2019 was a pivotal year for MagForce in which we made significant strides towards building the future of the Company, passed several major milestones and made progress on key goals along our two defined paths in the USA and Europe: among those achievements, the start of our pivotal US prostate cancer study and treatment of first study patients and, in Europe, the first collaboration agreement with a clinic for our NanoTherm therapy for the commercial treatment of brain tumor patients outside of Germany.
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### Management Report

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### Financial Statements

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NanoTherm therapy is a new approach to the local treatment of solid tumors. The method is based on the principle of introducing magnetic nanoparticles directly into a tumor and then heating them in an alternating magnetic field.
Fluid & Nanoparticles

NanoTherm ferrofluid can be injected directly into the tumor.

NanoTherm

NanoTherm is a ferrofluid, i.e., a fluid containing superparamagnetic iron oxide nanoparticles that can be activated in an alternating magnetic field.

The patented aminosilane coating enables these tiny magnets to be finely suspended in water to create what is known as a colloidal dispersion, which can be injected directly into tumor tissue. Due to this special coating, the particles aggregate in the tumor directly after injection and stay at the injection site. This allows the therapy to be repeated as needed.
The Therapy Simulation Software

The magnetic field makes the iron oxide nanoparticles oscillate and produce heat. Heat either destroys the cancer cells (ablation) or sensitizes them for other therapies such as chemotherapy or radiotherapy (hyperthermia).

The calculations within NanoPlan simulation take into consideration the tumor size, the distribution of the nanoparticles, and the location of the tumor.

Activation & Ablation
The NanoPlan simulation software helps the treating physician to define the NanoTherm therapy schedule according to the distribution of the NanoTherm depots in the tumor in combination with the magnetic field strength to be applied to reach the therapeutic temperature needed.
NanoTherm therapy is performed in an alternating magnetic field applicator (NanoActivator). The strength of the magnetic field can be adjusted from 2 kA / m to 15 kA / m.

This magnetic field induces the oscillation of the iron oxide nanoparticles (NanoTherm) and thereby generates heat, reaching therapeutic treatment temperatures within the tumor. According to the temperature reached, the heat either destroys the tumor cell directly (thermoablation) or sensitizes them to any concomitant therapy, e.g. radio- or chemotherapy.
Magnetic Field & Treatment

With this treatment, a majority of the cancer cells are destroyed.
HIGHLIGHTS 2019 / 2020

January 2019
MagForce AG’s newly launched “NanoTherm Therapy School” kicks off with successful first training session

In January 2019, MagForce AG successfully introduced its “NanoTherm Therapy School” series, a practice-oriented, unique, multifaceted application training for the use of NanoTherm therapy in treating brain tumors developed in close partnership with leading experts Prof. Dr. Walter Stummer, PD Dr. Dr. Oliver Grauer, University Hospital Münster, and PD Dr. Johannes Wölfer, Hufeland Klinikum GmbH Mühlhausen.

Targeted towards medical professionals working in the field of neuro-oncology, the training series aims at certifying surgeons in the use of the Company’s innovative NanoTherm technology.

March 2019
MagForce AG successfully completes installation of mobile NanoTherm treatment center for brain tumors in Poland

In March 2019, MagForce announced that the installation of their mobile NanoTherm treatment center at the Independent Public Clinical Hospital No. 4 in Lublin had been completed.

April 2019
Inauguration ceremony marks official opening of new NanoTherm treatment center at Independent Public Clinical Hospital No. 4 in Lublin, Poland

In the presence of invited guests ranging from government officials, scientific researchers, patient organisations, and members of the press, the new NanoTherm treatment center was officially inaugurated on April 3, 2019.

June 2019
MagForce AG and the Paracelsus Clinic Zwickau announce cooperation agreement and the opening of a new NanoTherm treatment center

Paracelsus Clinic Saxony in Zwickau became the fourth clinic in Europe to offer MagForce’s NanoTherm therapy for the commercial treatment of brain tumors.
**August 2019**

MagForce USA completes enrollment and treatment for Stage 1 and prepares for next stage of its pivotal single-arm study for the focal ablation of intermediate risk prostate cancer with NanoTherm therapy.

Successful validation of standardized clinical procedure for instillation of nanoparticles in first patient cohort. Initial findings in this cohort showed only minimal treatment-related side effects which were tolerable and similar to those commonly associated with biopsies.

**September 2019**

MagForce to host lunch symposium on “Local Therapies in Malignant Gliomas” during the 19th European Congress of Neurosurgery (EANS2019).

Chaired by Prof. Dr. Walter Stummer, Director of the Department of Neurosurgery at the University Hospital of Münster (UKM), Germany, the one-hour lunch symposium featured two keynote speeches: after an introduction and overview on the current status of glioma treatments by Prof. Dr. Stummer, Ricardo Díez Valle, MD PhD, Head of the Department of Neurosurgery, Hospital Group Quirón Madrid, Spain, gave an update on local neurosurgical therapies. The symposium was rounded off with a talk by Prof. Dr. Stummer on “An Emerging Adjunct: NanoTherm – NanoPaste Application.”

**December 2019**

New hope for brain tumor patients in Saxony: Paracelsus Clinic Zwickau and MagForce open new NanoTherm therapy center for the eastern German region.

The Paracelsus Clinic in Zwickau and MagForce received all necessary certifications on November 27, 2019 for the use of the NanoTherm therapy system in the neurosurgery department of the Paracelsus Clinic in Zwickau, located in the German federal state of Saxony. In light of the potential life-prolonging effect of NanoTherm therapy and in the acute interest of patients, this therapeutic option is immediately available to patients in the entire eastern region of Germany. Since the transportability of critically ill patients with glioblastoma to more distant centers was previously nearly impossible due to the limiting overall health of the patients, all brain tumor patients in this region will now also be able to benefit from the innovative therapy.
**December 2019**

“NanoTherm Therapy School” successfully enters its second round with Module B

MagForce successfully hosted the second session of its practice-oriented, unique, multifaceted application training for the use of the NanoTherm therapy system in treating brain tumors.

The NanoTherm School is part of MagForce’s commitment to further optimize the therapy system and educate medical professionals in its use to provide brain tumor patients with the best care possible in addition to a broad geographical coverage to provide greater accessibility. Participants included the team of Prof. Dr. med. habil. Jan-Peter Warnke, Senior Consultant in the Neurosurgical Clinic at the Paracelsus Clinic in Zwickau, where MagForce’s NanoTherm therapy system is also available.

**March 2020**

MagForce and Hufeland Klinikum GmbH announces cooperation agreement and opening of a new NanoTherm treatment center in Thuringia, Germany

The new NanoTherm treatment center is managed by PD Dr. Johannes Wölfer, head physician of the Department of Neurosurgery and Spinal Surgery at the Mühlhausen site, who has many years of experience in using the NanoTherm therapy system.

The added range of therapies is to strengthen specialization in neurology/neurosurgery at the Hufeland Klinikum and create a medical lighthouse project in the region.

The building application for the project location at the clinic in Mühlhausen was submitted in March 2020, the opening of the NanoTherm treatment center is planned for the third quarter 2020.

**April 2020**

MagForce USA receives FDA approval to proceed with its streamlined trial protocol for the next stage of the pivotal US single-arm study for the focal ablation of intermediate risk prostate cancer with the NanoTherm therapy system

The FDA approved a streamlined trial protocol, for the next stage of the Company’s pivotal US study with the NanoTherm therapy system for the focal ablation of intermediate risk prostate cancer.
The next stage of the clinical trial was initiated with three well-respected urological centers in Texas, Washington, and Florida that actively enrolled patients in Stage 1.

The streamlined procedure allows patient treatment to be completed within one day at one of MagForce’s three out-patient treatment facilities.

This is possible because of the positive observations and findings shown in Stage 1 – demonstrating a favorable safety and tolerability profile as well as well-defined ablation and cell death in the region of the nanoparticle deposit.

