the effective interest rate method, less any impairment losses. When the period until the repayment date does not exceed 12 months, such trade receivables are not amortized and are recognized at their nominal amount.

The Company classifies financial liabilities into one of the following categories:

a) measured at amortized cost,
b) measured at fair value through profit or loss,

The Company as liabilities measured at amortized cost classifies trade payables, loans and borrowings.

The Company uses the following models for determining impairment allowances:

a) general model (basic),
b) simplified model.

The general model is used by the Company for financial assets measured at amortized cost - other than trade receivables. In the general model, the Company monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument. Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon or in the life horizon of the instrument. On each day ending the reporting period, the Company considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.

The simplified model is used by the Company for trade receivables. In the simplified model, the Company does not monitor changes in the credit risk level during the life of the instrument. In particular, for the insolvency event, the Company recognises when the contractor has not satisfied the obligation after 90 days from the due receivables date.

<u>New standards announced and adopted by the European Union, not yet effective</u>

The Company intends to adopt the published, but not effective as at the date of publication of these financial statements amendments to IFRS, in accordance with their effective date.

The Council of International Accounting Standards issued International Financial Reporting Standard 16 Leases ("IFRS 16") in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted for entities that use IFRS 15 from or before the first application of IFRS 16. The Company has not decided to IFRS 16 early adoption.

The Company assessed the impact of the application of IFRS 16 on the accounting principles applied by the Company with respect to the Company's operations or its financial results. The Company identified current operating lease agreements not previously recognized that can meet the lease definition according to IFRS 16. However, the Company assessed that there will be no material adoption impact of the application of IFRS 16 on the current financial statements.

6. Critical accounting estimates and judgements

In applying the accounting principles described in Note 4, management makes estimates, judgements and assumptions regarding the recognition and valuation of the individual items of assets and liabilities. The estimates and the related assumptions are based on historical experience, management's expectations or other factors considered material. The actual results may differ from the recorded estimates. The estimates and the related assumptions require regular verification. Changes in accounting estimates are recognized prospectively, beginning from the period when the estimate changed. Presented below are also the critical estimates and judgements made by management that have the most significant impact on the amounts recognized in the financial statements.

a) Deferred tax assets in relation to income tax credit

The Company carries out research and development and well as manufacturing activities mainly for the purpose of developing its primary drug, MabionCD20. The Company has built a fully equipped research and industrial center within the Łódź Special Economic Zone ("ŁSSE"), located in Poland. According to the Polish Special Economic Zone Act, business activities carried out within a special economic zone, within the permit obtained, are subject to corporate income tax incentive. The tax incentive is based on the amount of the eligible capital expenditures incurred (i.e. capital expenditures incurred on property, plant and equipment), which cannot exceed the eligible cost maximum value defined in the relevant permits issued by the Management Board of the ŁSSE. Mabion has the right to utilize the incentive until December 31, 2026, which represents the last year of the functioning of the ŁSSE under the applicable laws. In order to maintain the right to utilize the incentive, the Company has to fulfill the criterion of the sustainability of the investments made and meet the employment criterion (i.e. number of employees hired and retained over a specific period of time). As of December 31, 2018, the Company operated under three permits issued by the ŁSSE. In the case of the two permits issued in 2010 and 2012, the investments covered by these two permits have been completed, and the Company's compliance with the prerequisites for the tax credit received a positive verification during audits conducted by the ŁSSE.

At the end of 2016, the Company obtained the third permit, which pertains to a new investment in the development of the existing drug manufacturing facility. The maximum value of eligible capital expenditures under that permit is PLN 26,000 thousand. As of December 31, 2018, the Company has incurred capital expenditures amounting to PLN 2,816 thousand under this permit (as of December 31, 2017: PLN 1,766 thousand).

In 2010 The Company has utilized an amount of PLN 552 thousand from the available tax credit. In relation to the remaining amount of the tax credits, it is not probable that future tax profits will be generated before the expiry date for these tax credits (i.e. by December 31, 2026) and whether the Company will meet all the criteria for the level of capital expenditure and number of employees hired, therefore the Company has not recognized a deferred tax asset on these tax credits. The tax credits available which have not been recognized (resulting from the three permits referred to above) amounts to PLN 46,863 thousand as of December 31, 2018 (PLN 46,408 thousand as of December 31, 2017). Tax credits will only be available to offset against future tax liabilities.

b) Depreciation of tangible fixed assets

The depreciation rates are based on the expected useful life of property, plant and equipment. Every year, the Company verifies the adopted useful lives based on current estimations. The useful lives are established with reference to the estimated periods during which the Company intends to derive future economic benefits from the use of the assets. Where available, the Company also considers historical experience with similar assets. It also factors in the anticipation of future events which may impact the life of assets, such as changes in technology.

c) Determining the moment when the criteria for capitalization of development costs are met

Capitalization criteria of development cost are disclosed in Note 4e. Due to the risks and uncertainties related to the legislative approval process for drug development, the Company does not currently meet the asset capitalization criteria and therefore all development costs are expensed as they are incurred. Generally, the Company expects to capitalize development costs from the moment when the regulatory authority provides approval for the drug. Only at this point the criterion of the technical feasibility of completing the drug, which is the most difficult criterion to be demonstrated in drug development, is considered to be proven.

7. Operating segments

Mabion's activity concentrates on research and development activities for new biotechnology drugs and biosimilar drugs through utilizing contemporary genetic engineering. The activities undertaken by the Company include implementation of its own projects involving development, manufacture and sale of drugs used in the therapy of malignant diseases, as well as autoimmune and metabolic diseases. The Company is currently working on the development of several drugs biosimilar to the original drugs (so called reference drugs) used in the therapy of malignant diseases, as well as autoimmune and metabolic diseases. MabionCD20 is a top-priority drug, which is also in the most advanced development stage among all projects. The Company may at the same time conduct research and development works commissioned by other entities.

In the period covered by these financial statements, the Company carried out business activities in Poland only.

In view of the above, one operating segment was identified. Financial information about this segment arises directly from the statement of comprehensive income and the statement of financial position.

In the years 2017 and 2018, the Company has not recognized any revenue.

Chief operating decision-maker ("CODM") was identified as the Management Board of the Company.

8. Expenses by nature

The following tables present different types of expenses by nature:

PLN thousand	2018	2017
Third-party services	21 350	22 316
Cost of materials	7 583	10 951
Personnel expenses	8 922	6 666
Depreciation	5 124	3 183
Drug registration expenses	1 795	-
Other expenses	157	142
Research and development costs by nature	44 931	43 257
Office expenses	5 088	3 925
Personnel expenses	5 033	3 968
Depreciation	5 538	4 862
Advisory services in connection with distribution contracts	893	751
Cost of incentive scheme based on shares	714	-
Rental, usage and maintenance of equipment and company car expenses	797	971
Taxes and fees	616	526
Audit and audit related services	252	1 031
Consulting and legal services	1 244	3 812
Other operating expenses	830	1 476
General and administrative expenses by nature	21 005	21 322

9. Research and development cost

PLN thousand	2018	2017
MabionCD20	44 014	42 757
MabionEGFR	856	312
Other projects	61	189
Total research and development costs	44 931	43 257

In the period covered by these financial statements the only research and development projects that incurred material costs were development of the Company's primary drug, MabionCD20 and development of MabionEGFR, both co-financed from EU funds.

In June 2018, the Company submitted a single marketing-authorization application ("MAA") for MabionCD20 to EMA which has been approved for further evaluation on June 21, 2018. For more information regarding the process of scientific evaluation of MAA regarding MabionCD20 by EMA please refer to the Directors Report for 2018, section 4.2.

10. Other operating income and expenses

PLN thousand	2018	2017
Government grants (Note 18)	1 994	1 973
Other operating income	68	230
Total other operating income	2 062	2 203
Provision for diminution in value of inventories	447	-
Provision for costs of restoring facilities to its original condition	100	-
Other operating expenses	204	-
Total other operating expenses	751	-

Government grants income includes a portion of the deferred income (grant) relating to fixed assets co-financed from EU grants in the past, amounting to PLN 1,957 thousand and PLN 1,973 thousand in 2018 and 2017, respectively, which was recognized in profit or loss proportionally to depreciation of the underlying assets.

