

Interim Financial
Statements as at
30 June 2016 and
Interim management
report of Probiodrug AG
(HGB)

- 1.1 Balance sheet
- 1.2 Income statement
- 1.3 Cash flow statement
- 1.4 Statement of changes in equity
- 1.5 Condensed notes to the interim financial statements
- 1.6 Interim management report

Probiodrug AG, Halle (Saale)

Balance sheet as at 30 June 2016 (HGB)

Assets

	30 June 2016		31 December 2015	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
Similar rights acquired for consideration, licenses and software		153,925.21		55,962.72
II. Tangible assets				
1. Buildings on third-party land	17,280.83		20,735.87	
2. Other equipment, operating and office equipment	55,192.11	72,472.94	59,831.70	80,567.57
III. Long-term financial assets				
Participations		3,450.00		3,450.00
		<u>229,848.15</u>		<u>139,980.29</u>
B. Current assets				
I. Inventories				
1. Raw materials	421,410.00		0.00	
2. Payments in advance	418,100.00	839,510.00	0.00	0.00
II. Other assets		205,059.65		139,217.61
III. Cash-in-hand and bank balance		14,244,836.43		21,361,408.04
		<u>15,289,406.08</u>		<u>21,500,625.65</u>
C. Prepaid expenses		220,194.00		225,292.11
		<u>15,739,448.23</u>		<u>21,865,898.05</u>

Equity and liabilities

	30 June 2016	31 December 2015
	EUR	EUR
A. Equity		
I. Share capital	7,442,487.00	7,442,487.00
Contingent capital: EUR 2,623,801.00 (31.12.2015: EUR 2,556,151.00)		
II. Capital reserves	34,871,656.55	34,871,656.55
III. Revenue reserves		
Legal reserves	227,625.00	227,625.00
IV. Accumulated losses brought forward	-31,779,847.40	-26,067,150.58
	<u>10,761,921.15</u>	<u>16,474,617.97</u>
B. Provisions		
1. Pension provisions	524,018.00	468,818.00
2. Tax provisions	2,690,540.75	2,641,430.75
3. Other provisions	594,836.21	615,703.91
	<u>3,809,394.96</u>	<u>3,725,952.66</u>
C. Liabilities		
1. Trade payables	908,283.89	1,312,699.31
2. Other liabilities	259,848.23	352,628.11
– of which taxes EUR 42,964.48 (31.12.2015: EUR 129,209.18) –		
	<u>1,168,132.12</u>	<u>1,665,327.42</u>
	<u>15,739,448.23</u>	<u>21,865,898.05</u>

Probiodrug AG, Halle (Saale)

Income statement for the period from 1 January to 30 June 2016 (HGB)

	1.1. - 30.6.2016		1.1. - 30.6.2015	
	EUR	EUR	EUR	EUR
1. Other operating income		80,573.58		230,051.39
2. Cost of materials				
a) Costs of raw materials	-24,707.21		-17,662.92	
b) Costs of purchased services	-2,957,425.84	-2,982,133.05	-2,801,486.24	-2,819,149.16
3. Personnel expenses				
a) Wages and salaries	-861,570.66		-730,459.70	
b) Social security and post employment costs – of which in respect of retirement provisions EUR 96,476.76 (in the prior year EUR 66,782.52.00) –	-167,370.76	-1,028,941.42	-133,498.80	-863,958.50
4. Amortisation of intangible assets and depreciation of tangible assets		-25,916.59		-28,502.05
5. Other operating expenses		-1,687,969.45		-2,295,713.85
6. Other interest and similar income		0.11		217.18
7. Interest and similar expenses		-68,310.00		-68,310.00
8. Net loss for the period		-5,712,696.82		-5,845,364.99
9. Accumulated losses brought forward		-26,067,150.58		-12,480,753.10
10. Total accumulated losses		-31,779,847.40		-18,326,118.09

Probiodrug AG, Halle (Saale)

Statement of Cash Flows for the period from 1 January to 30 June 2016 (HGB)

