Annual financial statements as at 31 December 2018

AUDITOR'S REPORT

Probiodrug AG
Halle (Saale)

in accordance with International Financial Reporting Standards as adopted by the European Union

KPMG AG Wirtschaftsprüfungsgesellschaft

Probiodrug AG, Halle (Saale)

Statement of Financial Position as of December 31, 2018

ASSETS

	Notes	12/31/2018	12/31/2017
		kEUR	kEUR
A. Noncurrent assets			
I. Intangible assets	3.3/6.1	7	11
II. Plant and equipment	3.4/6.2	56	55
III. Financial assets	3.6	3	3
		66	**69**
B. Current assets			
I. Other assets	6.3	199	402
II. Cash and cash equivalents	3.7/6.4	3,783	10,291
		3,982	**10,693**
		4,048	**10,762**

EQUITY AND LIABILITIES

	Notes	12/31/2018		12/31/2017	
		kEUR	kEUR	kEUR	kEUR
A. Equity					
I. Share capital	6.5		8,208		8,208
II. Additional paid-in capital			48,740		48,678
III. Accumulated other comprehensive loss			-405		-387
IV. Accumulated deficit			-55,313		-47,576
			1,230		**8,923**
B. Liabilities					
I. Noncurrent liabilities					
Pension liabilities	3.9/6.6		1,854		1,171
II. Current liabilities					
1. Provisions	3.10	12		12	
2. Trade payables		772		344	
3. Other current liabilities	6.7	180	964	312	668
			2,818		**1,839**
			4,048		**10,762**

Probiodrug AG, Halle (Saale)

Statement of Comprehensive Loss
for the Period from January 1, 2018 to December 31, 2018

	Notes	1/1–12/31/2018	1/1–12/31/2017
		kEUR	kEUR
Research and development expenses	5.1	-4,836	-7,454
General and administrative expenses	5.2	-2,891	-2,511
Other operating income		29	4
Operating loss		**-7,698**	**-9,961**
Finance income	5.4	2	862
Finance expense		-41	-12
Finance income, net		**-39**	**850**
Income tax gain	5.4	0	1,102
Net loss for the period		**-7,737**	**-8,009**
Items not to be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit pension liability		-18	143
Total other comprehensive income (loss)		**-18**	**143**
Comprehensive loss		**-7,755**	**-7,866**
Loss per share in EUR (basic and diluted)	6.5.1	-0.94	-0.98

Probiodrug AG, Halle (Saale)

Cash Flow Statement

	Notes	1/1–12/31/2018	1/1–12/31/2017
		kEUR	kEUR
Net loss for the period		-7,737	-8,009
Net finance income/expense	5.4	39	-850
Depreciation and amortisation		23	106
Income taxes paid		0	-775
Gain from income taxes	5.4	0	-1,102
Share based payments		62	286
Unrealised foreign currency gain		-26	75
Changing in working capital			
Changes in other assets		203	-100
Changes in pension liabilities		156	-15
Changes in provisions		0	-41
Changes in trade payables		418	-1,549
Changes in other liabilities		-132	-143
Cash flows used in operating activities		**-6,994**	**-12,117**
Purchase of plant and equipment		-16	-7
Purchase of intangible assets		0	-1
Proceeds from termination of pension liabilities insurance		476	467
Cash flows used in investing activities		**460**	**459**
Proceeds from issuance of common shares		0	127
Cash flows provided by financing activities		**0**	**127**
Net decrease in cash and cash equivalents		**-6,534**	**-11,531**
Cash and cash equivalents at the beginning of period		**10,291**	**21,897**
Effect of exchange rate fluctuation on cash held		**26**	**-75**
Cash and cash equivalents at the end of period		**3,783**	**10,291**

Probiodrug AG, Halle (Saale)

Statement of Changes in Equity

	Share capital	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total equity
	kEUR	kEUR	kEUR	kEUR	kEUR
January 1, 2017	**8.187**	**48.286**	**-530**	**-39.567**	**16.376**
Net loss for the period/ Comprehensive loss	0	0	143	-8.009	-7.866
Issuance of common shares less transaction costs	21	106	0	0	127
Share-based payments	0	286	0	0	286
	21	**392**	**143**	**-8.009**	**-7.453**
December 31, 2017	**8.208**	**48.678**	**-387**	**-47.576**	**8.923**
January 1, 2018	**8.208**	**48.678**	**-387**	**-47.576**	**8.923**
Net loss for the period/ Comprehensive loss	0	0	-18	-7.737	-7.755
Issuance of common shares less transaction costs	0	0	0	0	0
Share-based payments	0	62	0	0	62
	0	**62**	**-18**	**-7.737**	**-7.693**
December 31, 2018	**8.208**	**48.740**	**-405**	**-55.313**	**1.230**

Probiodrug AG, Halle (Saale)

Notes to the financial statements

1. Company information

Probiodrug AG, Halle (Saale), (hereinafter also referred to as "Probiodrug" or the "Company"), has activities in the areas of research and development, preclinical and clinical trials. The product candidate pipeline currently includes a number of research and development programs with a focus on the main program, the inhibition of the enzyme Glutaminylcyclase or QC for the treatment of Alzheimer's disease and other diseases.

Probiodrug AG is a German stock corporation. The Company was formed by virtue of the Articles of Association dated 25 July 1997 and is registered in the commercial register of the district court of Stendal under commercial registry number 213719. The Company's legal seat is Weinbergweg 22, 06120 Halle (Saale), Germany.

Effective 27 October 2014, Probiodrug AG listed bearer shares under the symbol "PBD" with ISIN DE0007921835 on the EURONEXT Amsterdam.

2. Financial statements

2.1. Basis of preparation of the financial statements

The financial statements of Probiodrug were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board and the Interpretations of the International Financial Reporting Interpretations Committee/ Standing Interpretations Committee (IFRIC/SIC), as endorsed by the European Union.

The financial statements are presented in thousands of Euro (EUR k). Unless otherwise noted, all amounts are in thousands of Euro (EUR k). Amounts have been rounded. As a result, rounding differences may occur.

In accordance with IAS 1, the statement of comprehensive loss was prepared classifying the expenses by function; the classification of the statement of financial position was based on current and noncurrent distinction. Probiodrug classifies all amounts expected to be recovered or settled within twelve months after the reporting period as current and all other amounts as noncurrent.

The financial statements were prepared on the historical cost basis.