**June 2020**

MagForce and affiliated European clinics support World Brain Tumor Day and sponsor various patient events to raise awareness for one of the most serious oncological indications

**Münster, Germany**

This year, UKM hosted a patient hotline. During the open hotline, patients had the opportunity to establish direct contact with the University Hospital Münster and put forth any questions they may have regarding brain tumors and multiple treatment options.

On the occasion of World Brain Tumor Day, UKM also shared its experiences with the NanoTherm therapy system as an innovative therapeutic option from a clinical but also a patient’s perspective in this press release: https://bit.ly/306ntpT

**Zwickau, Germany**

Paracelsus Clinic Zwickau and MagForce invited patients and relatives to a live online patient event where they received answers to their questions on the subject of glioblastomas: what is a glioblastoma, symptoms, diagnosis, therapeutic options and how to secure appointments for consultation hours.

**Lublin, Poland**

Alivia Cancer Foundation, SPSK4 Hospital in Lublin and MagForce hosted the webinar “Treatment of Brain Tumors Using the NanoTherm therapy system – We Share Knowledge” for patients on the occasion of World Brain Tumor Day.
Letter of the Shareholders

Dear MagForce Shareholders,

These are indeed difficult times with the current global COVID-19 situation, but rest assured that MagForce has adapted our operations to maneuver the new corona normality, and we have very good prospects for 2020. Even in a global pandemic, cancer continues to be one of the most difficult global healthcare problems. Providing a transformative solution to this devastating disease lies at the very heart of our Company and is the underlying force that drives us. With our innovative NanoTherm Therapy System, we are able to effectively destroy cancerous cells while minimizing damage to surrounding healthy tissue, and we are diligently working to bring our therapeutic system to cancer patients worldwide.

**MagForce AG – Europe – Brain Cancer Treatment:**

Of course, COVID-19 has also had an impact on MagForce AG in Europe. The MagForce workforce has been given the opportunity to work from home and many employees have made use of this option to stay healthy and productive. So far, we are happy to say that none of our staff have been infected. The travel ban that was in place was lifted on June 15, giving our sales force travel freedom and flexibility. MagForce’s production has not been affected and the shipping of products is possible with some delays.

Concerning patient treatments, our partner hospitals in Zwickau, Münster, and Lublin are continuing to offer the NanoTherm Therapy System to treat brain tumor patients, also during the COVID-19 pandemic. We have experienced no significant delay in patient treatment and our commercial team and the dedicated staff at these clinics have clearly helped MagForce to bring this additional therapeutic option to patients who often do not have time to spare. We continue to see an increase in commercial treatments and we are on track in reaching our goal of increasing patient treatment by approximately 800 percent in 2020 compared to 2019.
However, our expansion activities, including NanoActivator installations in Spain and Italy with partner hospitals, which were planned for the second half of 2020, will be delayed by six to nine months. With that said, we plan to open two additional NanoTherm treatment centers in Germany, which should help us reach our treatment goals for 2021 – tripling the number of commercial treatments compared to 2020.

We already announced in March that the Hufeland Klinikum at the Mühlhausen site in Thuringia will be the next clinic in Europe to offer MagForce’s NanoTherm Therapy System for the commercial treatment of brain tumors. As one of the academic teaching hospitals of the University of Göttingen, the hospital draws on over 100 years of experience as a successful healthcare and medical service provider.

The new treatment center is managed by Privatdozent (PD) Dr. Johannes Wölfer, head physician of the Department of Neurosurgery and Spinal Surgery. As a long-standing expert in the use of MagForce’s NanoTherm Therapy System, PD Dr. Wölfer was involved in the development of the training concept for the “NanoTherm Therapy School,” among other things. At the “NanoTherm Therapy School,” surgeons are certified in the use of the innovative technology by participating in a comprehensive series of application training courses. Before joining the Hufeland Klinikum in 2017, PD Dr. Wölfer was deputy director of the Department of Neuro-oncology at the Münster University Hospital (UKM), which has treated brain tumor patients with the NanoTherm Therapy System since the beginning of 2015.

The ongoing successes in our European roll-out strategy clearly show that MagForce has an outstanding therapy option for treating glioblastoma. Dr. Andreas Jordan, Executive Vice President, Managing Director Europe and Chief Scientific Officer with his commercial team, have turned a corner on commercial revenues and we expect the number of treatments will continue to increase sustainably.

And I am very proud to be able to inform you that this has now been impressively reflected in the treatment figures. Even with the COVID-19 pandemic, during the first half of 2020, MagForce AG saw a considerable growth in brain cancer treatments compared to the fiscal year 2019. We now have partner hospitals that are convinced of the NanoTherm Therapy System and use it with great commitment for the benefit of their patients in treatment. We therefore expect that the number of treatments will continue to increase sustainably.
Committed to raising awareness and bringing hope to brain tumor patients, MagForce AG together with affiliated European clinics successfully sponsored various virtual patient events to support the World Brain Tumor Day on June 8.

The University Hospital of Münster (UKM) hosted a patient hotline with Dr. med. Michael Schwake, Head of the Spinal Surgery in the Clinic for Neurosurgery. During the open hotline, patients had the opportunity to establish direct contact with the UKM and put forth any questions they had regarding brain tumors and their multiple treatment options. The Paracelsus Clinic Zwickau held a live online patient event where Prof. Dr. med. habil. Jan-Peter Warnke, head of the department of neurosurgery, answered questions on the subject of glioblastomas: what is a glioblastoma, symptoms, diagnosis, therapeutic options, and how to secure appointments for consultation hours. The Alivia Cancer Foundation, the Independent Public Clinical Hospital No. 4 (SPSK4) in Lublin, Poland, and MagForce invited patients and relatives to a webinar titled “Treatment of Brain Tumors Using the NanoTherm Therapy System – We Share Knowledge.”

MagForce continues to work tirelessly to establish the NanoTherm Therapy System for the benefit of brain tumors patients throughout Europe.

**MagForce USA, Inc. – USA – Prostate Cancer Treatment:**

In April, we were pleased to announce that MagForce USA, Inc. received FDA approval for a streamlined trial protocol for the next stage of our pivotal US study with the NanoTherm therapy system for the focal ablation of intermediate risk prostate cancer. This streamlined procedure will allow patient treatment to be completed within one day at one of MagForce’s three out-patient treatment facilities. The next stage of the clinical trial is being initiated with three renowned urological centers in Texas, Washington, and Florida who actively enrolled patients in Stage 1.

During Stage 1, MagForce USA successfully developed and validated a new standardized clinical procedure, parts of which will be patented. The new procedure places the NanoTherm in a clinical targeted volume (CTV) of less than 2 to 4 cc of volume in the human prostate and provides for a true focal ablation therapy. By modifying the thixotropic nature of the NanoTherm, an increase in viscosity of 100 times was
achieved, which allowed NanoTherm to remain at the reverse biopsy instillation site and provide time for the NanoTherm conjugation to occur, stabilizing the NanoTherm particles in the CTV. Initial findings show only minimal treatment-related side effects, which were tolerable and similar to those commonly associated with biopsies. The ablation analysis showed very well-defined ablation and cell death in the region of the nanoparticle deposit as it was observed with the previous pre-clinical studies. MagForce USA and the FDA had meetings in late first quarter 2020 to discuss the streamlined procedure for the next stage as it has then been approved.

The current stage of our study will be conducted in phases to ensure early on that the minimal side effects observed in Stage 1, with a drawn out procedure, are maintained in the streamlined one-day procedure. Treatment of the first five to ten subjects should be sufficient to affirm the minimal side effects as expected. We are also able to treat patients much faster than in Stage 1. During Stage 1, each step, instillation and activation took much longer. Now, both steps will be completed on the very same day, which should favorably affect the duration of the trial. In the meantime first patients were enrolled and MagForce is starting treatments.

We must acknowledge that COVID-19 has created worldwide disruptions. With this in mind, even though the structure we have implemented in the USA permits MagForce to continue its clinical registration trial, we will surely experience some delays. As far as we can foresee, this would amount to an adjustment of around two to three months.

