Mabion S.A.
Condensed Interim Financial Statements As of and for the six months ended June 30, 2018

Konstantynów Łódzki, 13th September 2018

CONDENSED INTERIM
STATEMENTS OF COMPREHENSIVE INCOME

PLN thousands, except if otherwise stated	Note	April 1, 2018 – June 30, 2018 (Not reviewed)	January 1, 2018 – June 30, 2018 (Unaudited)	April 1, 2017 – June 30, 2017 (Not reviewed)	January 1, 2017 – June 30, 2017 (Unaudited)
Revenues from research and development services		-	-	-	-
Cost of services sold		-	-	-	-
Gross profit		-	-	-	-
Research and development costs	8, 9	(17 841)	(26 730)	(10 551)	(21 398)
General and administrative expenses	8	(5 641)	(11 360)	(4 620)	(8 695)
Other operating income	10	660	1 201	564	1 067
Operating loss		(22 822)	(36 889)	(14 607)	(29 026)
Finance income	11	411	412	2 469	4 215
Finance costs	11	(4 422)	(4 705)	(380)	(558)
Loss before tax		(26 833)	(41 182)	(12 518)	(25 369)
Income tax expense	21	-	-	-	-
NET LOSS		(26 833)	(41 182)	(12 518)	(25 369)
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME / (LOSS)		(26 833)	(41 182)	(12 518)	(25 369)
Basic and diluted profit / (loss) per share (in PLN per share)		(2.05)	(3.31)	(1.06)	(2.15)

The Notes on pages 5 to 13 are an integral part of these condensed interim financial statements.

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CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

PLN thousands	Note	June 30, 2018 (Unaudited)	December 31, 2017
Property, plant and equipment	12	70 945	72 276
Other non-current assets		197	194
Total non-current assets		71 142	72 470
Inventory	13	9 590	7 159
Trade and other receivables	14	21 974	1 649
Prepaid expenses		270	129
Cash and cash equivalents		68 097	1 038
Total current assets		99 931	9 975
TOTAL ASSETS		171 073	82 445
Share capital		1 372	1 180
Share premium		108 923	2 549
Accumulated losses		(41 182)	(57 887)
Total equity	15	69 113	(54 158)
Deferred income	16	29 762	12 067
Borrowings	18	1 619	1 858
Finance leases	19	2 181	2 308
Total non-current liabilities		33 562	16 233
Refundable prepayments for distribution rights	17	43 816	36 435
Trade and other payables	20	18 937	18 495
Borrowings	18	835	60 910
Deferred income	16	3 575	3 575
Finance leases	19	1 235	955
Total current liabilities		68 398	120 370
TOTAL LIABILITIES		101 960	136 603
TOTAL EQUITY AND LIABILITIES		171 073	82 445

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CONDENSED INTERIM STATEMENTS OF CASH FLOWS

PLN thousands	January 1, 2018 – June 30, 2018 (Unaudited)	January 1, 2017 – June 30, 2017 (Unaudited)
Loss before income tax	(41 182)	(25 369)
Adjustments for:		
Depreciation	5 116	3 681
Interest income	(412)	(27)
Interest expense	1 814	469
Government grant income	(978)	(967)
Changes in assets and liabilities:		
(Increase) / decrease in inventory	(2 431)	(3 276)
(Increase) / decrease in trade and other receivables	(20 118)	(929)
(Increase) / decrease in prepaid expenses	(141)	(26)
Increase / (decrease) in trade and other payables	(35)	4 991
Increase / (decrease) in Deferred income	14 001	-
Increase / (decrease) in refundable prepayments for distribution rights	7 381	(4 808)
Cash used in operating activities	(36 986)	(26 261)
Proceeds from government grants	4 900	-
Repayments of government grants for research and development	(228)	-
Interest received	205	27
Paid interest	(2 105)	(469)
Net cash used in operating activities	(34 214)	(26 703)
Purchase of property, plant and equipment	(2 359)	(1 559)
(Increase) / decrease in other non-current assets	(3)	(169)
Net cash flows used in investing activities	(2 362)	(1 728)
Proceeds from issuance of common shares	174 790	-
Cost of issuance of common shares	(10 337)	-
Proceeds from shareholders loans	177 792	2 500
Proceeds from bank loans	15 058	37 577
Repayments of shareholder loans	(177 873)	-
Repayment of bank loans	(75 000)	-
Repayments of the finance leases	(795)	(1 453)
Net cash flows from financing activities	103 635	38 624
Net increase / (decrease) in cash and cash equivalents	67 059	10 193
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	68 097	25 019