2.2. Foreign currency translation

The functional currency is the Euro, which is the reporting currency of Probiodrug.

Monetary assets and liabilities in a foreign currency are recognised at the exchange rate in effect on the date of the transaction and later at the rate in effect on the reporting date. Differences resulting from foreign currency translation are recognised in research and development and general and administrative expenses in the statement of comprehensive loss.

2.3. Presentation of statement of comprehensive loss

The line items include research and development expenses and general and administrative expenses. All expenses with respect to research and development as well as expenses incurred for supplied research services are presented in research and development expenses.

3. Summary of significant accounting policies

3.1. Changes in accounting policies

The accounting policies applied principally correspond to those applied in the prior years.

With an effective date 1 January 2018, the following amended standards and interpretations were required to be applied for the first time:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenues from Contracts with Customers
- Amendments to IFRS 15: Clarification to IFRS 15 (1 January 2018)
- Amendment to IFRS 15: "Effective Date of IFRS 15"
- Amendments to IFRS 2: Classification and Measurement of Share-based Payments Transactions
- Amendments to IFRS 4 "Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
- Amendments to IFRS 40 "Transfers of Investment Properties"
- Improvements to IFRS 2014 – 2016: Improvements to IFRS 1 and IAS 28
- IFRS 22 "Foreign Currency Transactions and Advance Consideration"

The new standards and amendments listed did not have a significant impact on the financial statements of Probiodrug.

Probiodrug adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. IFRS 15, Revenue from Contracts with Customers, replaces all current standards and interpretations dealing with revenue recognition and introduces a five-step model to account for revenue. As Probiodrug is currently not generating revenues, the company may only be affected by IFRS 15 in the future when entering into collaborative arrangements or similar deals.

Probiodrug adopted IFRS 9 on 1 January 2018 retrospectively. In addition, management elected not to restate comparative information as permitted by IFRS 9. The impact of the adoption of IFRS 9 on the Company`s equity as at 1 January 2018 is nil. Accordingly, at the date of initial application, the Company did not record any difference between previous carrying amounts and those determined under IFRS 9 in opening accumulated deficit.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The new classification for the Company`s financial assets is as follows. Other assets, financial assets and cash and cash equivalents, previously classified as "loans and receivables" under IAS 39 are now classified as "amortised cost" under IFRS 9. Trade payables and other current liabilities are classified "at amortised cost".

As of 31 December 2018 Probiodrug presents non-current financial assets, other assets, cash and cash equivalents and trade and other payables in its statements of financial position.

At 31 December 2017, the Company had an equity investment in an unlisted limited liability company of EUR 3 k thousand that is held for long-term strategic purposes. Under IFRS 9, the Company has designated the investment as measured at FVTPL. Consequently, all fair value gains and losses will be reported in profit or loss. However, due to the immaterial amount of historical cost and no new information is available as to whether the fair value may be different compared to the historical costs of EUR 3 k thousand, no adjustment to opening retained earnings as of 1 January 2018 was made.

3.2. Determination of fair values

IFRS 13, „Fair Value Measurement", establishes a uniform definition for measurement at fair value. Fair value is defined as the price at the measurement date that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. Where appropriate, further information as to the assumptions made in the determination of the fair value is included within the specific disclosures for the respective line items of the statement of financial position as well as the statement of comprehensive loss.

3.3. Intangible assets

The intangible assets acquired by Probiodrug are recognised at cost less accumulated amortisation as well as any impairment losses which may have been recognised. The amortisation is recognised on the straight-line basis over the expected useful life. The expected useful life ranges from three to five years.

3.4. Plant and equipment

Plant and equipment are recognised at cost less accumulated depreciation as well as any accumulated impairment losses which may have been recognised. Depreciation is recognised on the straight-line basis over the useful life. The useful life for operating and office equipment ranges from three to ten years; for laboratory equipment from five to 10 years.

3.5. Impairment of noncurrent assets

The intangible assets as well as plant and equipment are assessed for impairment when there is an indication of an impairment.

An impairment expense is recognised when the carrying amount of an asset or a cash generating unit exceeds the recoverable value as of the reporting date. The Company determined that it has one cash generating unit. The recoverable value is the higher of the amount representing the fair value less costs of disposal and the value in use. The fair value reflects the estimate of the amount which an independent third party would pay as of the measurement date for the asset or cash generating unit. In contrast, the value in use is the (risk adjusted) present value of the future cash flows which can realistically be expected to be generated from the continued use of the cash generating unit.

3.6. Financial assets and liabilities

A financial asset or a liability is recognised when the entity becomes a party to the contractual provisions of the instrument.

According to IFRS 9, all financial assets or liabilities are initially recognised at fair value with the exception of trade receivables which do not contain a significant financing component.

Under IFRS 9, the basis on which assets are measured after initial recognition is the way they are classified. Under IFRS 9, the classification and measurement models are FVTPL (Fair Value with changes in fair value recognised in profit or loss as they arise), amortised cost and FVOCI (Fair Value with changes in fair value recognised through Other Comprehensive Income). The classification is based on the business model of the company and the characteristics of the cash flows of the financial asset.

FVOCI does not apply for the financial assets recorded at the company.

According to IFRS 9 financial liabilities are measured at amortised cost or FVTPL with the exception of the portion of the fair value attributable to changes in the entity`s own credit risk which is recognized in OCI. Apart from that IFRS 9 maintains the basics of classification and measurement of IAS 39.

Probiodrug allocates non-derivative financial assets in the category "amortised cost" for cash and other assets and FVTPL for the noncurrent financial assets. Non-derivative financial liabilities recorded at Probiodrug are classified as "other financial liabilities" and measured subsequent to their initial recognition at amortised cost.

The noncurrent financial assets of Probiodrug comprise equity interests in BIO Mitteldeutschland GmbH, Halle (Saale).

The financial liabilities of Probiodrug comprise trade payables.

Financial liabilities are derecognised when the contractual obligation has been met, is waived or has expired.

3.7. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank balances which are recognised at their nominal values.

3.8. Stock options and phantom stock option programs

Probiodrug grants equity-settled share based payments in the form of option rights to employees and other beneficiaries (consultants of the Company). The stock option programs allow the grantees to acquire the Company's shares. The accounting for the stock options is at fair value in accordance with IFRS 2. The fair value is determined at the grant date and is allocated over the vesting period. The fair value is determined on the basis of the Monte-Carlo-simulation model. The fair value of the stock options granted is recognised as research and development or general administrative expenses with a corresponding increase in equity (additional paid-in capital). The expenses recognised are adjusted to reflect the number of option rights that are forfeited.