	1.1.2016– 30.6.2016	1.1.2015– 30.6.2015
	EUR	EUR
Net loss of the period	-5,712,697	-5,845,365
Amortisation and depreciation of fixed assets	25,917	28,502
Income/expense from the disposal of fixed assets	0	0
Interest income	0	0
Interest expenses	68,310	68,310
Increase in Inventories	-839,510	0
Increase in pension provisions	36,000	28,200
Decrease of other provisions	-20,868	-246,200
Increase (in prior year decrease) in other assets	-66,608	121,484
Increase (in prior year decrease) of prepaid expenses	5,098	-174,128
Decrease in trade payables	-404,415	-106,046
Decrease (in prior year increase) in other liabilities	-92,780	4,262
Cash flow from operating activities	-7,001,553	-6,120,980
Capital expenditures for tangible assets	-1,936	-4,046
Capital expenditures for intangible assets	-113,850	-4,628
Interest received	766	2,447
Cash flow from investing activities	-115,019	-6,227
Cash flow from financing activities	0	0
Changes in cash and cash equivalents	-7,116,572	-6,127,208
Cash and cash equivalents at the beginning of the financial year	21,361,408	20,919,927
Cash and cash equivalents at the end of the period	14,244,836	14,792,719

	30.6.2016	30.6.2015
	EUR	EUR
Composition of cash and cash equivalents		
Cash-on-hand	375	138
Bank balances	14,244,462	14,792,581
	14,244,836	14,792,719

Probiodrug AG, Halle (Saale)

Statement of shareholders' equity as at 30 June 2016 (HGB)

	Share capital Common shares	Capital reserves	Legal reserves	Retained earnings	Equity
	EUR	EUR	EUR	EUR	EUR
Balance as at 1.1.2015	6,765,898	22,016,466	227,625	-12,480,754	16,529,235
Net loss				-5,845,365	-5,845,365
Balance as at 30.6.2015	6,765,898	22,016,466	227,625	-18,326,119	10,683,870
Balance as at 1.1.2016	7,442,487	34,871,657	227,625	-26,067,151	16,474,618
Net loss				-5,712,697	-5,712,697
Balance as at 30.6.2016	7,442,487	34,871,657	227,625	-31,779,848	10,761,921

Probiodrug AG, Halle (Saale)

Condensed NOTES to the interim financial statements for the period from 1 January to 30 June 2016 (HGB)

I. General information

The interim financial statements of Probiodrug AG were prepared using the accounting policies and measurement methods prescribed by the [German] Commercial Code [Handelsgesetzbuch (HGB)] as well as the complementary regulations of the [German] Stock Corporation Act.

With effect from October 2014 Probiodrug became a listed company on the Euronext/Amsterdam and is thereby considered a capital market oriented corporation as defined by Section 264d of the HGB, which is thereby considered a large capital corporation pursuant to Section 267 (3) sentence 2 of the HGB.

There was no change in the form of presentation in comparison with the prior year.

II. Accounting policies and measurement methods

The accounting policies and measurement methods in these interim financial statements correspond with those already applied by Probiodrug in the 2015 annual financial statements.

In the Management Board's opinion, these interim financial statements reflect all transactions which are necessary to present the net assets, financial position and results of operations for the period ended 30 June 2016 and 2015.

These interim financial statements do not include all information and disclosures required for the presentation of annual financial statements. As such, the interim financial statements should be read in conjunction with the 2015 financial statements. These interim Probiodrug AG financial statements were released for publication by the Management Board on August 9, 2016.

III. Explanations on the balance sheet

Share capital

As at 30 June 2016, the share capital was unchanged and amounted to EUR 7,442,487.00. It is broken down into 7,442,487 registered ordinary shares with no par value (bearer shares).

Authorisation to acquire treasury shares

By resolution of the Annual Shareholders' Meeting on 10 June 2015 the Management Board is, pursuant to Section 71 (1) number 8 of the AktG [German Stock Corporation Act], authorised to acquire treasury shares until 9 June 2020 equalling EUR 676,580.00 of the share capital. The acquisition may take place via the stock exchange or via a public offer to purchase directed at all shareholders. The treasury shares may be utilised for all permissible purposes including the redemption of shares.

Conditional Capital

By resolution of the Annual Shareholders' Meeting on 19 May 2016, the Conditional Capital 2014/I was increased by EUR 67,650.00 to EUR 509,650.00.

As at 30 June 2016 the Conditional Capital totalled EUR 2,623,801.00 (in the prior year EUR 2,556,151.00). Of this amount, EUR 591,787.00 (in the prior year EUR 517,363.00) is reserved as a result of the issuance of options.

The Conditional Capital serves the fulfilment of stock option rights for ordinary bearer shares upon exercise of conversion and/or option rights (or the satisfaction of corresponding conversion respectively option obligations) or, to the extent that the Company exercises its right to grant shares of the Company, in lieu of payment of the amount in cash due (or parts thereof), to the holders or creditors of convertible or option bonds.