By the fourth quarter of 2020, we believe we will have sufficient data to reinforce the initial finding that our streamlined procedure continues to show minimal patient side effects, achieve the required 80 percent confidence that the clinical objectives can be met and start commercial preparations while we finish the trial. With this in mind, commercialization will commence during the second quarter of 2021.

Sufficient funding and increased commercial revenues
MagForce is sufficiently funded and we have several options available to secure further financing in the current market environment if needed. To ensure we remain in contact with investors, we participated in several virtual roadshows and conferences
since the start of the pandemic. Very positively, we see that our commercial strategy in Europe is playing out; we receive a constant flow of income resulting directly from increased commercial treatments, as described above – these revenues also cover some of our expenses.

In summary, MagForce has passed several major milestones and made significant progress with the NanoTherm Therapy System both in the EU, with our brain cancer treatment expansion strategy, and the USA where we aim to bring our innovative approach to develop a minimum risk focal ablation therapy for Active Surveillance to prostate cancer patients. In the long term, we envision that this treatment can be applied to any solid tumor with no metastization and confirmed by targeted biopsy.

I am confident that by pursuing a strategy of expansion with sustainable partnerships in Europe and the planned prostate cancer treatment in the USA, MagForce is well positioned for the future. I would like to express my thanks to our employees for their tireless efforts and achievements and you, our shareholders, for placing your trust in our mission.

Sincerely,

Dr. Ben Lipps
Chief Executive Officer &
Chairman of the Management Board MagForce AG
Chief Executive Officer, MagForce USA, Inc.
Investor Relations

MagForce’s Share

MagForce shares (MF6.DE) started at EUR 5.29 into 2019 and closed at EUR 4.00 on December 31, 2019. During the reporting period, the share price high was EUR 6.24 and the low was EUR 3.84. The Company’s market capitalization at the beginning of January was EUR 140 million, at the end of December EUR 111 million. The average daily trading volume of MagForce’s shares on XETRA and Tradegate in 2019 was 23,651 shares.

MagForce Share Price Development

Share price (May 2013 to June 2020 in percent)
**Key Facts MagForce Share**

<table>
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<tr>
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<th>Number of shares issued at the beginning of the period</th>
<th>26,463,802</th>
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<tr>
<td></td>
<td>Number of shares issued at the end of the period</td>
<td>27,705,224</td>
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<tr>
<td></td>
<td>Number of shares issued on June 11, 2020</td>
<td>27,705,224</td>
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<tr>
<td>Free float</td>
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<tr>
<td>2019 high (XETRA) in EUR</td>
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<td>2019 low (XETRA) in EUR</td>
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<td>Price at the beginning of the period (XETRA) in EUR</td>
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<td>Price at the end of the period (XETRA) in EUR</td>
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<tr>
<td>Price on June 11, 2020 (XETRA) in EUR</td>
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<tr>
<td>Market capitalization at the beginning of the period (EUR millions)</td>
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<td>Market capitalization at the end of the period (EUR millions)</td>
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<tr>
<td>Market capitalization on June 11, 2020 (EUR millions)</td>
<td>94</td>
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<tr>
<td>Average daily trading volume during the period (XETRA and Tradegate)</td>
<td>23,651</td>
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<td>Average daily trading volume until June 11, 2020 (XETRA and Tradegate)</td>
<td>25,980</td>
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**Increased Visibility through Listing in Scale 30 Index**

Still, MagForce is included in the Scale 30 Index of the Deutsche Börse (German Stock Exchange) since it was launched in March 2017. This selection index tracks the performance of the 30 most liquid companies listed in the SME segment Scale. Eligibility for index inclusion depends on order book turnover on Xetra and the Frankfurt Stock Exchange.

**Research Coverage**

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<tr>
<td>Berenberg</td>
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<td>Hauck &amp; Aufhäuser</td>
<td>May 2020</td>
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<tr>
<td>MAINFIRST</td>
<td>May 2020</td>
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**Director’s Dealings: CEO Ben Lipps Further Increases Holding**

During the course of the year 2019, MagForce CEO Ben J. Lipps increased his holding in MagForce AG through the acquisition of additional 476,685 shares by a total volume of EUR 2,028,153, stating his trust in the Company and its future growth.

In September 2019, the Company’s Chief Financial Officer, Christian von Volkmann, exercised 37,500 stock options under an employee stock option plan and placed them on the market.

Also in September 2019, the husband of Supervisory Board member Dr. Wiebke Rösler acquired 3,000 shares of MagForce AG.

**Successful Financing of MagForce AG as well as of the subsidiary MagForce USA, Inc.**

In June 2019, MagForce AG completed, on basis of the authorization provided for in the Company’s articles of association, an increase of the registered share capital of the Company from EUR 26,463,802.00 to EUR 27,640,274.00 by issuing 1,176,472 new no-par value bearer shares under exclusion of the shareholders’ statutory subscription rights.

The new shares with dividend entitlement starting from January 1, 2018 were placed in a private placement as follows: 705,883 of the new shares with M&G International Investments Ltd., London, and 470,589 of the new shares with MagForce AG’s CEO, Dr. Ben Lipps, each at EUR 4.25 per new share. The gross proceeds of the capital increase accruing to the Company amount to EUR 5 million.

In December 2019, MagForce USA, Inc. issued a total of 292,200 new shares generating gross proceeds of approximately USD 4.5 million for MagForce USA, Inc. The new MagForce USA, Inc. shares were subscribed by Lipps & Associates LLC, of which Ben Lipps, CEO of MagForce AG and MagForce USA, Inc., is the principal owner.

Following the issue of the new shares, MagForce AG holds 65.3 percent of the shares in MagForce USA, Inc. and continues to retain a majority ownership position in the US subsidiary.
Transparent Communication for a Fair Valuation

With the goal of communicating MagForce’s strategic orientation and corporate development in a reliable and transparent manner, thereby strengthening investors’ confidence in MagForce and achieving a fair valuation of the share, the Company has been working to increase awareness of its stock and equity story among capital market participants in 2019, as in the past. In doing so, great importance is always attached to regular communication with shareholders.

Outside of the Annual General Meeting, management presented at various renowned investor conferences in Europe. During those events and in the course of international road shows MagForce held numerous one-on-one meetings with existing and potential new international shareholders.

Due to the Covid-19 pandemic, conferences were held virtually in the first half of the current fiscal year. MagForce presented itself at the MAINFIRST SMID Cap Conference and at the Spring Conference 2020.

During the second half of 2019, MagForce was present at: Berenberg & Goldman Sachs European Medtech & Services Conference 2019 in London, UK; Berenberg Bank and Goldman Sachs Annual German Corporate Conference 2019 in Munich, Germany, German Equity Forum in Frankfurt, Germany, and the Kapitalmarktkonferenz Family Office Day in Vienna, Austria.

Shareholders were informed about current developments via regular press releases as well as the letters to shareholders, and several research coverage updates on MagForce were published.
Report of the Supervisory Board

During the financial year, the Supervisory Board was regularly informed about the course of business and the earnings situation of the Company by means of written and oral reports.

The Supervisory Board monitored the management of the Company on an ongoing basis. At four meetings in the financial year 2019, all business transactions and pending decisions requiring the approval of the Supervisory Board in accordance with the law and the Articles of Association were discussed in detail. All members of the Supervisory Board attended these meetings.

The meetings of the Supervisory Board focused on securing the Company’s financial resources, the operational and strategic development of the Company and the related measures. As in the previous year, the expansion of the commercialization of NanoTherm therapy and the faster roll-out of the therapy in the USA were discussed in detail. Development and corporate planning were discussed quarterly by the Management Board and the Supervisory Board.

The following topics, among others, were discussed in the meetings and the following resolutions were passed:

At the Supervisory Board meeting on March 14, 2019, the update on the operating business of the Company and MagForce USA Inc. including the clinical and financial sector was discussed. Preliminary figures for the year 2018 were presented and an outlook on the first quarter results was given. Furthermore, the financial planning for the next two years was discussed in the same meeting and the next meeting dates were coordinated.

