MABION

MABION S.A.
Condensed interim financial statements as at and for the period of 3 months and 9 months ended 30 September 2022

Konstantynów Łódzki, 24 November 2022

CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

in PLN thousand, unless otherwise indicated	Notes	1 July 2022 – 30 September 2022 (not audited)	1 January 2022 – 30 September 2022 (not audited)	1 July 2021 – 30 September 2021 (not audited)	1 January 2021 – 30 September 2021 (not audited)
Income from sales	8	14,084	53,900	-	1,590
Income from the purchase of materials	8	23,113	62,577	-	-
Lease income	8	1,285	4,557	-	-
Total income		**38,482**	**121,035**	**-**	**1,590**
Cost of sales	8	(6,801)	(22,041)	-	-
Own cost of purchased materials	8	(23,113)	(62,947)	-	-
Total costs		**(29,914)**	**(84,988)**	**-**	**1,590**
Gross profit (loss) from sales		**8,568**	**36,047**	**-**	**1,590**
Research and development costs	9	(7,783)	(12,628)	(9,478)	(20,266)
General administration costs	9	(6,476)	(19,393)	(6,893)	(16,461)
Other operating income	11	583	1,946	329	1,033
Other operating costs	11	(1,325)	(2,209)	(288)	(736)
Operating profit (loss)		**(6,434)**	**3,763**	**(16,330)**	**(34,840)**
Financial income	12	1,952	5,133	975	585
Financial costs	12	(580)	(1,397)	(276)	(948)
Gross profit (loss)		**(5,061)**	**7,499**	**(15,631)**	**(35,203)**
Income tax	21	-	-	-	-
NET PROFIT (LOSS)		**(5,061)**	**7,499**	**(15,631)**	**(35,203)**
Other comprehensive income		**-**	**-**	**-**	**-**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(5,061)**	**7,499**	**(15,631)**	**(35,203)**
Basic and diluted loss per share (in PLN per share)		**(0.31)**	**0.46**	**(0.97)**	**(2.18)**

The explanatory notes presented on pages 5 to 35 form an integral part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

in PLN thousand	Noes	30 September 2022 (not audited)	31 December 2021
Intangible assets		790	811
Property, plant and equipment		90,005	88,672
Long-term receivables		216	206
Deferred tax asset		12,158	12,158
Total fixed assets		**103,169**	**101,847**
Inventories	14	6,844	8,445
Trade receivables	15	82,005	12,461
Other receivables		6,846	6,263
Prepayments and accrued income		4,947	6,514
Cash and cash equivalents		10,632	48,707
Total current assets		**111,275**	**82,390**
TOTAL ASSETS		**214,443**	**184,237**
Share capital		1,616	1,616
Share premium		237,443	237,443
Other reserves		733	731
Accumulated losses		(178,978)	(186,477)
Total equity		**60,814**	**53,313**
Deferred income from grants	18	35,493	32,159
Trade liabilities		-	434
Loans and borrowings	21	413	202
Lease	22	4,146	1,992
Total long-term liabilities		**40,052**	**34,787**
Repayable advances on distribution rights	20	1,894	1,790
Trade liabilities	23	40,469	23,242
Other liabilities	23	4,686	6,019
Loans and borrowings	21	10,132	15,250
Deferred income from grants	18	227	806
Other deferred income	18	73	-
Liabilities under contracts with customers	19	52,170	46,110
Lease	22	1,976	1,965
Lease prepayments	19	1,950	955
Total short-term liabilities		**113,577**	**96,137**
TOTAL LIABILITIES		**153,630**	**130,924**
TOTAL LIABILITIES AND EQUITY		**214,443**	**184,237**

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CONDENSED INTERIM CASH FLOW STATEMENT

in PLN thousand	1 January 2022 – 30 September 2022 (not audited)	1 January 2021 – 30 September 2021 (not audited)
Gross profit (loss)	**7,499**	**(35,203)**
Adjustments for items:		
Depreciation	7,067	6,441
Interest income	(111)	-
Interest costs	1,147	947
Income from grants	(741)	(953)
Costs of the share-based incentive scheme	2	29
Lease payment measurement	(394)	223
Change in assets and liabilities		
Change in inventories	1,601	(13,429)
Change in trade and other receivables	(70,127)	(4,643)
Change in prepayments and accrued income	1,567	(189)
Change in trade and other liabilities	22,401	65,371
Change in repayable advances on distribution rights	104	(28,301)
Change in other financial liabilities	3,403	(406)
Change in deferred income	2,029	-
Cash flows from operating activities	**(24,553)**	**(10,113)**
Proceeds from grants	1,540	454
Interest received	111	-
Interest paid	(1,352)	(1,336)
Net cash flows from operating activities	**(24,254)**	**(10,995)**
Disposal of property, plant and equipment	525	319
Acquisition of property, plant and equipment and intangible assets	(7,058)	(18,097)
Proceeds from grants	-	-
Net cash flows from investing activities	**(6,533)**	**(17,778)**
Repayment of borrowings	(5,432)	(2,882)
Proceeds from the issue of shares	-	117,480
Share issue costs	-	(4,917)
Proceeds from borrowings	-	3,500
Repayment of lease principal	(1,856)	(1,725)
Net cash flows from financing activities	**(7,288)**	**111,456**
Net increase/(decrease) in cash and cash equivalents	(38,075)	82,683
Cash and cash equivalents – opening balance	**48,707**	**2,395**
Change in cash due to exchange rate differences	-	-
Cash and cash equivalents – closing balance	**10,632**	**85,078**

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CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

in PLN thousand	Share capital	Issued but unregistered share capital	Share premium	Other reserves	Cumulative Losses	Total equity
As at 1 January 2021	**1,373**	**-**	**108,923**	**696**	**(188,380)**	**(77,388)**
Net loss / total comprehensive income	-	-	-	-	(35,203)	(35,203)
Transactions with shareholders:						
S series share issue	243	-	133,437	-	-	133,680
U series share issue costs	-	-	(4,917)	-	-	(4,917)
Measurement of the incentive scheme based on shares	-	-	-	29	-	29
As at 30 September 2021 (not audited)	**1,616**	**-**	**237,443**	**725**	**(223,583)**	**16,201**
As at 1 January 2022	**1,616**	**-**	**237,443**	**731**	**(186,477)**	**(53,313)**
Net loss / total comprehensive income	-	-	-	-	7,499	7,499
Transactions with shareholders:						
U series share issue	-	-	-	-	-	-
U series share issue costs	-	-	-	-	-	-
Measurement of the incentive scheme based on shares	-	-	-	2	-	2
As at 30 September 2022 (not audited)	**1,616**	**-**	**237,443**	**733**	**(178,978)**	**60,813**

The explanatory notes presented on pages 5 to 35 form an integral part of these condensed interim financial statements.

ADDITIONAL INFORMATION

1. Company

Mabion S.A. (Mabion or Company) was established on 30 May 2007 as a limited liability company. The legal form of the Company changed on 29 October 2009 as a result of the transformation of the limited liability company into a joint-stock company established in accordance with the law of the Republic of Poland. Currently, Mabion is entered on the Register of Entrepreneurs of the National Court Register kept by the District Court for Łódź-Śródmieście in Łódź, 20th Commercial Division of the National Court Register under KRS number 0000340462. The Company was assigned tax identification number NIP 7752561383 and statistical identification number REGON 100343056. The Company's registered office is Konstantynów Łódzki, ul. gen. Mariana Langiewicza 60.

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

Mabion S.A. is a biotech company specialising in the development and manufacture of originator medicines using the recombinant protein technology which is currently a prerequisite for the development of advanced products to combat the most serious diseases, for example in the field of oncology, neurology, or autoimmunity (targeted therapies). The Company's most advanced project is MabionCD20, a proposed biosimilar to the reference drug MabThera/Rituxan (Roche). To date, the Company has completed most of the work within the project (development of technology, analytical tools, Phase III clinical trials, scaling up production to commercial scale with validation). The remaining tasks include a clinical bridging trial in a limited patient population to demonstrate the equivalence of the commercially manufactured medicine with the product previously tested in the Phase III trial and originating from the clinical manufacturing scale, as well as an analytical studies.

Since 2021, the Company has been employing technologies it had developed also to execute commercial orders for partners in the field of manufacturing, analytics, and development of biopharmaceuticals (acting as a Contract Development and Manufacturing Organisation, CDMO). The Company's experience in the development, analytical, and regulatory areas made it possible for it to complete a commercial order Novavax Inc. ("Novavax"), consisting of the transfer of analytical methods and manufacturing process used to produce a recombinant protein vaccine antigen which is the active substance of a vaccine against SARS-CoV-2 infection. The success of the transfer of technology, as well as the available GMP-compliant (Good Manufacturing Practice) production capacity, enabled the Company to sign and commence implementation of another agreement with Novavax for the contractual commercial manufacturing of and analytics for the Nuvaxovid® vaccine antigen ("Manufacturing Agreement, "MCMA" – Master Contract Manufacturing Agreement). At present, the agreement provides for cooperation between the parties until 2026.

As a result of the signing of annexes in Q3 2022 significantly expanding the scope and duration of the cooperation with Novavax, as at the date of publication of this report work is underway to review and analyse both the Company's ongoing and planned projects, while preparatory work has commenced for the implementation of a further contract service consisting in the manufacture of antigen for the Omicron variant vaccine for Novavax. The work schedules are being updated so that the structure of activities in the context of the implementation of Company's own projects and commercial orders would enable optimum use of its resources and future financial results. Upon completion of all necessary work and arrangements, the Company will announce an updated schedule, together with the Company's overall development strategy.

2. Basis of preparation

These condensed interim financial statements of Mabion S.A. for the period of three and nine months ended 30 September 2022 have been drawn up in accordance with International Accounting Standard 34 "Interim Financial Reporting" as endorsed by the European Union ("IAS 34"). These statements are also drawn up in accordance with IAS 34 as issued by the IASB due to the fact that there are no differences between the IFRS as adopted in the European Union and the IFRS as issued by the IASB insofar as they apply to the Company.

The condensed interim financial statements do not include all the information required in the full financial statements compliant with IFRS as adopted for application in the European Union (IFRS) and should be read in conjunction with the audited financial statements of the Company for the financial year ended 31 December 2021, published on 21 April 2022.

The condensed interim financial statements of Mabion S.A. for the period of 3 and 9 months ended 30 September 2022 have been prepared in accordance with the going concern principle (further information on the assumptions concerning the Company's ability to continue operations is provided in Note 3).

The most important accounting policies that have been applied in these financial statements are presented in Note 4. The same policies were applied in each financial year, unless explicitly stated otherwise.

The condensed interim financial statements have been drawn up in accordance with the historical cost principle.

Significant accounting estimates and judgements of the management are presented in Note 5.

These financial statements were authorised for publication by the Company's Management Board on 24 November 2022.

3. Going concern principle

In parallel to the research and development activities, the Company expands its contract manufacturing services. As a result of the successful transfer of technology, on 8 October 2021 the Company entered into the Master Contract Manufacturing Agreement with Novavax, pursuant to which the Company commenced commercial-scale GMP-compliant manufacturing, for Novavax, of the COVID-19 vaccine antigen under the name of Nuvaxovid.

The Agreement entered into with Novavax was unconditional and its conclusion and commencement were not dependent of the registration procedure of the Novavax vaccine in the respective markets. The Agreement has been concluded for a fixed period of time until the end of 2025, with an option for renewal. The total value of the Agreement during its term was estimated at USD 372,000 thousand i.e. PLN 1.46 billion based on the average exchange rate of the National Bank of Poland as at 7 October 2021 (the Agreement's value was estimated at the USD exchange rate applicable on the day before the day on which the agreement was signed, and on the theoretical assumption of future zero inflation during the entire term of the Agreement). The Agreement was implemented and settled per batch of the product, at the unit price per batch denominated in USD specified in the Agreement (unit prices subject to indexation based on the inflation rate). Under the Agreement, the parties agreed on the volume and production schedule for each year in the period 2022–2025, based on which Mabion was to manufacture the number of product batches required by Novavax. The production schedule has been set for the entire duration of the Agreement, but the parties could agree on modifications to the schedule and volume of deliveries. During the reporting period, the Company, on the basis of mutual arrangements with Novavax, assessed that it is possible that the actual demand as well as manufacturing output may be realised at a different level than that agreed in the original agreement.

On 22 September 2022, the Company entered into an annex to the above-described agreement and an annex to the Statement of Work with Novavax concerning the manufacture of the COVID-19 vaccine antigen under the name of NVX-CoV2373, in compliance with the GMP standard and at a commercial scale. Under the annex in force, the Agreement's duration has been extended to the end of 2026. At the same time, a period of unconditional commitment of the counterparty to accept the performance in the period up to Q2 2024 was agreed upon and adopted. The estimated level of orders outside the above-mentioned period is not guaranteed. As a result of the annex, based on the schedule agreed between the parties, the Company will either receive remuneration for the product batches manufactured or remuneration for the readiness to manufacture the product based on the production capacity guaranteed to Novavax. The price for the manufactured batches of the product will remain unchanged from the one originally specified in the agreement. The amount of charge for available manufacturing capacity will represent an equivalent of the unit price per manufactured batch, adjusted for the value of the materials to produce the product batch in question. Including prepayments and other exceptions as indicated in the schedule, fees for available manufacturing capacity will be payable on a regular basis – monthly. Starting from January 2023, the fixed unit price per batch and per manufacturing capacity rendered available will be subject to annual indexation until the end of the Agreement. The scope of cooperation, indicated in the appendixes to the annexes, has been specified for each year in the period between 2022 and 2026. Under the Annex, Novavax also undertook to take actions to immediately commission the Company to use the guaranteed manufacturing capacity to produce the batches of the COVID-19 vaccine antigen, Omicron variant, agreed upon by the parties, including to carry out the transfer of technology.
The possibility of completing the agreed scope of work under the Agreement in the future years depends on the Company's available production capacity, therefore the Management Board's objective will be to expand the production capacity in early 2023 and equipping the existing facility with new bioreactors with accompanying equipment, which will result in the Company having four bioreactors later in 2023.

From March 2021 to the balance-sheet date, the Company had received payments under the agreement amounting to USD 31,884 thousand, of which advance payments for the purchase of materials and raw materials accounted for USD 21,142 thousand, and the coverage of expenditures for the adaptation of the facility with additional necessary instrumentation and equipment accounted for USD 1,550 thousand.

