

Mabion S.A. Condensed Interim Financial Statements for the 3 months ended March 31, 2019

Konstantynów Łódzki, May 16, 2019

A large, light gray geometric pattern of interconnected lines and dots, resembling a network or a molecular structure, is positioned in the bottom right corner of the page, partially overlapping the text.

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

PLN thousands, except if otherwise stated	Note	January 1, 2019 – March 31, 2019 (unaudited)	January 1, 2018 – March 31, 2018 (unaudited)
Revenues from research and development services		-	-
Cost of services sold		-	-
Gross profit on sales		-	-
Research and development costs	8, 9	(9 238)	(8 889)
General and administrative expenses	8	(5 717)	(5 719)
Other operating income	10	586	541
Other operating expenses	10	(140)	0
Operating loss		(14 509)	(14 067)
Finance income	11	211	775
Finance costs	11	(687)	(1 057)
Loss before tax		(14 985)	(14 349)
Income tax expense	20	-	-
NET LOSS		(14 985)	(14 349)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		(14 985)	(14 349)
Basic and diluted loss per share (in PLN per share)		(1.09)	(1.22)

The Notes on pages 5 to 18 are an integral part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION

PLN thousands	Note	March 31, 2019 (unaudited)	December 31, 2018	March 31, 2018 (unaudited)
Property, plant and equipment	12	73 364	72 445	71 806
Other non-current assets		110	110	194
Total non-current assets		73 474	72 555	72 000
Inventory	13	10 322	10 298	8 769
Trade and other receivables		2 948	2 606	3 698
Prepaid expenses		846	840	3 397
Cash and cash equivalents		40 701	58 418	173 338
Total current assets		54 817	72 162	189 202
TOTAL ASSETS		128 291	144 717	261 202
Share capital		1 372	1 372	1 180
Share premium		108 923	108 923	2 549
Other capital reserves		690	714	-
Accumulated losses		(83 856)	(68 870)	(72 236)
Total equity	14	27 129	42 139	(68 507)
Deferred income	15	32 266	32 656	11 578
Borrowings	17	1 180	1 386	1 697
Finance leases	18	1 770	2 027	2 463
Total non-current liabilities		35 216	36 069	15 738
Refundable prepayments for distribution rights	16	44 834	43 969	35 776
Trade and other payables	19	15 358	16 770	20 335
Borrowings	17	879	900	253 314
Deferred income	15	3 546	3 546	3 575
Finance leases	18	1 329	1 324	971
Total current liabilities		65 946	66 509	313 971
TOTAL LIABILITIES		101 162	102 578	329 709
TOTAL EQUITY AND LIABILITIES		128 291	144 717	261 202

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CONDENSED INTERIM STATEMENTS OF CASH FLOWS

PLN thousands	January 1, 2019 - March 31, 2019 (unaudited)	January 1, 2018 - March 31, 2018 (unaudited)
Loss before income tax	(14 985)	(14 349)
Adjustments for:		
Depreciation	2 703	2 251
Interest income	(211)	(1)
Interest expense	100	831
Government grant income	(574)	(489)
Profit (loss) on investment activities	13	-
Share-based incentive program expenses	(24)	-
Changes in assets and liabilities:		
(Increase) / decrease in inventory	(23)	(1 610)
(Increase) / decrease in trade and other receivables	(342)	(2 049)
(Increase) / decrease in prepaid expenses	(5)	(3 268)
Increase / (decrease) in trade and other payables	(1 412)	1 368
Increase / (decrease) in refundable prepayments for distribution rights	865	(659)
Cash from operating activities	(13 895)	(17 974)
Government grant income	183	-
Interest received	211	1
Interest paid	(100)	(831)
Net cash flows from operating activities	(13 601)	(18 804)
Sale of property, plant and equipment	29	-
Purchase of property, plant and equipment	(3 666)	(726)
Net cash flows from investing activities	(3 637)	(726)
Proceeds from borrowings	-	177 490
Proceeds from bank loans	-	14 903
Repayments of borrowings	(227)	(151)
Repayments of the finance leases	(252)	(282)
Net cash flows from financing activities	(479)	191 961
Net increase / (decrease) in cash and cash equivalents	(17 717)	172 300
Cash and cash equivalents at the beginning of the period	58 418	1 038
Change in cash and cash equivalents due to exchange rate differences	-	-
Cash and cash equivalents at the end of the period	40 701	173 338

