

Interim Consolidated Financial Statements for the six-month period January 1, 2014 to June 30, 2014 of Probiodrug AG (IFRS) (unaudited)

Consolidated Statement of Comprehensive Income

in EUR k	1 January to 30 June	
	2014	2013
	(unaudited)	
I. Profit or loss		
<i>Continuing operations</i>		
Revenues	0	0
Cost of sales	0	0
Gross profit	0	0
Research and development expenses	-2,820	-3,720
General and administrative expenses	-961	-1,206
Other operating income	43	163
Operating profit/loss	-3,738	-4,763
Interest income	2	6
Interest expense	-58	-57
Financial profit/loss	-56	-51
Loss before tax	-3,794	-4,814
Income tax expense	0	0
Loss from continuing operations	-3,794	-4,814
<i>Discontinued operations</i>		
Loss after tax of the discontinued operations	-32	-181
Net Loss for the period	-3,826	-4,995
II. Other comprehensive income (loss)		
Items not to be reclassified subsequently to profit or loss		
Remeasurement of the net defined benefit pension liability	0	18
Total other comprehensive income (loss)	0	18
III. Comprehensive income (loss)	-3,826	-4,977

Consolidated Statement of Financial Position

in EUR k	As of 30 June 2014	As of December 2013
	(unaudited)	
ASSETS		
A. Noncurrent assets		
I Other intangible assets.....	86	101
II Plant and equipment	253	321
III Financial assets.....	3	3
Total noncurrent assets	342	425
B. Current asset		
I Other short-term financial assets	12	872
II Tax refunds.....	3	10
III Other assets	328	188
IV Cash and cash equivalents	5,919	4,879
Total current assets.....	6,262	5,949
Total assets	6,604	6,374
LIABILITIES AND EQUITY		
A. Equity		
I Share capital	25,529	25,529
II Legal reserve	228	228
III Additional paid-in capital	51,963	51,963
IV Reserves for remeasurement of pension liabilities	-199	-199
V Retained earnings	-85,571	-81,745
Total equity	-8,050	-4,224
B. Noncurrent liabilities		
I Investment grants	6	11
II Pensions.....	531	535
III Provisions	811	719
Total noncurrent liabilities	1,348	1,265
C. Current liabilities		
I Investment grants	12	13
II Tax liabilities	2,494	2,445
III Provisions	41	41
IV Convertible bonds.....	9,622	5,346
V Trade payables.....	981	1,327
VI Other current liabilities.....	156	161
Total current liabilities.....	13,306	9,333
Total liabilities.....	14,654	10,598
Total equity and liabilities.....	6,604	6,374

Consolidated Cash Flow Statement

in EUR k	1 January to 30 June	
	2014	2013
	(unaudited)	
Net loss for the period	-3,826	-4,995
Income tax expense / income	0	0
Net interest expense	56	51
Depreciation and amortization	61	107
Gain on disposal of plant and equipment	-3	-9
Release of deferred investment grants	-6	-14
Other non-cash income /(expense)	0	10
Interest paid	0	0
Interest received	2	6
Income taxes paid	-1	-2
Income taxes received	6	10
<i>Changes in working capital</i>		
Changes in trade receivables	0	5
Changes in other assets	360	162
Changes in pension liabilities	-13	5
Changes in provisions	92	218
Changes in trade payables	-346	-64
Changes in other liabilities	-5	-147
Cash flows from operating activities	-3,623	-4,657
Proceeds from disposal of plant and equipment	25	31
Proceeds from disposal of intangible assets	362	0
Acquisition of plant and equipment	0	-1
Acquisition of intangible assets	0	-34
Cash flows from investing activities	387	-4
Proceeds from convertible bonds	4,276	0
Cash flows from financing activities	4,276	0
Net increase in cash and cash equivalents	1,040	-4,661
Cash and cash equivalents at the beginning of period	4,879	7,726
Cash and cash equivalents at the end of period	5,919	3,065

Consolidated Statement of Changes in Equity

	Share capital	Legal reserve	Additional paid-in capital	Reserve for remeasure ment of pensions	Retained earning	Total equity
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
January 1, 2013	25,529	228	51,658	-234	-71,816	5,365
Other comprehensive income	0	0	0	18	0	18
Net loss for the period	0	0	0	0	-4,995	-4,995
Comprehensive loss for the period	0	0	0	18	-4,995	-4,977
Stock option compensation	0	0	10	0	0	10
	0	0	10	18	-4,995	-4,967
June 30, 2013	25,529	228	51,668	-216	-76,811	398
January 1, 2014	25,529	228	51,963	-199	-81,745	-4,224
Income and expenses recognized directly in equity	0	0	0	0	0	0
Net loss for the period	0	0	0	0	-3,826	-3,826
Comprehensive loss for the period	0	0	0	0	-3,826	-3,826
	0	0	0	0	-3,826	-3,826
June 30, 2014	25,529	228	51,963	-199	-85,571	-8,050