After the balance-sheet date, the Company received further payments under agreements in progress in the amount of USD 16,541 thousand. Overall, as from March 2021 payments received from Novavax up to the date of the financial statements amounted to USD 48,424 thousand.

In line with the current assumptions for 2022–2026, the Company's strategic objective in the area of therapeutic products remains further development, manufacturing, and sales of medicines used in the treatment of most serious cancer and autoimmune, diseases, including rare diseases, while in the area of contract manufacturing (CDMO), the Company's strategic objective has become cooperation with Novavax (USA) in the area of development and production of new protein vaccines used in the fight against the COVID-19 pandemic. Moreover, the CDMO business will be developed in the coming years and the dynamics of this development will depend on the available new manufacturing and research capacities that the Company plans to expand.

As a result of the annexes to the agreement entered into with Novavax, the Company perceives a need to review and resume the work on updating the schedule of project work aimed at developing MabionCD20 for registration in the European and US markets. The work plan for the next few years will be updated with account taken of the current format of cooperation with Novavax and the development of contract activities as a CDMO. Consequently, in the Management Board's view the schedule for further work on the registration

of MabionCD20 will be subject to change. The Company will announce an updated schedule, together with the Company's overall development strategy, upon completion of all necessary work and arrangements.

To date, the Company has financed its operations with cash received from shareholder borrowings, capital issues, bank loans, grants and proceeds from MabionCD20 distribution partners. The agreement with Novavax has provided the opportunity to realise positive cash flows over the next years until the end of 2026 and has become the main source of funding for ongoing operations and manufacturing capacity expansion.
What is more, the Company does also exclude the use of other sources of financing such as external debt financing, grants, subsidies from EU funds, earmarked funds for the implementation of new projects, or other sources where a decision is taken to start implementing an investment aimed at a substantial increase in manufacturing capacity by constructing a new manufacturing facility with a research and development centre located next to the existing facility.

After the balance-sheet date, the Company decided to terminate the Co-financing Agreement for the project "Expansion of the Research and Development Centre of Mabion S.A. – research on the new generation of medicines" as part of Measure 2.1 Support for investment in R&D infrastructure of enterprises of the Operational Programme Smart Development 2014–2020 co-financed by the European Regional Development Fund. The termination of the Agreement is related to the fact that the Company had been considering a change in the scope of the planned investment and that it had not been possible to implement the Project on the terms and conditions and within the timeframe stipulated in the Co-financing Agreement.
The Agreement with the European Investment Bank for financing up to a total of EUR 30,000 thousand, i.e. approximately PLN 140,000 thousand, expired as a result of the lapse of the 36-month loan availability period. Due to the fact that the conditions have not been fulfilled and any of the tranches provided for in the financing agreement have not been disbursed by the date of these statements, the Company has not made use of the financing provided under the aforementioned Agreement.

On 18 October 2022, the Company received information that the Credit Committee of the European Bank for Reconstruction and Development has given its approval for the provision of financing to the Company in the form of a secured long-term loan amounting to USD 15 million. The Loan is intended in particular to finance the expansion and modernisation of the Company's current facility located in Konstantynów Łódzki. The Credit Committee's approval is not tantamount to the EBRD's commitment to disburse the resources. The availability of the latter will depend, among other things, on entering into a credit agreement with the EBRD and on the fulfilment of the conditions precedent, including the establishment of appropriate collateralisation.

After the balance-sheet date, the Company completed the repayment of the borrowing from Glatton Sp. z o.o. in 2020 in the total amount of PLN 15 million. The repayment was made in two tranches - on 28 September 2022, the amount of PLN 5 million plus accrued interest and on 2 November 2022, PLN 10 million plus accrued interest. Therefore, as at the date of these statements, the Company's liability under the borrowing has been fully repaid.

The Management Board of the Company is also undertaking activities aimed at starting cooperation with other entities operating on the market, in the case of which such cooperation may bring benefits to the Company in the area of development and production of biologics.
Moreover, as at the date of the financial statements, the process of securing a strategic investor, as reported by the Company in the 2021 financial statements, is still being actively pursued.
In addition to the activities described above, the Management Board of the Company informs that as at the date of these financial statements, the Company holds letters of support received from the key shareholders (Twiti Investments Limited, Glatton Sp. z o.o, Polfarmex S.A.), whose contents indicate that these shareholders are willing and able to continue their financial support for the Company's day-to-day operations in the near future covering a period of at least another 9 months from the date of signing of these financial statements, should the Company's financial situation so require, which, according to the Management Board's current knowledge, will not be the case.
Following the analysis, no significant uncertainties have been identified that may cast doubt on the Company's ability to continue as a going concern.
These financial statements have been drawn up in accordance with the going concern principle, which provides that the Company will continue to operate in the foreseeable future – not shorter than 12 months as of the date of drawing up the financial statements. Therefore, no adjustments have been made to the financial statements which might be necessary should the going concern assumption be unjustified.

4. Key accounting principles

a) Functional and presentation currency

The functional and presentation currency of the Company is Polish zloty. The financial statements are presented in thousands of Polish zloty, rounded to the nearest whole thousand, unless indicated otherwise.

b) Transactions and balances in foreign currencies

Transactions expressed in foreign currencies have been presented as at the transaction date in PLN using the exchange rate applicable as at that date. Cash assets and liabilities in foreign currencies were translated into PLN at the end of the reporting period using the exchange rate for that date set by the National Bank of Poland (NBP).

Foreign exchange gains and losses on the settlement of transactions in foreign currencies, as well as those resulting from the periodic conversion of cash assets and liabilities, are recognised in the financial result.

Foreign currency non-cash items measured at historical cost are translated into PLN using the exchange rate of the National Bank of Poland as at the date of initial recognition of the item in question.

c) Recognition of income

Income from agreements with customers is recognised by the Company at the amount of consideration expected in return for the performance of the promised scope of services or the delivery of specified goods. The Company's main sources of income include production of active substances for medical products as part of the CDMO (Contract Development and Manufacturing Company) formula.

The Company applies IFRS 15 "Revenue from Contracts with Customers" to all agreements with customers, except for leases within the scope of IFRS 16 "Leases", financial instruments and other contractual rights or obligations within the scope of IFRS 9 "Financial Instruments".

The primary principle set out in IFRS 15 and applied by the Company is to recognise income when goods and services are transferred to the customer, at a value that reflects the price expected by the Company which is due to it in return for the transfer of those goods and services.

IFRS 15 requires that all sales contracts are recognised using the so-called five-step model, which includes the following steps:

- identification of agreement with the customer,
- identification of the performance obligation under the agreement with the customer,
- setting the transaction price,
- allocation of the transaction price to the different performance obligations,
- recognition of income upon fulfilment of a contractual obligation.

Identification of agreement with the customer

The Company recognises an agreement with a customer only when all of the following criteria are met:

- an agreement has been made (in writing, verbally or following other usual commercial practice) and the parties are bound to perform their obligations,
- The Company is able to identify each party's rights concerning the goods or services to be transferred,
- The Company is able to identify the terms and conditions of payment for the goods or services to be transferred,
- the agreement has economic content, and
- it is likely that the Company will receive the consideration to which it is entitled in exchange for the goods or services to be provided to the customer. When assessing whether it is probable that the consideration amount will be received, the Company considers the customer's ability and intention to pay the consideration amount in a timely manner.

Identification of the performance obligations

When entering into an agreement, the Company assesses the goods or services promised in the agreement with the customer and identifies as a performance obligation any promise to transfer to the customer a good or service (or a bundle of goods or services) that is separable, or a group of separate goods or services that are substantially the same and their transfer to the customer is of the same nature.

Services promised to the customer are separate if both of the following conditions are met:

- the customer can benefit from them either directly or through links to other resources which are readily available to the customer, and
- Company's obligation to perform the service for the customer can be identified as separate from other obligations set out in the agreement.

An important part of the Company's operations is contract development and manufacturing of active substances for medical products. Such agreements may include various promised services, i.e. development, manufacturing, analytics, and sales of resulting substances, provision of machinery and equipment capacity and/or adaptation of a facility to the needs of the contracting entity (technology transfer), consulting services. Depending on the nature of the agreement and the links between the aforementioned elements, the Company may identify one or more performance obligations. In particular, a single performance obligation may be identified where different types of services and goods provided all serve the same purpose (e.g. to manufacture an active substance for a third party), i.e. there is a material service consisting in integrating all promised goods/services in order to produce the active substance for the customer. Furthermore, if the criteria set out in item (s) below are met, then the lease element is separated from the agreement.

Setting the transaction price

To set the transaction price, the Company takes into account the terms and conditions of the agreement and customary business practices. The transaction price is the amount of consideration that the Company expects to receive in return for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, certain sales taxes). The remuneration specified in the agreement with the customer may include fixed amounts, variable amounts, or both. The amount of remuneration specified in the applicable agreement per manufactured unit is fixed and may be subject to indexation on terms and conditions agreed upon between the parties.

Allocation of transaction price to performance obligations

If an agreement contains a lease component in addition to a non-lease component, the entire remuneration is first allocated between the non-lease component and the lease component on the basis of relative unit prices. With regard to the remuneration allocated to the non-lease component, the Company allocates a transaction price to each performance obligation (or to a separate good or separate service) in an amount that reflects the amount of consideration that the Company expects to receive in return for transferring the promised goods or services to the customer. The allocation is made on the basis of relative unit sales prices.

Fulfilment of performance obligations

The Company recognises income upon fulfilment (or in the process of fulfilment) of the performance obligation by transferring the promised good or service to the customer. The obligations may be fulfilled over time or at a specific point in time.

Transfer of control over time

For contract manufacturing of active substances for medical products under the CDMO formula, the Company performs the contractually promised scope of the manufacturing service and services over the duration of the CDMO agreement. Income from manufacturing services is recognised over time based on the progress of the service.

In case of contract manufacturing, the Company recognises income using the progress measurement method based on inputs, which in the Company's opinion reflects in the best way the entity's results in fulfilling the identified performance obligation. The amount of remuneration allocated to this performance obligation is recognised as income in line with the performance stage in terms of cost. The income is based solely on costs directly related to the fulfilment of the obligation and does not take into account overheads, possible inefficiencies, excess consumption, etc. Since the manufacturing cycle and the level of costs incurred (in particular if one of the cost items are material goods purchased from third parties for the purpose of implementing an agreement) for the performance of contractual obligations are not necessarily proportional to the level of fulfilment of the obligation, when costs are incurred that are not yet accompanied by the fulfilment of the performance obligation, income is only recognised to the extent of the costs incurred.

Transfer of control at a specific point of time

If a performance obligation is not fulfilled over time, then it is recognised as fulfilled at a specific point of time and income is recognised also at that point. In order to determine the timing of the obligation fulfilment and income recognition, the requirements for transferring control of the promised asset to the customer are taken into account.

Income from contractual manufacturing services consisting in the production of active substances for medical products is recognised over time based on the progress of the service. The Company has selected the progress measurement method as in its opinion it best represents the entity's performance in providing the service.

The input-based method of measuring progress reflects the entity's performance to date in relation to the complete fulfilment of the performance obligation. Under the input-based method, the entity excludes the effects of any inputs that, in accordance with the objective of measuring progress, do not reflect the entity's results in transferring control of the goods or services to the customer. The progress measure is adjusted if the cost incurred is not commensurate with the entity's progress in fulfilling its performance obligation.

As at the balance-sheet date, the Company analyses whether in case of early termination for reasons other than non-performance it is entitled to receive a payment compensating the Company for at least the obligation performance to date.

The Company recognises income in an amount equal to the cost of goods acquired to fulfil the performance obligation when the entity expects, at the time of entering into the agreement, that all of the following conditions will be met:

(a) the good in question is not separate;
(b) the customer is expected to acquire control of the item of goods in question substantially earlier than when they receive services relating to the good;
(c) the cost of the acquired good is significant in relation to the total expected cost of complete fulfilment of the performance obligation;
(d) the entity purchases the good from a third party and has no significant involvement in the design and manufacture of the good.

The agreement in force provides for specific payment terms depending on the stage of production and delivery of individual manufacturing batches based on a fixed price per batch with indexation of the price expressed in USD. The agreement governs the financing of working capital for the production of individual batches in the form of pre-financing of the purchase of raw materials necessary for production in view of subsequent production runs over a period of not less than another 12 months, in an amount to be determined by the parties.

Point of income recognition for advances on distribution rights

The advance payments received in the previous reporting periods for the distribution rights to the biosimilar medicines under development in line with the agreements in force, in a non-reimbursable portion, are part of the total transaction price which will be allocated to the performance obligations identified in the agreement and will constitute income appropriately to the fulfilment of the performance obligations.

Amounts of non-reimbursable advance payments do not constitute income for the Company until commercial sales have commenced through a distribution partner who holds an exclusive licence in the relevant territory. Pursuant to the agreements in force, two service performance obligations have been initially identified, i.e. a licence to use the intellectual property (rights to a medicine including distribution in the specific territory) and manufacturing services. The total transaction price under the agreement is allocated to the aforementioned two performance obligations on the basis of the relative separate sell prices of those performance obligations. The transaction price may include both fixed and variable elements (including licence payments based on the volume of sales of the medicine). The transaction price allocated to manufacturing services is recognised as income when the service consisting in supply to the distributor of the medicine holding the relevant market authorisation is provided. A licence to use intellectual property satisfies the criteria for income recognition at a point in time.

The advance payments received for distribution rights in the non-reimbursable portion upon completion of the agreement confirming performance prior to the commencement of commercial sales constitute income in their entirety at the point in time. The agreement with Mylan, which was in force in the previous reporting periods, is no longer in force as a result of termination and no income is expected from it in future periods.

Change in estimates in income recognition

The Company generates income from a long-term agreement for the manufacture and sales of an active substance implemented under the CDMO formula. Income from this agreement is accounted for over time, using the input-based method. The costs realised and the estimates of expected costs associated with manufacturing and the estimated amount of income may change over time. The balance-sheet measurement of assets related to the implementation of the agreement and the expected amount of income and implementation costs are determined on the basis of estimates of the Company's Management Board subject to regulatory verification.

The transaction price which the Company may realise from the implementation of the agreement includes variable elements stemming from, among other things, the expected level of the obligation to receive the performance, which is not guaranteed for the entire duration of the agreement, or the conditions related to the annual indexation of the price per manufacturing unit. Changes in the Management Board's estimate of the feasibility of the transaction price level, which was highly probable as at the balance-sheet date, resulted in a reduction in the amount of income in the reporting period.