Provision for costs of restoring facilities to its original condition reflects expected cost of works that needs to be performed at the end of the rental agreement for Fabryczna 17 site in Łódź, which is planned for December 31, 2019 (see note 21).

11. Finance income and costs

PLN thousand	2018	2017
Interest income	915	31
Net foreign exchange gains	-	6 401
Total finance income	915	6 432
Interest expense	(1 923)	(1 720)
Net foreign exchange losses	(2 711)	-
Other finance costs	(526)	(223)
Total finance costs	(5 160)	(1 943)

Majority of net foreign exchange losses in 2018 represents unrealized foreign currency exchange gains on translation of refundable prepayments for distribution rights denominated in foreign currencies at the balance sheet date, which are presented in Note 19. In 2017, the Company recognized net unrealized foreign exchange gains on such translation.

12. Income tax

PLN thousand	2018	2017
Current tax	-	-
Adjustments related to previous years	-	-
Deferred income tax	-	-
Total income tax	-	-

The table below presents the reconciliation of the effective tax rate:

PLN thousand	2018	2017
Loss before tax	(68 870)	(57 887)
Tax (charge)/benefit at domestic tax rate of 19%	13 085	10 998
Expenses not deductible for tax purpose	(823)	(784)
Income not subject to tax	389	388
Taxable income not recognized as revenues	(2 854)	(221)
Taxable expenses not recognized as costs	2 254	-
Deductible temporary difference on which the deferred tax assets was not recognized*	(9 486)	(8 845)
Temporary differences on which the deferred tax liability was not recognized	101	1 808
Tax losses on which the deferred tax asset was not recognized - outside special economic zone**	(407)	(574)
Tax losses which cannot be carried forward - special economic zone **	(2 259)	(2 770)
Income tax expense	-	-

*Amount consist mainly of R&D expenditures that are not yet deductible for tax purposes.

**Tax losses generated by the Company from its operation within the special economic zone cannot be utilized in any future periods. Whereas the tax losses generated by the Company from the operation outside the special economic zone can be carried forward. The amounts of the tax losses which are carried forward and its expiry dates are presented in the table below.

There were no deferred tax assets recognized by the Company in the years ending December 31, 2017 and 2018. The Company recognized deferred tax liability that has been offset in its entirety with the deferred tax asset.

The tax losses carry forward, tax credits, and deductible temporary difference on which the deferred tax assets were not recognized, are presented below at the domestic tax rate of 19%.

PLN thousand	Expiry date	2018	2017
Tax loss carry forward from 2018	end of 2023	407	574
Tax loss carry forward from 2017	end of 2022	574	574
Tax loss carry forward from 2016	end of 2021	156	156
Tax loss carry forward from 2015	end of 2020	102	102
Tax credit (Note 6)	end of 2026	46 863	46 408
Deductible temporary differences on which the deferred tax assets was not recognized	No expiry date	35 038	25 552
Total amount of items on which deferred asset was not recognized		83 140	72 792

Value of deductible temporary differences on which the deferred tax reserve was not recognized, at domestic tax rate 19%, amounted to PLN 101 thousand as of December 31, 2018 (PLN 1,808 as of December 31, 2017).

13. Property, plant and equipment and intangible assets

PLN thousand	Land, buildings and structures	Machinery and equipment	IT Systems	Other	Construction in progress (tangible and intangible assets)	Total
As of December 31, 2017						
Gross value	45 411	19 265	62	19 071	50	83 859
Accumulated depreciation	(1 971)	(4 849)	(26)	(8 906)	-	(15 752)
Net value as of December 31, 2017	43 440	14 416	36	10 165	50	68 107
Period ended December 31, 2017						
Purchases	-	-	-	-	12 213	12 213
Transfers	6	131	7	10 776	(10 920)	-
Depreciation for the period	(1 144)	(2 804)	(16)	(4 081)	-	(8 044)
Net value as of December 31, 2017	42 302	11 743	27	16 860	1 343	72 276
As of December 31, 2017						
Gross value	45 417	19 396	69	29 847	1 343	96 072
Accumulated depreciation	(3 115)	(7 653)	(42)	(12 987)	-	(23 796)
Net value as of December 31, 2017	42 302	11 743	27	16 860	1 343	72 276
Period ended December 31, 2018						
Purchases	-	-	-	-	10 853	10 853
Transfers	527	520	507	3 196	(4 750)	-
Depreciation for the period	(1 974)	(2 918)	(68)	(5 702)	-	(10 662)
Liquidation - cost	(13)	(17)	(3)	(261)	-	(294)
Liquidation - accumulated depreciation	13	17	3	240	-	273
Net value as of December 31, 2018	40 855	9 345	466	14 354	7 446	72 467
As of December 31, 2018						
Gross value	45 931	19 899	573	32 782	7 446	106 631
Accumulated depreciation	(5 076)	(10 554)	(107)	(18 449)	-	(34 186)
Net value as of December 31, 2018	40 855	9 345	466	14 333	7 446	72 445

Information about the fixed assets pledged as collateral for bank borrowings is disclosed in Note 20.

Substantial part of investments in tangible fixed assets in the first nine months of 2018 was financed through lease contracts, which are described in Note 21b).

The Company has liquidated certain tangible fixed assets, which were unfit for continued use in the Company's operations and did not have any substantial market value.

The Company has not identified impairment indicators in relation to property, plant and equipment at the balance sheet date or the prior periods. Majority of the Company's tangible fixed assets are relatively new i.e. were purchased over the past 5 years. Currently property, plant and equipment are used for the purposes of obtaining Good Manufacturing Practice ("GMP") certification. Ultimately, these assets will be used for commercial production of MabionCD20. In management's view, production for commercial sale is expected to commence not later than 2020.

14. Inventory

Inventory is comprised only of materials. Cost of materials used recognized in research and development costs in 2018 amounted to PLN 7,582 thousand (2017: PLN 10,951 thousand).

Increase in value of inventories in 2018 is due to purchases of raw materials necessary for production of trial series of MabionCD20 in large scale in Konstantynów plant.

15. Trade and other receivables

PLN thousand	December 31, 2018	December 31, 2017
VAT receivable	2 171	1 437
Trade receivables	7	8
Advances for materials and services	70	138
Security deposits	108	-
Other receivables	250	66
Trade and other receivables	2 606	1 649

There are no impairment losses recognized or reversed in 2017. There was no allowance for doubtful debts as of December 31, 2017. As of December 31, 2017, the Company created an allowance of PLN 88 thousand for doubtful debts relating to advances paid towards purchases of materials and services.

Further information regarding the credit risk is disclosed in Note 23.

16. Cash and cash equivalents

PLN thousand	December 31, 2018	December 31, 2017
Current bank account	89	845
Deposits at bank at call	58 329	194
Total cash and cash equivalents	58 418	1 038

The credit rating of banks at which cash deposits are held and the concentration of the credit risk is disclosed in Note 23.

17. Capital management and Equity

a) Capital management

The Company's capital management objective is to secure its ability to continue as a going concern in order to provide a return on capital for the shareholders as well as to keep an optimal capital structure to reduce the cost of capital.

The Company is bound by a legal capital requirement arising from the Polish Commercial Code, according to which the Company must create, for the purpose of absorbing net losses, a supplementary capital for which at least 8% of net profit for a particular financial year is to be allocated, until the supplementary capital equals at least one third of share capital. Since the Company has been generating losses, it has not yet been able to fulfil this obligation.

In 2018, pursuant to resolution of Ordinary General Shareholders Meetings and as permitted by the Polish Commercial Code, the Company has covered its prior years losses of PLN 57,887 thousand by reduction of the share premium.