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CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY

PLN thousands	Share capital	Share premium	Other capital reserves	Accumulated loss	Total equity
As of January 1, 2018	1 180	2 549	0	(57 887)	(54 158)
Net loss / Total comprehensive income	-	-		(14 349)	(14 349)
As of March 31, 2018 (unaudited)	1 180	2 549	0	(72 236)	(68 507)
As of January 1, 2019	1 372	108 923	714	(68 870)	42 139
Net loss / Total comprehensive income	-	-		(14 985)	(14 985)
Valuation of share-based incentive program			(24)		(24)
As of March 31, 2019 (unaudited)	1 372	108 923	690	(83 855)	27 129

The Notes on pages 5 to 18 are an integral part of these condensed interim financial statements.

NOTES

1. The Company

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

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

2. Basis of preparation

These condensed interim financial statements of Mabion S.A. for the period of 3 months ended March 31, 2019 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union (IAS 34), and with the IAS 34 as issued by IASB as for the Company there are no differences between IFRS as issued by IASB and as adopted by EU.

The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS") and should be read in conjunction with the Company's annual financial statements as of December 31, 2018.

The accounting policies adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year 2018, except for the income tax, which has been calculated using expected effective average tax rate. The new or revised standards and interpretations, effective starting from January 1, 2019, had no impact on these condensed interim financial statements.

New or revised standards and interpretations, which have been issued but are not yet effective may have impact on the Company have been presented alongside their estimated impact on the Company in the annual financial statements for the year ended December 31, 2018. There were no new or revised standards and interpretations issued from the date of approval of the Company's annual financial statements for the year 2018 to the date of approval of these condensed interim financial statements, which would have impact on the Company. The Company intends to apply all new and amended IFRSs issued but not yet effective as of the date of issuing these condensed interim financial statements at their effective dates.

The Management Board of Mabion S.A. believes that notes to these condensed interim financial statements contain all material information necessary for proper assessment of the material and financial situation of Mabion S.A. in the reporting period, in line with the scope of disclosures and information required by IAS 34.

The condensed interim financial statements of Mabion S.A. for the 3 months ended March 31, 2019 have been prepared on a going concern basis (further information on the going concern assumption is presented in Note 3).

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

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

These condensed interim financial statements were authorized for issue by the Company's Management Board on May 16, 2019.

3. Going concern assumption

Since inception, the Company has been focused on performing research and development activities in order to develop and market its products commercially. As a result, the Company has incurred losses from operations and has been generating negative operating cash flows which are expected to continue for the foreseeable future.

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

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

In the opinion of the Management Board, with further acquisition of funds available on the market, including exclusive agreements with future distribution partners (see Note 16), and potential shareholders' support (both strategic and stock market participants), the Company will have sufficient funding to complete the MabionCD20 drug development.

The Company's success is dependent in particular on securing funding necessary to finance its operational activities as well as being able to register and commercially sell its products.

These condensed interim financial statements have been prepared on a going concern basis which contemplates that the Company will continue in operation for the foreseeable future. Accordingly, no adjustments have been made to the condensed interim financial statements that might be necessary should there be a risk of the Company discontinuing its operations.

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4. Significant accounting policies

These condensed interim financial statements have been prepared in accordance with the accounting policies used for the purpose of preparing recent annual financial statements for the year 2018, except for the income tax, which has been calculated based on expected effective annual average tax rate and except for changes described below in section "New standards and interpretations".

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

Unless stated otherwise, these condensed interim financial statements are presented in thousands of PLN as rounded to full thousands.

New standards and interpretations

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments.

The interpretation explains how to apply the recognition and measurement requirements contained in IAS 12 "Income tax" in case of uncertainty regarding the method of income tax recognition

Amendments to IFRS 9 Prepayment Features with Negative Compensation.

The amendments allow the entities to value individual financial assets with the so-called prepayment right with negative compensation at depreciated cost or at fair value through other comprehensive income, if a certain condition is met - instead of at fair value through profit or loss.