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CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

PLN thousands	Share capital	Share premium	Accumulated loss	Total equity
As of January 1, 2017	1 180	140 805	(138 256)	3 729
Net loss / Total comprehensive income			(25 369)	(25 369)
Transactions with owners				
Reduction of share premium to cover prior year net loss		(138 256)	138 256	-
As of June 30, 2017 (Unaudited)	1 180	2 549	(25 369)	(21 640)
As of January 1, 2018	1 180	2 549	(57 887)	(54 158)
Net loss / Total comprehensive income			(41 182)	(41 182)
Transactions with owners				
Reduction of share premium to cover prior year net loss		(57 887)	57 887	-
Issue od P-series shares	192	174 598		174 790
Cost of issue of P-series shares		(10 337)		(10 337)
As of June 30, 2018 (Unaudited)	1 372	108 923	(41 182)	69 113

The Notes on pages 5 to 13 are an integral part of these condensed interim financial statements.

NOTES

1. The Company

Mabion S.A. ("Mabion" or the "Company") was established on May 30, 2007 as a limited liability company with its registered office in Kutno, 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's shares are listed on the regulated market of the Warsaw Stock Exchange.

2. Basis of preparation

These condensed interim financial statements of Mabion S.A. for the period of six months ended June 30, 2018 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union (IAS 34), and with the IAS 34 as issued by IASB as for the Company there are no differences between IFRS as issued by IASB and as adopted by EU.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS") and should be read in conjunction with the Company's annual financial statements as of December 31, 2017.

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2017, except for the corporate income tax, which has been calculated using expected effective average tax rate. The new or revised standards and interpretations, effective starting from January 1, 2018, had no impact on these condensed interim financial statements.

New or revised standards and interpretations, which have been issued but are not yet effective and not early adopted by the Company have been presented alongside their estimated impact on the Company in the annual financial statements for the year ended December 31, 2017. There were no new or revised standards and interpretations issued from the date of approval of the Company's annual financial statements for the year ended December 31, 2017 to the date of approval of these condensed interim financial statements, which would have impact on the Company. The Company intends to apply all new and amended IFRS issued but not yet effective as of the date of issuing these condensed interim financial statements at their mandatory effective dates.

Management believes that notes to these condensed interim financial statements contain all material information necessary for proper assessment of the Company's material and financial situation in the reporting period.

The condensed interim financial statements of Mabion S.A. for the six months ended June 30, 2018 have been prepared on a going concern basis (further information on the going concern assumption is presented in Note 3).

The condensed interim financial statements are prepared on the historical cost basis.

Critical accounting estimates and judgments of the management are presented in Note 5.

These condensed interim financial statements were authorized for issue by the Company's Management Board on September 13, 2018.

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.

So far the Company has been financing its operations with cash obtained from shareholder and bank loans, equity raising, government grants and cash obtained from distribution partners.

In accordance with information presented in Note 15, in April 2018 the Company has obtained PLN 174,790 thousand from the private placement of shares.

As of June 30, 2018, the Company has obtained letters of financial support from its shareholders (i.e. Twiti Investments Limited, Glatton Spółka z o.o., Celon Pharma S.A.) indicating that the Company will be financed by these shareholders to support its operations in the foreseeable future, for a period not shorter than 12 months from the condensed interim financial statement preparation date.