To maintain the optimum structure of the capital, the Company may issue new shares, take out loans from the shareholders, convert these loans to capital or increase its debt.

b) Share capital and share premium

As of December 31, 2016 and December 31, 2017 , the Company's equity consisted of 10,230,000 ordinary bearer shares (shares of series D and H through O) and 1,570,000 registered shares with extra voting rights (shares of series A through C and E through G), i.e. each such registered share entitles the holder to cast two votes at the General Meeting of Shareholders; there are no other differences between these series of shares. All shares have par value of PLN 0.10 per share.

On 23 March 2018, in connection with the lapse of one-year period from the date of entry in the entrepreneurs' register of the changes to the Company's statute made by the resolution of the Extraordinary General Meeting No. 5/II/2017 of 16 February 2017, the authorization for the Management Board to increase the Company's share capital within the authorized capital referred to in § 9a of the Company's statute expired.

In connection with the postponed IPO outside of Poland, the Company incurred costs of legal advisory in the amount of PLN 2,918 thousand, which have been recognized in the Company's statement of comprehensive income in 2017 and in 2018 in full (PLN 2,402 thousand and PLN 516 thousand, respectively).

On March 23, 2018, the Company announced the successful pricing of a private placement by Twiti Investments Limited ("Twiti") (the "Placement") of 1,920,772 existing shares, with gross proceeds of PLN 174,790 thousand (or approximately USD 51.0 million). The shares were sold at a price of PLN 91.00 per share. The Placement included institutional investors specialized in healthcare and life sciences, including investors from the United States, which reinforced and diversified Mabion's shareholder base. The European Bank for Reconstruction and Development ("EBRD") and PFR Life Science sp. ("PFR Life Science"), part of the Polish Development Fund, contributed PLN 61.4 million and PLN 38.3 million, respectively, providing significant cornerstone investments in the Placement. The aggregate proceeds from the sale of shares by Twiti have been immediately lent to the Company pursuant to a loan agreement between Twiti and the Company. The loan from Twiti was initially agreed to be repaid by September 30, 2018 by way of contractual set-off of mutual claims between: (i) the Company against Twiti for the subscription and payment for the same number of newly issued ordinary bearer shares as the number of shares sold in the Placement, which will be issued by the Company at the same issue price as the price obtained from the sale of shares in the Placement and (ii) Twiti against the Company regarding the repayment of the loan. Eventually, the loan was repaid by the Company in cash on April 23, 2018. The above information was announced in the Company's ad hoc report no. 26/2018. In connection with their investments, Mabion and Twiti have agreed that EBRD in consultation with PFR Life Science, for as long as each firm holds shares that represent more than 1% of the share capital of the Company, will have the right to nominate a candidate to the Mabion Supervisory Board who will meet the independence criteria set forth in the Annex II to the Commission's Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the Supervisory Board.

On April 23, 2018, the Company addressed to Twiti an offer to subscribe to all of 1,920,772 P-series ordinary bearer shares in the private placement according to Article 431 § 2 point 1 of the Companies Code. Twiti accepted an offer to subscribe to P-series shares and on April 23, 2018 the Share Subscription Agreement was concluded, under which Twiti subscribed to 1,920,772 P-series ordinary bearer shares with PLN 0.10 par value per share (total sale price of P-series shares equaled PLN 174.8 million). Twiti paid the full price of PLN 174.8 million on the same day. On 30 April 2018 the National Court Register registered the increase in the Company's share capital.

The Company has accounted for transaction costs relating to the issue of the P-series shares of PLN 10,337 thousand (comprising costs of legal advisory and other professional advisors) to reduce the reserve capital created from the share premium (surplus of the issue price over the par value of shares).

The summary of changes in the share capital and share premium is presented in the table below:

PLN thousand	Number of shares issued and fully paid for	Share capital	Share premium
As of December 31, 2016	11 800 000	1 180	140 805
Reduction of share premium to cover prior year net loss	-	-	(138 256)
As of December 31, 2017	11 800 000	1 180	2 549
Reduction of share premium to cover prior year net loss	-	-	(57 887)
Issue of P-Series shares	1 920 772	192	174 598
Cost of issue of P-Series shares	-	-	(10 337)
As of December 31, 2018	13 720 772	1 372	108 923

c) Share based payments

On June 28, 2018 the General Meeting of Shareholders ("GSM") authorized the Management Board to issue up to 125,000 of A-series and B-series subscription warrants, excluding the pre-emptive rights for existing shareholders, entitling eligible employees to purchase up to 114,000 of R-series ordinary shares and up to 11,000 of S-series ordinary shares in the Company. The sales price for new shares will be PLN 91 and PLN 0.1 in the case of R-series shares and S-series, respectively. Conversion of warrants into shares will be possible after meeting the conditions precedent, which were set in the rules of the Incentive scheme for 2018-2021 ("Incentive scheme"), which were approved by the Company's Supervisory Board on December 29, 2018, based on the authorization granted by the GSM. Alternatively, the warrants may be purchased by the Company in exchange for cash in order to be redeemed.

On February 12, 2019, the Company's Supervisory Board approved list of eligible persons entitled to obtain warrants of A-series and B-series form 2018 and 2019, and confirmed that the market condition (market conditions being the minimum price the shares be trading in the market) for A-series warrants for 2018 was not met and confirmed employment condition for warrants of A-series and B-series for 2018 was met.

The table below presents details of the Incentive scheme and its valuation as at December 31, 2018:

	A-series warrants			B-series warrants			
Tranche for the year	2019	2020	2021	2018	2019	2020	2021
Date of grant	12 February 2019	none	none	12 February 2019	12 February 2019	none	none
End of vesting period	31 January 2020	31 January 2021	31 January 2022	12 February 2019	31 January 2020	31 January 2021	31 January 2022
Number of instruments granted	28 500 *	28 500 **	28 500 **	9 500	500	500 **	500 **
Execution price (PLN)	91.00	91.00	91.00	91.00	0.10	0.10	0.10
Share price as at December 31, 2018 (PLN)	86.60	86.60	86.60	86.60	86.60	86.60	86.60
Market condition for the acquisition of instruments	Achievement of the minimum price ***			none			
Minimum price (PLN)	190.00	280.00	400.00	none	none	none	none
Date of approval of the program ****	28 June 2018						
Non-market vesting condition	Remaining by the eligible person in the business relationship and providing work or services to the Company within a period not shorter than 183 days in a given year covered by the Incentive scheme.						
Settlement type	Shares of the Company						
Expected variability	37,91% (on the basis of historical volatility of the Company's share prices for the last 2 years)						
First possible date of exercise of the right	14 February 2020	14 February 2021	14 February 2022	14 July 2019	14 July 2020	14 July 2021	14 July 2022
Last possible date of exercise of the right	31 July 2022						
Risk-free rate	1.55% - 1.94%						
Dividend rate	0%						
Likelihood of leaving	18.59% yearly						
Fair value of warrant as at December 31, 2018 (PLN)	1.83	1.73	2.74	89.46	89.51	89.51	89.51
Valuation model	Binomial model						

* including 23,300 for indicated entitled persons and the reserve without indication of the entitled person in the amount of 5,200

** right holders not specified

*** minimum price defined as the arithmetic average of the Company's share prices on the Warsaw Stock Exchange calculated from the volume weighted average daily prices in the last month of each year

**** start of vesting period

Due to the fact that as at the balance sheet date the list of eligible employees entitled to participate in the Incentive scheme was not determined by the Supervisory Board, the fair value measurement of warrants (taking into account the market condition) was prepared based on certain assumptions. The fair value of warrants will be revalued as at each future balance sheet date until the date of determining the list of eligible employees and the number of A-series and B-series warrants belonging to them for a given year (date of acquiring the right). As of the date of acquiring the right, the final fair value measurement of the warrant will be assessed. As at the next balance sheet dates, only the expected number of warrants to which the eligible persons will acquire rights will be updated (based on the estimated probability of leaving by the end of the vesting period).