At its meeting on May 14, 2019, the Supervisory Board was given a concrete overview of the 2018 annual financial statements, including the audit report and the audit opinion.

At the same meeting, the Supervisory Board discussed the 2018 annual financial statements with the Company’s auditor and Management Board member Christian von Volkmann.
By resolution adopted by written circulation on June 12, 2019, authorization was given to carry out a capital increase through partial utilization of Authorized Capital 2015 / I.

The Supervisory Board approved the agenda for the Company’s Annual General Meeting on August 8, 2019, by written circular resolution of June 26, 2019.

In its attendance meeting on August 8, 2019, the Supervisory Board followed up the Annual General Meeting. The Management Board presented preliminary financial figures for the second quarter of 2019 and provided information in particular on the Company’s investor relations activities.

By resolution adopted by written circulation on October 8, 2019, the Supervisory Board approved the signing of an amendment to the finance agreement with the European Investment Bank and a capital increase to be carried out at MagForce USA, Inc. through the issue of new shares and proceeds of up to USD 5.0 million.

At its meeting on December 5, 2019, the Supervisory Board discussed the budget for 2020 and the planning for 2021. The latest development of the operating business and the status of the financing planning were also explained to the Supervisory Board.

The Chairman of the Supervisory Board was in constant contact with the members of the Management Board. Questions of corporate strategy, business development, patent issues, legal disputes and important incidents of the Company were discussed.

In addition, the Supervisory Board discussed important strategic projects with the Management Board. As in previous years, the subjects discussed were securing the Company’s competitiveness and concepts for future growth.

The annual financial statements as of December 31, 2019, and the management report for the financial year 2019 prepared by the Management Board as well as the accounts were audited by the appointed auditor AIOS GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Berlin, the auditors appointed by the Annual General Meeting, and were issued with an unqualified audit opinion.
The Supervisory Board also carefully examined the annual financial statements as of December 31, 2019 and the management report of the Management Board for the financial year 2019. The auditor participated in the discussion of the annual financial statements and was available to provide additional information.

The documents to be audited and the auditor’s reports were submitted to each member of the Supervisory Board for examination in due time.

The Supervisory Board made use of its right to inspect the books and records of the Company, in particular by submitting significant individual agreements, irrespective of whether or not they require approval. Transactions requiring the approval of the Supervisory Board by virtue of statutory provisions or the Articles of Association were examined by the Supervisory Board and a decision was taken on its approval.

We noted and approved the auditor’s reports. The final result of our own examination fully corresponds to the result of the audit. The Supervisory Board sees no reason to raise any objections.

On June 29, 2020, the Supervisory Board approved the annual financial statements as of December 31, 2019, prepared by the Management Board. The annual financial statements are thus adopted.

The Supervisory Board would like to thank the Management Board and all employees for their great personal commitment and the work they have done in 2019, especially with regard to the commercialization of the NanoTherm therapy and their relentless effort to develop and to extend new therapies to fight cancer.

Berlin, June 29, 2020

The Supervisory Board

Norbert Neef

Chairman of the Supervisory Board
MANAGEMENT REPORT
for the Financial Year 2019

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Company overview

MagForce AG is a pioneer in the area of nanotechnology-based cancer treatment. It is the first company in the world to receive European approval for a medical product using nanoparticles. The innovative therapy is currently available to patients in NanoTherm therapy centers in Germany and since March 2019 also in Lublin, Poland. In the coming years, it is planned to open further NanoTherm therapy centers in strategically important regions both in Germany and in other European countries.

MagForce AG is the parent company of the MagForce group consisting of a total of seven companies.

The US subsidiary MagForce USA Inc., with its place of business in Nevada, USA, is currently developing NanoTherm therapy for the focal treatment of prostate cancer. After successful completion of the final stage of its pivotal clinical trial, it will begin marketing in the USA, Canada, and Mexico.

MagForce Ventures GmbH, Berlin, owns the distribution and development rights in the indications of prostate cancer and brain tumors for the regions USA, Canada and Mexico and is a 100 percent subsidiary of MagForce USA, Inc.

Together with the wholly owned subsidiary MagForce USA Holding GmbH, Berlin, which acts as a holding company, MagForce AG holds the majority of the shares in MagForce USA, Inc.

MagForce sp. z o.o., based in Warsaw, Poland, is a sales company. MagForce AG holds 100 percent of the shares in the Company. With MagForce sp. z o.o., MagForce AG covers a geographically important region as part of its European roll-out strategy.

The production and development of the NanoActivator devices is carried out by our wholly owned subsidiary MT MedTech Engineering GmbH located in Berlin.

The Spanish sales company MagForce Nanomedicine S.L. was entered in the commercial register in January 2020. MagForce AG holds 100 percent of the shares in the Spanish subsidiary, which is based in Madrid.
Macroeconomic situation

Based on figures from the Federal Statistical Office, the German economy grew by 0.6 percent in 2019, which is significantly slower than in the previous year (1.5 percent). According to the economic reports of DIW Berlin (German Institute for Economic Research), the global economy (3.5 percent, previous year: 4.2 percent) and the euro zone (1.2 percent, previous year: 1.9 percent) are also recording declining growth rates.

In view of the corona pandemic, the forecasts for gross domestic product (GDP) for 2020 have been significantly reduced. Many countries are likely to suffer considerable economic slumps. The closure of entire regions will lead to production stoppages and disruption of supply chains, as well as to a drop in consumption.

In March 2020, DIW Berlin lowered its December 2020 forecast for the German economy from 1.2 percent to –0.1 percent, for the global economy from 3.7 percent, to 2.5 percent, and for the euro zone from 1.1 percent to –0.2 percent.

In its model calculations, DIW Berlin assumes a so-called V-scenario. After a significant increase in the number of infections at the beginning, the consequences of which have an impact in the first half of the year, the pandemic should be contained and the economy should recover in the second half of the year.

However, the course of the pandemic is unclear and forecasts are subject to great uncertainty. Instead of a rapid recovery in the second half of the year, normalization may not set in, and the economy might not catch up on the lost production output and only follow an L-shaped, i.e. lower and slower, growth path. This could result in a much deeper recession.
Market and industry conditions

MagForce is active in the medical device sector and is currently focused on commercialization of its NanoTherm therapy for the treatment of brain tumors in Europe and the development of NanoTherm therapy for the treatment of prostate cancer in the USA.

Important milestones were reached with the opening of the first treatment center outside Germany and the completion of the first stage of the pivotal study in the USA.

The global market volume for prostate cancer is expected to increase to USD 13.6 billion by 2021. For glioblastoma, the global market volume is estimated to reach USD 3.3 billion by 2024.

Glioblastoma, prostate cancer, and treatment

Glioblastoma

Glioblastoma is the most common and most aggressive brain tumor. This tumor mainly affects adults and is classified as grade IV tumor by the WHO (World Health Organization) due to the very poor prognosis and the difficulty or impossibility of treatment. Glioblastoma is surgically incurable and largely resistant to radiation and chemotherapy.

Around 7,500 people are diagnosed with brain cancer in Germany each year with an increasing tendency; approximately 4,000 of them with glioblastoma, accounting for about 1.4 percent of all new cancer diagnoses. This makes glioblastoma one of the rarer forms of cancer. In Europe, around 13,000 glioblastoma cases are diagnosed each year, and in the United States this number is closer to 10,000 per year. According to estimates of the International Agency for Research on Cancer (IARC: GLOBOCAN 2018), 296,851 people worldwide were suffering from a brain tumor in 2018. In Europe, 64,639 people were affected, in the United States 24,237, and in Germany 7,769.