In addition, prior to the periods presented, phantom stock options were issued to management, board members and consultants. In specific cases, the holders were entitled to a cash payment amounting to the difference between the fair value of an equity instrument and the exercise price in conjunction with an initial public offering, a merger or a takeover of Probiodrug.

3.9. Pensions

Probiodrug has defined benefit pension commitments to two individuals. The pension commitments include entitlements to disability, retirement and survivor benefits in amounts specifically determined for these two individuals.

The pension commitments (defined benefit plans) are accounted for using the projected unit credit method in accordance with IAS 19. The measurement of the pension provision is based on actuarial calculations. The discount rate used represents the market yield at the end of the reporting period for high-quality fixed-rate corporate bonds.

The defined benefit obligation and the related current service cost is based on the benefit to the period of service under the defined benefit plan's formula. Actuarial gains and losses are immediately recognised in equity in other comprehensive income. In the previous year the fair value of the plan assets (insurance amount) was deducted from the gross pension obligation. In 2017 and 2018 these insurances have expired. The insurance amount was paid to Probiodrug and therefore no longer serves as a plan asset.

The remeasurement amount recognised in other comprehensive income (loss) comprises the actuarial gains and losses resulting from the measurement of the gross pension obligation of defined benefit plans and the difference between the realised return on plan assets and the expected return at the beginning of the period based on the discount rate of the corresponding gross defined benefit obligation. Actuarial gains and losses result from changes in actuarial assumptions.

Service costs are recognised within the expenses by function. The net interest expense associated with defined benefit plans is presented in finance expenses.

3.10. Provisions

Provisions are recognised for present obligations which result from past events for which the timing of the future payment is uncertain.

The amount recognised as a provision is the best estimate of the amount required to settle the current obligation.

Provisions with a term in excess of one year are recognised at their discounted settlement amount giving consideration to expected cost increases. The discount rate used reflects the current market interest rate and the risks specific to the liability.

3.11. Research and development expenses

Research expenses are recognised as expenses when incurred. Costs incurred on development projects are recognised as intangible assets as at the date when it can be established that it is probable that future economic benefits attributable to the asset will flow to Probiodrug considering its technological and commercial feasibility. This is not the case before regulatory approval for commercialisation is achieved and costs can be measured reliably. Given the current stage of the development of Probiodrug's projects, no development costs have yet been capitalised. Intellectual property-related costs for patents are part of the costs for the research and development projects. Therefore, registration costs for patents are expensed when incurred as long as the research and development project concerned does not meet the criteria for capitalisation.

The majority of Probiodrug's service providers invoice monthly in arrears for services performed or when contractual milestones are met. Probiodrug makes estimates of its accrued expenses at each reporting date in the financial statements based on facts and circumstances known to it at that time. Probiodrug periodically confirms the accuracy of its estimates with the service providers and makes adjustments if necessary.

3.12. Finance income and expense

Finance income and expense are recognised in the appropriate period applying the effective interest rate method. In addition to finance income and expense, the financial result may include income from cash and cash equivalents and gains and losses from financial instruments which are recognised in comprehensive loss. In addition, net interest expense associated with pension provisions is included.

3.13. Loss per share

Loss per share was determined in accordance with IAS 33. In the calculation of the loss per share, the results for the period attributable to the shareholders are divided by the weighted average number of shares outstanding.

3.14. New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 31 December 2018, and have not been applied in preparing these financial statements:

Endorsed by the EU:

- IFRS 16 "Leases" (1 January 2019)
- IFRIC 23 "Uncertainty over Income Tax Treatments" (1 January 2019)
- Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (1 January 2019)

Not yet endorsed by the EU

- Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (1 January 2019)
- Amendments to IAS 19: Employee benefits (1 January 2019)

- Improvements to IFRS 2015–2017: Changes to IFRS 3, IFRS 11, IAS 12 und IAS 23 (1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (1 January 2020)
- Amendments to IFRS 3: Definition of a Business (1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (1 January 2020)
- IFRS 17 „Insurance Contracts" (1 January 2021)

IFRS 16 Leases replaces existing leases guidance, including 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. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Probiodrug has completed an initial assessment of the potential impact on its financial statements but has not yet completed a detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including Probiodrug's borrowing rate at 1 January 2019 and through 2019, the composition of Probiodrugs's lease portfolio at that date and the year 2019, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 31 December 2018, the Company's future minimum lease payments under non-cancellable operating leases amounted to EUR 20k, on an undiscounted basis (refer to Note 8.1). In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. Except for IFRS 16, none of the other new or amended standards and interpretations is expected to have a significant effect on the financial statements of the Company.

4. Significant discretionary decisions, estimates and assumptions

The preparation of the financial statements in accordance with IFRS makes it necessary for discretionary decisions to be made and estimates to be carried out which influence the measurement of assets and liabilities recognised, the disclosure of contingent liabilities and other commitments as at the reporting date as well as the presentation of income and expense.

Estimates and assumptions

The estimates and assumptions primarily relate to estimates and assumptions in connection with the management's assessment of the entity's ability to continue as a going concern and the determination of accruals for research and development services in progress. The amounts of the respective items in the statement of comprehensive loss are research and development expenses of

EUR 4,836k (2017: EUR 7,454k). The estimates for accruals at year-end are based on past experience as well as other information relating to the transactions recognised.

Going concern

In terms of assessing the Company's ability to continue as a going concern, Probiodrug – as a biopharmaceutical company that focuses on Alzheimer care – is dependent on research and development programmes. The pharmaceutical development process is characterised by long development cycles as well as high investment requirements for preclinical and clinical research and development up to the time of a product's commercial readiness. Probiodrug continuously needs external funding for research and development activities up until this time. Probiodrug incurred a net loss of KEUR 7,737 and an accumulated deficit of KEUR 55,313 in financial year 2018. The Company expects further operating losses to be incurred due to operating activities in the foreseeable future. Probiodrug held an extraordinary general meeting on 7 December 2018. Pursuant to Section 92 (1) AktG, the Executive Board reported at this meeting that the Company's losses amounted to more than half of the capital stock. The favourable going concern forecast prepared by the Company is used as the valuation basis on the assumption that the Company is able to continue as a going concern.