In 2016 a total of 74,424 options for ordinary bearer shares with no par value were issued within the framework of the Stock Option Program 2014 to the Management Board.

In addition to Company employees and employees of formerly affiliated companies, for whom no disclosure is required pursuant to Section 194 (3) of the AktG, the following members of the Management Board (respectively former Management Board members) are entitled to acquire the following number of shares:

- Dr. Konrad Glund, Halle, up to 135,747 ordinary shares
- Dr. Hendrik Liebers, Leipzig, up to 138,786 ordinary shares
- Prof. Dr. Hans-Ulrich Demuth, Halle, up to 30,913 ordinary shares
- Dr. Inge Lues, Seeheim-Jugenheim, up to 104,834 ordinary shares
- Mark Booth, Chicago, up to 74,424 ordinary shares

Stock options

By resolution of the Ordinary General Meeting of the shareholders on 19 May 2016 the stock option program which was resolved upon on 29 September 2014 was amended such that the Management Board and, to the extent that the issuance of stock options to members of the Management Board is involved, the Supervisory Board is authorised to issue once or several times up to 509,650 option rights to current or future employees and members of the Management Board, whereas up to 404,538 option rights may be granted to current or future members of the management board and up to 105,112 option rights may be granted to current and future employees of the Company.

In addition the Ordinary General Meeting resolved to extend the exercise period for Option Programs 2007 and 2010.

The exercise period for Stock Option Program 2007 will be extended to 11 years for those options which have not yet expired.

The exercise period for Stock Option Program 2010 will be extended to nine years for those options which have not yet expired.

Otherwise the stock option programs remain in effect without change.

Authorised Capital 2014

On 19 May 2016 the Ordinary General Meeting resolved to increase the Authorised Capital 2014 from EUR 2,633,166.00 up to EUR 3,721,243.00. The authorisations given to the Management Board and Supervisory Board with respect to the Authorised Capital 2014 were, accordingly, modified.

Pension provisions

The pension obligations were rolled forward based on the valuation basis determined as at 31 December 2015.

In the period from 1 January to 30 June 2016 personnel expenses totalling EUR 66k (in the prior year EUR 36k) and ongoing interest expense of EUR 19k (in the prior year EUR 19k) were recorded with respect to the pension obligations.

As at 30 June 2016 the pension provision recorded amounted to EUR 524k (31 December 2015 EUR 469k).

Other provisions

As at 30 June 2016, the other provisions recorded amounted to EUR 595k (31 December 2015 EUR 616k) and primarily consist of outstanding invoices.

IV. Other disclosures

Corporate Governance Codex

The compliance statement prescribed by Section 161 of the AktG regarding the German Corporate Governance Codex was issued by the Management Board and the Supervisory Board and made available to the shareholders on the Probiodrug internet page (<http://www.probiodrug.de>) on a permanent basis.

Disclosures with respect to executive bodies

Management Board

In the first half of 2016 the Company's business activities were directed by the members of the Management Board

- Dr. Konrad Glund (Dipl. Biochemiker [diploma in biochemistry]) – Chairperson
- Dr. Hendrik Liebers (Dipl.-Biologe [diploma in biology], Dipl.-Kaufmann [diploma in economics])
- Dr. Inge Lues (Dipl.-Biologe [diploma in biology]).
- Mark Booth (BS Biology, MBA) from 1 April 2016

All of the above have the authority to represent the Company on their own and are exempt from the constraints of Section 181 of the BGB.

Supervisory Board

The following were appointed as members of the Supervisory Board during the reporting period:

- Dr. Erich Platzer - Chairperson
- Dr. Dinnies von der Osten – Vice Chairperson
- Charlotte Lohmann

- Kees Been
- Dr. Olivier Litzka
- Dr. Jörg Neermann

Halle (Saale), 9 August 2016

Dr. Konrad Glund Dr. Hendrik Liebers Dr. Inge Lues Mark Booth

Probiodrug AG, Halle (Saale)

Interim management report for the first half year of 2016 (HGB)

1. Company basics

Legal structure

Probiodrug AG – hereinafter „Probiodrug AG“, „Probiodrug“ or the „Company“ - is a German stock corporation domiciled in Halle (Saale). The Company has a subsidiary, Probiodrug Inc., USA. All operating activities and assets are concentrated in Probiodrug AG; currently Probiodrug Inc. has neither operating activities nor assets.