As at 30 September 2022, the Company revised its estimates, including estimates that reflect the expected value of income from the promised performance and the expected future costs necessary to perform this performance, and other conditions affecting the accurate estimation of income. The estimates were revised as at the balance-sheet date and the possible impacts related to the ongoing global SARS CoV-2 pandemic situation expected by the Company were reflected in them, as well as the demand for vaccines and the provisions of the annex to the agreement, signed on 22 September 2022.

The income recognition model was based on the income due resulting from the schedule agreed between the Company and Novavax, according to which the Company will receive remuneration for the manufactured batches of the active substance or remuneration for the readiness to manufacture the substance based on the manufacturing capacity guaranteed by the Company.

The annex does not change the subject matter of the Agreement, but alters the mechanics of price calculation and the duration of the Agreement. In the original Agreement, Mabion's remuneration was determined depending on the manufactured batches in line with the order, and the remuneration was payable to the Company whether the manufactured goods were collected or not. With the annex, a minimum guaranteed remuneration was introduced for the period until Q2 2024, which is independent of the occurrence of production (the so-called slot fee). At the same time, under the annex, there is no longer an option for a rolling budget of "guaranteed" orders in the period of obligatory service provision. The transaction price for the manufactured batches of the active substance remained unchanged in relation to the one set out in the Agreement of 8 October 2021. However, the annex sets a new transaction price for the readiness to manufacture the substance, equal to the price for the manufactured batch adjusted by the previously determined average value of materials necessary to manufacture the batch.

As a result, the theoretical amount of total income under the agreement with Novavax before and after the annex was signed, under similar assumptions, calculated for the period from 22 September 2022 to the end of the Agreement, has changed. As the Company is capable of separating the number of batches of the active substance produced up to the date of the Annex from batches produced (or planned to be produced) after that date, then – in accordance with IFRS 15 – the Annex signed on 22 September 2022 was recognised as if, at its date, the Agreement in force had been terminated and a new agreement had been concluded. The Company has made estimates as at the balance-sheet date using a income settlement model based on the agreement value corresponding to the sum of income guaranteed over the period up to Q2 2024 (so-called performance obligation).

Nevertheless, the changes introduced by the annex do not alter the conditions for the performance obligation under the Agreement to be deemed to have been fulfilled over time. Therefore, income earned by the Company under the Annex is still recognized over time, in proportion to the degree to which the performance obligation has been fulfilled (the degree to which the work has progressed), using an input-based method.

As at 30 September 2022, the Company also revised the amounts of the expected variable costs on the basis of experience gained as a result of already completed batches of the active substance, and revised the projected fixed costs in line with the principle of availability of full manufacturing capacity, in accordance with the assumed manufacturing plan set out in the annex entered into on 22 September 2022.

The changes made to the estimates had a negative impact on the measurement of income from the agreement in progress and the amount recognised in Q3 2022 (current reporting period) compared to the measurement that would have been made based on the assumptions and estimates as at the end of the previous balance-sheet year, resulting from the provisions of the agreement of 8 October 2021. This results mainly from a change in the point in time at which the amount of income originally expected to be realised in Q3 2022 is recognised, which, under the annex of 22 September 2022, was guaranteed as part of the remuneration for manufacturing capacity availability in later accounting periods.

According to the schedule current as at the date of the annex, it is assumed that the Company should realise more than 15% of the total value of the Agreement between the onset of the Agreement and the end of 2023. In the period from the beginning of 2024 to the end of 2025, the Company should achieve approximately 55% of the total value of the Manufacturing Agreement. In 2026, the Company should achieve approximately 30% of the total value (this does not include indexation of agreement terms based on the inflation rate). The principles adopted for income recognition are consistently applied and only the estimates associated with them were subject to change.

d) Grants

The Company receives financial assistance in the form of grants for the development and production of medicines. The grants are received in the form of cash provided in return for meeting, in the past and in the future, certain conditions relating to the Company's operations. Income from grants is disclosed when the Company has sufficient certainty that it will be able to meet the conditions for using the grants and that it will receive them.

If the conditions are not met, cash received from government authorities is reported as deferred income unless the terms of the grant agreement provide for an obligation to return the grant in the event of the occurrence or non-occurrence of future uncertain events beyond the Company's control.

Typically, such grants are linked to audit requirements imposed by the intermediary bodies. The Company's experience shows that the intermediary bodies disbursing the grants exercise audit rights. The Company generally defers the recognition of the received grants as income until all aspects of the audit requirements have been met.

The Company receives grants for the acquisition of property, plant and equipment and for research and development work. Grants relating to research and development costs are recognised in other operating income on a systematic basis over the period for which the entity recognises as costs the related expenditure to be compensated by the grant. Grants relating to depreciable property, plant and equipment are initially accounted for as deferred income and then recognised in other operating income over the depreciation period of the assets.

A situation in which a grant becomes repayable results in a change of estimates, and the reimbursement is recognised immediately first by decreasing the undepreciated deferred income, if any, and if the reimbursement amount exceeds the amount of deferred income, the excess is presented in the current period's financial result.

e) Research and development costs

The costs of research are recognised as a cost of the period in the financial result when incurred and no intangible asset is recognised as a result of research activities in accordance with IAS 38.

Costs related to a later development phase are also charged to the financial result when incurred, unless all conditions listed below are met, in which case the costs of development work are activated in intangible assets: (i) it is technically possible to complete the intangible asset so that it is capable of being used or sold; (ii) the entity intends to complete the intangible asset and use or sell it; (iii) the intangible asset will generate probable future economic benefits; (iv) it is ensured that technical, financial and other resources are available to complete the development work and use or sell the intangible asset; (v) it is possible to determine reliably the expenditures incurred during the development work that are attributable to the intangible asset.

The criterion of technical feasibility shall be deemed not to have been met until the Company obtains approval of the medicine by the competent regulatory authority.

f) Repayable advances on distribution rights

The Company has entered into a number of strategic agreements on the commercialisation of its drugs by granting the contractor the exclusive right to sell the drug on specific markets. The parties to these agreements make advance payments to the Company on account of rights and licenses to be obtained after the drug has been admitted to trading. The Company classifies these advances as financial liabilities because it does not have the unconditional right to avoid the delivery of cash to settle the liability, as the reimbursement of these amounts depends on the occurrence or non-occurrence of certain future events or the resolution of uncertain circumstances that are beyond the Company's control. Such liabilities are measured initially at fair value, and subsequently at amortised cost. As the event that may trigger a repayment may occur at any time, the amortised cost is equal to the amount payable on demand. When the uncertainty is resolved, the related amounts will be reclassified to deferred income

and recognised as part of the remuneration for the sale of distribution rights in accordance with the accounting policy presented in Note 4c.

The advance payments received for distribution rights in the non-reimbursable portion upon completion of the agreement confirming performance prior to the commencement of commercial sales constitute income in their entirety at the point in time.

g) Income tax

Income tax in the statement of comprehensive income includes the current part and the deferred part. Current and deferred tax is charged to the financial result of the period, except for situations when it concerns items recognised directly in equity or in other comprehensive income.

Current tax is the expected amount of income tax liability or receivable for a given year, calculated using tax rates applicable as at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities and their tax base. The amount of deferred tax is determined using the tax rates that are expected to apply at the time of realisation of an asset or settlement of a liability under tax regulations that have come into force or are generally effective at the end of the reporting period.

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

Deferred tax assets on tax losses to be settled, unused tax relief, and negative temporary differences are recognised up to the amount of probable future tax income, which will enable their realisation.

h) Property, plant and equipment and intangible assets

Both property, plant and equipment and intangible assets are measured at cost less accumulated depreciation/amortisation and impairment losses.

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

Purchased software necessary for the proper functioning of operated equipment is capitalized as a part of the equipment. Where an item of property, plant and equipment consists of separate significant parts with different useful lives, those parts are depreciated separately. When such part of an item of property, plant and equipment is replaced, the carrying amount of the removed part is derecognised and the new part is recognised in the cost of the asset.

Expenditures on property, plant and equipment are capitalised after their initial recognition if their cost can be reliably estimated and it is probable that the Company will obtain economic benefits from this item.

Expenditure incurred in connection with current repairs and maintenance is recognised in the financial result when incurred.

The basis for depreciation (i.e. the depreciable amount) is the cost of the asset less its residual value (for property, plant and equipment). Depreciation is calculated on a straight-line basis using depreciation rates that reflect the estimated useful life of the assets.

The Company adopted the following useful lives for particular categories of property, plant and equipment 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

Fixed assets used under leases are depreciated over the lease term or the term of use, whichever is shorter.

Useful lives, depreciation methods and residual values of property, plant and equipment are updated at each balance-sheet date and adjusted prospectively if necessary.

i) Impairment of property, plant and equipment and intangible assets

The carrying amount of property, plant and equipment and intangible assets is assessed at the end of each reporting period for objective evidence of impairment. If there is such evidence, the Company estimates the recoverable value of individual assets or, if an asset does not generate cash inflows independently of other assets, the recoverable value of the cash-generating unit (CGU).

The recoverable amount of an asset or a cash-generating unit is the fair value of assets/CGU less costs to sell or value in use, whichever is higher.

An impairment loss is recognised for the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The amount of the impairment loss is allocated pro rata to each asset within the cash-generating unit and recognised in profit or loss for the period.

j) Inventories

Inventories are measured at (i) acquisition price or manufacturing cost, or (ii) net realisable value, whichever is lower.

The acquisition price includes all purchase, processing and other costs incurred by the Company to bring the inventory to its current location and condition. It is reduced by discounts, trade rebates, and other similar items.

The manufacturing cost includes costs directly related to production increased by systematically allocated fixed and variable production overheads incurred to transform materials into finished goods, taking into account the utilisation rate of the Company's so-called regular production capacity.

In the period covered by these financial statements, the Company is not engaged in the production of its own finished goods (other than relating to the implementation of the CDMO agreement) or sales of its own products, hence the inventories include only materials that are used for research and development work. Materials are measured at the purchase price (i.e. the purchase price plus transaction costs), which corresponds to their net sales value. Inventories purchased for the purposes of research and development are not recognised in profit or loss at the time of purchase but at the time of use, because they are not specific to research and development activities and have other alternative uses. Short-term inventories are written off and their cost is recognised in profit or loss for the period.

The cost of inventories as at the balance-sheet date is determined using the "first-in, first-out" method (FIFO).

Raw materials purchased by the Company and used for the purposes of the CDMO agreement are recognised in the profit and loss account at the time of purchase, and not at the time of actual use in production, where the raw materials have no alternative use (i.e. the raw materials are specifically identifiable and the Company does not have the right to use the raw materials for purposes other than contract manufacturing, and other circumstances also indicate that control over the raw materials is transferred to the contracting party by the Company upon purchase). Consequently, the Company does not recognise purchases of raw materials acquired for the purpose of contract manufacturing in the balance-sheet under inventories.

k) Long-term receivables

Long-term receivables include deposits paid by the Company to the lessor under a lease agreement and deposits forming collateral for payments under concluded supply or service agreements. These receivables are non-interest bearing and therefore they are measured at fair value at the initial recognition. Deposits are held to collect contractual cash flows that include Solely Payment of Principal and Interest (SPPI) and therefore after initial recognition, these receivables are recognised at amortised cost including allowance for expected credit losses (the accounting policy for allowances for expected credit losses is set out in section 4(v)).

The Company applies simplified methods of measurement for long-term receivables measured according to amortised cost if it does not distort the information contained in the statement of financial position, in particular when the period until the repayment of receivables is not long and the impact of discounting at the initial recognition is not significant. In such situations, the amortised cost is equal to the nominal value of the deposit.

l) Trade and other receivables

As part of its assets under an agreement, the Company recognises rights to remuneration in exchange for goods or services that it has transferred to the customer if the right is subject to a condition other than the passage of time and the payment for those services or goods has not yet occurred and an invoice has not been issued. The Company assesses whether an asset under an agreement is impaired on the same basis as for the financial assets under IFRS 9. Where the right to receive remuneration is unconditional and the Company has issued an invoice for goods or services supplied, the right to receive remuneration is recognised as a trade receivable.

As part of receivables, the Company recognises rights to remuneration in return for goods or services it has provided to a customer, if the right is unconditional (the only condition for the remuneration to be payable is the passage of a specified time). The Company recognises the receivable in accordance with IFRS 9. Upon initial recognition of a receivable under an agreement, any difference between the measurement of the receivable under IFRS 9 and the corresponding previously recognised amount of income is recognised by the Company under costs.

Trade receivables are measured at fair value upon initial recognition. After initial recognition, trade receivables are measured at amortised cost using the effective interest method, and decreased by write-downs for expected credit losses, if any (the accounting policy for allowances for expected credit losses is set out in section 4(v)). Impairment losses are charged to the financial result for a given period and reduce the carrying amount of receivables.

The Company applies simplified methods of measurement of receivables measured at amortized cost if it does not distort the information contained in the statement of financial position, in particular when the period until the repayment of the receivables is not long and does not exceed 12 months from the date of their occurrence. Such receivables are measured at their nominal value.

Receivables expressed in foreign currencies are reported at the average exchange rate of the National Bank of Poland on the last business day preceding the date of the transaction, set for the currency in question on that day, unless a different rate has been set in a customs declaration or other document binding on the entity.

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

Advance payments for materials and services are recognised initially and at the balance-sheet date in the amount of the payment made.

m) Prepayments and accrued income

Prepayments are recognised as assets at their nominal value at the time of payment. They are recognised in the financial result over the period of consuming economic benefits arising from the terms of the agreements.

n) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits payable on demand and deposits with an initial maturity of up to 12 months. Cash in bank accounts meets the SPPI test and the 'held for collection' business model test, and is therefore measured at amortised cost with an impairment loss determined in accordance with the expected loss model (in accordance with the policy outlined in 4(v)).

o) Share capital

The share capital is included in the nominal value of issued shares. Shares are presented in the 'share capital' item only after they have been entered in the court register. Any share premium received or receivable on the issue of shares is reported under the 'share premium' item.

Issued but unregistered shares are included in the capital in a separate item as 'issued but unregistered share capital'.