Probiodrug AG has prepared corporate and financial planning for 2019 and 2020. According to this plan, existing liquid assets are sufficient until the beginning of Q3 2019 to satisfy the Company's financial obligations. In addition, funding of approx. EUR 6.2 million is necessary for the period until the end of 2020. The current projections do not take into account investments for clinical and preclinical studies. Various financing scenarios and options were prepared and corresponding preparatory measures initiated by the Executive Board to cover the funding gap. The first funding measure involves a capital increase with existing and new investors worth approx. EUR 2.0 to 2.5 million, depending on average capital market values, in Q2 2019 by using the authorised capital established in 2017. Furthermore, contract negotiations are being held regarding licensing and cooperation agreements to raise additional funds, which if implemented could individually cover the necessary funding requirements until the end of 2020. Additional funding is required to continue the studies. The application for USD 15.0 million in funding submitted to the National Institute of Health (NIH) together with the Alzheimer's Disease Cooperative Study (ADCS) for the Phase 2b study of the PQ912 molecule inhibitor was approved in the US in March 2019. Given these circumstances, an appropriate capital increase is being prepared to cover current costs as well as for funding the Company's own share of costs for the required study. The Company's ability to continue as a going concern is at risk should the financing scenarios not be realised in the necessary scope and on time.

In summary, the Company is facing a difficult liquidity position as liquid funds, according to the budget, are sufficient until only the beginning of Q3 2019 to meet existing financial obligations. Accordingly, there is the need to ensure the Company's future funding through equity providers and/or financial backers, or raise cash inflow through own business activities. These events and circumstances indicate considerable uncertainty that could cast significant doubt on the Company's ability to continue its business activities and which represent a risk that could affect the Company's ability to continue as a going concern.

The Company's funding also beyond this period requires additional forms of cash inflows including equity, mezzanine and/or debt financing or license income.

Estimating accruals for research and development expenses

As part of the process of preparing the financial statements, Probiodrug is required to estimate its accrued expenses. This process involves reviewing quotations and contracts, identifying services that have been performed on its behalf, estimating the level of service performed and the associated cost incurred for the service when Probiodrug has not yet been invoiced or otherwise notified of the actual cost.

Measurement of pension obligation

The measurement of the pension provision is based on actuarial assumptions with respect to demographic developments, pension increases as well as the determination of the discount rate.

The estimates may differ from the actual amounts recognised in subsequent periods. Changes in assumptions or estimates to be made are recognised in the statement of comprehensive loss at the time that they become known. The circumstances in existence at the time of preparation of the financial statements are considered as well as the future development in the industry-related environment with respect to the expected future business development of Probiodrug.

5. Explanations of individual line items in the statement of comprehensive loss

5.1. Research and development expenses

The research and development expenses of EUR 4,836k (2017: EUR 7,454k) comprise personnel costs, costs for research and development services provided by third parties in relation to the preclinical and clinical programs, patent related legal and consulting fees, costs of laboratory materials as well as amortisation and depreciation attributable to the research and development area.

5.2. General and administrative expenses

The general and administrative expenses of EUR 2,891k (2017: EUR 2,511k) comprise personnel costs and costs of office supplies as well as amortisation and depreciation attributable to the administrative area and other operating expenses.

5.3. Supplementary disclosures

The expenses during the financial year include amortisation and depreciation of plant and equipment as well as intangible assets amounting to EUR 23k (2017: EUR 106k) as well as personnel related expenses amounting to EUR 2,541k (2017: EUR 2,159k).

In addition, expenses for defined contribution plans include the employer's contribution to the statutory pension scheme amounting to EUR 52k (2017: EUR 48k).

5.4. Finance income and Income taxes

Current income tax income and expense is based on the respective enacted tax laws and regulations. No current or deferred income taxes were recognised in 2018 and 2017. The income tax gain of EUR 1,102k in 2017 included current taxes and related to a settlement with the fiscal authorities resulting in the release of tax liabilities recognised in prior years to income tax gain. A further EUR 862k in 2017 related to the release of accrued interest in connection with the settlement and was presented as finance income.

For the determination of deferred taxes, a corporation tax rate of 15% plus a solidarity surcharge of 5.5% as well as the trade income tax rate of 15.75% was used for all reporting periods. Based on this, the effective tax rate as at 31 December 2018 used to determine the deferred tax assets and liabilities amounted to 31.58% (31 December 2017: 31.58%).

The significant differences between the expected and the actual income tax expense in the reporting period and the comparative period are explained below:

EUR k	**2018**	**2017**
Loss before income tax	-7,737	-9,111
Income tax rate	31.58%	31.58%
Expected tax benefits	2,443	2,877
Tax losses not recognised	-2,411	-3,179
Prior period tax effects	0	1,102
Non-deductible expenses/non-taxable income	50	182
Other differences	-82	120
Reported income tax gain	**0**	**1,102**

As at 31 December 2018, deferred tax assets attributable to tax loss carry forwards in the amount of EUR 42,007k (31 December 2017: EUR 39,566k) and to the pension liability in the amount of EUR 199k (31 December 2017: EUR 189k) were not recognised as their utilisation is not probable.

As at 31 December 2018, Probiodrug had corporate income tax loss carry forwards of EUR 133,120k and trade tax loss carry forwards of EUR 132,960k. The tax losses can be carried forward for an unlimited time.

6. Explanations on individual statement of financial position line items

6.1. Intangible assets

The intangible assets reconcile as follows:

	EUR k		EUR k
Acquisition costs as at 1 January 2018	373	Acquisition costs as at 1 January 2017	373
Additions	0	Additions	1
Disposals	0	Disposals	-1
Acquisition costs as at 31 December 2018	**373**	**Acquisition costs as at 31 December 2017**	**373**
Amortisation as at 1 January 2018	362	Amortisation as at 1 January 2017	277
Additions	4	Additions	86
Disposals	0	Disposals	-1
Amortisation as at 31 December 2018	**366**	**Amortisation as at 31 December 2017**	**362**
Carrying value as at 1 January 2018	11	Carrying value as at 1 January 2017	96
Carrying value as at 31 December 2018	**7**	**Carrying value as at 31 December 2017**	**11**

Amortisation is included in the statement of comprehensive loss within research and development expenses and general and administrative expenses.