The Company has not decided to apply earlier any standard, interpretation or amendment that has been published but has not yet become effective according to European Union regulations

The International Accounting Standards Board published the following standards and interpretations which have not yet become effective:

- » IFRS 14 Regulatory Deferral Accounts (published on January 30, 2014) – according to the decision of the European Commission, the approval process for the initial version of the standard will not be initiated before the release of the standard in its final version – by the date of approval of these interim condensed financial statements, not approved by the EU – (applicable to annual periods starting on or after January 1, 2016,
- » Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (published on September 11, 2014) – works leading to the approval of these amendments have been postponed by the EU indefinitely - the effective date was postponed by the IASB for an indefinite period,
- » Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (published on October 12, 2017) – by the date of approval of these interim condensed financial statements, not approved by the EU – applicable to annual periods starting on or after January 1, 2019,
- » Amendments resulting from the review of IFRS 2015-2017 (published on December 12, 2017) – by the date of approval of these interim condensed financial statements, not approved by the EU – applicable to annual periods starting on or after January 1, 2019,
- » Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (published on February 7, 2018) – by the date of approval of these interim condensed financial statements, not approved by the EU - applicable to annual periods starting on or after January 1, 2019,
- » Amendments to References to the Conceptual Framework in IFRS Standards (published on March 29, 2018) – by the date of approval of these interim condensed financial statements not approved by the EU – applicable to annual periods starting on or after January 1, 2020,
- » Amendment to IFRS 3 Business Combinations (published on October 22, 2018) – by the date of approval of these interim condensed financial statements, not approved by the EU – applicable to annual periods starting on or after January 1, 2020,
- » Amendments to IAS 1 and IAS 8: Definition of Material (published on October 31, 2018) – by the date of approval of these interim condensed financial statements, not approved by the EU – applicable to annual periods starting on or after January 1, 2020,
- » IFRS 17 Insurance Contracts (published on May 18, 2017) – by the date of approval of these interim condensed financial statements, not approved by the EU – applicable to annual periods starting on or after January 1, 2022.

5. Critical accounting estimates and judgements

The Company's management makes estimates, judgements and assumptions regarding the recognition and valuation of the individual items of assets and liabilities. The estimates and the related assumptions are based on historical experience, management's expectations or other factors considered material. The actual results may differ from the recorded estimates. The estimates and the related assumptions require regular verification.

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

6. Operating segments

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

7. Seasonality of operations

The Company's activities are neither seasonal nor cyclical. In the period of 3 months ended on March 31, 2019, the Company has not recognized any revenues from sales of products and services or goods and materials.

8. Expenses by nature

The following tables present different types of expenses by nature:

PLN thousands	January 1, 2019 - March 31, 2019 (unaudited)	January 1, 2018 March 31, 2018 (unaudited)
Third-party services	2 269	5 184
Cost of materials	3 140	720
Personnel expenses	2 447	1 158
Depreciation	1 201	1 066
Other expenses	181	761
Total research and development costs	9 238	8 889
Office lease and operation expenses	1 343	884
Personnel expenses	1 929	1 986
Depreciation	1 503	1 185
Advisory services in connection with distribution contracts	187	-
Share-based manager program	(24)	371
Rental, usage and maintenance of equipment and company car expenses	188	202
Taxes and fees	137	153
Audit and other advisory services	184	345
Other	270	593
Total general and administrative expenses	5 717	5 719

9. Research and development cost

PLN thousands	January 1, 2019 - March 31, 2019 (unaudited)	January 1, 2018 March 31, 2018 (unaudited)
MabionCD20	8 885	8 637
MabionEGFR	337	214
Other projects	16	38
Total research and development costs	9 238	8 889

Research and development costs are recognized as period cost in profit or loss at the time they are incurred, in accordance with IAS 38. Costs of development work may be capitalized and recognized as an intangible asset upon meeting the criteria stipulated in par. 57 of IAS 38.

In the period covered by these condensed interim financial statements the only ongoing research and development projects co-financed from EU funds were MabionCD20 and MabionEGFR projects.

In June 2018, the Company submitted a marketing-authorization application for MabionCD20 to the European Medicines Agency (EMA), which has been approved for further evaluation on June 21, 2018. On April 24, 2019, the Company submitted responses to questions sent by the EMA, which allows EMA to continue the evaluation of the application.