The fair value of the warrant has been measured using a two-tier option pricing model. As part of the valuation, a probability distribution of potential outcomes of the future share price may follow (change in share prices on a monthly basis) based on the historical volatility of the Company's share prices. The valuation was made in the process of retrospective induction, taking into account the market condition (reaching the minimum price) and the possibility of early exercise of options in accordance with the terms of the Incentive scheme (based on the adopted assumptions to the extent of the minimum return rate on warrants expected by eligible persons). The total cost of the Incentive scheme as at individual balance sheet dates will be estimated on the basis of the most recent fair value measurements of warrants and the probability that the participants of the Incentive scheme will lose their rights to warrants. Incentive scheme costs will be recognized in time proportionally to the period of acquiring rights for particular tranches of warrants.

Due to the fact that the market condition for A-series warrants for 2018 (minimum price of PLN 130) was not achieved before the date of determining by the Supervisory Board the list of those entitled to acquire them, this tranche of warrants was not included in the valuation of the Incentive scheme as at December 31, 2018.

If the market condition for A-series warrants for a given year is not achieved, the Supervisory Board may grant the tranche of warrants not granted for this reason together with warrants of A-series for the year in which the market condition was fulfilled. Due to the lack of certainty as to future decisions of the Supervisory Board in this respect, the estimation of the cost of the Incentive scheme as at December 31, 2018 does not take into account the effect of shifting warrants not granted in a given year to subsequent years. This does not preclude the possibility of granting these warrants in subsequent periods in accordance with the provisions of the Incentive scheme regulations in force.

d) Shareholding structure

As of December 31, 2018, the shareholding structure of Mabion S.A. was as follows:

Entity***	Registered Office	Number of shares	% of equity held	% of voting rights
Twiti Investments, Ltd. *	Nicosia, Cyprus	2 380 072	17.35%	19.45%
Polfarmex S.A.	Kutno, Poland	1 437 983	10.48%	12.56%
Celon Pharma S.A. **	Łomianki, Poland	620 350	4.52%	7.28%
Funds managed by Generali PTE S.A.	Warsaw, Poland	1 490 545	10.86%	9.75%
Glatton Sp. z o.o. **	Łomianki, Poland	1 004 526	7.32%	6.57%
Funds managed by Investors TFI S.A.	Warsaw, Poland	1 068 007	7.78%	6.98%
Funds managed by Nationale Nederlanden PTE S.A.	Warsaw, Poland	938 031	6.84%	6.13%
Holders of less than 5% of equity	N/A	4 781 258	34.85%	31.27%
Total		11 800 000	100.00%	100.00%

*Jointly Controlled by Mr. Robert Aleksandrowicz - Chairman of the Supervisory Board of Mabion S.A. until June 27, 2018
**Controlled directly or indirectly by Mr. Maciej Wieczorek – CEO of Mabion S.A. until December 14, 2017, Member of the Supervisory Board of Mabion S.A. from February 16, 2018 and Chairman of the Supervisory Board of Mabion S.A. from June 28, 2018
*** Shareholders controlling more than 5% of shares have been presented in separate lines

18. Deferred income

PLN thousand	December 31, 2018	December 31, 2017
Government grants related to property, plant and equipment	12 095	14 052
Government grants related to costs of research and development	8 511	-
Prepayment from Mylan for Mabion CD20 distribution rights	14 007	-
Prepayment from Celon Pharma for services (development of anti-body technology formula)	1 590	1 590
Deferred income – current and non-current	36 203	15 642

Balance of prepayment from Mylan refers to part of milestones payments received from Mylan towards future exclusive rights for distribution of MabionCD20 drug, which have been recognized initially as refundable prepayments for distribution rights and become non-refundable in 2018 after fulfilment of certain conditions precedent set in the Mylan Agreement.

Government grants

The Company has historically financed a portion of its operations through receipt of cash subsidies from The European Regional Development Fund as administered by government institutions in Poland: The Lodz Agency of Regional Development (ŁARR), The Polish Agency for Enterprise Development (PARP) and The National Centre for Research and Development (NCBR).

There have been three projects to finance research and development and/or implementation of MabionCD20, technology of producing human analog insulin (“double cutting”) and MabionHER2, which have been finished. During 2017, the Company signed new grant agreements to finance research and development and/or implementation of MabionCD20 as well as research and development of drug oriented against EGFR, however no proceeds were recognized during 2018, since these projects have not been completed and settled, and as result those had no accounting impact on the Company.

In June 2018, the Company signed an agreement with the Minister of Investment and Development for co-funding of a project entitled "Expansion of the Research and Development Centre of Mabion S.A. – research on a new generation of medicines” as part of the Measure 2.1: Support for investments in R&D infrastructure of enterprises of the Smart Growth Operational Programme 2014-2020 co-financed by the European Regional Development Fund. The total cost of the Project was estimated at PLN 172.88 million.

These projects are further described in the table below:

Project title / objective	Grant program name	Total amount granted (PLN thousand)	Total amount received by December 31, 2018 (PLN thousand)	Total amount expected to completion (PLN thousand)	Project term and status as at December 31, 2018
Innovative technology of manufacture of therapeutic monoclonal antibodies applied in the therapy of lymphoma (MabionCD20). The aim of the project was to create an innovative drug in the form of biosimilar humanized anti-CD20 monoclonal antibody, including establishing a dedicated biotechnological plant to manufacture drugs.	Operational Program Innovative Economy 2007-2013	39,655	35,896	-	July 1, 2010 – May 29,2017 Status: **Project finished**
Innovative technology of “double cutting” in obtainment of modern analogs of the hormone of human insulin. The aim of the project was to create an innovative, universal technology “double cutting” leading to obtaining insulin and its analogs and to their manufacture.	Operational Program Innovative Economy 2007 – 2013	24,087	9,492	-	May 1, 2011 – December 31, 2017 **Status:** **Project finished**
Clinical development and registration of humanized monoclonal antibody binding with HER2 receptor applied in the therapy of breast cancer (MabionHER2). The project concerns research and development activities and completion of a clinical trial.	INNOMED	10,000	177	-	June 1, 2014 – November 15, 2018 **Status:** **Project finished**
Development and scaling of the innovative process for manufacturing the therapeutic recombined monoclonal antibody to enable industrial implementation of the first Polish biotechnological medicine for oncological and autoimmunological therapies (MabionCD20).	Operational Program Smart Growth 2014 – 2020	27,094	8,142 *	18,825 *	November 1, 2017 – December 31, 2019 **Status:** **Project in progress**
Development of biotechnological drug through development of an innovative monoclonal IgG1 subclass antibody with reduced contents of unfavorable glycoforms in relation to the referential drug – oriented against EGFR. The project concerns research and development activities.	Operational Program Smart Growth 2014 – 2020, sectoral program InnoNeuroPharm	28,354	369 *	27,884 *	August 1, 2018 – July 31, 2022 **Status:** **Project in progress**
Expansion of the Research and Development Centre of Mabion S.A. – research on a new generation of medicines. The aim of the project is development of research and development resources of the Company through preparing the necessary infrastructure: construction of building of the Research and Development Centre and purchases of research equipment for conducting research into innovative drugs (latest generation of biotech drugs, monoclonal antibodies).	Operational Program Smart Growth 2014 – 2020	63 247	-	63 247	January 20, 2018 – December 31, 2021 **Status:** **Project in progress**

* net receipts after deduction of amounts returned in 2018 due to financial corrections

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attached to them and that grants will be received.

The table below presents movements in government grants over the years covered by these financial statements:

PLN thousand	Government grants related to assets	Government grants related to research and development	Government grants from ŁSSE related to employees' training	Total
As of December 31,2016	15 997	-	-	15 997
Proceeds	-	-	-	-
Repayments	-	(258)	-	(258)
Recognized as income	(1 945)	258	-	(1 687)
As of December 31, 2017	14 052	-	-	14 052
Proceeds	-	8 739	37	8 776
Repayments	-	(228)	-	(228)
Recognized as income or loss	(1 957)	-	(37)	(1 994)
As of December 31, 2018	12 095	8 511	-	20 606

Government grants related to assets pertain to the MabionCD20 project (i.e. grants for the building of the factory for the production of MabionCD20) while government grants related to research and development are for the "double cutting" technology, MabionHER2, scaling of MabionCD20 production process and MabionEGFR projects.