In management's view with the continuing shareholders' support, both long term investors and local market participants, and the strategic agreements with future distribution partners (see Note 17), the Company will have sufficient funding to complete its primary drug development.

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 condensed interim 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 condensed interim financial statements that might be necessary should the entity not continue as a going concern.

4. Significant accounting policies

These condensed interim financial statements have been prepared in accordance with the accounting policies used for the purpose of preparing recent annual financial statements, except for the corporate income tax, which has been calculated based on expected effective annual average tax rate.

The Company's functional currency is the Polish zloty (PLN).

The condensed interim financial statements are presented in thousands of PLN as rounded to full thousands.

New standards and interpretations

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 condensed interim 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 condensed interim financial statements and concluded that they do not have any material impact on these condensed interim 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.

New standards announced and adopted by the European Union, not yet effective

The Company intends to adopt the published, but not effective as at the date of publication of these condensed interim 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 agreement not previously recognized as lease which can meet lease definition according to IFRS 16. However, the Company assessed that there will be no material impact of the application of IFRS 16 on future financial statements.

5. Critical accounting estimates and judgements

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.

In the period covered by these condensed interim financial statements, no changes in the scope or methodology of making any material estimates and judgements have been made by the Management.

6. Operating segments

Management identified one operating segment for the Company, i.e. research and development activities for new biotechnology drugs and biosimilar drugs through utilizing contemporary genetic engineering. No changes have occurred in this respect since the last annual report.

7. Seasonality of operations

The Company's activities are neither seasonal nor cyclical. In the period of six months ended on June 30, 2018, the Company has not generated any revenue.

8. Expenses by nature

The following tables present different types of expenses by nature:

PLN thousands	April 1, 2018 – June 30, 2018 (Not reviewed)	January 1, 2018 – June 30, 2018 (Unaudited)	April 1, 2017 – June 30, 2017 (Not reviewed)	January 1, 2017 – June 30, 2017 (Unaudited)
Third-party services	9 616	14 800	5 794	11 652
Cost of materials	3 144	3 864	2 109	4 399
Personnel expenses	2 860	4 018	1 408	3 042
Depreciation	1 358	2 424	1 171	2 202
Registration fees	814	1 570	-	-
Other expenses	49	54	68	103
Research and development costs by nature	17 841	26 730	10 551	21 398
Office expenses	1 103	1 987	1 050	1 861
Personnel expenses	750	2 736	994	1 969
Depreciation	1 506	2 691	742	1 480
Advisory services in connection with distribution contracts	664	664	136	317
Share based payment expense (IPO incentive) *	(262)	109	393	817
Rental, usage and maintenance of equipment and company car expenses	87	289	127	305
Taxes and fees	163	316	103	223
Audit and other advisory services	558	903	656	1 121
Other operating expenses **	1 072	1 665	419	603
General and administrative expenses by nature	5 641	11 360	4 620	8 695

* negative value of share-based payments expense in the second quarter of 20018 is due to reversal of provision created in previous periods. Total cost relating to share-based payments in the period of six months ended June 30, 2018 was PLN 109 thousand.

** other operating expenses in the period of six months ended June 30, 2018 include an impairment loss of PLN 437 thousand recognized in relation to the inventory of raw materials.

9. Research and development cost

PLN thousands	April 1, 2018 – June 30, 2018 (Not reviewed)	January 1, 2018 – June 30, 2018 (Unaudited)	April 1, 2017 – June 30, 2017 (Not reviewed)	January 1, 2017 – June 30, 2017 (Unaudited)
MabionCD20	17 630	26 257	10 528	21 325
MabionEGFR	220	434	1	1
Other projects	1	39	22	72
Total Research and development costs	17 840	26 730	10 551	21 398

In the period covered by these condensed interim 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 for MabionCD20 to the European Medicines Agency ("EMA"), which has been approved for further evaluation on June 21, 2018.