10. Other operating income and costs

PLN thousands	January 1, 2019 - March 31, 2019 (unaudited)	January 1, 2018 March 31, 2018 (unaudited)
Government grants	574	496
Other operating income	11	45
Total other operating income	585	541
Loss on sale of fixed assets	13	-
Revaluation write-downs of current assets	123	-
Other operating costs	4	-
Total other operating costs	140	-

Government grants income includes in particular a portion of the grants received in the past for purchase of fixed assets in projects co-financed from EU funds, amounting to PLN 496 and PLN 496 thousand in the first quarter of 2019 and in 2018, respectively, which was recognized in profit or loss in the respective periods proportionally to depreciation of the underlying assets financed from those grants. The amount of government grants equaling PLN 78 thousand obtained by March 31, 2019, relates to the received funding for employee training.

Revaluation write-downs of current assets in the amount of PLN 123 thousand relate to materials inventory and have been made in accordance with the accounting policy effective in this scope for materials with the expiry date of June 30, 2019.

11. Finance income and costs

PLN thousands	January 1, 2019 - March 31, 2019 (unaudited)	January 1, 2018 March 31, 2018 (unaudited)
Interest income	211	1
Net foreign exchange gains	-	774
Total finance income	211	775
Interest expense	100	831
Net foreign exchange losses	575	-
Other finance costs	12	226
Total finance costs	687	1 057

Net foreign exchange losses in the period of 3 months ended March 31, 2019 result in particular from unrealized foreign currency exchange gains on translation of refundable prepayments for distribution rights denominated in foreign currencies, which are presented in Note 16.

12. Property, plant and equipment

In the current reporting period, the Company has invested PLN 3,666 thousand in property, plant and equipment and intangible assets (including items which have not yet been placed in service), of which PLN 2,977 thousand relating to prepayments for investments, including PLN 1,970 thousand relating to expenditure on packaging line; PLN 619 thousand relating to design works connected with the extension of the production plant and construction of a new building together with the production lines significantly increasing production capacities.

Property, plant and equipment placed in service within the period of 3 months of 2019 amount to PLN 1,292 thousand, of which a part was financed through lease contracts described in Note 18.

In the current reporting period, the Company sold means of transport for PLN 30 thousand. The non-depreciated value amounted to PLN 43 thousand.

The Company's management has not identified any impairment indicators in relation to property, plant and equipment as of March 31, 2019

13. Inventory

Increase in and maintaining the value of inventories in the first 3 months of 2019 is due to purchases of raw materials necessary for production of large-scale MabionCD20 in Konstantynów Łódzki plant.

The Company's management has recorded PLN 123 thousand as other operating expenses to recognize impairment write-down of inventory for materials with expiry date on 30.06.2019 (see Note 10).

14. Equity

Pursuant to Resolution No. 25/VI/2018 of June 28, 2018, the General Meeting of Shareholders ("GSM") authorized the Management Board to issue up to 125,000 of A series and B series subscription warrants, entitling eligible employees to purchase up to 114,000 of ordinary R-series shares and up to 11,000 of ordinary S-series shares in the Company, without the pre-emptive rights for existing shareholders.

On December 29, 2018, the Supervisory Board, acting on the basis of the authorization granted by the Ordinary General Meeting in resolution no. 24/VI/2018 of 28 June 2018, adopted Incentive Scheme Regulations for the years 2018-2021. Shares may

be taken up and rights from warrants may be exercised when the criteria set in the Regulations have been met. Alternatively, warrants may be purchased by the Company against payment for the purpose of redemption.

On February 12, 2019, the Supervisory Board approved, by way of relevant resolutions, the list of persons entitled to take up subscription warrants of A and B series for 2018 and 2019, stated that in 2018, with respect to A series subscription warrants, the market objective (i.e. achievement of minimum price) was not met and confirmed that in 2018, with respect to A series and B series subscription warrants, the employment objective was met.