Conventional treatments for newly diagnosed glioblastoma are still dominated by surgery accompanied by radiotherapy and temozolomide. Other forms of treatment, such as the use of angiogenesis inhibitors, have not proven successful in first-line therapy. In contrast to that, another medical device in addition to the temozolomide therapy used after a standard chemotherapy has shown an improvement in the mean survival time and the five-year survival of glioblastoma patients. However, a breakthrough in the therapy was not achieved so far.
Despite the intensive standard treatment, after a few months the tumor often grows back. There is no standard therapy for the treatment of a recurrent tumor. A new resection, accompanied with a repeated chemotherapy (Alkylanz, Bevacizumab) or radiotherapy, or a therapy option within a clinical study is commonly prescribed. Currently a definitive cure is at present nearly impossible in this indication. The average survival time with glioblastoma is only 16 to 20 months. The median five-year survival rate following combined radiation and temozolomide therapy is 5–10 percent. There is, therefore, a clear need for new therapies with different mechanisms of action. NanoTherm therapy represents such a new therapy method which is applied. Negotiations on the reimbursement of costs are currently being conducted in parallel with further broadening of the data situation.

Prostate cancer
Prostate cancer is the second-most frequently diagnosed cancer and the third leading cause of death in males worldwide. Prostate cancer is with 25 percent the most common type of cancer affecting men. In Germany, around 60,000 new prostate cancer diagnoses are made each year. According to estimates by the International Agency for Research on Cancer (IARC: GLOBOCAN 2018), 1,276,106 men worldwide were newly diagnosed with prostate cancer in 2018. In Europe, 449,761 men were diagnosed with prostate cancer, in the United States 212,783 and in Germany 62,641 men.

Focal prostate cancer therapies are aimed at destroying only the prostate cancer lesions, sparing the healthy tissue in order to avoid side effects and to maintain the patient’s quality of life. Therapies affecting the whole prostate gland, for example radical prostatectomy and radiation therapy, are considered definitive therapies, but come with a significant impairment of a patient’s quality of life, which includes incontinence, erectile dysfunctions, and other side effects. Active surveillance of prostate cancer is regarded as an equal alternative to the interventional therapy for low-grade prostate tumors. Treatment does not start until a specified diagnostic biopsy value in the blood (e.g. PSA) is exceeded or an enlargement of the prostate tumor is indicated by a manual examination. However, there are concerns about missing the time-frame for appropriate treatment.
The main idea of a focal therapy of the prostate is to limit the treatment to the tumor location or a part of the prostate and thus to avoid treatment of the entire prostate, which results in significant side effects and limitations of the quality of life as described above. The development of a focal therapy for the treatment of prostate cancer therefore offers tremendous potential.

An important step in entering this market was taken with the completion of the first stage of the pivotal study for a focal treatment method of intermediary risk prostate cancer, which is being conducted by the US subsidiary MagForce USA Inc.

**Competition**

In contrast to the pharmaceutical approach to cancer therapy, there is currently no comparable clinically proven thermotherapy procedure on the market in which heat is generated directly in the tumor on a focal basis. With conventional heat therapy devices that are available on the market, the heat applied to the tumor can only be controlled through external field control (interference, focusing). The spatial distribution and tissue-dependent energy absorption of this method makes it difficult to restrict the treatment to the small cancer lesions only. This leads to unwanted heating of healthy tissue, causing side effects and restrictions to the temperatures within the tumor tissue that are needed in order to achieve an effective treatment. The NanoTherm therapy developed by MagForce uses a new mechanism of action, which opens up completely new application possibilities for thermotherapy.
Development of the Company in the financial year

Finance

MagForce AG
A financing agreement in the amount of EUR 35.0 million is in place between MagForce AG and the European Investment Bank (EIB). As of December 31, 2019, EUR 10.0 million of the loan had been paid out. There neither is the obligation to call further tranches nor are there any commitment interests to pay. Every tranche must be repaid within five years after drawing.

In June, MagForce AG resolved and successfully implemented a capital increase from Authorized Capital. 1,176,472 new shares were subscribed.

In the second half of 2019, a further 64,950 no-par value bearer shares were issued in connection with the exercise of stock options from Contingent Capital.

The subscription of the new shares led to an increase in equity of EUR 5.3 million.

MagForce USA, Inc.

At the end of 2019, a capital increase was carried out at the subsidiary MagForce USA Inc. through the issue of 292,200 new shares, resulting in proceeds of USD 4.5 million for the Company.

The proceeds from the capital increase will be used to finance the second stage of the pivotal clinical study with NanoTherm therapy for focal tumor ablation in prostate cancer and the preparations for commercialization and ongoing operational business activities of the Company.

Commercialization

In 2019, MagForce AG was successful in realizing important goals within the context of its commercialization activities.

With Lublin, Poland, and in Zwickau, Germany, two new NanoTherm treatment centers were opened.
The Independent Public Clinical Hospital No. 4 (SPSK4) in Lublin is the first clinic outside Germany to offer our innovative therapy as an additional treatment option for brain tumor patients from Poland and the surrounding area. It is the largest hospital in Lublin Province, providing learning and research facilities for the Medical University in Lublin. Over 1,600 patients per year receive surgery, and about 6,000 consultations are given in an outpatient neurosurgical clinic. The SPSK4 team of doctors has initiated the treatment of patients within the context of a so-called Investigator Initiated Trial (IIT) to apply for reimbursement of NanoTherm therapy as an additional treatment at the Agency for Health Technology Assessment and Tariff System. In addition, treatment with NanoTherm is also available to private-pay patients, for example financed by crowd or personal funding. In the year 2019, commercial patient treatments could already be carried out.

In June 2019, the Paracelsus Clinic Zwickau and MagForce AG announced the conclusion of a cooperation agreement. The opening of the NanoTherm treatment center followed in December 2019. The Paracelsus Clinic Saxony in Zwickau is the third clinic in Europe that currently offers MagForce’s NanoTherm therapy for the treatment of brain tumors. This means that NanoTherm therapy is now directly available to the entire region of eastern Germany. With 34 facilities at a total of 18 locations, the Paracelsus Clinics are among the largest private hospital operators in Germany. Nationwide, around 4,500 employees care for nearly 90,000 inpatients annually. The Paracelsus Clinic in Zwickau is a hospital of standard care as well as specialized neuroscientific care in the fields of neurosurgery, neurology, neuroradiology and neuropathology. With 180 patient beds and around 400 employees, the clinic works in the specialist departments of internal medicine and trauma surgery/orthopedics, general, visceral and vascular surgery, pain therapy and the focus-oriented disciplines of neurology and neurosurgery. The clinic for neurosurgery treats about 2,200 patients annually and performs an average of 1,500 operations per year, of which about 500 involve brain tumors.

In both Lublin and Zwickau our mobile solution was used for the placement of the NanoActivator devices. This enables us to integrate the NanoActivator into the existing infrastructure of a clinic without lengthy and cost-intensive conversion work. Given the aggressiveness of glioblastomas, speedy treatment is necessary. With the mobile solution, NanoTherm therapy centers can be made available quickly and cost-effectively by MagForce.
The existing NanoTherm treatment centers cover geographically important regions and represent a further step in our European roll-out strategy. Our Market Development Team continues to focus on identifying and building relationships with potential partner clinics both in Germany and in other European countries. We are in advanced stages of discussions with potential new clinical partners in Germany, Spain, and Italy.

By opening up geographically important regions, we are increasing the availability of NanoTherm therapy. In this way, we are also reaching patients who previously could not access the therapy due to their disease-related limited mobility.

The treatment of patients on site is also an important success factor in terms of reimbursement. On the one hand, the costs of NanoTherm therapy vary from country to country. On the other hand, the proportion of costs borne by the health care systems varies. On-site treatment will greatly simplify the reimbursement process and make access to NanoTherm therapy possible for many patients. MagForce continues to work with experts to improve both domestic and cross-border cost reimbursement.

In addition to increasing the availability of NanoTherm therapy as part of our European roll-out strategy, we are constantly working on training medical personnel in the use of NanoTherm therapy in order to provide patients with the best possible care. Our “NanoTherm Therapy School”, launched in January 2019, serves this purpose. The NanoTherm Therapy School is a practice-oriented training course in the use of NanoTherm therapy for the treatment of brain tumors. The training follows a modular structure in three logically coordinated units. Starting with the basic application of nanopasting (Module A: Basic Course – Nanopasting), the participant is enabled to learn the advanced techniques (Module B: Advanced Course 1 – Stereotactic instillation) as well as the interaction with new neurosurgical techniques (Module C: Advanced Course 2 – Interaction with new neurosurgical techniques). The aim is to certify surgeons in the use of the innovative NanoTherm technology from MagForce AG. Module A took place in January 2019, Module B followed in November 2019, and Module C is expected to be offered in 2020.
US pivotal study

Our ongoing pivotal clinical trial in the USA for the application of NanoTherm therapy in the indication of prostate cancer with intermediate risk continues to progress.