6.2. Plant and equipment

Plant and equipment reconcile as follows:

	Leasehold improvements	Other equipment, factory and office equipment	Total
	EUR k	EUR k	EUR k
Acquisition costs as at 1 January 2018	181	563	**744**
Additions	0	19	**19**
Disposals	0	0	**0**
Acquisition costs as at 31 December 2018	**181**	**582**	**763**
Depreciation as at 1 January 2018	174	515	**689**
Additions	6	13	**19**
Disposals	0	0	**0**
Depreciation as at 31 December 2018	**180**	**528**	**708**
Carrying value as at 1 January 2018	7	48	**55**
Carrying value as at 31 December 2018	**1**	**55**	**56**

	Leasehold improvements	Other equipment, factory and office equipment	Total
	EUR k	EUR k	EUR k
Acquisition costs as at 1 January 2017	181	582	**763**
Additions	0	7	**7**
Disposals	0	-26	**-26**
Acquisition costs as at 31 December 2017	**181**	**563**	**744**
Depreciation as at 1 January 2017	167	527	**694**
Additions	7	14	**21**
Disposals	0	-26	**-26**
Depreciation as at 31 December 2017	**174**	**515**	**689**
Carrying value as at 1 January 2017	14	55	**69**
Carrying value as at 31 December 2017	**7**	**48**	**55**

6.3. Other current assets

Other current assets are comprised of:

In EUR k	31 December 2018	31 December 2017
Prepayments	98	346
Value-added tax receivables	86	45
Corporate tax receivables	3	45
Rent deposits	7	7
Deposit on tangible assets	3	0
Other receivables	2	1
Total	**199**	**402**

6.4. Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand. As at 31 December 2018, cash balances denominated in other currencies than the Euro amount to USD 652k (31 December 2017: USD 653k).

The net book value represents the maximum amount that is at risk. Bank balances are unrestricted.

6.5. Equity

As at 31 December 2018, Probiodrug's share capital comprised 8,208,009 registered no par common shares, unchanged to the previous year. The nominal amount per share is EUR 1.00. All shares are issued and fully paid up.

In 2017, share capital increased by issuing 21,274 shares from the conditional capital 2010 as a result of the exercise of outstanding stock options. The conversion increased the share capital from EUR 8,186,735 to EUR 8,208,009. By resolutions of the supervisory board on 1 and 6 December 2017, section 5 (share capital) of the articles of association was changed. The corresponding entry was made in the commercial register on 13 and 28 December 2017.

Conditional Capital

As at 31 December 2018, the conditional capital amounted to EUR 4,003k and as at 31 December 2017 to EUR 2,603k, respectively. Of this amount, EUR 482k (2017: EUR 482k) is reserved as a result of the issuance of options referring to the Conditional Capital 2008 to 2014.

By resolution of June 21, 2018, the Annual General Meeting created the Conditional Capital 2018 while cancelling of the Conditional Capital 2015. The Company's share capital is conditionally increased (Conditional Capital 2018) by a nominal value of up to 3,400,000 new no par value bearer shares. The conditional capital increase serves to grant no par value registered shares upon exercising conversion and/or option rights (or the satisfaction of corresponding conversion or option obligations) or, to the extent that the Company exercises its right to grant no par value Company shares, in lieu of payment of the amount due in cash (or parts thereof) to the holders or creditors of bonds that have been issued by the Company or a group company in accordance with the authorisation of the Annual Shareholders' Meeting of the shareholders dated June 21, 2018 until

June 20, 2023 as per Section 18 AktG. The issuance of the new shares shall be effected at the conversion or option price to be determined, in each case, in accordance with the aforementioned authorization resolution.

The subscription rights of the shareholders on the occasion of the issue of bonds based on this authorization are excluded.

In 2017, the conditional capital was reduced by EUR 21k through issuing 21,274 shares from the conditional capital 2010 as a result of the exercise of outstanding stock options.

Convertible Bonds

By resolution of the Ordinary General Meeting on June 21, 2018, the management board is authorized, with the cancelling of the authorization of June 10, 2015 and with the consent of the supervisory board to issue once or in several transactions until June 20, 2023, in the latter case also simultaneously in several tranches, option bonds and/or convertible bonds in bearer and/or registered form (the "Bonds") with a total nominal amount counted as of the date of the initial adoption of the resolution on June 10, 2015 of up to EUR 60,000,000, each with or without a maturity restriction. The bonds, subject to the respective terms and conditions of the option bonds (the "Option Conditions") grant option rights or impose option obligations. The bonds may also, subject to the respective terms and conditions of the convertible bonds (the "Convertible Bond Conditions") grant conversion rights or impose conversion obligations. The bonds may grant rights or impose obligations to subscribe for up to 3,400,000 no par value bearer shares of the Company with a total prorated amount of the Company's share capital of up to EUR 3,400,000. The bonds may be issued in Euro or - limited to the respective value in Euro - in any other statutory currency of an OECD member state. The bonds may also be issued against non-cash consideration, in particular to acquire enterprises, interests in enterprises, business units, receivables, patents and licenses or other assets, provided however, that their value is at least equivalent to the issue price of the bonds.

The bonds may also be issued by domestic or foreign companies affiliated with the Company within the meaning of sec. 15 et. seq. AktG (the "Group Company"). In the event an issue by a Group Company, the management board - subject to the consent of the supervisory board - is authorized to guarantee the bonds on behalf of the Company and to grant conversion rights to the holders of convertible bonds or grant option rights/impose option obligations to the holders of option bonds relating to the shares in the Company.

The management board - subject to the supervisory board's consent- is authorized to determine the further details of the issue and the terms of the bonds, in particular interest rate, type of interest accrual, issue price, term and division as well as option period and/or conversion period and a potential variability of the conversion ratio and, if applicable, to do so in consultation with the corporate bodies of the subsidiary issuing the option bond or the convertible bond.

The subscription right of the shareholders on the occasion of the issue of bonds based on this authorization is excluded.

Authorised Capital

As at 31 December 2018, the authorised capital amounted to EUR 4,093k unchanged to the previous year. The authorised capital can be utilised for capital increases for contributions in cash and/or kind.

In 2017, the authorised capital 2014 to the amount of EUR 2,976,995 was cancelled. A new authorised capital 2017 was established by resolution of the general meeting of the shareholders on 13 June 2017. Probiodrug`s management board was authorised, with the approval of the supervisory board, to increase the Company`s share capital by up to EUR 4,093,367. The subscription right is excluded.