The table below presents the details of the Program and its valuation as of March 31, 2019:

Tranche for the year	A series warrants			B series warrants			
	2019	2020	2021	2018	2019	2020	2021
Vesting date	12.02.2019	none	none	12.02.2019	12.02.2019	none	none
End of vesting period	31.01.2020	31.01.2021	31.01.2022	12.02.2019	31.01.2020	31.01.2021	31.01.2022
Number of instruments granted	28 500 *	28 500 **	28 500 **	9 500	500	500 **	500 **
Exercise price	PLN 91.00	PLN 91.00	PLN 91.00	PLN 0.10	PLN 0.10	PLN 0.10	PLN 0.10
Share price as of March 31, 2019	PLN 71.00	PLN 71.00	PLN 71.00	PLN 71.00	PLN 71.00	PLN 71.00	PLN 71.00
Market vesting condition	Achievement of minimum price ***			none			
Minimum price	PLN 190.00	PLN 280.00	PLN 400.00	n/a	n/a	n/a	n/a
Program approval date ****	28.06.2018						
Non-market vesting condition	The eligible individual must remain in employment relationship and provide work, services or specific work for the Company for at least 183 days in a given year of Program						
Settlement	Company's shares						
Expected variability	35,63% (based on the historical variability of the Company's share prices within 24 months prior to Grant Date)						
First possible exercise date	14.02.2020	14.02.2021	14.02.2022	14.07.2019	14.07.2020	14.07.2021	14.07.2022
Last possible exercise date	31.07.2022						
Risk-free interest rate	1.50% - 2.04%						
Dividend rate	0%						
Probability of leaving	18.59% per year						
Warrant fair value measurement date	12.02.2019	31.03.2019	31.03.2019	12.02.2019	12.02.2019	31.03.2019	31.03.2019
Warrant fair value at measurement date	PLN 0.07	PLN 0.43	PLN 0.41	PLN 69.78	PLN 69.78	PLN 73.23	PLN 73.23
Pricing model	Binomial model						

* including 23 300 for listed entitled individuals as well as reserve without listing the entitled individuals in the amount of 5 200

** entitled individuals not listed

*** minimum price has been defined as the arithmetic mean of the Company's share prices at the Warsaw Stock Exchange calculated on the basis of the daily volume-weighted average prices in the last month of every year

**** Beginning of the vesting period

On February 12, 2019 the Supervisory Board approved the list of employees entitled to take up A series and B series warrants for the years 2018 and 2019. Therefore, fair value measurement of the above-mentioned warrant tranches was prepared as of February 12, 2019. On March 31, 2019 only the expected number of warrants to which the entitled individuals would acquire rights was updated (based on the estimated probability of leaving before the end of the vesting period).

In the case of A series and B series warrants for the years 2020 and 2021, by March 31, 2019 the Supervisory Board did not determine the number of employees entitled to participation in the Program; therefore, do fair value measurement of these warrant tranches (taking into account the market condition) was prepared as of the balance sheet date (i.e. March 31, 2019). Fair value measurement of these warrants will be updated on every future balance sheet date until the list of entitled employees is drawn up and the number of A series and B series warrants they are entitled to is determined (vesting date). Final measurement of a warrant's fair value will be prepared as of the vesting date. As of subsequent balance sheet dates, only the expected number of warrants to which the entitled individuals will acquire rights will be updated (based on the estimated probability of leaving before the end of the vesting period).

To measure the warrant's fair value, binomial options pricing model was used. In the framework of measurement, probability that the Company's shares will achieve specified prices in the future was determined (monthly share price changes) based on the historical variability of the Company's share prices. The pricing was conducted using backward induction process taking into account the market condition (achievement of a minimum price) and the possibility of the early exercise of options in line with the Program's conditions (based on the assumptions made in the scope of the minimum as to the minimum rate of return on warrants expected by the entitled individuals). Total cost of the Program as of individual balance sheet dates will be estimated on the basis of the most recent measurements of the warrants' fair value and on the probability that the Program participants lose their right to warrants. The costs of the Program will be recognized over time in proportion to the vesting period for individual warrant tranches. Given that the market condition (minimum price of PLN 130) for A series warrants for the year 2018 had not been met prior to the date on which the Supervisory Board determined the list of individuals entitled to their acquisition, this warrant tranche was not taken into account in the valuation of the Program as of March 31, 2019.

If the market condition for A series warrants for a given year is not met, the Supervisory Board may grant the tranche of warrants which were not granted due to the above together with A series warrants for a year in which the market condition is met. As the future decisions of the Supervisory Board in this scope are uncertain, the estimation of the Program's cost as of March 31, 2019 does not take into account the effect of moving the warrants which have not been granted in a given year to subsequent years. This does not exclude the possibility to grant these warrants in subsequent periods in accordance with the provisions of the Program's Regulations applicable from time to time.