The aim of the two-stage study, which includes up to 120 patients, is to show that NanoTherm therapy can locally destroy carcinogenic lesions of the prostate with minimal side effects.

The first stage of the study was successfully completed in August 2019. During the first stage, adjustments were made to the NanoActivator and a standardized clinical procedure for instillation of the nanoparticles was developed. Using state-of-the-art biopsy technology, NanoTherm particles are placed precisely and in the optimal concentration in the diseased target region of the prostate.

The findings from the first stage of the study show only minimal, treatment-related side effects that are usually associated with routine biopsies. The ablation analysis also confirms a very well-defined ablation and cell death in the region of the nanoparticle deposit.

With the completion of the first stage, we were not only able to develop a standardized clinical procedure, but also demonstrate a favorable safety and tolerability profile.

The results achieved in the first stage make us very optimistic that the treatments in the second stage of our clinical study can also be carried out successfully.

The second stage of the clinical trial will be initiated in collaboration with the renowned urological specialist centers, the Texas Urology Group, the University of Texas, San Antonio, and the University of Washington, Seattle.
A third study center in eastern USA, in Sarasota, Florida, has been added. With the Sarasota Interventional Radiology Center, we are opening up additional geographic areas to further support patient recruitment and treat more patients simultaneously. MagForce is also working to further optimize the focal treatment procedure in order to minimize the treatment time.

The continuing strong interest of prostate cancer patients and treating physicians to be included in the study clearly demonstrates the high medical need for less invasive, effective and well tolerated focal treatment options. MagForce is therefore convinced that NanoTherm therapy will become established as a treatment alternative to standard therapies in the USA.

**Results of Operations, Net Assets, and Financial Position**

To follow is a presentation of operations, net assets, and financial position of the Company. In addition, reference is made to the explanations in the notes.

**Results of operations**

In the financial year, revenues amounted to EUR 840 thousand (previous year: EUR 67 thousand). Revenues were generated from the commercial treatment of patients with NanoTherm therapy in Germany in the amount of EUR 47 thousand (previous year: EUR 66 thousand) and NanoTherm deliveries to subsidiaries in the amount of EUR 793 thousand (previous year: EUR 0 thousand).

Other own work capitalized in the amount of EUR 218 thousand relates to capitalized expenses for the preparation of product files for MagForce AG’s medical products in accordance with the requirements of the new Medical Device Regulation (MDR).

Other operating income amounted to EUR 904 thousand. While the previous year was dominated by the extraordinary effect of the intra-group transfer of shares in MagForce USA Inc., which resulted in the realization of hidden reserves in the amount of EUR 13,895 thousand, there was no further transfer of shares in 2019. Consequently, other operating income decreased from EUR 14,909 thousand by EUR 14,005 thousand.
compared to previous year. Other operating income mainly consists of costs recharged to subsidiaries for management services and other administrative services in the amount of EUR 545 thousand (previous year: EUR 561 thousand), the reversal of provisions in the amount of EUR 173 thousand (previous year: EUR 293 thousand), exchange rate differences in the amount of EUR 75 thousand (previous year: EUR 71 thousand) and income relating to other periods in the amount of EUR 47 thousand (previous year: EUR 7 thousand).

Cost of materials decreased from EUR 455 thousand to EUR 164 thousand.

Personnel expenses of EUR 3,987 thousand (previous year: EUR 3,921 thousand) also include bonus payments and are mostly at the previous year’s level.

Amortization of intangible assets and depreciation of property, plant, and equipment amounted to EUR 642 thousand and were EUR 45 thousand higher than in the previous year (EUR 597 thousand). The increase is mainly due to the start of depreciation on the completed mobile solutions for the NanoActivators.

Other operating expenses of EUR 3,371 thousand are EUR 197 thousand higher than in the previous year (EUR 3,174 thousand). The increase in other operating expenses is mainly due to higher impairment losses on interest receivables from the affiliated Company MT MedTech Engineering GmbH that is funded by MagForce AG as well as higher patent costs.

While the previous year due to extraordinary effects showed a positive operating result of EUR 6,828 thousand, 2019 closed with a negative operating result of EUR 6,203 thousand. The positive operating result of the previous year is due to the extraordinary effect of the intra-group transfer of shares in MagForce USA Inc. with the realization of hidden reserves in the amount of EUR 13,895 thousand. Normalized for this effect, the Company would have reported a higher negative operating result of EUR 7,067 thousand in the previous year.

Interest income of EUR 215 thousand was largely at the same level as in the previous year (EUR 231 thousand), while interest expenses fell by EUR 140 thousand from EUR 1,823 thousand to EUR 1,683 thousand. The reason for the decrease in interest expenses is lower interest on share price-linked liabilities. The write-down of the contributions to fund the operations of the subsidiary MT MedTech Engineering GmbH amounted to EUR 1,058 thousand (previous year: EUR 877 thousand). The
partially contrary effects resulted overall in only a slight increase in the negative finan­
cancial result of EUR 58 thousand from EUR 2,468 thousand to EUR 2,526 thousand.

The year 2019 closed with a net loss for the year of EUR 8,731 thousand. The net income of EUR 4,358 thousand in the previous year was due to the extraordinary effect of the intra-group transfer of shares in MagForce USA Inc. with the realization of hidden reserves amounting to EUR 13,895 thousand. Normalized for this effect, the previous year ended with a net loss of EUR 9,537 thousand.

**Net assets**

Total assets remained mostly constant at EUR 36,660 thousand (previous year: EUR 37,134 thousand).

On the assets side, significant changes in fixed assets occurred only in the area of intangible assets. These increased by EUR 678 thousand from EUR 91 thousand to EUR 769 thousand compared to the previous year, primarily due to the capitalization of expenses for the preparation of product files for MagForce AG’s medical products in accordance with the requirements of the new Medical Device Regulation and the implementation of a new ERP system.

Overall, inventories decreased to EUR 59 thousand (previous year: EUR 291 thousand) due to the open deduction of advance payments received on orders. Receivables and other assets increased by EUR 582 thousand to EUR 1,389 thousand, mainly due to the increase in receivables from affiliated companies, which amounted to EUR 1,028 thousand in the reporting year (previous year: EUR 450 thousand). Cash and cash equivalents at the end of the reporting period amounted to EUR 167 thousand (previous year: EUR 1,494 thousand).

On the liabilities side, the loss for the year increased the accumulated deficit by EUR 8,731 thousand to EUR 60,795 thousand. The capital increase from the Authorized Capital and the exercise of stock options increased equity by EUR 5,280 thousand. The Company's subscribed capital was increased from EUR 26,464 thousand to EUR 27,705 thousand by issuing 1,241,422 new shares against cash contribution. The capital reserves increased by EUR 4,038 thousand to EUR 47,798 thousand.
Other provisions increased by EUR 135 thousand to EUR 2,020 thousand. This was mainly due to additions to provisions for share-price linked liabilities and for personnel costs.

Liabilities increased by EUR 2,671 thousand to EUR 19,711 thousand in the financial year. This is mainly attributable to the increase in liabilities to affiliated companies (EUR 1,792 thousand) and banks (EUR 797 thousand).

Financial position

The Company's net loss for the year amounted to EUR 8,731 thousand (previous year: net profit EUR 4,358 thousand).

Cash flow from operating activities amounted to EUR –5,671 thousand (previous year: EUR –7,106 thousand). The cash outflow from operating activities was derived indirectly from the net loss for the period. The cash outflows mainly relate to the financing of operating activities.