1. Notes to the consolidated financial statements

1.1 Condensed consolidated interim financial statements

1.1.1 Basis for preparation of the consolidated financial statements

The interim report of Probiodrug AG and also the consolidated financial statements as of December 31, 2013, were prepared in accordance with the requirements of the International Accounting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and adopted by the EU. The rules contained in IAS 34 "Interim Financial Reporting" were applied accordingly. All of the interim financial statements of the companies included within the consolidated financial statements of Probiodrug AG were prepared in accordance with standard accounting principles.

These condensed interim financial statements do not include all information relevant for the consolidated financial statements and is therefore to be read in conjunction with the consolidated financial statements as of December 31, 2013.

The condensed interim financial statements are presented in euros (EUR). To the extent not otherwise stated, all amounts are given in thousand euros (EURk). Discrepancies may occur in the presentation of the figures as of result of rounding.

The consolidated financial statements have been prepared under the assumption of a going concern.

When a comparison and analysis is made below with the previous year, the period January 1, 2014 to June 30, 2014 (6 M 2014) is compared with the period January 1, 2013 to June 30, 2013 (6 M 2013). The prior year comparative date for the consolidated balance sheets is December 31, 2013.

1.1.2 Entities included in the consolidation, consolidation principles and foreign currency translation

There were no changes in the entities included in the consolidation as of December 31, 2013. Incidentally the consolidation methods as well as the principles for foreign currency translation remain unchanged to those applied for the consolidated financial statements as of December 31, 2013.

1.1.3 Accounting and valuation methods

Given that the interim financial reports are based on the consolidated financial statements, reference is made to the detailed description of the accounting and consolidation policies contained in the notes to the consolidated financial statements as of December 31, 2013. The accounting and consolidation policies applied are essentially commensurate with those applied in the previous year.

Regarding the management's assessment of the entity's ability to continue as a going concern the company had a deficit not covered by equity amounting to EUR 8,050k. In the reporting period the convertible bonds were increased to the total amount of EUR 9,622k and in August 2014 all convertible bonds were converted in equity.

With this the Company was able to secure additional funding which provide for the Company's further development at least into the third quarter of 2014. In order to continue the ongoing research and development projects additional funding will, at the latest, be required at this point. Management is currently pursuing an additional financing round for the fall of 2014. If this is not achieved, the Company's further development will be endangered.

If extensive adjustments are made to the cost structures, the Company's projections show that, without a successful financing round, the liquidity would be sufficient through the end of 2015. The aforementioned projections are based on the assumption that no cash outflows will be required in 2014 and 2015 with respect to the potential additional tax claims of the fiscal authorities for the year 2004. Probiodrug has filed a lawsuit at the Finanzgericht contesting the potential back taxes. A ruling has not yet been made. A stay of execution for the contested decisions has been granted.

This risk was provided for in the financial statements by recording an appropriate provision. Should significant payments be required in 2014 or 2015 for the back taxes being contested in the financial courts, the Company's ability to continue as a going concern would be endangered.

The following applies in addition to the accounting and valuation methods described in the notes to the consolidated financial statements as of December 31, 2013:

Effective January 1, 2014 the following listed new and revised Standards and Interpretations were to be applied for the group:

- Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities
- IAS 28: Investments in Associates and Joint Ventures
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint arrangements

The changes listed do not have a significant impact on the financial statements of Probiodrug.

1.2. Notes to individual line items within the consolidated statement of comprehensive income

1.2.1 Operating result

1.2.1.1 General and administrative expenses

General and administrative expenses of EUR 961k (6 M 2013 EUR 1,206k) include the administrative expenses of Probiodrug AG. They relate mainly to management costs, consulting expenses, external services and general administrative expenses.

1.2.1.2 Other operating income

Other operating income amounted to EUR 43k in the 6 M period 2014, following EUR 163k in the 6 M period 2013 and contain mainly research and other subsidies.

1.2.2 Discontinued operation

The net result from the discontinued operation is presented as follows:

EUR k	1/1.- 6/30/2014	1.1.-6/30/2013
Income.....	2	21
Expenses	-34	-220
Gain on sale.....	0	18
Operating result.....	-32	-181
Financial result.....	0	0
Result before tax	-32	-181
Income taxes	0	0
After tax result of the discontinued operations	-32	-181

The net cash flow of the discontinued operation is composed as follows:

EUR k	1/1- 6/30/2014	1/1- 6/30/2013
Operating activities	-101	-164
Investing activities	362	28
Financing activities	0	0
Net cash flow from discontinued operations.....	261	-136

1.2.3 Earnings per share

Earnings per share were calculated in accordance with IAS 33. For the calculation per share the earnings for the period attributable to shareholders of the parent company were divided by the weighted average number of shares outstanding. There is no dilutive effect.