10. Other operating income

PLN thousands	April 1, 2018 – June 30, 2018 (Not reviewed)	January 1, 2018 – June 30, 2018 (Unaudited)	April 1, 2017 – June 30, 2017 (Not reviewed)	January 1, 2017 – June 30, 2017 (Unaudited)
Government grants	528	1 024	471	967
Other operating income	132	177	93	100
Total other operating income	660	1 201	564	1 067

Government grants income includes also a portion of the deferred income (grant) relating to fixed assets co-financed from EU grants in the past, amounting to PLN 978 thousand and PLN 967 thousand in the period of 6 months ended June 30, 2018 and June 30, 2017, respectively (See also Note 16), which was recognized in profit or loss proportionally to depreciation of the underlying assets.

11. Finance income and costs

PLN thousands	April 1, 2018 – June 30, 2018 (Not reviewed)	January 1, 2018 – June 30, 2018 (Unaudited)	April 1, 2017 – June 30, 2017 (Not reviewed)	January 1, 2017 – June 30, 2017 (Unaudited)
Interest income	411	412	13	27
Net foreign exchange gains	-	-	2 456	4 188
Other finance income	-	-	-	-
Total finance income *	411	412	2 469	4 215
Interest expense	(983)	(1 814)	(294)	(469)
Net foreign exchange losses	(3 187)	(2 413)	-	-
Other finance costs	(252)	(478)	(85)	(88)
Total finance costs *	(4 422)	(4 705)	(380)	(558)

* due to method of presenting foreign exchange gains and losses as a net position, sum of first and second quarter calculated separately for financial income and financial costs may differ from results for the whole six-month period. The difference stems from recognition of foreign exchange gains and losses net position as financial income in one quarter and financial cost in the other one

Majority of net foreign exchange losses in the period od six months ended June 30, 2018 represent 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 17.

12. Property, plant and equipment

In the period covered by these condensed interim financial statements the Company has invested PLN 3,305 thousand in tangible assets and PLN 480 thousand in intangible assets.

Substantial part of investments in tangible fixed assets in the first half of 2018 was financed through loans and lease contracts, which are described in Notes 18 and 19, respectively.

The Company has neither sold nor liquidated any tangible fixed assets in the period covered by these condensed interim financial statements.

The Company has not identified any impairment indicators in relation to property, plant and equipment as of June 30, 2018.

13. Inventory

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

The Company has recorded PLN 437 thousand as other expenses to recognize cost of the inventory of raw materials which has been liquidated or reserved for (see Note 8).

14. Trade and other receivables

PLN thousand	June 30, 2018 (Unaudited)	December 31, 2017
VAT receivable	2 861	1 437
Trade receivables	18 720	8
Advances for materials and services	137	138
Other receivables	256	66
Trade and other receivables	21 974	1 649

Trade receivables as of June 30, 2018 represent amount due from Mylan Ireland ("Mylan"), being the filing milestone according to agreement with Mylan, due on successful filing by the Company of the Marketing Authorization Application for MabionCD20 with the EMA. This amount was received by the Company on August 27, 2018.

15. Equity

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.

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 June 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 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.

Mabion intends to use the net proceeds from the financing to cover the cost of the expansion of production capacity in Konstantynów Łódzki, Poland and costs and expenses related to the development and commercialization of Mabion CD20.

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 the first six months of 2018 in full.

The Company has accounted for transaction costs relating to the issue of 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).

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 without the pre-emptive rights for existing shareholders, entitling eligible employees to purchase up to 114,000 of R-series shares and up to 11,000 of S-series 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 will be set in the rules, which must be approved by the Company's Supervisory Board. Alternatively, the warrants may be purchased by the Company in exchange for cash in order to be redeemed. As of the date of these condensed interim financial statements, no such rules have been approved yet. The Company analysed the potential impact of the GSM resolution on these condensed interim financial statements and decided not to recognize any effects since they were assessed as not having any material impact on either the Company's results or its financial position.

16. Deferred Income

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 (NCBiR). 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.