6.5.1 Loss per share

As at 31 December 2018, Probiodrug's share capital consisted of 8,208,009 common shares (31 December 2017: 8,208,009). All common shares are registered no par value common shares. The calculated nominal amount per share is EUR 1.00.

The net loss attributable to Probiodrug's shareholders amounted to EUR 7,737k in financial year 2018 (2017: net loss of EUR 8,009k).

The loss per share was calculated as follows:

	2018	**2017**
Weighted average number of common shares outstanding	8,208,009	8,188,407
Loss for the period	-7,737k	-8,009k
Loss per share in EUR (basic/diluted)	**-0.94**	**-0.98**

As at 31 December 2018 and 2017, no items had a dilutive effect.

6.5.2 Share based payments

6.5.2.1 Stock option programs (equity settled)

Since 2007, Probiodrug granted equity settled stock options under various stock option programs.

The key terms and conditions related to the grants under these programs are as follows; all options are to be settled by the physical delivery of shares or in cash.

Grant date/employees entitled	Outstanding Options	Vesting conditions	Contractual life of options
ESOP 2007 Granted to employees	16,208	graded vesting over four year period (50% after two years, 25% after three years and 25% after four years)	8 years; extended in 2016 to 11 years
ESOP 2010/2013 Granted to management board	54,165	graded vesting over 31 month period (33% after seven months, 33% after 19 months and remaining after 31 months)	4 to 6 years; Extended in 2016 to 9 years
ESOP 2014 Granted to management board Granted to employees	314,501 96,874	Immediate vesting on date of grant for 40%, graded vesting over 3 year period (20% each after first, second and third year) period	8 years, not exercisable before lapse of 4 years

The fair value of the options granted has been measured using the Monte Carlo-simulation. Service and non-market performance conditions attached to the option programs are not taken into account in measuring fair value.

The inputs used in the measurement of the fair values for 2014 to 2017 grants were:

	ESOP 2014
Fair value at grant date	EUR 4.84 – 10.70
Share price at grant date	EUR 11.97 – 24.80
Exercise price	EUR 12.55 – 23.60
Expected volatility	40% to 45%
Expected life (weighted average)	4 years
Expected dividends	0%
Risk free interest rate (based on government bonds)	-0.47% to 0.05%

Expected volatility has been based on the arithmetic average of historical volatilities of a peer group of four companies.

The number and weighted-average exercise prices of stock options under the stock option programs were as follows:

	2018		2017	
	Number of options*	WAEP**	Number of options*	WAEP**
Outstanding at 1 January	481,748	EUR 17.13	491,022	EUR 17.13
Forfeited during the year	0	--	0	--
Exercised during the year	0	--	-21,274	EUR 6.00
Cash settlement	0	--	0	--
Granted during the year	0	--	12,000	EUR 12.55
Outstanding at 31 December	**481,748**	**EUR 17.51**	**481,748**	**EUR 17.51**
Exercisable at 31 December	280,040	EUR 23.43	70,373	EUR 12.64

* Adjusted for the reverse stock split, **Weighted average exercise price

The stock options outstanding at 31 December 2018 had an exercise price in the range of EUR 6.00 to EUR 42.18 (31 December 2017: EUR 6.00 to EUR 42.18) and a weighted-average contractual life of 3.5 years (31 December 2017: 4.4 years). According to the terms and conditions of the stock option programs, exercise is not possible during specified blackout periods and subject to a performance criterion concerning the average stock price of Probiodrug shares during the twenty days before exercise.

No expenses associated with the stock option programs 2007 and 2010/2013 are recognised for the years 2018 and 2017, respectively, due to the complete vesting in prior periods.

The total expenses associated with the stock option program 2014 recognised in 2018 amounted to EUR 62k (2017: EUR 286k). These amounts were credited to additional paid-in capital.

In 2017, 12,000 options from the stock option program 2014 were issued to a new employee and 21,274 options from the stock option program 2010 were exercised.

6.5.2.2 Phantom stock option programs

As of 31 December 2018, 19,333 (31 December 2017: 19,333) remaining phantom stock awards are outstanding with a fair value of EUR 0k.

6.6. Noncurrent liabilities

6.6.1 Pension liabilities - direct pension commitments

Probiodrug has defined benefit pension plan commitments to two individuals. The pension commitments include entitlements to disability, retirement and survivor benefits in amounts specifically determined by individual.

Plan assets consisted solely of pension liability insurance contracts. The asset values of the insurance contracts represented the cash surrender values and were offset against the pension obligations as the insurance contracts are qualifying insurance policies in accordance with IAS 19. In 2017 and 2018 these insurances have expired. The insurance amount was paid to Probiodrug and therefore no longer serves as a plan asset.

The amount of the defined benefit obligation (actuarial present value of the accrued pension entitlements) is determined on the basis of actuarial methodologies which require the use of estimates. The calculation was based on the Heubeck 2018 G mortality tables.

The measurement of the pension benefits is based on the following actuarial assumptions:

	2018	2017
Discount rate	1.60%	1.86%

The discount rate was determined based on industrial bonds with an AA rating and a comparable term.

In addition, an annual salary increase of 0% and an increase in the pension of 1.0% was assumed.

The following sensitivity analysis shows how the present value of the defined benefit pension obligation would change if the interest rate changed holding other assumptions constant:

Interest rate – 0.5%: DBO EUR 110k (31 December 2017: EUR 109k)

Interest rate + 0.5%: DBO EUR -100k (31 December 2017: EUR -99k)

Reconciliation of defined benefit obligation and plan assets

In EUR k	Defined benefit obligation	Plan assets	Pension provision (Net DBL)
Balance as of 1 January 2017	**1,644**	**-794**	**850**
Current service cost	45	-	45
Interest expense (+) /interest income (-)	23	-12	11
Benefit payments	**-**	468	468
Remeasurement	**-93**	**-50**	**-143**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	-50	-50
Actuarial gains (-)/ losses (+)	-93	-	-93
Effects from changes in financial assumptions	-95	-	-95
Effects from changes based on experience	2	-	2
Employer's contributions	-	-60	-60
Balance as of 1 January 2018	**1,619**	**-448**	**1,171**
Current service cost	0	-	0
Interest expense (+)/ interest income (-)	41	-2	39
Benefit payments	-56	478	422
Remeasurement	**40**	**-22**	**18**
Income (-)/ expenses (+) from plan assets (without amounts included in interest expense)	-	-22	-22
Actuarial gains (-)/ losses (+)	40	-	40
Effects from changes in financial assumptions	53	-	53
Change in demographic assumption	22	-	22
Effects from changes based on experience	-35	-	-35
Employer's contributions	-	-6	-6
Balance as of 31 December 2018	**1,644**	**0**	**1,644**

In the reporting period, the following items associated with defined benefit obligations were recognised in the statement of comprehensive loss:

in EUR k	**2018**	**2017**
Current service cost	0	45
Net interest expense (+)/ income(-)	**39**	**11**
Interest expense associated with DBO	41	23
Interest income on plan assets	-2	-12
Total net pension expenses	**39**	**56**

The weighted average duration of the pension commitments is 13.1 years (31 December 2017: 13.2 years). The pension payments for the two beneficiaries may be due within one year.