The valuation of the Incentive Program as of 31.03.2019 was PLN 690 thousand and decreased by PLN 24 thousand compared with 31.12.2018 when it was PLN 714 thousand.

15. Deferred Income

PLN thousands	March 31, 2019 (unaudited)	December 31, 2018
Government grants for property, plant and equipment	11 599	12 095
Government grants for R&D expenses	8 616	8 511
Prepayment from Mylan for distribution rights to MabionCD20	14 007	14 007
Prepayment from Celon Pharma for services (development of antibody production technology)	1 590	1 590
Deferred income	35 812	36 203

The Company has historically financed a portion of its operations through cash subsidies received from the European Regional Development Fund as administered by government institutions in Poland: the Lodz Agency of Regional Development (ŁARR), the Polish Agency for Enterprise Development (PARP) and the National Centre for Research and Development (NCBiR). There have been three projects to finance research and development and/or implementation of MabionCD20, technology of producing human analog insulin ("double cutting") and MabionHER2.

The fixed assets in relation to which the grant was obtained became available for use in 2015 at which point the depreciation of these assets also began; the respective portion of the deferred income (grant) was also recognized in profit or loss as well (PLN 496 thousand in the first quarter of 2019 and PLN 496 thousand in the first quarter of 2019 – see also Note 10).

In the period covered by these condensed interim financial statements the Company received another payment from the government grant for R&D expenses under the Smart Growth Operational Programme 2014-2020, InnoNeuroPharm sectoral program in the amount of PLN 105 thousand.

Current portion of deferred income represents the portion of deferred income which, according to the expectations of the Management Board, may be classified as income within 12 months from the balance sheet date. This relates in particular to:

- a) grants received to finance the investments in tangible fixed assets, which will be recognized as income alongside the depreciation of property, plant and equipment financed from grants;
- b) prepayment from Celon Pharma S.A. for services related to the development of a drug production process or drug prototypes for use by Celon Pharma S.A., which will be performed by the Company.

Long-term portion of deferred income represents the portion of deferred income which, which, according to the expectations of the Management Board, may be classified as income after 12 months from the balance sheet date. This relates in particular to:

- a) government grants for fixed asset investments, which will be recognized as income in proportion to the value of depreciation for property, plant and equipment financed government grants;
- b) government grants for R&D expenses, which will be recognized as income when the Company is sufficiently confident that it will be able to meet the grant conditions;
- c) prepayments for distribution rights, received from Mylan in the amount of PLN 14,007 thousand, no longer refundable according to the terms of the agreement with Mylan, which will be recognized as income after receiving by Mabion marketing authorization for MabionCD20.

16. Refundable prepayments for distribution rights

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

PLN thousands	March 31, 2019 (unaudited)	December 31, 2018
Mylan	43 161	42 297
FARMAK	1 075	1 075
ONKO	473	473
Sothema Laboratories	99	99
Lyfis	26	26
Total refundable prepayments for distribution	44 834	43 969

Change in balance sheet value of refundable prepayments for distribution rights in the period of 3 months ended March 31, 2019, equal to PLN 865 thousand, is due solely to changes in foreign exchange rates, since all of these prepayments were denominated in foreign currencies (EUR or USD in the case of Mylan). As stated in the annual financial statements for the year ended December 31, 2018, these prepayments may be refundable and are considered by the Company as current liabilities. In the period covered by these condensed interim financial statements there were no material changes in the terms of agreements with distribution partners.