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 (PLN 978 thousand and PLN 967 thousand in the period of six months ended June 30, 2018 and June 30, 2017, respectively. See Note 10).

In the period covered by these condensed interim financial statements the Company received grant funds to re-finance expenses incurred in two projects co-financed from EU funds in the total amount of PLN 4,900 thousand and returned PLN 228 thousand due to the innappropriate classification of certain expenses identified during audits. Amount of grants received has been accounted for as deferred income due to conditions in the grant agreement, which are not fully under the Company's control and which may result in return of grants received, if not met.

Current portion of deferred income represents this portion of deferred income, which is reasonably expected to be realized within 12 months from the balance sheet. 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;

This portion of milestone payments received from Mylan equal to PLN 14,007 thousand, which is no longer refundable according to the terms of the agreement with Mylan, which will be recognized as income after receiving by Mabion marketing authorization for MabionCD20, is recognized as non-current deferred income as of June 30, 2018

17. Refundable prepayments for distribution rights

The table below presents the list of prepayments for distribution rights received from partners, which Mabion signed distribution agreements with:

PLN thousands	June 30, 2018 (Unaudited)	December 31, 2017
Mylan	42 120	34 813
FARMAK	1 090	1 043
ONKO	480	459
Sothema Laboratories	100	96
Lyfis	26	25
Total	43 816	36 435

Change in value of the refundable prepayments for distribution rights in the first six months of 2018 equal to PLN 7,381 thousand 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 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.

As stated in the annual financial statements for the year ended December 31, 2017, these liabilities are payable on demand and are classified as current liabilities. In the current interim period, there were no changes in the terms of these distribution agreements.

18. Borrowings

a) Bank borrowings

On January 15, March 15 and March 28, 2018 the Company utilized the sixth, seventh and eighth tranche 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 from sale of P-series shares.

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) and Glatton Sp. z o.o. (controlled by Mr. Maciej Wieczorek, Chairman of the Supervisory Board) 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 date of these financial statements. 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 June 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) Sale-and-leaseback transactions

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 the first six months of 2018, the Company has not entered into any new sale-and-leaseback transactions.

d) Other borrowings

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 new IT systems 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 in writing 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 June 30, 2018, total outstanding amount of loans granted by Idea Getin Leasing is PLN 222 thousand.

19. 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 an early termination penalty. Total future minimum lease payments under the lease as of June 30, 2018 amount to PLN 300 thousand in 2018 and PLN 600 thousand in 2019. The lease expense recognized in the first six months of 2018 amounted to PLN 376 thousand.

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 and concentrate all operations in its own facilities in Konstantynów Łódzki, therefore, 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 condensed interim financial statements equals to PLN 412.5 thousand and is included in depreciation in general and administrative expenses (see Note 8).

b) Finance lease

The Company uses vehicles 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 the few new lease agreements resulting in the initial recognition of the fixed assets in the amount of PLN 948 thousand and the lease liability of PLN 948 thousand.

Total cost of assets subject to finance lease as of June 30, 2018 and December 31, 2017 amounts to PLN 6,928 thousand and PLN 5,980 thousand, respectively. The table below presents minimum lease payments and current value of lease payments as of June 30, 2018 and December 31, 2017.

PLN thousands	Minimum lease payments as of June 30, 2018 (Unaudited)	Current value of lease payments as of June 30, 2018 (Unaudited)	Minimum lease payments as of December 31,2017	Current value of lease payments as of December 31, 2017
Within 1 year	1 270	1 198	982	955
From 1 to 5 years	2 770	2 149	2 536	2 308
Total	4 040	3 347	3 518	3 263

20. Trade and other payables

PLN thousands	June 30, 2018 (Unaudited)	December 31, 2017
Trade payables	14 896	14 005
Accrued expenses for clinical trials	1 140	2 123
Share-based payments (Note 24)	-	670
Social security and personal income tax on salaries	1 037	677
Accrued expenses for unused holidays	585	344
Payroll	790	609
Other payables	489	67
Total trade and other payables	18 937	18 495

21. Effective income tax rate

In the period of six months ended June 30, 2018, the tax base for the Company equalled PLN 4,690 thousand. The Company was not obliged to pay any tax since the whole profit was recorded on activities within Special Economic Zone (the "SEZ") and the Company may use tax credit received on investments in the SEZ in previous years. Therefore, the effective corporate income tax rate was equal to 0%.