Each issue of Company's capital instruments addressed to creditors for the purpose of waiving all or part of the Company's financial liabilities, where the creditors are (direct or indirect) shareholders who at the same time act as shareholders, is settled by exchanging the carrying amount of the debt to the Company's equity. Debt recognition is discontinued if and only if the Company is relieved of its obligation to pay funds as a result of the issue of treasury shares to creditors. The share capital is recognised in the amount resulting from the applicable local law, and the difference between the amount recognised as share capital and the carrying value of the derecognised contractual liability is presented in the Company's equity.

p) Deferred income

Deferred income includes grants received (the relevant policy is presented in Note 4d) and fixed assets acquired free of charge by way of donation. Regarding fixed assets received free of charge - the amounts recognised in deferred income gradually increase other operating income, in parallel to the depreciation/amortisation of the fixed assets or intangible assets received.

q) Trade and other liabilities

As part of liabilities under an agreement, the Company recognises the remuneration received from the customer, which involves an obligation to provide goods or services to the customer. If the customer has paid the remuneration or the Company is entitled to an amount of remuneration that is unconditional (i.e. receivable) before the goods or services have been transferred to the customer, the Company presents the agreement as a contractual liability at the time the payment is made or when the payment becomes due (whichever is earlier).

Trade and other liabilities constituting financial liabilities are initially measured at fair value. After initial recognition, they liabilities are recognised at amortised cost.

Other liabilities that are not financial liabilities are measured at the amount due.

r) Loans and borrowings

Loans and borrowings are initially recognised at fair value, less transaction costs. After initial recognition, these liabilities are recognised at amortised cost.

s) Lease

In the case of contract manufacturing, there may be elements of operating leases in which the Company is the lessor. They result from the above-mentioned provision of specific means of production exclusively for the benefit of the party commissioning the production.

Fixed assets that are owned by the Company and used for contract manufacturing constitute a single lease, representing interrelated and interdependent manufacturing assets. An agreement is a lease where it gives the ordering party the right to control the use of an identified asset for a period of time in return for remuneration and the control is assessed taking into account the rights that the counterparty generally has over the useful life of the asset.

A lease is recognised in the financial statements if:

- There are identified assets that are used by the Company to manufacture for the contractor
- The counterparty has assessed whether the Company's production facility is ready for contract manufacturing, and therefore the existing manufacturing assets have been approved by the counterparty
- The equipment additionally purchased by the Company has been approved by the counterparty;
- The Company does not hold any material right to substitute fixed assets earmarked for the implementation of an agreement with the counterparty, because it would not economically benefit from exercising the right to substitute the asset (i.e. the economic benefits of substituting the asset would exceed the costs of substituting it). Moreover, in any case the replacement of the asset requires consent from the counterparty, so in reality the Company does not have the right to replace it;
- The premises of the factory building where manufacturing takes place is a physically separate part of the whole building and therefore also meets the criteria of an identified asset.
- The Counterparty has the right to derive substantially all of the economic benefits from the use of the identified asset

over its useful life. The Company is bound by contractual restrictions on the use of fixed assets intended for implementing the contract manufacturing agreement for other purposes (including manufacturing for third parties or for the Company's own needs) without prior written consent of the counterparty. The counterparty has the right to derive all of the economic benefits from the use of the identified assets over its useful life.
- Pursuant to the agreement in force, the counterparty has the right to direct the use of the identified asset throughout its useful life by commissioning the production (i.e. it determines if and when these assets are used for production and determines the quantity of production).

Setting the lease term

The lease term is the expected period of the agreements for the contract manufacturing of the active substance, as termination of the agreement in this period involves substantial, wide-ranging penalties for the parties, which makes it reasonably certain that the agreement will not be terminated early.

Classification of leases as finance leases or operating leases

The Company is a party to leases as lessor in the case of contract manufacturing agreements and where it follows so from the above characteristics of these agreements.

When evaluating the qualification of identified lease elements as an operating lease or a finance lease, the Company considers whether:

- the lease provides for a transfer of ownership of the underlying asset to the lessee (contracting party) before the end of the lease term,
- the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value of the asset at the time such an option becomes exercisable to assume with sufficient certainty at the lease origination date that the lessee will indeed exercise this option,
- the lease term represents a significant proportion of the economic useful life of the underlying asset, even if title is not transferred,
- the current amount of lease payments on the origination date are generally nearly equal to the aggregate fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

If it follows from the foregoing conditions that substantially all the risks and rewards associated with the assets are not transferred to the lessee, then the lease is accounted for as operating lease, and otherwise as finance lease.

The Company is a lessee under lease agreements.

Leases are recognised as right-of-use assets and liabilities to pay for those rights on the date the leased assets are available for use by the Company.

The right-of-use assets are presented under 'property, plant and equipment' in the statement of financial position.

At the lease inception date, lease liabilities are measured at an amount equal to the present value of the following lease payments for the right to use the underlying asset over the lease term:

- fixed payments (including substantially fixed payments), less any lease incentives payable;
- variable lease payments which depend on an index or a rate;
- amounts expected to be paid by the lessee under the guaranteed residual value;
- strike price of the call option if it can be assumed with reasonable certainty that the lessee will exercise the option;
- financial penalties for terminating a lease if the lease conditions provide that the lessee may exercise the option to terminate the lease.

Lease payments are discounted using the lease interest rate, if that rate is readily determinable, or the lessee's incremental borrowing rate.

Each lease payment is allocated between the liability and the finance cost. After initial recognition, lease liabilities are measured using the effective interest rate. The carrying amounts of the liabilities are updated to reflect the change in the estimated lease term, call option, change in lease payments and guaranteed residual value, and modification of the lease agreement.

The lease term is a non-cancellable lease term; periods covered by renewal and early termination options are included in the lease term if there is a reasonable certainty that the lease will be renewed or the agreement will not be terminated early.

The right-of-use assets are initially measured at cost which includes:

- initial measurement amount of the lease liability;
- any lease payments paid on or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee;
- estimated costs of dismantling, removing the underlying asset and carrying out the refurbishment.

After initial recognition, right-of-use assets are measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for remeasurement of the lease liability due to reassessment or modification of the lease.

The right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term, using the straight-line method. Depreciation periods for right-of-use assets are generally 4 or 5 years.

The Company applies simplifications concerning short-term leases (up to 12 months) and leases where the underlying asset is of low value (up to PLN 20 thousand) and does not recognise financial liabilities and related assets under the right of use for these agreements. Lease payments on this account are recognised as costs on a straight-line basis over the lease term.

t) Share-based payments

The Company has introduced a remuneration programme based on and regulated by own shares. The Company recognises the costs of the equity remuneration plan (payments in the form of equity instruments) in the costs of the Company's operations and, on the other hand, as an increase in equity.

Share-based benefits settled in the form of equity instruments (warrants) are measured at fair value at the grant date. In the fair value measurement of the warrants, the market condition for vesting (i.e. shares reaching a specified minimum price) is taken into account.

If the employee's service in respect of the benefits offered by the Company commences prior to the grant date, the fair value of the warrants is remeasured at each reporting date to their current fair value up to the grant date, as of which date the fair value determined does not change.

The value of share-based benefits is recognised as an expense over the vesting period. The total cost is recognised over the vesting period, i.e. the period during which all specified vesting conditions must be satisfied. At the end of each reporting period, the entity revises its estimates of the expected number of warrants that will be vested in employees following the satisfaction of non-market vesting conditions (i.e. the employment condition). The entity recognises the effect of any revision to the original estimate in profit or loss, with a corresponding adjustment to equity. In the case of incentive schemes for employees which are related to remuneration for their work, the value of warrants is charged to operating costs, respectively: a) in the comparative variant – to remuneration costs, b) in the calculation variant – to general administration costs. The issued warrants are presented on a separate account "Issue of warrants under the share-based incentive scheme", which is presented in the financial statements together with other reserves. The exercise of warrants by employees involves the issue of shares and settling the value of warrants disclosed in equity. Cash received as payment of the exercise price of warrants is recognised by the Company in equity. The Company discloses information in the financial statements to enable the readers to understand the nature and scope of share-based payment agreements that were in force in the period.

u) Cash flow statement

The Company recognises interest paid and interest received from operating activities in the cash flow statement.

v) Impairment of financial liabilities measured at amortised cost

The Company assesses Expected Credit Losses (ECL) associated with financial assets measured at amortised cost (including trade receivables, deposit receivables, cash and cash equivalents) irrespective of any indication of impairment.

For trade receivables, the Company applies the simplified approach and measures impairment losses in the amount of credit losses expected over the life of the receivable from its initial recognition. The Company uses an allowance matrix in which allowances are calculated for trade receivables classified into different age ranges or past due periods.

The Company employs a three-grade impairment model for financial assets other than trade receivables:

- Grade 1 – balances for which credit risk has not increased significantly since initial recognition; Expected credit losses are determined based on the probability of default over 12 months (i.e. the total expected credit loss is multiplied by the probability that the loss will occur within the next 12 months);
- Grade 2 – balances for which there has been a significant increase in credit risk since initial recognition but no objective evidence of impairment exists; expected credit losses are determined based on the probability of default over the contractual life of the asset;
- Grade 3 – balances with objective evidence of impairment.

In the Company's view, there is a significant increase in credit risk, particularly when the balance is past due for 30 days or more.

Financial assets are written off, in whole or in part, when the Company has exhausted virtually all collection efforts and considers that recovery of the receivable can no longer be reasonably expected. This usually occurs when an asset is at least 360 days past due.

5. Major estimates and judgements

In applying the accounting policies described in Note 4, the management makes estimates, judgements and assumptions relating to the recognition and measurement of particular assets and liabilities. The estimates and related assumptions are based on past experience, the Management's expectations, or other factors considered relevant. Actual results may differ from the estimates. Estimates and related assumptions require regular review. Changes in accounting estimates are recognised on a prospective basis starting from the period in which the estimates were changed. The most significant estimates and judgements made by the management, which have the most significant effect on the amounts reported in the financial statements, are presented below.

a) Recognition of lease under the applicable agreement with Novavax

The existing agreement with Novavax has been identified as containing a lease and is accordingly recognised in the financial statements considering the fulfilment of the following conditions:

- There are identified assets that are used by the Company to manufacture for Novavax
- Novavax has assessed whether the Company's production facility is ready for contract manufacturing, and therefore the existing manufacturing assets have been approved by the counterparty
- The equipment additionally purchased by the Company has been approved by Novavax
- The Company does not hold any material right to substitute fixed assets earmarked for the implementation of an agreement with the counterparty, because it would not economically benefit from exercising the right to substitute the asset (i.e. the economic benefits of substituting the asset would exceed the costs of substituting it). Moreover, in any case the replacement of the asset requires consent from the counterparty, so in reality the Company does not have the right to replace it;
- The premises of the factory building where manufacturing takes place is a physically separate part of the whole building and therefore also meets the criteria of an identified asset.
- Novavax has the right to derive substantially all of the economic benefits from the use of the identified asset over its useful life. The Company is bound by contractual restrictions on the use of fixed assets intended for implementing the contract manufacturing agreement for other purposes (including manufacturing for third parties or for the Company's own needs) without prior written consent of the counterparty. Novavax has the right to derive all of the economic benefits from the use of the identified assets over its useful life.
- Pursuant to the agreement in force, Novavax has the right to direct the use of the identified asset throughout its useful life by commissioning the production (i.e. it determines if and when these assets are used for production and determines the quantity of production).

Fixed assets that are owned by the Company and used for contract manufacturing constitute a single lease, representing significantly interrelated and interdependent manufacturing assets, and were recognised by the Company as operating lease.

For the CDMO contract manufacturing agreements in place, the Company has accounted for the lease elements of the contract manufacturing agreements as operating leases. This is because the majority of production assets:

(i) has an alternative use and the Company plans and has the ability to utilise it after completion of the agreement,
(ii) the lease term (4 years) does not cover most of the economic useful life of the majority of the underlying assets.
(iii) the ownership of the majority of production assets is not transferred to the counterparty at the end of lease;
(iv) the contracting party does not have a possibility to purchase those assets,
(v) the current amount of lease payments is materially lower than the fair value of the fixed assets provided by the Company.

It was assumed that the lease period was the expected period for which the contractual manufacturing agreement relating to the active substance was concluded. Termination of the agreement in this period involves substantial, wide-ranging financial consequences for the parties, which makes it reasonably certain that the agreement will not be terminated early.

The fee for the lease under the agreement with Novavax was calculated on the basis of relative unit sales prices. The unit sales prices were determined on the basis of costs and the market margin, i.e. the amount of depreciation costs and the expected market margin for renting this type of fixed assets.

b) Income recognition estimates and classification of inventories under the agreement with Novavax

Income from contractual manufacturing services consisting in the production of active substances for medical products is recognised by the Company over time based on the progress of the service. The Company has selected the progress measurement method as in its opinion it best represents the entity's performance in providing the service.

The input-based method of measuring progress reflects the Company's performance to date in relation to the complete fulfilment of the performance obligation. Under the input-based method, the Company has excluded the effects of any inputs that, in accordance with the objective of measuring progress, do not reflect the Company's results in transferring control of the goods or services to the customer. The progress measure adjustment was taken into account in the agreement value estimation model with the assumption that the cost incurred is not commensurate with the entity's progress in fulfilling its performance obligation.

The Company has analysed whether in case of early termination for reasons other than non-performance it is entitled to receive a payment that at least compensates the Company for the performance to date.

The Company recognises income in an amount equal to the cost of goods acquired to fulfil the performance obligation as the entity expects that all of the following conditions will be met:

(a) the good in question is not separate;
(b) Novavax expected to acquire control of the item of goods in question substantially earlier than when they receive services relating to the good;

(c) the value of the acquired good is significant in relation to the total expected cost of complete fulfilment of the performance obligation;
(d) The Company was not significantly involved in the design and development of the active substance produced as part of contract manufacturing.

Following the input-based method, raw materials purchased by the Company are recognised in the profit and loss account immediately upon purchase rather than when actually used in production. Consequently, the Company does not recognise purchases of raw materials acquired for the purpose of contract manufacturing in the balance-sheet under inventories. As regards the cost of raw material used, income is recognised up to the cost of such raw materials if all of the following criteria are met, i.e.:

- the raw material is not separate (i.e. a material service is needed for integration of the raw material with the manufacturing service provided by the Company)
- The contracting party acquires control of raw materials well in advance of receiving the services related to the raw materials;
- the cost of the raw material transferred is significant in relation to the total expected cost of complete fulfilment of the performance obligation;
- The Company procures the raw material from a third party and is not significantly involved in the design and manufacture of the raw material.