Business activities

Probiodrug AG is a biopharmaceutical company which focuses on the research and development of new therapeutic products for the treatment of Alzheimer's Disease (hereinafter also „Alzheimer's“ or „AD“).

Headquartered in Halle, Germany, Probiodrug was founded in 1997 by Prof. Dr. Hans-Ulrich Demuth and Dr. Konrad Glund and successfully developed a novel therapeutic concept for the treatment of diabetes type 2– the DP4 inhibitors or gliptins. Today, Probiodrug's aim is to become a leading company in the development of Alzheimer's treatments and thereby to provide a better life for patients.

Probiodrug has identified a new therapeutic concept which addresses disease initiation as well as progression. The development approaches target pyroglutamate-Abeta (pGlu-Abeta), in particular by the inhibition of the enzyme Glutaminyl Cyclase („QC“), as one therapeutic strategy to fight AD. The Company's furthest developed program in this area is the development candidate PQ912, which is in phase 2; a further development candidate, PQ1565, is in preclinical development.

In addition, the Company is specifically developing a pGlu-Abeta binding anti-body which ultimately is expediting the decomposition. The development candidate in this area, the anti-body PBD-C06, is in preclinical development.

Research and development

As was the case in the past, in the reporting period Probiodrug primarily focussed its resources on the development of its lead program PQ912. In addition, work was advanced on PBD-C06 as well as on PQ1565.

Important events in the reporting period

a) Results of the chronic toxicology studies with PQ912

On 4 April 2016 the Company announced the results of toxicology studies which showed that the toxicology profile of PQ912 in a 6-month rat and a 9-month dog were comparable to the results of previous toxicology studies with shorter treatment periods conducted for the same species. No qualitatively new findings were observed and the changes considered "minimal" or "slight" in both the 1-month and the 3 month studies were not intensified after prolonged treatment. The data from the chronic toxicology studies are necessary regulatory prerequisites for longer treatment in clinical studies on patients with Alzheimer's Disease.

b) Annual Shareholders' Meeting 2016

On 19 May 2016 the Company's Annual Shareholders' Meeting took place. The following resolutions were subject to vote:

- Exoneration of the management board and the supervisory board
- Remuneration of the supervisory board
- Increase of the Authorised Capital
- Resolution with respect to the extension of the exercise period for option programs 2007 and 2010
- Resolution as to the modification of Stock Option Program 2014.

All items presented for resolution by the management board and the supervisory board were approved.

c) Changes in management

Mr. Mark Booth, Lake Forrest, USA, was appointed as a member of the management board of Probiodrug AG for the time period from 1 April 2016 until 31 March 2018. He represents the company solely and is exempted from the restrictions in Sec. 181 old version (2) of the BGB

(German Civil Code) and is therefore entitled to enter into legal transactions on behalf of the Company with himself as a third-party representative.

2. Overview of business development

2.1 General conditions

The general environment with respect to Alzheimer's Disease research and development continued to develop in a promising manner in the first half of 2016. In this context, Lilly & Co., USA, progressed its anti-bodies against pGlu Abeta into a further patient study.

2.2. Company development

In the reporting period, the Company primarily focussed on the following:

- Continuation of the clinical study phase 2a for PQ912 („SAPHIR“),
- Further progression of PBD-C06 and PQ1565,
- Additional data to support and protect the intellectual property of the therapeutic concept of QC inhibition as a fundamental novel approach for the treatment of Alzheimer's and other diseases,
- Further progression of the therapeutic concept of the anti-pGlu-Abeta specific anti-bodies (PBD-C06) as well as PQ1565, a further QC inhibitor.

2.3. Presentation of the net assets, financial position and results of operations

Net assets

The subsequent condensed balance sheet provides an overview of Probiodrug's net assets and financial position:

	30.6.2016	31.12.2015
	EUR k	EUR k
Assets		
Intangible assets	154	56
Tangible assets	72	81
Long-term financial assets	3	3
Fixed assets	229	140
Inventories	840	0
Receivables and other assets	205	139
Cash and bank balances	14,245	21,361
Current assets	15,290	21,501
Prepaid expenses	220	225
Total assets	15,739	21,866
Equity and liabilities		
Equity	10,762	16,475
Provisions	3,809	3,726
Liabilities	1,168	1,665
Total equity and liabilities	15,739	21,866

As at 30 June 2016 Probiodrug's total assets amounted to EUR 15,739k (31 December 2015: EUR 21,866k). As a result of scheduled amortisation and depreciation of EUR 26k off-set by additions of EUR 116k, the total fixed assets presented on the balance sheet increased by EUR 89k. In the first half of 2016 current assets declined from EUR 21,501k to EUR 15,290k. During the reporting period receivables and other assets increased by EUR 66k, while cash and cash equivalents declined by EUR 7,116k as a consequence of ongoing operating activities.