As of June 30, 2018, the Company operated under three permits issued by the Łódź Special Economic Zone ("ŁSSE"), located in Poland. There were no significant changes in 2018 in respect of the amounts and conditions of utilizing the tax credits available to the Company, i.e. tax credits will be available by December 31, 2026 to offset against future corporate income tax profits.

In the period covered by these condensed interim financial statements the Company has not met the criteria to recognize deferred tax asset.

The tax losses carried forward from previous years are disclosed in the financial statements for the year ended December 31, 2017.

22. Financial risk management

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 have not changed substantially compared with the annual financial statements.

23. 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 and refundable prepayments for distribution rights. The Company's management assessed that the fair value of these items approximates or equals their carrying values.

24. Related party transactions

There is no direct controlling party or ultimate controlling party for the Company.

In the period covered by these condensed interim 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 16.

The Company sourced funding for its ongoing operations from four of its shareholders and related parties: Twiti Investments Ltd. and Glatton Sp. z o.o., Mr. Artur Chabowski and Mr. Robert Aleksandrowicz. Details of these transactions are presented in Note 18.

<u>Key management compensation (incl. share-based payment and remuneration)</u>

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 is being recognized over the vesting period from the date of grant (which is the same as the service commencement date) to the expected 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 April 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 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 27. 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, the Management decided not to recognize any share-based payment liability as of June 30, 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.

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

PLN thousands	January 1, 2018 – June 30, 2018 (Unaudited)	January 1, 2017 – June 30, 2017 (Unaudited)
Remuneration of the Supervisory Board Members	151	56
Remuneration of the Management Board Members	318	318
Share-based payments made	109	-
Total short-term compensation	578	374
Share-based payments costs accrued	-	817
Total compensation of key management personnel and the Supervisory Board	578	1 191

25. Contractual commitments

As of June 30, 2018, the Company did not have any contractual commitments for the acquisition of property, plant and equipment, intangible assets or development work.

26. 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 July 17, 2018 the Company and Bank Zachodni WBK S.A. ("the Bank") 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.

On August 3, 2018 the Company entered into financing agreement secured on assets with Idea Getin Leasing for leasing of laboratory equipment, worth PLN 366 thousand.

On August 6, 2018 EMA granted the Company approval for submitting the second registration application for the drug under the working name MabionCD20. The assumption of the second application is to obtain by the Company additional trade name for which the list of indications for the product will be limited and will not involve the Rheumatoid Arthritis ("RA"). This operation may accelerate the commercialisation of the drug under the working name MabionCD20 on the market, whereas RA is still the subject of the patent protection for Mabthera. Approval granted from the EMA is only the initial confirmation of the possibility of drug registration and does not guarantee the success of this process. The Company also reserves the right to withdraw from submitting the second registration application depending on the final evaluation of the potential business benefits for the Company.

On September 7, 2018 the Company received protocol from the audit of social security payments made by the Company in years 2015-2017 prepared by the Polish Social Insurance Institution ("ZUS"). The protocol indicates potential underpayment of social security contributions due to errors in calculations of basis for calculation of the social security contributions, by PLN 75 thousand. The Company is currently reviewing this protocol and no provision was made in these condensed interim financial statements for potential expenses.

Management Board

Konstantynów Łódzki, 13th September 2018

Artur Chabowski
President of the Management Board

Sławomir Jaros
Member of the Management Board

Jarosław Walczak
Member of the Management Boar

Jolanta Baranowska
Chief Accountant