Raw materials purchased by the Company for the purposes of contract manufacturing are immediately recognised in the profit and loss account as cost of sales because:

- the raw materials have no alternative use (i.e. the Company does not have the right to use the raw materials for purposes other than contract manufacturing, and other circumstances also indicate that control over the raw materials is transferred to the contracting party by the Company),
- contract manufacturing of an active substance meets the criteria for income recognition over time, thus costs incurred in relation to the fulfilment of the Company's performance obligation are recognised in the profit and loss account when incurred, including the raw material purchased specifically for the purpose of the agreement.

In the financial statements for the present reporting period, the Company recognises purchased raw materials as cost of sales in the profit and loss account with income recognised at an amount equal to the raw material acquisition cost, and thus no profit margin is recognised with regard to the raw material costs. In the statement of financial position as at 30 September 2022, the Company does not activate the raw material recognised as inventories, but instead it recognises this raw materials as costs of meeting the performance obligation, given the nature of the purchases and the nature of the agreement.

Income recognised using the input-based method reflects:

- income recognised using the input-based method reflects: the profit margin earned by the Company from the onset of manufacturing in line with the agreement in force and the incurring of manufacturing costs other than just the use of raw materials or
- activities conducted to confirm the effectiveness of the transfer of technology.

c) Deferred tax assets relating to income tax relief

In the 2021 financial statements, the Company recognised deferred tax assets for the first time and measured the amount expected to be deducted from income tax in the foreseeable future based on the prudence principle.

The Company has historically realised significant negative temporary differences, resulting mainly from ongoing research and development work that will reduce the income tax base in the future. In addition, the Company holds zone permits and the resulting gross subsidy equivalents and has generated deductible tax losses from non-zone activities in the last 5 years. The existing entitlements to exercise the deduction from the tax base and the right to benefit from public aid have been verified, considering the expected income from both the activities within the zone and outside it in a period most probable from the point of view of the estimates.

The principle of prudence was applied in the estimation of the tax asset due to the adoption of a restrictive approach and the lack of previous history in generating a tax base to account for state aid held, loss carryforwards, or temporary differences. While the Company does not publish financial forecasts, it emphasises that the tax result may materially differ from the Company's result realised in the different reporting periods.

d) Depreciation of property, plant and equipment

Depreciation rates are based on the expected useful lives of property, plant and equipment. Each year, the Company revises the assumed useful lives using current estimates. The useful lives are determined by reference to the estimated periods over which the Company expects to derive future economic benefits from the use of the assets. The Company also accounts for past experience with similar assets, if any. The Company also accounts for anticipated future events that may affect the useful life of assets, such as technology developments.

e) Determination of the point of time when criteria for capitalisation of development costs are met

Due to the risks and uncertainty around the medicine authorisation process, the Company does not currently meet the criteria for capitalisation of incurred expenses and therefore development outlays are recognised as an expense

in profit or loss the moment they are incurred. In principle, the Company expects to capitalise development costs starting from the moment the medicine is authorised by the relevant regulatory authority.

6. Operating segments

The Company generates income from a long-term agreement for the manufacture and sales of an active substance implemented under the CDMO formula. Income from this agreement is accounted for over time, using the input-based method. The costs associated with manufacturing and the amount of income may change over time. The balance-sheet measurement of assets related to the implementation of the agreement and the expected amount of income and implementation costs are determined on the basis of estimates of the Company's Management Board.

The Company classifies a single lease component as an operating lease based on the criteria listed in IFRS 16 (paragraphs 62–65). Due to the fact that all components are interrelated and interdependent, and they are treated as one lease component, the classification of a lease as an operating lease is made for the lease as a whole and not for each component separately.

There has been no change in this respect since the Company's last annual financial statements.

In the period covered by these financial statements, the Company's business activities were conducted only in Poland. All assets of the Company are located in Poland.

7. Seasonal nature of the Company's operations

The Company's business is not seasonal or cyclical. The capacity currently available is dedicated to the CDMO manufacturing.

8. Income and cost of sales

in PLN thousand	01.01.2022 - 30.09.2022 (not audited)	01.01.2021 - 30.09.2021 (not audited)
Income under agreements with customers, including:	**121,035**	**1,590**
Income from products and services	53,900	-
Income from the provision of antibody technology development services to Celon Pharma S.A.	-	1,590
Income from the purchase of materials	62,577	-
Lease income	4,557	-
Cost of sales	**(22,041)**	**-**
Own cost of purchased materials	**(62,947)**	**-**
Gross profit on sales	**36,047**	**1,590**

As part of the agreement with Novavax, which was entered into in October 2021, the Company has committed to manufacture a specified number of batches of the active substance until 2025. Under an annex to this Agreement, signed on 22 September 2022, the duration of the Agreement was extended to 2026, and the period for which the parties are bound by enforceable rights and obligations under the Agreement was simultaneously curtailed to 31.05.2024. The annex also provides for remuneration should no manufacturing order be placed, on account of Mabion's guaranteeing and making its manufacturing capacity available; however, in the opinion of the Company's Management Board, the annex does not change the subject matter of the Agreement, as the binding schedule of orders existing under the Agreement prior to the annex was a de-facto commitment to pay for the Company's full manufacturing capacity.

The production is carried out using a technology provided by the contracting party, which – due to binding contractual provisions and matters related to intellectual property rights – is also the only entity entitled to receive the manufactured batches of the active substance. The performance rendered by the Company creates an asset with no alternative use and the Company is entitled to remuneration at each stage of the performance. Therefore, the conditions for recognising income from the performance of this agreement over time were considered to be met.

In view of the homogeneity of all the batches (a series of similar performances), the total number of batches was considered by the Company to be a single performance obligation. Moreover, the aforementioned agreement in force contains elements of a lease, resulting from the fact that in order to fulfil the aforementioned obligation under the agreement, the Company allocated certain fixed assets (a set of interrelated assets constituting a production line) exclusively to the entity commissioning the production.

Accordingly, the remuneration associated with the fulfilment of the aforementioned obligation under the agreement includes the following components (lease and non-lease):

- income from the production of the active substance, which is accounted for over time using the input-based method, and
- income from operating leases where the Company is the lessor, related to the implementation of this agreement.

The total remuneration under the agreement with Novavax was allocated to the individual components on the basis of relative unit sales prices. The unit sale prices were determined on the basis of costs and the market margin (i.e. for the lease element, it is the amount of depreciation costs and the market margin for renting this type of fixed assets, while for the non-lease element, it is the amount of production costs and a reasonable expected margin).

As part of the extension of its cooperation with Novavax, the Company signed this year additional orders in the form of Statements of Work (SOWs):

- On 14 January 2022, an additional order in the form of Statement of Work #3 (SOW#3), under which – in addition to its existing work – the Company produced GMP-compliant cell banks for Novavax, which will be used as key biological material to form the basis for the production of vaccine antigens of the Nuvaxovid product.
- On 18 January 2022, an additional order in the form of Statement of Work #2 (SOW#2), pursuant to which the Company provides additional analytical testing services to Novavax related to the quality control of the Nuvaxovid vaccine. Based on SOW#2, the Company has first performed and duly documented feasibility studies for certain analytical methods not covered by previous contracts or orders and carried out the transfer of methods in accordance with Novavax's specifications. In Q2 2022, the analysis of samples commenced and is currently under way at the Company.
- On 27 May 2022, an extension of the scope of services in the form of Statement of Work #4 (SOW#4). The extended scope of cooperation includes the quality test to be carried out by the Company, which is one of the most important analyses of the finished product. Therefore, the Company becomes an entity involved in the processes of release of finished products to the market.
- On 7 June 2022, an extension of the scope of services in the form of Statement of Work #5 (SOW#5) that covered stability testing of intermediates and buffers manufactured and used in the production of the SARS CoV-2 rS active substance of the Nuvaxovid vaccine. The order was executed in accordance with its stated objectives and by the set deadline.
- On 6 July 2022, an extension of the scope of services in the form of Statement of Work #6 ("SOW#6") that covers stability testing of stationary phases used in the production of the active substance of the Nuvaxovid vaccine. The tests are carried out in the production area, in a GMP (Good Manufacturing Practice) compliant environment. The signing of the order is of considerable importance in view of the further expansion of the cooperation with Novavax.
- On 20 July 2022, an extension of the scope of services in the form of Statement of Work #7 ("SOW#7") that entails the Company producing cell banks carrying genetic structures that will be used for the manufacturing processes of the active substance of one of Novavax's formulations. The banks will be manufactured in a GMP-compliant environment. The resulting material will then be subjected to the relevant analytical tests, after which it will be transferred to Novavax.
- On 2 August 2022, an extension of the scope of services in the form of Statement of Work #8 ("SOW#8") that entails the Company conducting stability tests on the SARS CoV-2 rS active substance. The tests will be conducted in a GMP (Good Manufacturing Practice) compliant environment, for the batches produced at the Company's facility and indicated by Novavax. The order is long-term and will be executed over a period of three years for each batch subjected to the test.

On 22 September 2022, the Company entered into an addendum to the commercial contract manufacturing agreement with Novavax, Inc. and an annex to Statement of Work No. 1 (SOW#1) for the manufacture of the COVID-19 vaccine antigen under the name of NVX- CoV2373, in compliance with the GMP standard and at a commercial scale. As a result of the Annex the Agreement's duration has been extended until the end of 2026 and, based on the schedule agreed between the parties, the Company will either receive remuneration for the Product batches manufactured or remuneration for the readiness to manufacture the Product based on the production capacity guaranteed to Novavax.

In the opinion of the Management Board, the Annex does not change the subject matter of the Agreement, but simply the mechanics of income calculation. In the original Agreement, Company's remuneration was determined depending on the manufactured batches in line with the order from the contractor, whether the manufactured goods were collected or not. With the Annex, a minimum guaranteed remuneration was introduced for the period until Q2 2022 (varying by month, as specified in the schedule), which is independent of the occurrence of production (the so-called slot fee). In addition, under the Annex, there is no longer an option for a rolling budget of "guaranteed" orders in the period of obligatory service provision.

As a result, the theoretical amount of total income under the agreement with Novavax before and after the annex was signed, under similar assumptions, calculated for the period from 22 September 2022 to the end of the Agreement, has changed. As the Company is capable of separating the number of batches of the active substance produced up to the date of the Annex from batches produced (or planned to be produced) after that date, then – in accordance with IFRS 15 – the Annex signed on 22 September 2022 was recognised as if, at its date, the Agreement in force had been terminated and a new agreement had been concluded. The Company has made estimates as at the balance-sheet date using a income

settlement model based on the agreement value corresponding to the sum of income guaranteed over the period up to Q2 2024 (so-called performance obligation).

Nevertheless, the changes introduced by the annex do not alter the conditions for the performance obligation under the Agreement to be deemed to have been fulfilled over time. Therefore, income earned by the Company under the Annex is still recognized over time, in proportion to the degree to which the performance obligation has been fulfilled (the degree to which the work has progressed), using an input-based method.

Accordingly, as at 21 September 2022, the Company settled the existing Agreement and recognised income for the period up to the date of the Annex - at the value set out in the Agreement, but taking into account the arrangements contained in the Annex, which effectively reduced the income due to the Company under the provisions of the original Agreement for Q3 2022 (taking into account the amount of the slot fee during this period). The total amount of income to be settled under the Annex constituting the new agreement was reduced by the corresponding amount of income recognised under settlement of the original Agreement.

The scope of cooperation has been specified for each year in the period between 2022 and 2026. Under the Agreement, the parties have agreed a guaranteed capacity volume for Novavax until Q2 2024. Novavax is not entitled to reduce the capacity volume reserved until Q2 2024.

According to the schedule current as at the date of the Annexes, it is assumed that the Company should realise more than 15% of the total value of the Agreement between the onset of the Agreement and the end of 2023. In the period from the beginning of 2024 to the end of 2025, the Company should achieve approximately 55% of the total value of the Manufacturing Agreement. In 2026, the Company should achieve approximately 30% of the total value (this does not include indexation of agreement terms based on the inflation rate).

Under the Annex, Novavax also undertook to take actions to immediately commission the Company to use the Manufacturing Slot to produce the batches of the COVID-19 vaccine antigen, Omicron variant, agreed upon by the parties, including to carry out the transfer of technology. To this end, the Parties will take suitable steps to enter into a further annex to Statement of Work No. 1, covering the detailed scope of the Omicron Product manufacturing rules. The current manufacturing capability of the Company allows it to commence production of the Omicron Product.

Entering into the Annexes does not deprive the Company of its ability to carry out contracting activities as a CDMO for other counterparties, excluding those engaged in activities competitive to Novavax, as defined in detail in the Agreement.

As a result of the Annexes, the Company resumed ongoing work related to the updating the schedule of project work aimed at developing MabionCD20 for registration in the European and US markets. The work plan for the next few years will be updated with account taken of the current format of cooperation with Novavax and the development of contract activities as a CDMO. Consequently, in the Management Board's view the schedule for further work on the registration of MabionCD20 will be subject to change. The Company will announce an updated schedule, together with the Company's overall development strategy, upon completion of all necessary work and arrangements.

As a result of the Annexes, the price for the manufactured batches of the Product will remain unchanged from the one originally specified in the Agreement. The amount of the Manufacturing Slot Fee will represent an equivalent of the unit price per manufactured batch, adjusted for the value of the materials to produce the Product batch in question. Including prepayments and other exceptions as indicated in the schedule, the Manufacturing Slot Fee will be payable on a regular basis – monthly.

Starting from January 2023, the fixed unit price per batch and per Manufacturing Slot will be subject to annual indexation until the end of the Agreement.

On 23 November 2022 (an event after the balance-sheet date), the Company signed another extension to the scope of services under the Manufacturing Agreement with Novavax, in the form of Statement of Work #9 (SOW#9). The scope of SOW#9 involves the Company’s tasks consisting in conducting peptide mapping analysis for the active substance (DS) as well as the finished product (DP) of rS SARS-CoV-2 protein samples of Novavax products – both Wuhan and Omicron variants. The contracted tasks involve a method feasibility study, method validation and regular testing of samples produced at Mabion and other entities providing manufacturing services to Novavax. If required by Novavax, routine testing of samples will be carried out in a GMP (Good Manufacturing Practice) compliant environment.