As of December 31, 2018, the Company had unfulfilled conditions and other contingencies attaching to government assistance that has been recognized with respect to the MabionCD20 project. The Company was required to maintain a sustainability criterion for three years from project completion whereby it has to continue with the subsidized activity without substantial modifications and within original geographical boundaries. This contingency expired on April 14, 2018. In Management's assessment, the Company has met this condition.

The fixed assets in relation to which the grant was obtained became available for use in 2015 at which point the depreciation of these assets also began; the respective portion of the deferred income (grant) was also recognized in profit or loss as well.

On November 15, 2017, the Company terminated an agreement with NCBR for co-financing of MabionHER2 project due to the fact that continuation of this project was not financially viable due to activities of the Company's competitors. The Company applied for termination without the obligation to refund subsidies received in previous periods, which have been used in line with program objectives to finance research and development activities within the MabionHER2 project. There is no formal decision yet about the status of settlement, however, as of December 31, 2017, the Company has recognized a provision of PLN 221 thousand to recognize potential amount of subsidies to be paid back (including interest), which reflects potential maximum amount to be returned, based on what was spent in relation to the unfinished part of the project.

In 2018, the Company received for two projects co-funded from EU grants (scaling of MabionCD20 production process and MabionEGFR), with total amount of PLN 8,739 thousand and returned subsidies of PLN 228 thousand due to errors in treatment of certain expenses incurred, which was identified during the audits. The whole amount of subsidies received was recognized as deferred income due to the condition of the grant agreements, which are not fully controlled by the Company and which may result in an obligation for the Company to return the subsidies received.

On November 15, 2018, in connection with the ongoing audit of the double cutting project performed by ŁARR, the Company applied to ŁARR to adjust expenses incurred within the project and decrease the amount of subsidies due to errors in treatment of expenses incurred within the project reported previously. Total amount of subsidies received was ca. PLN 9.7 million. In December 2018, the Company has returned PLN 361 thousand of subsidies received in the double cutting project (including interest).

Except for the above, there were no other significant changes in the status of grants received by the Company.

Current portion of deferred income represents this portion of deferred income that is reasonably expected to be realized within 12 months from the balance sheet date. It consists of two major positions:

a) portion of grants described above, received to finance the tangible fixed assets purchases, which will be recognized as income alongside the depreciation of underlying assets;
b) prepayment from Celon Pharma S.A. for services related to the development of a drug production process or drug prototypes for use by Celon Pharma S.A., which will be performed by the Company.

Long-term portion of deferred income represents this portion of deferred income that is reasonably expected to be realized after more than 12 months from the balance sheet date. It consists of three major positions:

a) portion of grants described above, received to finance the tangible fixed assets purchases, which will be recognized as income alongside the depreciation of underlying assets;
b) portion of grants described above, received to finance the research and development expenses purchases, which will be recognized as income when there is reasonable assurance that the Company will comply with the conditions attached to them;
c) prepayment from Mylan for MabionCD20 distribution rights of PLN 14,007 thousand, which is non-refundable according to Mylan agreement and which will be recognized as income after the Company receives market authorization for MabionCD20.

19. Refundable prepayments for distribution rights

The table below presents the list of all signed collaborative agreements along with the amounts of the received prepayments and the target markets covered by particular contracts:

PLN thousand

Partner	Market	December 31, 2018	December 31, 2017
Mylan	Albania, Austria, Belgium, Bulgaria, Bosnia and Herzegovina, Croatia Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Montenegro, the Netherlands, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, the UK Switzerland, Norway and Liechtenstein	42 297	34 813
FARMAK	the Ukraine, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldavia, Tajikistan, Turkmenistan, Uzbekistan	1 075	1 043
ONKO	Turkey	473	459
Sothema Laboratories	Morocco, Algeria, Tunis	99	96
Lyfis	Iceland	26	25
VMG	Costa Rica, Salvador, Nicaragua, Panama, Honduras, Belize, Trinidad and Tobago, Dominican Republic	-	-
Total		43 969	36 435

Change in value of the refundable prepayments for distribution rights in 2018 is due to:

a) changes in foreign exchange rates, since all of these prepayments were denominated in foreign currencies (EUR or USD in the case of Mylan);
b) fulfilment of conditions to receive new milestone payment of USD 5 million (PLN 18,535 thousand) from Mylan;
c) reclassification of PLN 14,007 thousand of milestones received from Mylan from refundable prepayments to deferred income, according to the terms of the agreement with Mylan (see note 18).

No prepayments have been returned in either 2018 or 2017.

The prepayments received by the Company are refundable upon certain events outside the control of the Company (e.g., clinical trial conducted for a drug is not completed, and/or regulatory approval for a given market is not provided). As the timing of the occurrence or non-occurrence of this event is also out of control of the Company, the liability is measured at the amount payable on demand and is classified as a liability.

In November 2017, the Company signed a strategic, long term collaborative agreement (the "Mylan Agreement") with Mylan Ireland Limited (a wholly-owned subsidiary of Mylan N.V., collectively referred to as "Mylan" hereafter), a global leader in drug development and distribution. According to the contract, the Company received from Mylan USD 15 million, to be allocated for further development work on MabionCD20. Moreover, in the event of successful filing of the Marketing Authorization Application to EMA, receipt of Marketing Authorization from EMA and receipt of the Marketing Authorization for MabionCD20 in EU major market countries, the contract requires Mylan to subsequently pay the Company a total of USD 30 million. The Mylan Agreement, which encompasses also major terms of the MabionCD20 production and supply agreement, foresees the royalties based on annual net sales of MabionCD20. In the event the conditions precedent are not met by Mabion, there is a risk that the prepayments received by the Company will need to be returned.

Furthermore, from 2012 to 2017 the Company signed a number of distribution agreements under which particular contractors will gain the right to exclusive distribution of MabionCD20 in designated target markets. Under these contracts, the Company received prepayments against the performance thereof, to be returned if the outcome of the drug registration process in a particular market is negative. All such amounts have been recognized as liabilities.

Mabion's primary objective is to launch the developed biosimilar drugs in global markets, mainly the markets of the European Union countries and the United States, which entails the obligation to have these drugs registered by the competent offices – the European Medicines Agency and the American Food and Drug Administration ("FDA") respectively. The work carried out by Mabion S.A. to develop and launch the drugs complies with EMA's guidelines. FDA published certain regulations for biosimilar drugs thus far, however, there are few biosimilar drugs registered in the USA so far and it is impossible to verify how these regulations will be adopted.

Since the commencement of work on its biosimilar drugs, Mabion has been working with EMA in terms of compliance with the relevant guidelines and procedures connected with the registration process in the European Union and has been monitoring the development of the FDA's guidelines on registration of biosimilar drugs in the United States.

In the nearest future, the Company will continue to search for other distribution partners, in particular for Asia and Oceania's markets. In connection with the signing of other contracts, the Company expects to obtain additional payments from distribution partners.

20. Borrowings

The table below presents the structure of borrowings:

PLN thousand	December 31, 2018	December 31, 2017
Bank borrowing	-	60 000
Accrued interest and credit cards balances	17	291
Secured borrowings	2 269	2 477
Total borrowings	2 286	62 768

a) Bank borrowings

On January 15, March 15 and March 28, 2018 the Company utilized the additional tranches of the loan received from Bank Zachodni WBK, amounting to PLN 5,000 thousand, PLN 2,500 thousand and PLN 7,500 thousand, respectively. As a result, the whole credit limit of PLN 75 million has been utilized by the Company.

This loan has been repaid in full on May 11, 2018, from the proceeds of the P-series shares.