6.6.2 Pension liabilities – pension commitment using the provident fund

Probiodrug has further obligations for granted and vested pension commitment for a former member of the management board in the context of a provident fund in amount of EUR 14k annually until 2035.

These pension liability was calculated using a discount rate of 1.76% and amounts to EUR 210k as of December 31, 2018.

6.7. Current liabilities

Other current liabilities

In EUR k	31 December 2018	31 December 2017
Salaries and wages	32	210
Payroll and church taxes	50	39
Post-contractual payments	83	0
Others	15	63
Total	**180**	**312**

The post-contractual payments are liabilities for a post-contractual non-competition clause.

7. Disclosures with respect to financial instruments

7.1. General disclosures

A financial instrument is a contract which simultaneously gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are broken down into non-derivative and derivative financial instruments.

On the asset side, the non-derivative financial instruments primarily include cash and cash equivalents. The non-derivative financial liabilities consist of trade payables.

7.2. Fair value measurement

All assets and liabilities, for which fair value is recognised in the financial statements, are organised in accordance with the following fair value hierarchy, based on the lowest level input parameter that is significant on the whole for fair value measurement:

- Level 1 – Prices for identical assets or liabilities quoted in active markets (non-adjusted)
- Level 2 – Measurement procedures, in which the lowest level input parameter significant on the whole for fair value measurement is directly or indirectly observable for on the market
- Level 3 – Measurement procedures, in which the lowest level input parameter significant on the whole for fair value measurement is not directly or indirectly observable for on the market

The carrying amount of other (financial) assets, cash and cash equivalents and trade and other payables is a reasonable approximation of the fair value.

7.3. Other disclosures in accordance with IFRS 7

Disclosures with respect to finance income and expense

No interest income and expense in 2018 and 2017 was recognised with respect to financial instruments.

Financial risks and risk management

7.3.1. Organisation

Risk management system, objectives and methods

In addition to operating business risks, Probiodrug is subject to the following risks as a result of the use of financial instruments: credit risks, liquidity risks, market risks and exchange rate risk. The Company has established a clear and effective organisation to monitor and control risks. To make risks controllable from the perspective of risk prevention, a risk management system has been implemented and is continuously being further developed to address the different risk areas. Predefined specific individual risks are continuously monitored using early warning signals.

The objective with respect to risk management is to define different risk management processes which make a timely identification of risks relating to quantity, probability of occurrence and damage amounts possible and which provide appropriate counter measures for those who have been named responsible for the processes.

Accordingly, in connection with a risk-oriented and forward-looking management approach, Probiodrug has developed and implemented a risk management system. The implementation of a functional risk management system is considered part of the overall leadership responsibility of management.

Responsibilities are clearly assigned to the individual organisational units which are involved in the risk management process:

Management board:

The risk management process begins with the management board which, in the course of overall management, on the basis of the risk bearing potential, provides a clear definition of the strategy, the business types, acceptable and unacceptable risks as well as the total justifiable risk.

Risk management:

Risk management is responsible for the active monitoring and controlling of the respective risk groups. Risk is reduced through risk minimisation measures undertaken and by monitoring adherence to limits.

Supervisory board:

The supervisory board has a control function with respect to all measures for risk limitation and risk management in the Company.

7.3.2. Risk groups

In connection with its business operations, Probiodrug is subject not only to operating business risks but also to a multitude of financial risks including credit risks, liquidity risks and market risks as explained below:

7.3.2.1 Credit risks

Default risks exist with respect to substantially all financial instruments recognised as assets. The amount of the financial assets defines the maximum default risk. To the extent that risks are identified for individual financial instruments, these are taken into account by recording valuation adjustments.

Probiodrug's cash balances are held by the following banks: Sparkasse (26.1%), Moody's Rating Aa2, Deutsche Bank (54.6%) Moody's Rating A3 and BW Bank (19.3%), Moody's Rating Aa3. In general, cash balances are only held with financial institutions with prime credit ratings which are subject to the depositor's guarantee fund of German banks. Investments, if made, are in financial assets which do not have any inherent risk of loss.

Maximum risk of default

The maximum default risk for financial assets without considering possible security held or other credit improvements (e.g. right to offset) is as follows:

Carrying amount as an equivalent for the maximum risk of default EUR k	31 December 2018	31 December 2017
Noncurrent financial assets	3	3
Cash and cash equivalents	3,783	10,291
	3,786	**10,294**

As of the reporting dates 31 December 2018 and 31 December 2017, the financial assets were neither impaired nor overdue.

7.3.2.2 Liquidity risk

Liquidity risks in the narrow sense exist when the Company does not have adequate funds to settle its ongoing payment obligations. The payment obligations result primarily from the ongoing cost of business operations and investing activities against which there are only minor cash receipts.

In order to manage the liquidity situation during the year, the Company utilises appropriate financial planning instruments. As at 31 December 2018, cash and cash equivalents amounted to EUR 3.8 million. The cash and cash equivalents as at 31 December 2018 provide for the Company's financing until the beginning of the third quarter of 2019. A financing requirement of approximately EUR 2.7 million is needed for the 15 months period up to the end of the first quarter of 2020. To cover the funding gap, Management believes that additional cash inflows can be generated. If the currently planned assumptions regarding generated additional cash for the 15 months period is not viable, there is a risk that the liquidity of the Company is insufficient.

For detailed disclosures regarding going concern and liquidity requirements see note 4.

Analysis of maturities

As of 31 December 2018, the trade payables of EUR 772k (31 December 2017: EUR 344k) had a maturity of up to 30 days, respectively.