9. Costs by type

The table below shows the categories of generic costs:

in PLN thousand	1.07.2022 - 30.09.2022 (not audited)	1.01.2022 - 30.09.2022 (not audited)	1.07.2021 - 30.09.2021 (not audited)	1.01.2021 - 30.09.2021 (not audited)
Outsourced services, including:	5,419	6,491	1,952	1,289
waste removal and disposal	12	18	80	243
repair services	191	438	799	1,707
analytical services	97	102	278	499
research services	4,870	5,309	-	190
advisory services	191	505	536	(1,866)
legal services	54	82	12	30
Other	4	36	247	486
Costs of materials	691	1,250	2,896	6,579
Staff remuneration costs	1,023	2,863	3,293	8,391
Depreciation	581	1,808	1,189	3,565
Drug registration costs	56	168	114	319
Other costs	12	47	34	123
Research and development costs by type	**7,783**	**12,628**	**9,478**	**20,266**
Consumption of materials, energy, utilities	1,784	4,614	1,404	3,563
Staff remuneration costs	1,643	6,885	3,307	7,529
Depreciation	311	1,296	925	2,876
Advisory services related to the conclusion of distribution agreements	170	502	163	492
Share-based management scheme	-	2	5	29
Outsourced equipment maintenance services	316	1,029	288	439
Taxes and charges	240	753	187	589
Audit and other advisory services	397	1,694	305	1,333
Other costs	1,616	2,618	309	(389)
General administration costs by type	**6,476**	**19,393**	**6,893**	**16,461**

The increase in the costs of research services is related to a provision of EUR 1,000 thousand for uninvoiced clinical trial costs relating to the MabionCD20 project.

10. Research and development costs

in PLN thousand	1.07.2022 - 30.09.2022 (not audited)	1.01.2022 - 30.09.2022 (not audited)	1.07.2021 - 30.09.2021 (not audited)	1.01.2021 - 30.09.2021 (not audited)
MabionCD20	7,412	11,777	7,326	16,848
MabionEGFR	-	-	364	1,422
Other projects	371	851	1,788	1,996
Total research and development costs	**7,783**	**12,628**	**9,478**	**20,266**

Research and development costs are recognised as cost of the period in profit or loss when incurred, in accordance with IAS 38. Development costs may be capitalised and recognised as an intangible asset once the criteria set out in paragraph 57 of IAS 38 are met.

In the period covered by these financial statements, the R&D project in progress that received EU funding were projects financed from the European Regional Development Fund ("Improvement of competitiveness of Mabion S.A. through implementation of a process innovation" and "Development of an analytical methods panel to characterise immunogenicity in a clinical trial targeting rheumatoid arthritis patients using rituximab as a therapeutic substance").

11. Other operating income and costs

in PLN thousand	01.07.2022 - 30.09.2022 (not audited)	01.01.2022 - 30.09.2022 (not audited)	01.07.2021 - 30.09.2021 (not audited)	01.01.2021 - 30.09.2021 (not audited)
Write-downs on tangible current assets	432	-	-	-
Grants	105	741	318	953
Amounts of current assets received free of charge	-	668	-	-
Cancellation of liability	-	490	-	-
Other	46	47	11	80
Total other operating income	**583**	**1,946**	**329**	**1,033**
Loss on liquidation of fixed assets	18	18	14	20
Write-downs on tangible current assets	-	76	196	359
Disposal of materials	1,302	1,850	12	213
Donations made	1	42	-	-
Damages	2	173	-	-
Other	2	51	66	144
Total other operating costs	**1,325**	**2,209**	**288**	**736**

Income from grants relates in particular to the part of grants received in previous years to purchase fixed assets in projects co-financed from EU funds, in the amount of PLN 741 thousand in the period of 9 months ended 30 September 2022, and in the amount of PLN 953 thousand in the analogous period ended 30 September 2021, respectively, which were included in the financial result in particular periods in proportion to the value of depreciation of assets financed from grants.

The disposal of materials in the amount of PLN 1,850 thousand relates to the liquidation of materials after their expiry date, for materials that are not suitable for alternative use.

12. Financial income and costs

in PLN thousand	01.07.2022 - 30.09.2022 (not audited)	01.01.2022 - 30.09.2022 (not audited)	01.07.2021 - 30.09.2021 (not audited)	01.01.2021 - 30.09.2021 (not audited)
Interest income	237	316	-	-
Net positive exchange rate differences	1,320	4,761	801	362
Other	395	56	174	223
Total financial income	**1,952**	**5,133**	**975**	**585**
Interest costs, including:	535	1,352	276	947
on loans and borrowings	423	1,088	156	602
on lease liabilities	112	260	66	205
on trade liabilities	1	5	54	136
Budgetary	-	-	-	4
Net negative exchange rate differences	-	-	-	-
Other financial costs	45	45	-	1
Total financial costs	**580**	**1,397**	**276**	**948**

The net foreign exchange differences for the period of nine months ended 30 September 2022 are due in particular to exchange differences realised on payments received as part of the implementation of agreements with Novavax.

13. Property, plant and equipment

In the period covered by these condensed interim financial statements, the Company incurred expenditures on property, plant and equipment and intangible assets (including those not put to use) in the amount of PLN 8,380 thousand, of which PLN 665 thousand relate to expenditure associated with the extension of the production plant with production lines which can significantly increase the manufacturing capacity.

Commissioned property, plant and equipment and intangible assets during the period of 9 months of 2022 represent PLN 9,010 thousand, part of which was financed under the lease agreements which are presented in Note 22.

Except for a leaseback transaction relating to laboratory equipment worth PLN 525 thousand (Note 21), the Company did not sell any other property, plant and equipment in the current reporting period, while it liquidated property, plant and equipment with a net book value of PLN 18 thousand.
The Company's Management has not identified any indication of impairment of property, plant and equipment as at 30 September 2022.

14. Inventories

The inventory balance, with write-downs on inventories, comprises materials and amounted to PLN 6,844 thousand as at 30 September 2022 (as at 30 September 2021, it was PLN 19,405 thousand).

The inventory balance, with write-downs taken into account, comprises materials (including reference medicines MabThera and Rituxan) and amounted as at 30 September 2022 to PLN 5,956 thousand (as at 30 September 2021, it was PLN 5,229 thousand).

The decreased inventory balance as at 30 September 2022 in comparison with the balance as at 30 June 2022 is attributable mainly to the write-down on inventories (PLN 2,738 thousand) and with a reduction in orders for materials.

The value of used-up inventories reported in the costs of research and development for the period of 9 months ended 30 September 2022 totalled PLN 1,250 thousand (PLN 6,579 thousand for the period of 9 months ended 30 September 2021).

The high balance of inventories at 30 September 2021 was related to:

a) procurement of reference products, i.e. MabThera and Rituxan to secure availability of the drugs to conduct a three-arm, double-blind, randomized clinical trial of MabionCD20 in parallel groups, in patients diagnosed with rheumatoid arthritis, and to carry out analytical panels.
b) the completion of orders for materials required for laboratory scale and production scale work in connection with Mabion's conclusion of a framework agreement, on 3 March 2021, with Novavax under which the Company, with Novavax's participation, has undertaken activities related to the transfer of process technology for the production of an antigen – a COVID-19 vaccine candidate called Nuvaxovid (formerly NVX-CoV2373). On 23 June 2021, The Company received a second order from Novavax (Statement of Work No. 2, SOW no. 2) under the existing Framework Agreement, allowing the Company to commence procuring production materials and raw materials within a budget agreed by the parties and funded by Novavax. On 25 June 2021, the Company issued a pre-payment invoice for USD 15,226 thousand under order SOW no. 2, which on 15 July 2021 was settled by Novavax. Contracting production raw materials in advance will enable the Company to carry out future commercial manufacturing more swiftly.

As at 31 December 2021, the Company changed the recognition of inventories as a result of entering into the CDMO agreement. Using the input-based method for recognising income from the agreement with Novavax, raw materials purchased by the Company for purposes of the agreement with Novavax are included in the profit and loss account upon purchase rather than when they are actually used in production due to the fact that these raw materials have no alternative use.

The raw materials are specifically identifiable and the annex to the agreement with Novavax, signed on 22 September 2022, allows the Company to use them for purposes other than the implementation of the contract manufacturing agreement to a very limited extend and upon Novavax's consent only (Novavax controls these raw materials from their purchase by Mabion). Consequently, the Company does not recognise raw materials purchased for the contract manufacturing for Novavax as inventories, but – in the presented reporting period – the Company recognises purchased raw materials as cost of sales in the profit and loss account with income recognised at an amount equal to the raw material acquisition cost, and thus no profit margin is recognised.

15. Trade and other receivables

in PLN thousand	30 September 2022 (not audited)	31 December 2021
VAT receivables	5,274	4,834
Trade receivables	82,005	12,461
Advances on materials and services	1,512	1,394
Deposits	47	20
Other receivables	13	15
Total trade and other receivables	**88,851**	**18,724**

The item of trade receivables includes an amount due from Novavax and concerns receivables arising from the annex signed on 22 September 2022 and payable for manufacturing readiness ("manufacturing slot fees"), an invoiced advance payment for manufactured batches, and the procurement of raw material volumes sufficient for the future commercial production of the active substance involving the Company's full production capacity in the period agreed upon by the parties.

16. Accrued costs

in PLN thousand	30 September 2022 (not audited)	31 December 2021
Bonuses	4,309	5,710
Property tax	61	-
Insurance	305	426
Training	1	17
Subscriptions	1	2
Complaints	103	103
Licences	37	68
Stock exchange operation costs	18	-
Other	113	188
Total accrued costs	**4,947**	**6,514**

In the previous reporting period, the Company incurred costs related to the acquisition of the agreement with Novavax due to bonuses paid to the Company's employees in the amount of PLN 5,995 thousand. These costs are presented in the statements under prepayments and will be accounted for over the course of the agreement with Novavax in proportion to the degree of its completion.

17. Equity

a) Changes in the Company's share capital in Q3 2022

As at 1 July 2022, the Company's share capital amounted to PLN 1,616,182.60 and was divided into 16,161,826 shares with a nominal value of PLN 0.10 each. The total number of votes resulting from all issued shares of the Company is 17,731,826 votes.

On 25 August 2022, 500 S series ordinary bearer shares of the Company with a nominal value of PLN 0.10 each were allotted. The shares were granted within the meaning of Article 451 §2 of the Commercial Companies Code as soon as they were recorded on the securities accounts of the eligible persons and, pursuant to Article 452 §1 of the Commercial Companies Code, with the granting of the shares the share capital of the Company was increased to PLN 1,616,232.60. The aforementioned shares were issued under the Incentive Scheme adopted by Resolution No. 24/VI/2018 of the Ordinary General Meeting of

the Company of 28 June 2018 on the introduction of the Incentive Scheme. On 4 July 2022, the Company issued 500 B series registered subscription warrants to which eligible persons are entitled as part of the implementation of the Incentive Scheme for 2021. The subscription warrants were taken up on 18 November 2019, free of charge, by eligible persons, i.e. persons appointed by the Company's Supervisory Board. Each subscription warrant entitled to take up 1 S series share of the Company at the issue price equal to the nominal value of shares, amounting to PLN 0.10 per one share. All eligible persons submitted declarations on taking up their S series shares on 4 July 2022. The S series shares (500 pcs) were issued as part of a conditional share capital increase, therefore no allocation of shares took place. The shares were taken up between 4 July 2022 and 25 July 2022 together with the payment for the shares made by the respective individuals. All S series shares were taken up for cash contributions made in full before the shares were allotted. On 24 August 2022, the KDPW issued a statement announcing that, in response to the Company's application, an agreement had been concluded for the registration with the Securities Depository of up to 500 S ordinary bearer shares of the Company. The above-mentioned shares were registered on the basis of settlement orders, in connection with the deregistration of subscription warrants under which the right to take up the above-mentioned shares was exercised.

b) Share-based payments

In accordance with Resolution no 25/VI/2018 of 28 June 2018, the Ordinary General Meeting authorised the Supervisory Board of the Company to issue no more than 125 000 A and B subscription warrants, granting eligible employees the right to acquire 114,000 R series ordinary shares and 11,000 S series ordinary shares, excluding the pre-emptive rights of the Company's current shareholders.

On 29 December 2018, on the basis of the authorisation given in Resolution No. 24/VI/2018 of the Company's Ordinary General Meeting, the Supervisory Board approved the Rules and Regulations for the Incentive Scheme for 2018–2021. The taking-up of the shares and the exercise of rights carried by the warrants was possible upon conditions listed in the Rules and Regulations. Alternatively, warrants could be purchased by the Company in order to be redeemed. However, the Company had no intention to use cash settlement.

On 12 February 2019, by passing appropriate Resolutions, the Supervisory Board approved the list of employees eligible to subscribe for A and B warrants for the years 2018 and 2019, and stated that the market condition (minimum price) for A warrants for the year 2018 was not met. The Supervisory Board also confirmed that the employment condition for A and B warrants for the year 2018 was met.A warrants for 2018 were ultimately not exercised due to the market condition not being met.

On 18 of November 2019, all B warrants granted for the year 2018 (9,500 warrants) were taken up by the eligible persons. On the same day, all eligible persons submitted declarations of subscription for all S series shares (9,500 shares) for which they were entitled due to warrants taken up. The shares were taken up by the eligible person on the same day.
On 30 January 2020, by passing appropriate Resolutions, the Supervisory Board stated that the market condition (minimum price) for A warrants for the year 2019 was not met. The Supervisory Board also confirmed that the employment condition for A and B warrants for the year 2019 was met. A warrants for 2019 were ultimately not exercised due to the market condition not being met. On 27 February 2020, by passing appropriate Resolutions, the Supervisory Board accepted the list of employees eligible to subscribe for A and B warrants for the year 2020.

On 23 June 2020, all B warrants granted for the year 2019 (500 warrants) were taken up by all eligible persons. On the same day, all eligible persons submitted declarations of subscription for all S series shares (500 shares) for which they were entitled due to warrants taken up. The shares were taken up by the eligible person on the same day.

On 25 January 2021, by passing appropriate Resolutions, the Supervisory Board stated that the market condition (minimum price) for A warrants for the year 2020 was not met. The Supervisory Board also confirmed that the employment condition for A and B warrants for the year 2020 was met. A warrants for 2020 were ultimately not exercised due to the market condition not being met.

On 29 April 2021, by passing appropriate Resolutions, the Supervisory Board accepted the list of employees eligible to subscribe for A and B warrants for the year 2021.

On 2 July 2021, all B warrants granted for the year 2020 (500 warrants) were taken up by the eligible persons. The S shares in exercise of the B series warrants for 2020 were taken up by eligible persons between 2 July and 15 December 2021.

On 31 January 2022, by passing appropriate Resolutions, the Supervisory Board stated that the market condition (minimum price) for A warrants for the year 2021 was not met. The Supervisory Board also confirmed that the employment condition for A and B warrants for the year 2021 was met. A warrants for 2021 were ultimately not exercised due to the market condition not being met.