On July 17, 2018 the Company and Santander Bank Polska S.A. ("the Bank", former Bank Zachodni WBK S.A.) signed a revolving credit ("the Loan") agreement to finance operating activities of the Company in the period of two years from the day of signing the agreement. The amount of the Loan granted equals PLN 30 million. Disbursement of up to PLN 15 million PLN will be possible after fulfilment of certain formal and legal requirements, as well as establishment of collateral. Disbursement of further PLN 15 million will be possible after the Company received a positive decision of the European Medicines Agency concerning marketing authorization for MabionCD20 drug. The Loan bears interest at a variable rate, based on the WIBOR 1M rate increased by the Bank's margin, which is set at market terms. The Loan requires collateral, including a contractual mortgage (entered as item one in the land and mortgage register) up to PLN 45 million on the title to the real property in Konstantynów Łódzki along with assignment of the amounts due under the insurance policy, the Company's declaration of submission to enforcement by a notarial deed pursuant to art. 777 § 1 point 5 of the Civil Procedure Code each time up to 150% of the Loan amount, as well as surety and other forms of protection provided by major shareholders of the Company. The agreement contains numerous obligations of the Company towards the Bank and covenants, which may result in termination of the agreement by the Bank, if not satisfied. All condition relating to collateral have been fulfilled in the period prescribed in the Loan agreement. As of December 31, 2018, the Company has not drawn any amount out of this Loan.

b) Borrowings from shareholders

The Company sourced funding for its ongoing operations through several loans received between January 5, 2018 and March 9, 2018 from its shareholders and related parties. Mr. Artur Chabowski (President of the Management Board), Mr. Robert Aleksandrowicz (Chairman of the Supervisory Board at that time) and Glatton Sp. z o.o. (controlled by Mr. Maciej Wieczorek, member of the Supervisory Board at that time) have lent to the Company PLN 200 thousand, PLN 1,500 thousand and PLN 1,000 thousand, respectively. The above-mentioned loans were repaid in full before their respective maturity dates and before the December 31, 2018. All loans carried an interest rate of WIBOR 3M plus 2.0 p.p. Total amount borrowed was PLN 2,700 thousand.

On March 27, 2018, the Company received a loan of PLN 174,790 thousand from Twiti Investments Limited, a company controlled in 50% by Mr. Robert Aleksandrowicz, Chairman of the Supervisory Board at that time. The loan was to be repaid by September 30, 2018 and carried an interest rate of WIBOR 1M plus 3.0 p.p. The Company paid also fees and expenses of the lender relating to loan. Loan from Twiti was repaid on April 23, 2018 together with accrued interest.

No collateral was required to secure the borrowings from shareholders.

c) Secured borrowings

The Company is a party to several sale-and-leaseback transactions to re-finance purchases of laboratory equipment. These transactions are treated as borrowings since the underlying assets have been initially paid in full and lease agreements contain an irrevocable offer to buy back the assets at the maturity. These agreements have maturity between 3 and 4 years and are secured by blank promissory notes. These notes promise in writing that the Company will pay to the owner of the note all amounts due but not paid under the respective leasing agreement, including lease instalments, compensation, contractual penalties and expenses together with interest, in case the Company would be in arrears with payments of any of the above-mentioned amounts.

In 2018, the Company has entered one sale-and-leaseback transaction with Idea Getin Leasing S.A. to re-finance the purchase of laboratory equipment worth PLN 366 thousand, concluded on August 3, 2018.

In January 2018 and June 2018, the Company used two loans granted by Idea Getin Leasing S.A. in the amount of PLN 208 thousand and PLN 93 thousand, to pay for hardware, which will be used by the Company in connection with a new IT system being currently implemented in the Company. Both loans are granted for 2-year period and are secured by blank promissory notes, pledges and registered pledges on assets financed from loans. The notes promise that the Company will pay to the owner of the notes all amounts due but not paid under these loan agreements, in case the Company would be in arrears with payments of any of the above-mentioned amounts. As of December 31, 2018, total outstanding amount of loans granted by Idea Getin Leasing is PLN 148 thousand.

Total balance of secured borrowings outstanding as at December 31, 2018 amounts to PLN 2,269 thousand.

21. Leases

a) Operating lease

The Company leases office space in Łódź under an operating lease expiring on August 17, 2020 with an option to cancel in 2018 without any adverse effects in form of early termination penalty. Total future minimum lease payments under the lease as of December 31, 2018 are PLN 660 thousand in 2019. The lease expense recognized in 2018 and 2017 amounted to PLN 705 thousand and PLN 640 thousand, respectively.

The lease includes contractual escalation clauses providing for annual rent increases starting January 1, 2016 based on the consumer price index. Rent indexing is not expected to have a material effect on the Company's commitments.

The Company intends to close the lease at the end of 2019. Therefore, on October 31, 2018, the Company submitted to the lessor a notice of termination of the lease of offices at 17 Fabryczna St. in Łódź as of November 1, 2018, with six-month termination period. In the notice the Company expressed interest in extension of the termination period until December 31, 2019. Proposal was accepted by the lessor and respective addendum to the lease agreement was concluded in February 2019.

In connection with the above, the Management made a decision to accelerate depreciation of all leasehold improvements relating to office space in Łódź starting from January 1, 2018. Impact of this change on these financial statements equals to PLN 825 thousand and is included in depreciation in general and administrative expenses (see Note 8).

b) Finance leases

The Company uses vehicle and laboratory equipment pursuant to finance lease agreements.

The Company concludes leasing agreements for a period of 3 to 5 years. These agreements are secured by blank promissory notes. These notes promise in writing that the Company will pay to the owner of the note all amounts due but not paid under the respective leasing agreement, including lease instalments, compensation, contractual penalties and expenses together with interest, in case the Company would be in arrears with payments of any of the above-mentioned amounts.

Change in the interest rate constituting an element of calculation of leasing instalments is a parameter which results in change in leasing instalments. All leasing agreements contain option to purchase leased assets at the end of the lease period.

In the current interim period, the Company has entered into new lease agreements resulting in the initial recognition of the fixed assets in the amount of PLN 1,215 thousand and the lease liability of PLN 1,215 thousand. Following expiration of leasing agreements, the Company acquired in 2018 vehicles with gross value of PLN 290 thousand.

Total cost of assets subject to finance lease as of December 31, 2018 and December 31, 2017 amounts to PLN 7,195 thousand and PLN 5,980 thousand, respectively. The table below presents minimum lease payments and current value of lease payments as of December 31, 2018 and December 31, 2017.

PLN thousands	Minimum lease payments as of December 31, 2018	Current value of lease payments as of December 31, 2018	Minimum lease payments as of December 31,2017	Current value of lease payments as of December 31, 2017
Within 1 year	1 377	1 304	982	955
From 1 to 5 years	2 375	2 027	2 536	2308
Total	3 752	3 351	3 518	3 263

22. Trade and other payables

PLN thousand	December 31, 2018	December 31, 2017
Trade payables	14 258	14 005
Accrued expenses for clinical trials	-	2 123
Share-based payments (Note 24)	-	670
Social security and personal income tax on salaries	797	677
Accrued expenses for unused holidays	441	344
Other payables	1 272	675
Total trade and other payables	16 770	18 495

23. Financial risk management

The Company's activity is exposed to a number of financial risks, such as: market risk (in particular the risk of changes to the exchange rates and the risk of changes to cash flows as a result of interest rate changes), credit risk and liquidity risk.

The supervision and management of particular risks is the responsibility of Company's management. The Company does not have a formalized financial risk management system in place. The Company's management carries out the risk management process continuously in all major areas of the Company's activity. Due to the dynamic situation in the pharmaceutical market, the Company's management manages the process of monitoring, auditing and revising potential risks on an ongoing basis, which consists of several stages:

– anticipating and identifying the potential risk groups, examining the risk in depth to actively prevent it;

- continuously monitoring and controlling the existing risk;
- avoiding the risk – refraining from certain high-risk activities;
- taking preventive actions – developing action plans and relevant procedures to be implemented immediately if a potential risk arises;
- keeping the risk within the predetermined limits or implementing risk minimization plans;
- reporting the identified risk and its nature;
- adhering to Good Practices for companies listed on the Warsaw Stock Exchange.

This note presents information about the Company's exposure to individual risks relating to financial instruments only, as well as the objectives, policy and processes used to measure and manage the risk.