Probiodrug AG has at June 30, 2014 25,528,929 no-par shares with a nominal value of EUR 1, which have in average been in circulation during the reporting period. The computational nominal amount per share is EUR 1.00. The Group result for the period January 1 to June 30, 2014 relating to the shareholders of Probiodrug AG amounts to EUR -3,826k (6 M 2013 EUR -4,995k). The result per share (basic and diluted) from continuing operations amounts to EUR -0.15 (6 M 2013 EUR -0.19).

The calculation of the result per share for the discontinued operation was based on the above stated number of average shares. The result for the period of the discontinued operation attributable to shareholders of Probiodrug AG for the calculation of the result per share was EUR -32k (6 M 2013 EUR -181k). Therefore the basic and the dilutive earnings per share from discontinued operation amounts to EUR 0.00 (6 M 2013 EUR - 0.01)

2. Notes to the individual line items in the consolidated balance sheet

2.1 Noncurrent assets

2.1.2 Plant and equipment

The value of plant and equipment decreased to EUR 253k (12/31/2013 EUR 321k) taking into account scheduled depreciations (EUR 46k), disposals of fixed assets (EUR 22k) and no investments in fixed assets.

2.2 Current assets

2.2.1 Other short-term financial assets

The other short-term financial assets amount to EUR 12k (12/31/2013 EUR 872k). The previous year amount includes EUR 426k receivables from the sale of fixed assets and inventories.

2.2.2 Other current assets

Other current assets comprise the following:

EUR k	06/30/2014	12/31/2013
Subsidies receivable	0	26
Receivables from deferred items	89	96
Receivables from value added taxes	152	42
other	87	24
Total	328	188

2.2.3 Cash and cash equivalents

Cash and cash equivalents amount to EUR 5,919k (12/31/2013 EUR 4,879k). They are not restricted to use.

2.3 Noncurrent liabilities

Regarding the pensions of EUR 531k (12/31/2013 EUR 535k) and the provisions for commitments associated with the phantom stock options in the amount of EUR 811k (12/31/2013 EUR 719k) reference is made to the notes to the consolidated financial statements as of December 31, 2013.

2.4 Current liabilities

2.4.1 Tax liabilities

The tax liabilities of EUR 2,494k (12/31/2013 EUR 2,445k) comprise the Company`s payment obligations for corporation and trade tax as a result of the tax audit for the period 2002 through 2005 including interest for late payment.

2.4.2 Other provisions

The provision includes the tax audit risk associated with a disputed source tax deduction on license fees. As a consequence of the Company`s appeal, the tax audit has not yet been finalized.

2.4.3 Convertible bonds

In the reporting period new convertible bonds were issued to the amount of EUR 4,276k. The terms and conditions of the convertible bonds 2014 corresponded fully to those issued in 2013. The convertible bond 2014 is an extension to the convertible bonds 2013. Therefore regarding the terms of the convertible bonds to the total amount of EUR 9,622k reference is made to the notes to the consolidated financial statements as of December 31, 2013.

2.4.4 Other current liabilities

Other current liabilities include payroll and church taxes to be paid.

3. Other disclosures

3.1 Contingencies and other financial commitments

As of the balance sheet date, there were no contingencies. The total other financial commitments amounted to EUR 297k (12/31/2013 EUR 183k).

3.2 Significant events subsequent to the end of the reporting period

In July all shares in Ingenium were sold at no cost to the company. In August 2014, all convertible Bonds were converted into shares of the company. In September 2014 all preference shares were converted into common shares and a reverse share split of 1:6 implemented.

In connection with the implementation of a new stock option program the Company created in September a conditional capital of EUR 410k. End of September Dr. Inge Lues was appointed as new member of the management board of the Company effective November 1st, 2014. Beginning of October the management agreements of Dr. Konrad Glund and Dr. Hendrik Liebers have been amended and a management agreement with Dr. Inge Lues implemented. Also beginning of October the Company secured a venture loan line in the amount of EUR 3 million.

3.3 Related party disclosures

For further information reference is made to the explanations of related party disclosures in the notes to the consolidated financial statements as of December 31, 2013. Significant changes have not occurred.

3.4 Audit of the interim financial statements

The interim financial statements were not subject to any form of audit or review by an auditor.

Halle/ S., October 9, 2014

Dr. Konrad Glund

Dr. Hendrik Liebers