As at the balance sheet date, the bank balances totalled EUR 14,245k.

As at 30 June 2016 Probiodrug's equity amounted to EUR 10,762k (31 December 2015: EUR 16,475k). As at 30 June 2016 the equity ratio amounted to 68.4%.

In the first half of 2016 the provisions increased slightly by EUR 83k from EUR 3,726k as at 31 December 2015 to EUR 3,809k as at 30 June 2016. Of the total provisions, EUR 524k

(31 December 2015: EUR 469k) comprise pension provisions, EUR 595k (31 December 2015: EUR 616k) comprise other provisions and EUR 2,691k (31 December 2015: EUR 2,641k) relate to potential tax payments due in arrears for 2004.

In the first half of 2016 the liabilities decreased from EUR 1,665k to EUR 1,168k, whereby the trade accounts payable decreased by EUR 405k. As at 30 June 2016 they amounted to EUR 908k (31 December 2015: EUR 1,313k). The other liabilities declined by EUR 93k to EUR 260k (31 December 2015: EUR 353k).

Financial position

In the reporting period the operating cash flow amounted to EUR -7,001k (2015: EUR -6,119k) due primarily to the negative results in the period.

In the reporting period the cash flows from investing activities totalled EUR -116k (2015: EUR -9k).

There were no cash flows attributable to financing activities in the reporting period.

Results of operations

A condensed overview of the Company's income statement is presented below:

	30.6.2016	30.6.2015
	EUR k	EUR k
Other operating income	81	230
Cost of materials	-2,982	-2,819
Personnel expenses	-1,029	-864
Amortisation and depreciation of intangible and tangible fixed assets	-26	-28
Other operating expenses	-1,688	-2,296
Financing results	-68	-68
Results of ordinary activities	-5,713	-5,845
Taxes on income	0	0
Net loss	-5,713	-5,845

The Company's net loss in the reporting period totalled EUR 5,713k (2015: EUR 5,845k) and thereby declined slightly. The increase in the cost of materials was primarily attributable to ongoing external studies, in particular the continuation of clinical study IIa for PQ912, as well as higher personnel costs due in particular to the expansion of the management board in April 2016 were off-set by a reduction in the other operating expenses.

Overall statement

At the time of preparation of this management report, the Company's economic position was, in principle, unchanged in comparison with the explanations provided above. Overall, the management board is satisfied with the Company's development and considers this to be positive.

3. Events of particular significance subsequent to the balance sheet date (subsequent events report)

There were no events of particular significance subsequent to the balance sheet date.

4. Opportunities and risks report

There were no significant changes with respect to the opportunities and risks report included in the management report for the 2015 financial statements

The accompanying interim financial statements as at 30 June 2016 were prepared on the basis that the Company will continue as a going concern. This contemplates the realisation of assets and the settlement of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent on its ability to raise additional funds to continue its research and development programs and meet all of its obligations. As at 30 June 2016 the Company had equity amounting to EUR 10,762k (31 December 2015 EUR 16,475k) and a cash position of EUR 14,245k (31 December 2015 EUR 21,361k). No changes on the spending side assumed, there is sufficient funding for the Company's further development until the beginning of the third quarter of 2017. The future financing on which the going concern assumption is based, considers management's expectation to raise funds in the form of equity or debt and/or concluding a licensing agreement by the beginning of the third quarter of 2017 at the latest. A further strengthening of the Company's financial resources is also part of the present business planning.

5. Outlook

The areas of emphasis for Probiodrug's business activities over the mid-term have not changed in comparison with the outlook included in the management report to the financial statements for 2015. Added were activities in preparation for the long-term treatment of patients. The statements with respect to the expected net loss hold true without any changes.

Halle (Saale), 9 August 2016

Probiodrug AG's management board

Dr. Konrad Glund

Dr. Hendrik Liebers

Dr. Inge Lues

Mark Booth