The table below presents the financial instruments owned by the Company:

PLN thousand	December 31, 2018	December 31, 2017
Loans and receivables		
Long-term receivables	110	194
Trade receivables	7	8
Cash and cash equivalents	58 418	1 038
Total financial assets	58 535	1 240
Liabilities measured at amortized cost		
Refundable prepayments for distribution rights	43 969	36 435
Trade payables	14 260	14 005
Accrued expenses for clinical trials	-	2 123
Borrowings	2 286	60 910
Finance leases	3 351	3 263
Total financial liabilities	63 866	116 736

a) Foreign exchange risk

Refundable prepayments for distribution rights (funds received from distribution partners) are denominated in foreign currencies which creates a foreign exchange risk exposure until funds are utilized (i.e. returned or transferred to deferred income depending on the outcome of uncertain future events).

The majority of laboratory equipment and reagents for research and development is purchased by the Company in foreign currencies, mostly in euros and US dollars. Adverse currency exchange rate changes (weakening of the PLN against foreign currencies) may affect the level of the Company's investment outlays and increase the cost of research and development which may have a negative impact on the Company's financial results. Since the Company intends to sell its drugs in international markets (mostly in euros and US dollars), the risk connected with exchange rate fluctuations is expected to be limited in the future once the drugs are commercialized.

The Company analyses the level of foreign exchange risk and the potential impact of the above changes on the results of the period on an ongoing basis. The Company’s management did not deem it necessary to purchase any instruments limiting the impact of the changes arising from temporary exchange rate fluctuations on the financial results and equity.

The table below presents the Company's position in foreign currencies (translated into PLN) which is indicative of the exposure to the risk of currency exchange rate changes:

	Denominated in the following foreign currencies (translated into PLN)			
PLN thousand	Total	EUR	USD	Other foreign currencies
As of December 31, 2017				
Receivables	192	162	30	-
Cash and cash equivalents	575	369	206	-
Refundable prepayments for distribution rights	(36 435)	(1 622)	(34 813)	-
Trade payables	(2 283)	(1 643)	(530)	(110)
Net exposure asset/(liability)	(37 951)	(2 734)	(35 107)	(110)
As of December 31, 2018				
Receivables	8	14	(5)	0
Cash and cash equivalents	17 464	51	17 390	23
Refundable prepayments for distribution rights	(43 969)	(1 673)	(42 297)	0
Trade payables	(3 075)	(2 087)	(75)	(914)
Net exposure asset/(liability)	(29 572)	(3 695)	(24 987)	(890)

A fluctuation in foreign currency/PLN exchange rates of +/-5% was assumed to calculate the resulting increase/(decrease) in net loss. The analysis does not factor in concurrent changes of other variables, such as interest rates.

PLN thousand	Denominated in the following foreign currencies (translated into PLN)							
	2018				2017			
	Total	EUR	USD	Other foreign currencies	Total	EUR	USD	Other foreign currencies
Rate increase by 5%	(1 479)	(185)	(1 249)	(45)	(1,898)	(137)	(1,755)	(6)
Rate decrease by 5%	1 479	185	1 249	45	1,898	137	1,755	6

b) Risk of cash flow changes as a result of interest rate changes

The Company has exposure to the risk of interest rate changes with respect to borrowings at variable interest rates and finance leases at variable interest rates. The risk is partially compensated by cash deposits with variable interest rates. The Company regularly analyses the level of the risk of interest rate changes in order to estimate the impact of specific interest rate changes on the financial results. The Company does not have any instruments limiting the impact of changes in interest rates on its cash flows and financial results.

The table below presents exposure to the risk of changes to cash flows as a result of interest rate changes:

PLN thousand	December 31, 2018	December 31, 2017
Cash at bank	58 418	1 038
Borrowings	(2 286)	(62 768)
Finance leases	(3 351)	(3 263)
Net exposure asset/(liability)	52 781	(64 993)

The table below presents the analysis of sensitivity to the risk of interest rate changes, which the Company believes would be reasonably possible as at the balance sheet date:

PLN thousand		
Increase/(decrease) in net profit or loss and equity resulting from	2018	2017
increase in interest rates by 100 bps	528	(650)
decrease in interest rates by 100 bps	(528)	650

c) Credit risk

Credit risk is the risk of the Company suffering financial losses because of a failure on the part of a customer or supplier who is a party to a financial instrument to fulfil their contractual obligations. The Company's credit risk mostly results from cash and cash equivalents on bank accounts. The Company's management assessed that the credit risk connected with the portfolio of trade receivables and other receivables, both being financial assets, is marginal due to the relatively low level of these balances as of each reporting date. This is due to the fact that the Company still has insignificant sales and are mostly transactions with related parties (see Note 24).

The table below presents the credit risk exposure:

PLN in thousands	December 31, 2018	December 31, 2017
Long-term receivables	110	194
Trade receivables	7	8
Cash at bank	58 418	1 038
Total exposure	58 535	1 240

Cash and cash equivalents are deposited with in Santander Bank Polska SA, a financial institution with a BBB+ Long-term Issuer Default Rating ("IDR") by Fitch Ratings with a stable outlook, and Alior Bank SA, a financial institution with a BB Long-term Issuer Default Rating ("IDR") by Fitch Ratings with a stable outlook. The Company has considerable concentration of credit risk for cash and cash equivalents, i.e. usually at least 60%-70% of the balance is held in one financial institution. However, the Company's management believes that depositing cash at banks with a stable rating considerably limits the exposure to credit risk.

d) Liquidity risk

The Company does not generate current revenues and its activity to date has been financed from funds obtained from share issues, bank borrowings, shareholder loans and equity placements, government grants, EU grants and from sales of research & development services. Furthermore, the Company obtained funds to finance its future activities by selling the distribution rights to MabionCD20 (Note 19). In 2018, a contract was signed for a revolving bank borrowing (details of these contract are described in Note 20). In 2018, the Company was successful in raising PLN 174,790 thousand in additional equity financing with international and institutional investors (for details see Note 17). The Company's management monitors current forecasts of the Company's liquid assets and liabilities based on anticipated cash flows.

The table below presents the undiscounted amounts of financial liabilities by the contractual maturities:

PLN thousand	Carrying amount	Contractual undiscounted cash flows Total	Less than 6 months	6 -12 months	1 – 2 years	2 – 5 years	Over 5 years
As of December 31, 2017							
Refundable prepayments for distribution rights	36 435	36 435	36 435	-	-	-	-
Trade payables	14 005	14 005	14 005	-	-	-	-
Accrued expenses for clinical trials	2 123	2 123	2 123	-	-	-	-
Borrowings	60 910	60 910	60 910	-	-	-	-
Finance leases	3 263	3 519	513	470	857	1 679	-
Total	116 736	116 991	113 985	470	857	1 679	-
As of December 31, 2018							
Refundable prepayments for distribution rights	43 969	43 969	43 969	-	-	-	-
Trade payables	14 260	14 260	14 160	100	-	-	-
Borrowings	2 286	2 478	503	503	887	585	-
Finance leases	3 351	3 751	745	631	1 319	1 057	-
Total	63 866	64 458	59 377	1 234	2 206	1 642	-

e) Fair value of financial instruments measured at amortized cost

The Company does not have any financial instruments measured at fair value. For the purpose of the disclosure of the fair values in relation to the financial instruments measured at amortized cost, the Company has used the method based on the discounted cash flow.

The main items of financial instruments measured at amortized cost are: short-term bank borrowings, refundable prepayments for distribution rights, shareholders loan and secured borrowings.

The Company's management assessed that the fair value of these items approximates or equals their carrying values. The fair value measurements are classified into the level 2 fair value hierarchy (i.e. inputs other than quoted prices that are observable either directly or indirectly). The main input used to determine fair value of the bank borrowing is the current market interest rate of similar instruments of 3.89%. The fair value of the liability resulting from the refundable prepayments for distribution equal the carrying amount which is an amount payable on demand.

24. Related party transactions

The shareholders' structure is disclosed in Note 17. There is no direct or ultimate controlling party.