7.3.2.3 Market risks

Market risks develop from a possible change in risk factors which lead to a negative change in market value of the financial assets and liabilities which are subject to this risk factor. General risk factors such as currency risks, risks attributable to changes in interest rates and price risks can be of relevance to Probiodrug.

Exchange rate risks

Currently, Probiodrug is exposed to exchange rate risks with respect to cash and cash equivalents held in USD. A change of -5% or +5% in the foreign exchange rate of the EUR compared to the USD could impact net loss and equity by EUR 22k and EUR -25k.

Exchange rate risks could further develop if a portion of the future expenses or revenues from collaboration agreements or licencing agreements are realised in US dollars or in another foreign currency.

Risk of changes in interest rates

Probiodrug does not have any interest bearing assets or liabilities to a third party. As such, there is no risk with respect to changes in interest rates.

Price risks

At present, the financial commitments of the Company (see note 8.1) do not contain variable price conditions and hence do not bear price risks.

Capital management

The primary objective of Probiodrug's capital management is to ensure that it maintains its liquidity in order to finance its operating activities and meet its liabilities when due. In accordance with the present projections the cash reach of the Company is until the beginning of the third quarter 2019 on the basis of current cash and cash equivalents. The future financing on which the going concern assumption is based on considers management's expectation to raise funds in the form of equity or debt and/or conduct a partnership agreement. For detailed disclosures regarding going concern and liquidity requirements see note 4.

Probiodrug's focus on the long-term increase in the value of the Company is in the interest of its shareholders, employees and collaboration partners.

The objective is to sustainably increase the value of Probiodrug by continuing to generate positive data from studies, efficient processes in research and development, a forward-looking and value-oriented portfolio management as well as continuously increasing the level of awareness of Probiodrug and the approaches it applies in the pharmaceutical industry and, in the mid-term, the transfer of central assets of Probiodrug into industrial collaborations. To achieve this, the business and financial risks along with financial flexibility are in managements' focus.

By resolution of the general meeting of the shareholders on 10 June 2015, the management board is authorised to repurchase own shares with the approval of the supervisory board until 9 June 2020. The authorisation is limited to an amount of EUR 677k.

Probiodrug currently has three active stock option programs from the years 2007, 2010 and 2014.

Probiodrug is not subject to any capital requirements stemming from the Articles of Association.

As at 31 December 2018, Probiodrug's equity amounted to EUR 1,230k (31 December 2017: EUR 8,923k), which equates to an equity ratio of 30.4% (31 December 2017: 82,9%). The total liabilities amounts to EUR 2,818k (31 December 2018: EUR 1,839k).

An extraordinary shareholder meeting took place on 7 December 2018 due to a loss in share capital amounting to 50 percent, in accordance with section 92, para. 1 AktG.

8. Others

8.1. Contingencies and other financial commitments

The total of the other financial commitments as at 31 December 2018 was EUR 269k and consist of services by research and development service providers as well as of service, leasing and rental commitments. Of these commitments EUR 202k are due within one year.

8.2. Related party relationships

The following individuals and entities were considered related parties of Probiodrug during the reporting period:

a) Members of the key management of the Company or a shareholder of the Company
b) Enterprises which can be controlled by individuals within a)
c) Members of the supervisory board

Transactions with key management personnel

The remuneration of the management board comprised:

In EUR k	2018	2017
Short-term employee benefits	806	887
Post-employment benefits	31	115
Share-based payments	0	121
Total	**837**	**1,123**

Within the scope of the stock option program 2014, 314,501 options were issued to former members of the management board. More detailed information is provided in note 6.5.2.1.

The pension commitments described in note 6.6 relate to two former members of the management board. The development of the pension provision is also presented there.

The remuneration of the supervisory board comprised of:

In EUR k	2018	2017
Short-term benefits	112	137
Total	**112**	**137**

The following director dealings in shares of Probiodrug have been reported to the Company in the year 2018:

- Dr. Erich Platzer (chairperson of the supervisory board) – purchase of 5,000 shares on May 18, 2018
- Dr. Dinnies von der Osten (vice chairperson of the supervisory board) - purchase of 5,000 shares on May,18, 2018
- Dr. Ulrich Dauer (CEO, appointed on May 1, 2018) - purchase of 4,800 shares on July 11, 2018
- Dr. Inge Lues (CDO) - purchase of 4,900 shares on July 13,2018

On April 24, 2018, the CEO Dr. Konrad Glund and the CFO Dr. Hendrik Liebers resigned from the management board, effective April 30, 2018.

Dr. Konrad Glund received payment of the variable accrued bonus resulting from 2017 of EUR 71k as well as a severance payment of EUR 76k. All stock options held were fully vested. In addition, Dr. Konrad Glund continued to work as a consultant for the Company until August 31, 2018 for a monthly fixed fee of EUR 12k. Dr. Hendrik Liebers received payment of the variable accrued bonus resulting from 2017 of EUR 116k as well as a severance payment of EUR 112k. All stock options held were fully vested. In addition, Dr. Hendrik Liebers continued to work as a consultant for the Company until August 31, 2018 for a monthly fixed fee of EUR 12k.

On October 31, 2018, Dr. Inge Lues, Chief Development Officer, resigned from the management board and left the company upon expiration of her employment contract, to retire. She receives a compensation for a post-contractual non-competition clause in amount of EUR 109k.

Approval and release

On 25 March 2019, Probiodrug AG's management board approved these financial statements for release to the supervisory board.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the net assets, financial position and results of operations of Probiodrug AG.

Halle (Saale), 25 March 2019

Management Board of Probiodrug AG

Independent Auditor's Report

To the Shareholders of Probiodrug AG, Halle (Saale)

Opinion

We have audited the financial statements of Probiodrug AG, Halle (Saale) ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and the notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities applicable in Germany in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 4 "Significant discretionary decisions, estimates and assumptions – Going Concern" in the financial statements, in which management describes that Probiodrug AG is in a strained liquidity situation, because, according to its planning, cash and cash equivalents will be adequate to meet the financial obligations until the beginning of the third quarter of 2019. So there is a necessity for the Company to ensure the future financing by equity, debt or an improvement of the cash inflows out of its own business activities. As stated in Note 4, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

With exception of the matters described in the section "Material Uncertainty Related to Going Concern", we have determined that there are no other significant key audit matters to report in our report.

Other Information in the Annual Report

Management is responsible for the other information. The other information comprises the Annual Report but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dr. Stefan Schneider.

Leipzig, 25 March 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Schneider	Sachs
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]