On 4 July 2022, all B warrants granted for the year 2021 (500 warrants) were taken up by the eligible persons. The S shares in exercise of the B series warrants for 2021 were taken up by eligible persons between 4 July and 25 July 2022.

The table below shows the details of the Scheme and its valuation as at 30 September 2022:

	A Warrants		B Warrants	
Tranche for year	2020	2021	2020	2021
Scheme's approval date (the beginning of the vesting period)	28 June 2018			
Grant date	27 February 2020	29 April 2021	27 February 2020	29 April 2021
End of vesting period	25 January 2021	31 January 2022	25 January 2021	31 January 2022
Number of instruments granted	28,500	28,215	500	500
Exercise Price	PLN 91.00	PLN 91.00	PLN 0.10	PLN 0.10
Share price as at 30 June 2022	PLN 21.70	PLN 21.70	PLN 21.70	PLN 21.70
Market vesting condition	Reaching a minimum price defined as the arithmetic average of the stock prices of the Company on the Warsaw Stock Exchange, calculated on the basis of the daily average prices weighted with trading volume, in the last month of each year		-	-
Minimal price	PLN 280.00	PLN 400.00	-	-
Non-market vesting condition	For the employee to maintain a business relationship or continuing to provide services for the Company for a period of at least 183 days in a given year during the Scheme			
Settlement	Shares			
Expected volatility (based on the historic volatility of the Company's share prices in 24 months preceding the Valuation Date)	55.22%	92.92%	55.22%	92.92%
First possible exercise date	14 February 2021	14 February 2022	14 July 2021	14 July 2022
Last possible exercise date	31 July 2022			
Risk-free rate	1.23%-1.84%	0.14%-0.25%	1.23%-1.84%	0.14%-0.25%
Dividend rate	0%			
Departure probability	23.89% per annum			
Warrant's fair value Valuation Date	27 February 2020	29 April 2021	27 February 2020	29 April 2021
Warrant's fair value as at the Valuation Date	PLN 0.00	PLN 0.55	PLN 46.24	PLN 63.08
Scheme value (fair value of warrant x number of warrants)	PLN 0.00	PLN 15,433.99	PLN 23,121.95	PLN,31 541.20
Valuation model	Binominal model			

The table below shows the details of the Scheme and its valuation as at 31 December 2021:

	A Warrants		B Warrants	
Tranche for year	2020	2021	2020	2021
Scheme's approval date (the beginning of the vesting period)	28 June 2018			
Grant date	27 February 2020	29 April 2021	27 February 2020	29 April 2021
End of vesting period	25 January 2021	31 January 2022	25 January 2021	31 January 2022
Number of instruments granted	28,500	28,215	500	500
Exercise Price	PLN 91.00	PLN 91.00	PLN 0.10	PLN 0.10
Share price as at 31 December 2021.	PLN 69.80	PLN 69.80	PLN 69.80	PLN 69.80
Market vesting condition	Reaching a minimum price defined as the arithmetic average of the stock prices of the Company on the Warsaw Stock Exchange, calculated on the basis of the daily average prices weighted with trading volume, in the last month of each year		-	-
Minimal price	PLN 280.00	PLN 400.00	-	-
Non-market vesting condition	For the employee to maintain a business relationship or continuing t o provide services for the Company for a period of at least 183 days in a given year during the Scheme			
Settlement	Shares			
Expected volatility (based on the historic volatility of the Company's share prices in 24 months preceding the Valuation Date)	55.22%	92.92%	55.22%	92.92%
First possible exercise date	14 February 2021	14 February 2022	14 July 2021	14 July 2022
Last possible exercise date	31 July 2022			
Risk-free rate	1.23%-1.84%	0.14%-0.25%	1.23%-1.84%	0.14%-0.25%
Dividend rate	0%			
Departure probability	21.58% per annum			
Warrant's fair value Valuation Date	27 February 2020	29 April 2021	27 February 2020	29 April 2021
Warrant's fair value as at the Valuation Date	PLN 0.00	PLN 0.55	PLN 46.24	PLN 63.08
Scheme value (fair value of warrant x number of warrants)	PLN 0.00	PLN 15,433.99	PLN 23,121.95	PLN 31,541.20
Valuation model	Binominal model			

The following table presents information on warrants in the third quarter of 2022:

	A Warrants			B Warrants			
Tranche for year	2019	2020	2021	2018	2019	2020	2021
Exercise Price	PLN 91.00			PLN 0.10			
	Number of warrants						
As at the beginning of the period	-	28,500	28,500	-	-	500	500
Redeemed in the period	-	-	-	-	-	-	-
Exercised in the period	-	-	-	-	-	-	-
Expired in the period	-	-	-	-	-	-	-
As at the end of the period (including those to which rights have been acquired as at the balance-sheet date)	-	28,500	28,500	-	-	500	500
	(-)	(-)	(-)	(-)	(-)	(-)	(-)

The following table presents information on warrants in 2021:

	A Warrants			B Warrants			
Tranche for year	2019	2020	2021	2018	2019	2020	2021
Exercise Price		PLN 91.00				PLN 0.10	
			Number of warrants				
As at the beginning of the period	-	28,500	28,500	-	-	500	500
Redeemed in the period	-	-	-	-	-	-	-
Exercised in the period	-	-	-	-	-	-	-
Expired in the period	-	-	-	-	-	-	-
As at the end of the period (including those to which rights have been acquired as at the balance-sheet date)	-	28,500	28,500	-	-	500	500
	(-)	(-)	(-)	(-)	(-)	(-)	(-)

On 29 April 2020, the Company's Supervisory Board approved the list of employees eligible to take up A and B warrants for the year 2020. Accordingly, the fair value valuation of the above-mentioned warrant tranches was draw up as at 27 February 2020 which constitutes the grant date.

On 29 April 2021, the Company's Supervisory Board approved the list of employees eligible to take up A and B warrants for the year 2021. Accordingly, the fair value valuation of the warrants was prepared as at 29 April 2021. As at 31 March 2022, only the number of warrants to which the eligible persons acquired rights was updated.

The fair value of warrants has been determined based on the binominal stock option valuation model. For the valuation purposes, a share price tree was built as a representation of possible future paths the Company's share price can follow (monthly change in the share price), based on the historical volatility of the Company's share prices. The measurement was carried out using backward induction including the market condition (reaching the minimum price) and the possibility of an earlier execution of the option in line with the Rules and Regulations of the Scheme (based on the assumptions on the eligible employees' expected minimum rate of return).

The total cost of the Scheme for different balance-sheet dates was estimated based on the most current measurements of the fair value of the warrants and the probability of eligible employees' departure. The costs of the Scheme were accounted for over time from the date of vesting or from the date of commencement of employment in exchange for the benefits in question in proportion to the vesting period for each tranche of warrants.

The amount recognised cumulatively in costs and in capital up to 30 September 2022 totals PLN 733 thousand and has increased by PLN 2 thousand in relation to the cumulative amount recognised up to 31 December 2021, when it amounted to PLN 731 thousand. The increase in costs by PLN 2 thousand increased payroll costs and other reserves. The Scheme valuation amount presented in the table above differs from the amount recognised cumulatively in capital due to the completion of part of the Scheme. The implementation period of the Incentive Scheme referred to above has ended and no issues will be made as part of it.

18. Deferred income

a) Deferred income from grants

in PLN thousand	30 September 2022 (not audited)	31 December 2021
Grants on property, plant and equipment	6,911	7,651
Grants on research and development costs	28,810	25,314
Total deferred income	**35,721**	**32,965**

In the past, the Company financed part of its operations with grants from the European Regional Development Fund managed by the following government institutions in Poland: the Regional Development Agency of Łódź (ŁARR), the Polish Agency for Enterprise Development (PARP), and the National Centre for Research and Development (NCBiR).

These were three projects to fund R&D and/or implementation of MabionCD20, a technology to produce analogues of human hormone insulin (double cutting technology), and MabionHER2 medicine, which have been completed.

Fixed assets for which the grant was obtained were put into use in 2015 and their depreciation started at that date. The relevant part of deferred income (grants) was also recognised in the financial result, as other operating income, in parallel to the write-downs on these assets (PLN 741 thousand in the first 9 months of 2022 and PLN 935 thousand in the analogous period ended 30 September 2021 – see also Note 11).

In the period of first 9 months of 2022, the Company received a grant payment for research and development costs under the Operational Programme Smart Development 2014–2021 – InnoNeuroPharm sectoral programme, in the amount of PLN 1,540 thousand.

On 24 February 2022, the Management Board of Mabion S.A. decided to abandon further implementation of the research project concerning the development of MabionEGFR, entitled "Development of a biotechnological medicine through the development of an innovative monoclonal IgG1 subclass antibody with reduced content of unfavourable glycoforms compared with the reference medicine – targeted against EGFR" as part of the sectoral programme: InnoNeuroPharm funded by the SGOP 2014–2020, due to the fact that, in the opinion of the Management Board, further implementation of the project is unjustified. Consequently, a final application for payment and final information on the Project implementation were submitted to the NCBR. On 7 October 2022 (an event after the balance-sheet date), a notice from NCBR was received stating that the project was considered to be substantially and financially completed. Thus, the three-year period of the project duration commenced, which will end in October 2025. The final value of the funding received is PLN 3,900 thousand.

On 26 October 2022 (an event after the balance-sheet date), the Management Board of Mabion S.A decided to terminate the co-financing agreement for the project "Expansion of the Research and Development Centre of Mabion S.A. – research on the new generation of medicines", entered into in June 2018 as part of Measure 2.1 Support for investment in R&D infrastructure of enterprises of the Operational Programme Smart Development 2014–2020 co-financed by the European Regional Development Fund ("Agreement" and "Project" respectively).

The termination of the Agreement was related to the fact that the Company had been considering a change in the scope of the planned investment and that it had not been possible to implement the Project on the terms and conditions and within the timeframe stipulated in the Co-financing Agreement. Pursuant to the Agreement, the total cost of the Project was set in 2018 at approximately PLN 173,000 thousand, and the value of the co-financing was approximately PLN 63,000 thousand, of which the Company has used – up to the day on which the Agreement was terminated – payments totalling approximately PLN 300 thousand. As at the date of this report, the Company has already repaid the aforementioned liability. The Co-financing Agreement terminates on 26 November 2022.

However, its termination does not mean that the Company will abandon the construction of the new Mabion II facility as, in particular, the expansion of manufacturing and analytical capacity for external clients is of importance. The Company is currently working on an update of its development strategy, which will also address the Company's vision for further expansion of its manufacturing and R&D capacity, taking into account the development in the CDMO area and in line with the Company's current and projected needs and capabilities.

b) Other deferred income

In this item, the Company recognised a freezer received free of charge, worth PLN 78 thousand. The income will be recognised concurrently with the depreciation of the freezer. As at 30 September 2022, the amount of income to be recognised in the future periods totalled PLN 73 thousand.

19. Liabilities under contracts with customers

in PLN thousand	30 September 2022 (not audited)	31 December 2021
Liabilities arising from the implementation of the agreement with Novavax	52,170	46,110
Lease prepayments	1,950	955
Total	**54,119**	**47,065**

Liabilities arising from agreements with customers include payments received from Novavax in connection with the agreement for the production of an active substance. Apart from lease, the agreement distinguishes one non-lease performance obligation, which is the active substance production service. Income from the foregoing payments is recognised by the Company over time, over the period of implementation of the agreement. The raw materials purchased for the purposes of the agreement represent the agreement cost at the time of purchase. In line with the

accounting policy presented in these statements, these raw materials, upon purchase by Mabion, are recognised as cost of sales and, at the same time, income is recognised in an amount equal to the acquisition cost of the raw material, and therefore the Company does not recognise a profit margin on the purchase of materials.

Lease prepayments are calculated based on the ratio of the lease income to total income.

20. Repayable advances on distribution rights

In accordance with the information provided in the financial statements of the Company for the financial year ended 31 December 2021, such advance payments may be repayable and are treated by the Company as current liabilities.

In the period covered by these condensed interim financial statements, there were no material changes to the terms and conditions of agreements with distribution partners.

The table below presents a list of all advance payments received from partners with whom the Company has entered into distribution cooperation agreements:

in PLN thousand	30 September 2022 (not audited)	31 December 2021
FARMAK	1,217	1,150
ONKO	536	506
Sothema Laboratories	112	106
Lyfis	29	28
Total repayable advances on distribution rights	**1,894**	**1,790**

The changes in the value of repayable advances on distribution rights in the period of 9 months ended 30 September 2022 result from changes in exchange rates as all the advances were denominated in EUR.

21. Loans and borrowings

a) Bank loans

On 24 October 2019, the Company concluded with the European Investment Bank (EIB) an unsecured loan agreement for financing the implementation of investment and research and development projects, including the development of the Company's research and development infrastructure and production capacity, for a maximum period of 5 years from the date of disbursement of individual tranches. The amount of the Loan was EUR 30,000 thousand and could be disbursed in three tranches once specific conditions were met, which included the achievement of registration and commercialisation milestones for MabionCD20. The drawing period of the Loan was 36 months from the date of the Financing Agreement.

On 29 November 2019, the Extraordinary General Meeting of the Company adopted Resolution No. 3/XI/2020 on the conditional increase of the share capital through the issue of 402,835 T series ordinary bearer shares with a nominal value of PLN 0.10 each, with a total nominal value not exceeding PLN 40,283.50. The conditional share capital increase was effected in order to grant rights to take up T series shares to the European Investment Bank in connection with signing, on 24 October 2019, the loan agreement for EUR 30,000 thousand.

As at 30 September 2022, the Company has not drawn any tranche of the EIB loan and its debt on this account was PLN 0 (zero).

As at the balance-sheet date, the Company also did not issue any subscription warrants in connection with the implementation of this agreement. In accordance with the resolution of the General Meeting of the Company, the subscription warrants could be issued no later than 30 June 2020.