The cash flow from investing activities amounted to EUR –1,941 thousand (previous year: EUR –1,370 thousand) and mainly related to the contributions made in the reporting year to provide financial support for the subsidiary MT MedTech Engineering GmbH as well as the construction of mobile NanoActivator therapy centers and the expenses for the preparation of the technical documentation of the MagForce products.

The cash flow from financing activities amounted to EUR 6,286 thousand (previous year: EUR 9,304 thousand) and is mainly attributable to the proceeds from the capital increase and the stock options exercised. The payments were offset by cash outflows in the form of interest payments.

At the end of the year, the freely available liquidity amounted to EUR 167 thousand (previous year: EUR 1,494 thousand).

MagForce AG was able to meet all its payment obligations at any time during the reporting period.
Comparison of results of operations, net assets, and financial position with previous year’s forecast

MagForce AG ended the year with a net loss of EUR 8,731 thousand, whereas the previous year showed a net profit for the year of EUR 4,358 thousand due to the intra-group transfer of shares in MagForce USA Inc. with the realization of hidden reserves of EUR 13,895 thousand.

In line with our forecast, a negative operating result of EUR –6,203 thousand was realized. The positive operating result from the previous year of EUR 6,828 thousand includes the extraordinary effect described above.

The financial result was also negative at EUR –2,526 thousand (previous year: EUR –2,468 thousand). Compared to the previous year, the negative financial result only increased by EUR 58 thousand. Since no further tranches were drawn from the EIB loan in 2019, contrary to our forecast, there was no significant expansion of the negative financial result.

In 2019 we were able to treat the first patients in Poland commercially. Our expansion strategy is also progressing. After the successful opening of the first NanoTherm treatment center outside of Germany in Lublin, Poland, we are well on the way to opening up further European locations. We are in very advanced discussions with potential partners in Spain and Italy. We completed the activities initiated to establish our Spanish subsidiary in January 2020.

In Germany, we opened another NanoTherm treatment center in Zwickau.

Another important component of our European roll-out strategy is the training of professional personnel in the application of NanoTherm therapy. The NanoTherm Therapy School started with the basic course in January 2019 and was very well attended. Users were able to take the first advanced course in the same year.

We were thus able to implement important steps in our European roll-out strategy, which will contribute significantly to improving the earnings situation.
The first stage of our US study was successfully completed. The work for the second stage is ongoing. The related extension of the production of NanoTherm and prostate NanoActivators will lead to an improvement in the income situation.

Research and Development

Clinical development

After the U.S. Food and Drug Administration (FDA) granted its approval in February 2018 to conduct a clinical study with NanoTherm therapy as a treatment for focal tumor ablation in intermediate prostate cancer, our US subsidiary MagForce USA Inc. was able to begin the clinical study.

The pivotal, two-stage study for the use of NanoTherm therapy in the indication prostate cancer with intermediate risk will include up to 120 patients.

The aim of the study is to show that NanoTherm therapy can locally destroy carcinogenic lesions of the prostate with minimal side effects.

The first stage of the study was completed in August 2019 with very encouraging findings.

During the first stage of the study, adjustments were made to the NanoActivator and a standardized instillation procedure was developed for the precise injection of the nanoparticles at the optimal concentration. With the applied precision technology, a degree of automation is achieved, which is a decisive advantage for the placement of the particles in the target region.

The results of the first stage show only minimal treatment-related side effects, as is common in routine biopsies. The ablation analysis documents a very well-defined ablation and cell death in the region of the nanoparticle deposit. With the completion of the first stage, we were able to demonstrate a favorable safety and tolerability profile.
The second stage of the clinical trial is now being initiated in collaboration with three renowned specialist urological centers. In addition to the two existing study centers in Seattle, Washington, and San Antonio, Texas, a third study center will be set up in Sarasota, Florida.

After the successful realization of a standard for mobile NanoTherm therapy centers, MT MedTech Engineering GmbH's activities in the current financial year focused on the successful installation of the first mobile treatment centers in Lublin and Zwickau. In parallel, work for further NanoTherm therapy centers as well as for the development of the ambulatory NanoActivator device for the treatment of prostate carcinoma was carried out.

**Patent and brand applications**

The therapeutic platform of MagForce AG is backed by long-standing internal know-how and a broad patent portfolio that is constantly monitored and maintained.

**Employees**

At the end of 2019, MagForce AG had 26 employees (excluding members of the Management Board), two fewer than in the previous year. As of December 31, 2019, 46 percent of the employees were women (previous year: 46 percent). The MagForce group had a total of 56 employees at the end of the year (previous year: 57 employees).

**Opportunities and Risks**

**Opportunities**

MagForce's goal is to make its innovative NanoTherm therapy system available to patients around the world in order to treat cancer successfully and gently.

The NanoTherm therapy system developed on the basis of nanotechnology represents a widely applicable, effective, and well-tolerated therapy for the patient, which we want to establish as an alternative or supplement to conventional forms
of cancer therapy such as surgery, chemo- and radiotherapy. The database proves a favorable safety and tolerability profile and shows that NanoTherm therapy is generally much less onerous for patients than conventional therapy methods.

In the indication brain tumor, patients have been commercially treated since 2015. MagForce has since been able to steadily increase the acceptance of NanoTherm therapy with the support of leading experts. Neurosurgeons who use our therapy to treat brain tumors continue to work on new strategies to increase effectiveness like the introduction of "NanoPaste," a new application process for nanoparticles.

Significant progress has also been made with regard to reimbursement. In 2018, NanoTherm therapy was included for the first time in the negotiations of hospital budgets with the health insurances. The team of doctors at the Independent Public Clinic No. 4 in Lublin, Poland, has initiated the treatment of patients as part of a so-called "Investigator Initiated Trial" to apply for reimbursement of NanoTherm therapy as an additional treatment at the Agency for Health Technology Assessment and Tariff System.

With the successful completion of the first stage of the two-stage pivotal clinical study for the application of NanoTherm therapy in the treatment of focal intermediate prostate cancer in the USA, MagForce opens up enormous potential both in terms of the value of the entire Company and for the further increase in availability of the NanoTherm therapy in the treatment of cancer.

MagForce was able to win strong partners for the US study. The CHRISTUS Santa Rosa Hospital and the University of Washington (UW) Medicine Group are highly respected urological centers of expertise with a wide geographical coverage.

The services of CHRISTUS Santa Rosa are offered in over 100 cities in the USA, Chile, Mexico, and Colombia. The organization employs more than 45,000 people and its medical professionals include over 15,000 physicians.

The University of Washington (UW) Medicine Group, with its hospital and clinic network, has a catchment area in which almost six million people live. Through its partnerships, such as the Seattle Cancer Care Alliance and the Fred Hutchinson Cancer Research Center – one of the top ten cancer research centers in the USA – even more people can be reached.
With the Sarasota Interventional Radiology Center in Sarasota, Florida, a third study center was added in the eastern USA. This ensures an even broader geographical coverage.

The area of research and development offers significant opportunities. Our technology has great potential. It can be further developed in various indications for the treatment of solid tumors and existing products can be further optimized.

The implementation and financing of development activities for specific indications or regions within the framework of strategic partnerships could offer opportunities to fully exploit the potential of MagForce.

**Risks**

The above-mentioned opportunities are confronted with various risks, in particular financial risks, which are described below.

**Risk of lack of profitability and liquidity**

The Company has sustained operating losses in the past and might not become profitable in the medium term. Moreover, MagForce AG has so far only generated few revenues. Regarding the risk to continuing as a going concern with reference to the liquidity of the Company, we refer to the section “Report on expected developments; summary of expected developments by the Management Board.”

**The Company might require significant funds to market its products**

The Company does not rule out the possibility that its capital requirements and operating expenses will rise over the coming years due to the expansion of its production, marketing, and research and development activities. In addition, it cannot guarantee that, if required, additional funds will be available at reasonable financial terms.
Risk of product CE approval being withdrawn

CE approval of the Company’s products under the Medizinproduktegesetz (MPG – German Medicinal Products Act) can be withdrawn. CE approval of the Company’s medical devices is dependent on the declaration of conformity. This is reviewed and rated at regular intervals in audits / inspections performed by the notified body. Among other things, confirmation of approval also depends on the capacities of the audit body, individual decisions made as part of complex assessments, and the interaction of and compliance with various regulations and industry standards. Any faults that arise during audits or non-compliance with legal requirements could lead to the withdrawal of product approval.