In the period covered by these financial statements the Company has not recorded neither sales to nor purchases from the related parties on conditions other than arm's length terms.

Services contracted previously with Celon Pharma S.A. related to the development of a drug production process or drug prototypes for use by Celon Pharma S.A. has been deferred by mutual consent into future periods due to extraordinary workload relating to completion of research and development of MabionCD20. More information is presented in Note 18.

In 2017 and 2018, the Company sourced funding for its ongoing operations through a number of related party loans from two of its shareholders: Twiti Investments Ltd., controlled 50% by the then Chairman of the Company's Supervisory Board, Mr. Robert Aleksandrowicz and Glatton Sp. z o.o., controlled 100% by the then Member of the Company's Supervisory Board, Mr. Maciej Wieczorek, as well as from Mr. Artur Chabowski, President of the Company's Management Board and from Mr. Robert Aleksandrowicz. Loan from Twiti Investments Ltd. granted in accordance with the loan agreement from March 22, 2018, carried an interest rate of WIBOR 1M plus 3.0 p.p. per annum. All other loans from the related parties carried an interest rate of WIBOR 3M plus 2.0 p.p. per annum. All loan from the related parties and were repaid in full in the same year they were taken (see further information in Note 20).

No collateral was required to secure the borrowings from shareholders.

The Company paid PLN 192 thousand to Twiti Investments Ltd. as the reimbursement of expenses incurred in connection with conclusion of the loan agreement of March 22, 2018.

Table below presents details of related party loans taken in 2018 and 2017.

PLN thousand				Cash repayment		Interest	
Dates loans taken	Lender	Maturity dates	Total borrowed	Date	Amount	Accrued	Paid
May 29 through June 26, 2018	Twiti Investments, Ltd.		2 500	July 6 and August 31, 2018	2 500	11	11
November 9 through November 30, 2018	Glatton Sp. z o.o.	Various dates in 2017, latest due date on December 31, 2017	1 200	December 27, 2018	1 200	5	5
December 4 through December 7, 2018	Artur Chabowski		555	December 20, 2018	555	1	1
2017			4 255		4 255	17	17
March 27, 2018	Twiti Investments Ltd.		174 790	April 23, 2018	174 790	600	600
February 27 through March 9, 2018	Glatton Sp. z o.o.	Various dates in 2018, latest due date on June 30, 2018	1 000	May 2 and May 24, 2018	1 000	4	4
January 5, 2018	Artur Chabowski		200	April 6, 2018	200	2	2
February 16, 2018	Robert Aleksandrowicz		1 500	May 2, 2018	1 500	11	11
2018			177 490		177 490	617	617

Key management compensation (including share-based payment and remuneration)

On December 14, 2015, the Supervisory Board granted an IPO incentive to Mr. Artur Chabowski, its current Chief Executive Officer. The incentive provides an award to the CEO in the amount of 0.4% of the total value of each future share issuance outside of Poland. The incentive vests at the share issuance date and is to be settled in cash. On March 31, 2017, the Supervisory Board amended the terms of the cash settled share-based payment award granted to its current Chief Executive Officer. The award was increased by 1% for each 1 PLN of the shares sales price above 100 PLN per share (for example, if the price per share is 110 PLN, the incentive award amounts to 0.44% of the total IPO value). Other terms remain unchanged.

On January 24, 2017, the Supervisory Board granted an IPO incentive to Sławomir Jaros, member of the Management Board. The incentive provides an award in the amount of 0.075% of the total value of each future IPO outside of Poland.

The above-mentioned incentives were accounted for as a cash-settled share-based payment liability and was recognized over the vesting period from the date of grant (which is the same as the service commencement date) to the expected the IPO date. The amendment made on March 31, 2017 to the terms of the award of Mr. Artur Chabowski was accounted for as modification i.e. incremental fair value of the additional award is spread over the vesting period of this additional award – from July 1, 2017 to the expected IPO date.

The expected date of IPO outside of Poland is now postponed, subject to new shareholders' approval, whereas in previous periods the Company assumed that the IPO would be finalized by October 31, 2017. This change of assumptions was mainly due to successful private placement of P-series shares, which resulted in a capital injection of PLN 174.8 million in April 2018 from the sales of 1,920,772 P-series shares at the price per share equal to PLN 91.00. Details of this transaction are presented in Note 15. Additionally, on March 23, 2018 the authorization for the Management Board to increase the Company's share capital within the authorized capital referred to in § 9a of the Company's statute expired. As a result, a Management decided not to recognize any share-based payment liability as of December 31, 2018.

On May 23, 2018 the Company's Supervisory Board granted to Mr. Artur Chabowski and Mr. Sławomir Jaros awards in connection with placement of P-series shares in the same amount as it was provided for in case of IPO outside of Poland. The awards totaling PLN 779 thousand have been paid in June 2018, out of which amount PLN 109 thousand was accounted for as cost of 2018 and remaining PLN 670 thousand was accounted for against provisions made in previous periods.

On February 12, 2019 the Company's Supervisory Board granted to Mr. Artur Chabowski and Mr. Sławomir Jaros bonuses in connection with obtaining EU grants by the Company in 2018. Bonuses were paid in March 2019 and the amount was recognized in costs of 2018.

Presented below is the compensation for members of the Company's key management personnel and the Supervisory Board:

PLN thousand	2018	2017
Remuneration of the Supervisory Board Members	341	157
Remuneration of the Management Board Members	1 079	1 099
Share based payments made	109	-
Total short-term compensation	1 529	1 255
Share-based payments costs accrued	-	(64)
Incentive scheme costs accrued	308	-
Total compensation of key management personnel and the Supervisory Board	1 837	1 191

25. Earnings / (Loss) per share

Basic earnings per share is calculated by dividing the loss of the Company by the weighted average number of ordinary shares in issue during the year, including shares issued but not yet registered.

	2018	2017
Net loss in PLN thousand	(68 870)	(57,887)
Weighted average number of ordinary shares in issue (thousands)	13 089	11,800
Basic loss per share (in PLN per share)	(5.26)	(4.91)

The weighted average number of shares for diluted loss per share is the same as for basic loss per share, as there are no dilutive securities accounting.

26. Commitments and contingent liabilities

a) Contractual commitments

As of December 31, 2018, the Company did not have any contractual commitments for the acquisition of property, plant and equipment, intangible assets or development work.

b) Contingent liabilities

The Company was not a party to any litigation, regulatory actions or arbitration which is expected by management to have a material adverse effect on the Company's financial position or operations and/or cash flow.

27. Events after the balance sheet date

On February 12, 2019 the Company's Supervisory Board granted to Mr. Artur Chabowski and Mr. Sławomir Jaros bonuses in connection with obtaining EU grants by the Company in 2018. Bonuses were paid in March 2019 and the amount of PLN 140 thousand was recognized in costs of 2018.

On February 12, 2019, the Company's Supervisory Board approved list of eligible persons entitled to obtain warrants of A-series and B-series form 2018 and 2019

In 2019, until the date of these financial statements, the Company concluded several leasing agreements with Idea Getin Leasing SA to finance purchases of laboratory equipment with a total gross value of PLN 420 thousand.

On March 20, 2019, an audit was carried out relating to the fulfilment by the Company of the condition stipulated in the permit No. 203 of April 12, 2012 for conducting economic activity in the Lodz Special Economic Zone area ("LSEZ"), namely , completion by December 31, 2018 of the construction of a new manufacturing plant for technologically innovative biotechnology drugs used in targeted cancer therapies, immune system disorders and metabolic disorders in the LSEZ area- Lodz Subzone, Complex 1. Based on the audit activities completed, it was established that the above condition had been met. The company made investment expenditures in the total amount of approximately PLN 74.6 million, of which PLN 45 million constitute eligible investment costs.

The Company's Management Board

Artur Chabowski	Jarosław Walczak	Sławomir Jaros	Grzegorz Grabowicz
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Jolanta Baranowska
Chief Accountant

Konstantynów Łódzki, 9th April 2019