As a result of expiry of the 36-month drawing period and the lack of use of the financing, the Agreement expired after the balance-sheet date.

b) Borrowings from shareholders and related parties

On 15 July 2021, the Company entered into a borrowing agreement with Glatton Sp. z o.o. (Borrowing), amounting to PLN 15,000 thousand, to refinance the revolving credit facility granted to the Company in 2018 by Santander Bank Polska S.A. (“Loan” and “Bank”, respectively). The Borrowing constituted additional financing not included in the financing declared on 16 March 2021 by the main shareholders of the Company. Pursuant to the borrowing agreement, the Company was obliged to repay the Borrowing by 31

December 2021, with the parties allowing for the possibility of extension of the aforementioned term. The interest rate on the Borrowing was agreed upon on an arm's length basis as a variable interest rate based on WIBOR 3M plus margin. The collateral for the repayment of the Borrowing consisted of: a mortgage on real property located in Konstantynów Łódzki up to the amount of PLN 45,000 thousand (first rank entry in the mortgage register) with priority right over other possible mortgage creditors, and a statement on submission to execution in the form of a notarial deed. Subject to the mortgage referred to above, the total nominal value of the collateral in favour of the Lender was to be equal or exceed at least 150% of the Borrowing amount.
On 10 December 2020, the parties concluded an annex to the agreement, according to which the borrowing repayment date was extended to 31 December 2021. On 17 December 2021, the parties concluded an annex to the agreement, according to which the borrowing repayment date was extended to 12 July 2022.

On 12 July 2022, the parties concluded Annex No. 3 to the Borrowing Agreement, under which it was agreed that the Borrowing will be repaid in two tranches: the first tranche of PLN 5,000 thousand was repaid on 28 September 2022, while the second tranche of PLN 10,000 thousand was repaid on 2 November 2022 (an event after the balance-sheet date). The other terms and conditions of the Borrowing remain unchanged. Accordingly, as at the date of these statements, the borrowing has been repaid in full with interest due.

c) Loans secured on assets

The Company is a party to leaseback agreements to finance the purchase of laboratory equipment, which are treated as loans due to the fact that the purchases of equipment financed in this way was first fully paid for by the Company, and the lease agreements contain irrevocable offers to buy back the equipment being the subject of the agreement at the end of the lease period. These agreements have been concluded for 4 to 5 years and are secured with blank promissory notes. The lessor has the right to fill in a promissory note up to the amount equivalent to all due but unpaid receivables to which the lessor is entitled under a given lease agreement, in particular receivables from lease payments, damages, contractual penalties or reimbursement of costs, including due interest, in case the Company fails to pay any of these receivables on the due date.

In the reporting period covering 9 months of 2022, the Company entered into one new asset-backed borrowing agreement amounting to PLN 525 thousand.

As at 30 September 2022, the total value of outstanding loans secured on assets was PLN 545 thousand.

22. Leases

The Company is a user of cars and laboratory equipment under lease agreements.

On 17 December 2019, the Company entered into a lease agreement for office space in Łódź for the years 2020–2023 and recognised the related lease as at 31 December 2019. On 2 August 2022, the Company signed an annex to the aforementioned lease agreement, which extends the validity of the latter until the end of 2027.

The lease agreements concluded by the Company provide for a 3 to 5-year lease period. They are secured by blank promissory notes. The lessor has the right to fill in a promissory note up to the amount equivalent to all due but unpaid receivables to which the lessor is entitled under a given leasing agreement, in particular receivables under lease payments, compensations, contractual penalties or reimbursement of costs, including due interest, in the event that the Company fails to pay any of these receivables on the due date.

Changes in the interest rate taken into account in the calculation of the lease instalment amount result in changes in the amount of lease instalments. All lease agreements include an option to purchase the leased item after the end of the lease period.

In the reporting period, the Company entered into a number of new lease agreement as a result of which it recognised new items of property, plant and equipment of PLN 4,157 thousand and a lease liability of PLN 4,157 thousand, including the amount of PLN 1,944 thousand relating to the extension of the lease agreement concerning the building at 17 Fabryczna Street in Łódź (an annex to the agreement was entered into on 3 August, extending its validity until the end of 2027).

Depreciation of leased fixed assets in the reporting period amounted to PLN 1,364 thousand, and lease interest amounted to PLN 260 thousand.

The total gross carrying amount of leased items as at 30 September 2022 totals PLN 11,288 thousand.

The table below presents information on the amount of future minimum lease payments and the current value of minimum lease payments as at 30 September 2022 and 31 December 2021.

in PLN thousand	Future minimum lease payments as at 30 September 2022 (not audited)	Current value of minimum lease payments as at 30 September 2022 (not audited)	Future minimum lease payments as at 31 December 2021	Current value of minimum lease payments as at 31 December 2021
Up to 1 year	2,253	1,976	2,056	1,965
From 1 to 5 years	5,903	4,146	2,278	1,992
Total	**8,156**	**6,122**	**4,334**	**3,957**

23. Trade and other liabilities

in PLN thousand	30 September 2022 (not audited)	31 December 2021
Trade liabilities	40 469	23 676
Social insurance and income tax on wages	1 649	1 862
Provision for unused leave	1 080	912
Liabilities under remunerations	1 737	578
Other liabilities	186	2 607
Company Social Benefits Fund	34	59
Total trade and other liabilities	**45 155**	**29 694**

The Management Board of Mabion S.A, by Resolution No. 11/I/2021 of 28 January 2021, decided that in 2021, the Company will not establish a Company Social Benefits Fund and will not pay leave allowance. The decision was upheld for 2022.

24. Effective income tax rate

In the current reporting period, the Company did not generate a tax base which would result in the obligation to pay income tax. Therefore, the effective income tax rate was 0 (zero).

The Company has historically realised significant negative temporary tax differences, resulting mainly from ongoing research and development work that will reduce the income tax base in the future. In addition, the Company holds zone permits and the resulting gross subsidy equivalents and has generated deductible tax losses from non-zone activities in the last 5 years. The existing entitlements to exercise the deduction from the tax base and the right to benefit from public aid have been verified, considering the expected income from both the activities within the zone and outside it in a period most probable from the point of view of the estimates.

The tax asset as at 31 December 2021 was estimated at PLN 12,158 thousand and was not updated as at the balance-sheet date of 30 September 2022 due to the absence of significant changes in assumptions relative to the level estimated and recognised in the financial statements for the previous financial year. The Company has built a fully-equipped Scientific-Industrial Complex in the Łódź Special Economic Zone (LSEZ). Pursuant to the Act on Special Economic Zones, business activities carried out within a special economic zone under a permit are exempt from corporate income tax up to the amount resulting from the available public aid and incurred eligible costs. The basis for the exemption is the amount of incurred eligible costs, which must not exceed the maximum value specified in the permit granted by the LSEZ Board. Mabion is entitled to the exemption until 31 December 2026, the last year of operation of the LSEZ under applicable law. To retain the right to the exemption, the Company had to meet the investment sustainability criterion and the employment volume criterion until 31 December 2021. The investments covered by the permits issued in 2010 and 2012 were completed, and the Company's fulfilment of the conditions entitling it to the tax relief was positively verified during audits conducted by the LSEZ.

At the end of 2016, the Company obtained a third permit, no. 301, which relates to a new investment, i.e. the expansion of an existing medicine manufacturing facility. On 10 August 2021, the Company received a decision of the Minister of Development, Labour and Technology on the amendment of permit no. 301 to conduct activity in the Łódź Special Economic Zone. By virtue of the above mentioned decision, on the Company's request the deadline for incurring investment expenditure within the meaning of § 6.1 of the Regulation of the Council of Ministers of 10 December 2008 on public aid granted to entrepreneurs operating on the basis of a permit to conduct business in special economic zones, in the amount of at least PLN 20 million, was extended from 30 June 2021 to 31 December 2024. The Company has requested the aforementioned deadlines to be changed in view of the need to update the schedule of planned investments, based on the Company's current needs.

25. Financial risk management

As regards the type of financial risks to which the Company is exposed, the amount of exposure, and the management of these risks, there have been no significant changes since the last annual financial statements. The risks are described in the Directors' Report.

26. Fair value of financial instruments presented at amortised cost

The Company does not recognise 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 loans and refundable prepayments for distribution rights. The Company's management assessed that the fair value of these items approximates or equals their carrying values.

27. Related party transactions

There is no direct or ultimate controlling party in the Company. In the period covered by these condensed interim financial statements, the Company has neither recorded sales to nor purchases from the related parties on conditions materially different from arm's length terms.

Key Management remuneration (including share-based payment and remuneration)

The remuneration of members of the key management staff of the Company and its Supervisory Board is presented below:

In the item 'Remuneration of Management Board members', the Company presents both remuneration under employment contracts as well as appointment.

in PLN thousand	1 January 2022 – 30 September 2022 (not audited)	1 January 2021 – 30 September 2021 (not audited)
Remuneration of Supervisory Board members	347	329
Remuneration of Management Board members	1,863	1,767
Share-based payments	2	12
Provisions for awards	25	1 222
Total short-term remuneration	**2,237**	**3,330**

28. Contingent liabilities and contractual obligations

a) Contractual obligations

As at 30 September 2022, there is a contractual obligation of the Company regarding the acquisition of property, plant and equipment, towards IMA S.p.A. with its registered office in Italy (IMA) arising from the fulfilment of certain conditions provided for in the agreement, pursuant to which IMA undertook to manufacture, for the Company, a packaging line – a device intended for the purposes of the "Expansion of the Research and Development Centre of Mabion S.A. – research on a new generation of medicines" ("CBR") under Measure 2.1 Support for investment in R&D infrastructure of enterprises of the Operational Programme Smart Development 2014–2020 co-financed by the European Regional Development Fund. The liability as at the balance-sheet date amounts to EUR 275 thousand.

As at 30 September 2022, there is a contractual obligation of the Company regarding the acquisition of property, plant and equipment, towards EbeTech GmbH with its registered office in Germany (EbeTech) arising from the fulfilment of certain conditions provided for in the agreement, pursuant to which EbeTech undertakes to manufacture, for the Company, a vial filling line. The value of the liability as at the balance-sheet date amounts to EUR 1,622 thousand.

As at 30 September 2022, there is a contractual obligation of the Company regarding the acquisition of property, plant and equipment, towards Adolf Kuhner AG with its registered office in Switzerland, arising from the fulfilment of certain conditions provided for in the agreement, pursuant to which Adolf Kuhner AG undertakes to manufacture, for the Company, four bioreactors, with a capacity of 2,500 litres each, of which two will form part of a second production line and another two will be used to replace existing bioreactors as part of the upgrade of the Company's plant. The equipment procured is to meet both European and US GMP (Good Manufacturing Practice) requirements. The value of the liability as at the balance-sheet date amounts to EUR 1,623 thousand.

As at 30 September 2022, there is a contractual obligation of the Company regarding the acquisition of development work, towards Parexel International (IRL) Limited with its registered office in Ireland (Parexel) arising from the fulfilment of certain conditions provided for in the agreement, pursuant to which Parexel undertakes to conduct a three-arm, double-blind, randomised clinical trial. The value of the liability as at the balance-sheet date amounts to EUR 3,721 thousand.

b) Contingent liabilities

As at 30 September 2022, the Company does not have any contingent liabilities which would be expected by the management to have a material adverse effect on the Company's Financial position or operating activities or cash flow.

c) Court litigation settlements

The Company was not a party to any litigation, regulatory actions or arbitration which is expected by the Management to have a material adverse effect on the Company's Financial position or operating activities or cash flow.

29. Events after the balance-sheet date

On 18 October 2022, the Company received information that the Credit Committee of the European Bank for Reconstruction and Development has given its approval for the provision of financing to the Company in the form of a secured long-term loan amounting to USD 15,000 thousand. The Loan is intended in particular to finance the expansion and modernisation of the Company's current facility located in Konstantynów Łódzki. The investment is related to the commercial contract manufacturing carried out under an agreement with Novavax, Inc. as well as other potential CDMO projects. It was agreed that the funding will also be partly used to refinance Company's existing debt. The Loan is to be granted by the EBRD for a period of 2 years as of signing the agreement, with early repayment possible. It will bear interest at a variable rate based on the SOFR, plus EBRD's margin.
The EBRD Credit Committee's approval represents an interim step in the process of obtaining the funds and is not tantamount to the completion of this process and the EBRD's commitment to disburse the resources.
The availability of the latter will depend, among other things, on entering into a credit agreement with the EBRD.

The Company decided to terminate the Co-financing Agreement for the project "Expansion of the Research and Development Centre of Mabion S.A. – research on the new generation of medicines" as part of Measure 2.1 Support for investment in R&D infrastructure of enterprises of the Operational Programme Smart Development 2014–2020 co-financed by the European Regional Development Fund.
The termination of the Agreement is related to the fact that the Company had been considering a change in the scope of the planned investment and that it had not been possible to implement the Project on the terms and conditions and within the timeframe stipulated in the Co-financing Agreement.
Pursuant to the Agreement, the total cost of the Project was set in 2018 at approximately PLN 173,000 thousand, and the value of the co-financing was approximately PLN 63,000 thousand, of which the Company has used – up to the day on which the Agreement was terminated – payments totalling approximately PLN 300 thousand. However, its termination does not mean that the Company will abandon the construction of the new Mabion II facility, as the Company focuses above all on a significant expansion of its manufacturing and analytical capacity for external clients. The Company is currently working on an update of its development strategy, which will also address the Company's vision for further expansion of its manufacturing and R&D capacity, taking into account the development in the CDMO area and in line with the Company's current and projected needs and capabilities.

On 23 November 2022, the Company signed another extension to the scope of services under the Manufacturing Agreement with Novavax, in the form of Statement of Work #9 (SOW#9).

The scope of SOW#9 involves the Company's tasks consisting in conducting peptide mapping analysis for the active substance (DS) as well as the finished product (DP) of rS SARS-CoV-2 protein samples of Novavax products – both Wuhan and Omicron variants. The contracted tasks involve a method feasibility study, method validation and regular testing of samples produced at Mabion and other entities providing manufacturing services to Novavax. If required by Novavax, routine testing of samples will be carried out in a GMP-compliant environment.

The first stage of the work will consist of implementing the peptide mapping method. Next, regular analyses of the commissioned samples will be performed (within 1 month of the delivery of a given sample), ending with the issuance of an appropriate certificate. The remuneration for the work on the implementation of the method, which constitutes the first stage of the order, will amount to more than USD 500 thousand, while the total value of SOW#9 will depend on the next stage of the order, namely the number of regular analyses carried out by the Company in each reporting period.

The Management Board

Krzysztof Kaczmarczyk

President of the Management Board

Sławomir Jaros

Member of the Management

Grzegorz Grabowicz

Member of the Management

Adam Pietruszkiewicz

Member of the Management

Aneta Turek

Chief Accountant

Konstantynów Łódzki, 24 November 2022

MABION

KOMPLEKS NAUKOWO-PRZEMYSŁOWY BIOTECHNOLOGII MEDYCZNEJ

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