17. Borrowings

a) Bank loans

On July 17, 2018 the Company and Santander Bank Polska S.A. (former Bank Zachodni WBK S.A.) signed a revolving loan agreement to finance operating activities of the Company in the period of two years from the day of signing the agreement. The amount of the Loan granted equals PLN 30 million. Disbursement of up to PLN 15 million PLN will be possible after fulfilment of certain formal and legal requirements, as well as establishment of collateral. Disbursement of further PLN 15 million will be possible after the Company received a positive decision of the European Medicines Agency concerning marketing authorization for MabionCD20 drug. The Loan bears interest at a variable rate, based on the WIBOR 1M rate increased by the Bank's margin, which is set at market terms. The Loan requires collateral, including a contractual mortgage (entered as item one in the land and mortgage register) up to PLN 45 million on the title to the real property in Konstancin-Jeziorna Łódzki along with assignment of the amounts due under the insurance policy, the Company's declaration of submission to enforcement by a notarial deed pursuant to art. 777 § 1 point 5 of the Civil Procedure Code each time up to 150% of the Loan amount, as well as surety and other forms of protection provided by entities related to the Company (major shareholders of the Company). The agreement contains numerous obligations of the Company towards the Bank and covenants, which may result in termination of the agreement by the Bank, if not satisfied. All collaterals for the Loan were provided in the period set in the loan agreement. In the reporting period and as of March 31, 2019, the Company did not use the funds made available under the Loan.

b) Borrowings from shareholders and related entities

In the current reporting period, the Company did not receive any loans from shareholders and related entities.

c) Asset-based loans

The Company is a party to sale-and-leaseback transactions to re-finance purchases of laboratory equipment. These transactions are treated as borrowings since the underlying assets have been initially paid in full by the Company and lease agreements contain an irrevocable offer to buy back the assets at the end of the lease period. These agreements are concluded for 3 to 4 years and are secured by blank promissory notes. These notes promise in writing that the Company will pay to the owner of the note all amounts due but not paid under the respective leasing agreement, including lease instalments, compensation, contractual penalties and expenses together with interest, in case the Company would be in arrears with payments of any of the abovementioned amounts. As of March 31, 2019, the total value of asset-based loans outstanding is PLN 2,054 thousand.

18. Finance lease liabilities

a) Operating lease

The Company leases office space in Łódź under an operating lease contract expiring on August 17, 2020 with an option to cancel in 2018 without an early termination penalty. Total future minimum lease payments under the lease as of March 31, 2019 was PLN 537 thousand in 2019. The lease expense recognized in the first 3 months of 2019 amounted to PLN 123 thousand.

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

The Company's management intends to close the office space lease at the end of 2019; therefore, on October 31, 2018 the Company submitted to the lessor the statement regarding the termination of the lease contract for office space at ul. Fabryczna 17 in Łódź with effect as of 1 November 2018, with a six-month notice period; at the same time the Company submitted a proposal to extend the notice period until December 31, 2019. The lessor accepted the proposal and in February 2019 the parties signed the respective annex to the contract.

Given the above, the Company made a decision to accelerate depreciation of all leasehold improvements relating to office space in Łódź starting from January 1, 2018.

b) Finance lease

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

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

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

In the period covered by these condensed interim financial statements, the Company has entered into new lease agreements, resulting in the initial recognition of the fixed assets in the amount of PLN 67 thousand i and the finance lease liability of PLN 67 thousand.

The total balance sheet value before tax of the finance lease objects as of March 31, 2019 amounts to PLN 10,244 thousand. The table below presents future minimum lease payments and the current value of minimum lease payments as of March 31, 2019 and December 31, 2018

PLN thousands	Future minimum lease payments as of March 31, 2019 (unaudited)	current value of minimum lease payments as of March 31, 2019 (unaudited)	Future minimum lease payments as of December 31, 2018	Current value of minimum lease payments December 31, 2018
Within 1 year	1 383	1 329	1 377	1 304
From 1 to 5 years	2 055	1 770	2 375	2 027
Total	3 438	3 099	3 752	3 351

19. Trade and other payables

PLN thousands	March 31, 2019 (unaudited)	December 31, 2018
Trade payables	12 124	14 258
Accrued expenses for clinical trials	-	-
Share-based payments (Note 23)	-	-
Social security and personal income tax on payroll	1 082	799
Accrued expenses for unused leave	613	441
Other payables	1 290	1 272
Company Social Benefits Fund	249	-
Total trade and other payables	15 358	16 770

By its resolution No. 1/XII/2018 of December 10, 2018, the Management Board of Mabion S.A. adopted the Regulations of the Company Social Benefits Fund effective as of January 1, 2019. The costs of contributions to the Social Benefits Fund in 2019 were estimated at PLN 249 thousand.

20. Effective income tax rate

In the current reporting period, the Company did not gain profits which would be the basis for income tax payment and has not met the criteria to recognize deferred tax asset. Therefore, the effective income tax rate was equal to 0 (null).

As of March 31, 2019, the Company operated under three permits issued by the Łódź Special Economic Zone ("ŁSSE"), located in Poland. There were no significant changes in 2019 in respect of the amounts and conditions of utilizing the tax credits available to the Company, i.e. tax credits will be available by December 31, 2026 to offset against future corporate income tax profits.

In the period of 3 months ended March 31, 2019, the Company incurred tax loss in the amount of PLN 4,602 thousand. The Company did not recognize the deferred tax asset on account of this loss since it did not meet the IAS 12 criteria for the likelihood of achieving taxable income allowing to use the loss before the period for its use. Tax losses carried forward from previous years are disclosed in the financial statements for the year ended December 31, 2018.

21. Financial risk management

In the scope of financial risks, the Company is exposed to, exposure and risk management levels have not changed substantially compared with the most recent annual financial statements.

22. Fair value of financial instruments measured at amortized cost

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

The main items of financial instruments measured at amortized cost are: short-term bank borrowings and refundable prepayments for distribution rights. The Company's management assessed that the fair value of these items approximates or equals their carrying values.

23. Related party transactions

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

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

Services contracted previously with Celon Pharma S.A. related to the development of a drug production process or drug prototypes for use by Celon Pharma S.A. has been deferred by mutual consent into future periods due to extraordinary workload relating to completion of research and development of MabionCD20. More information is presented in Note 15.

In the first quarter 2019, gratuitous surety granted in 2018 by Glatton Sp. z o.o. (significant shareholder of the Company) up to the amount of PLN 45 million was in effect. The surety relates to the revolving loan agreement of July 17, 2018, concluded with Bank Zachodni WBK S.A. (currently Santander Bank Polska S.A.) for the period of two years to finance operating activities of the Company. As of March 31, 2019, the Company did not use the available credit line.

Key management compensation (incl. share-based payment and remuneration)

On February 12, 2019, the Supervisory Board granted incentive awards to Mr. Artur Chabowski and Mr. Sławomir Jaros in connection with the acquisition by the Company of subsidies from EU funds in 2018. The awards totaling PLN 140 thousand have been paid in March 2019, and their total was accounted for as cost of 2018.

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

PLN thousands	January 1, 2019 – March 31, 2019 (unaudited)	January 1, 2018 – March 31, 2018 (unaudited)
Remuneration of the Supervisory Board Members	116	72
Remuneration of the Management Board Members	401	159
Total short-term compensation	517	231
Share-based payments	-	371
Valuation of warrants under share-based program	(14)	371
Total compensation of key management personnel and the Supervisory Board	503	602

24. Contingent liabilities and contractual commitments

a) Contractual commitments

As of March 31, 2019, the Company did not have any contractual commitments for the acquisition of property, plant and equipment, intangible assets or development work.

b) Contingent liabilities

As of March 31, 2019, the Company has not had any contingent liabilities which are expected by management to have a material adverse effect on the Company's financial position or operations and/or cash flow.

25. Litigation settlements

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

26. Events after the balance sheet date

On April 10, 2019, the Company received another payment from the government grant under the Smart Growth Operational Programme 2014-2020, "Fast Track" in the amount of PLN 7.1 million.

On April 24, 2019, the Company submitted responses to the list of questions sent by the EMA received under 120-day timetable of the registration procedure for MabionCD20 at EMA. The submissions of responses to EMA questions allows the Agency to continue the assessment of the application.

On April 25, 2019, Mr. Artur Chabowski tendered his resignation from the function of President of the Company's Management Board. The resignation enters into force as of June 30, 2019.

On May 6, 2019 the Company received the confirmation that its second registration application for Mabion CD20 was submitted to EMA correctly. In the Company's judgment, this may accelerate the commercialization of the drug in markets where rheumatoid arthritis (RA) is still covered by the patent protection for MabThera.

Management Board of the Company

Artur Chabowski
President
of the Management Board

Jarosław Walczak
Member
of the Management Board

Sławomir Jaros
Member
of the Management Board

Grzegorz Grabowicz
Member
of the Management Board

Jolanta Baranowska
Chief Accountant

Konstantynów Łódzki, 16 May 2019