Commercial success depends on acceptance of NanoTherm therapy

The Company’s commercial success relies heavily on the acceptance of NanoTherm therapy among physicians, clinics, patients, funding bodies, and other key opinion leaders. The Company bears therefore a high marketing risk.

Risks from general development delays

MagForce could be late to respond to market developments, technological trends, or new scientific findings and could therefore suffer a loss in competitiveness.

Limited protection offered by industrial property rights

MagForce AG relies on protecting its developments through patents, other industrial property rights, and confidential expertise to maintain its competitive position. The Company’s competitive position could be compromised if it fails to sufficiently protect its own inventions or enforce any industrial property rights. With the expiry or loss of intellectual property rights of MagForce AG, the Company may have an increase of competition and / or product imitators, which can lead to falling prices and / or lower market shares.
Risks from industrial property rights of third parties

The efforts of MagForce AG in order to avoid infringement of intellectual property rights of third parties or the defense against actions of third parties in violation of their rights could be expensive and, if not successful, could lead to a restriction or ban on the marketing of NanoTherm technology, the payment of royalties or other payments, or compel MagForce AG to change the design of products.

Competitors with greater funding and resources

MagForce AG competes in the market for cancer therapies with other companies that have greater financial and human resources. In addition, it is possible that competitors could be purchased by major, financially strong companies, or that new competitors could enter the market. Such new or increased competition could lead to lower selling prices, put pressure on margins, and/or cause the loss of the target market share specified in the Company’s planning.

Unknown environmental and health risks associated with nanoparticles

Nanoparticles could have as yet unknown effects on the human body or the environment. There are currently no indications of any potential negative environmental impact of iron oxide nanoparticles being released into the environment. However, because these nanoparticles represent a relatively new technology, it cannot be definitively ruled out at this stage that they might cause negative environmental effects or interactions.

Reliance on employees

MagForce AG currently has 26 employees plus management, some of whom fill significant functions on their own or who hold several important positions simultaneously. Business operations could be jeopardized if an employee is unavailable for work, the Company loses staff, or if it is not in a position to recruit additional suitable technical and management employees over the long term. MagForce AG’s business involves expertise that is shared by a small number of employees. If these employees were to leave, the negative impact could be significant.
Risk of costs not being covered by health insurance funds and other health care providers and insurers

It cannot be guaranteed that the entire cost of MagForce AG’s NanoTherm therapy will be covered by statutory and private health insurance funds.

Risks relating to infrastructure and growth

If the Company does not adapt its internal control and management systems in line with its planned growth, this could result in the inefficient use of resources and failure to recognize developments that could endanger further growth or even the Company’s continued existence in time.

Product liability risks

It is possible that product liability claims could be asserted against the Company for which its insurance cover is inadequate. Furthermore, such claims could significantly damage the Company’s reputation, irrespective of whether the insurance cover is adequate.

Legal risks associated with changes to the applicable law

Changes to the applicable legal provisions and regulations could compromise or prevent the production and marketing of the products. The introduction of new statutory or regulatory restrictions relating to the manufacture and use of products using nanotechnology could lead to a significant administrative and financial burden for the Company and its partners.

Risks related to business plan assumptions

Future planning scenarios of the Company are subject to inherit risks of the underlying assumptions. Should revenues planned by the Company or the monetarization of assets not materialize as expected or be delayed, thus resulting in net revenues short of expectations, the Company may be dependent on cash inflows from outside of its business.
Risks related to debt, interest expenses and other similar expenses

Borrowing fees are partly linked to the development of the share price and the utilization of loans. Thus, in the event of a positive development of the share price and/or a higher utilization of loans, there is a risk that the fees to be paid for debt will be higher.

In addition, due to the higher utilization of interest-bearing debt, a higher charge from the debt service is to be expected for this in the future.

Capital market risks, interest rates

At present, the Company benefits from the low interest rates and the associated positive developments, among others, of stock prices and debt conditions. Should the interest rate rise again, this could lead to unfavorable developments for the share price and/or the remuneration for borrowed capital.

Exchange rate risks

The Company transacts part of its business in US dollars. The resulting exchange rate risks may adversely affect the financial and earnings position of the Company.

Overall picture of the risk situation

The main risk of the above is the risk of lack of profitability and liquidity due to the current low level of sales, which do not cover the costs of the Company. This situation requires a further supply of liquidity to maintain solvency and thus, to ensure the survival of the Company.

The financial risk is intensified by the corona pandemic. In addition to possible effects on sales planning, negative effects cannot be ruled out with regard to the implementation of external financing measures, both in the form of equity and debt financing, in view of the uncertain capital markets.
Risk Management Targets and Methods in Relation to Financial Instruments

Significant risks from the use of financial instruments relate to the exchange rate risk in relation to the US dollar and the share price of MagForce AG, which in part is a parameter in the calculation of debt service. This can result in liquidity risks when settling liabilities linked to the exchange rate or share price.

At present, there are no financial instruments in place to hedge these risks, as according to the Management Board their costs are out of proportion to their benefits and the estimated effects of the risks described will be manageable. Insofar as these risks have already materialized, they are taken into account in the annual financial statements.

Report on Expected Developments

For the year 2020, the following focal points are planned for the Company's development:

› Increase in the number of commercially treated patients in Poland and Germany

› Initiation of further placements of NanoActivator devices in Germany and other European countries for the treatment of brain tumors

› Establishment of an efficient reimbursement procedure in Germany and the target countries for NanoTherm therapy in combination with surgery, radiation or chemotherapy

› Conducting the second stage of the pivotal trial of NanoTherm therapy in the indication prostate cancer for the territory of the USA by the subsidiary MagForce USA, Inc.

› Preparations for the commercialization of NanoTherm therapy for the treatment of prostate cancer in the USA
Completion of the development of an ambulatory NanoActivator device for the focal treatment of prostate cancer

Continuation and establishment of the "NanoTherm Therapy School" as application training for the use of NanoTherm therapy with the aim of certifying surgeons using the innovative NanoTherm technology

The impact of the outbreak of the corona pandemic on our future core activities described above cannot be predicted in detail at this time.

**Expected results**

The Company expects a significant increase in the number of patients treated in both Germany and Poland in the financial year 2020, which will have a positive effect on earnings.

We expect an increase in production volumes of NanoTherm to supply our US subsidiary due to the continuation of its pivotal trial and preparations for commercialization in the USA, as well as for the treatment of patients in Germany and Poland. The production of NanoActivator ambulatory devices will take place depending on the progress of the prostate study in the USA.

The expected revenues will not be able to compensate the expenses due to the continuation of the expansion strategy and the associated initiation of treatment series to obtain reimbursement as well as the necessary expansion of commercialization activities, so that a significant operating loss is also expected for the financial year 2020.

We expect higher debt financing of the business activities and an associated increase in the negative financial result, provided that there are no significant opposing effects from share price-linked debt components.

It can be assumed that the corona pandemic will affect our forecasts, the exact scope of which cannot be estimated at this time.
Summary of expected developments by the Management Board

The Company’s business model is characterized by its focus on the short and medium-term realizable value drivers. This includes in particular the commercialization of NanoTherm therapy in Germany and its neighboring countries as well as in other EU countries.

In focus are also both the conducting of the second and final stage of the registration study for the approval of the FDA for the commercialization of NanoTherm therapy by the American subsidiary MagForce USA, Inc. in the indication prostate cancer as well as securing reimbursement.

The development in other indications and the further development of the NanoTherm particles are planned over the long term.

For the years 2020 and 2021, the Company plans to increase the number of commercially treated patients in Germany and Poland and to initiate the placement of additional NanoActivator devices in Germany and other European countries. A broad geographical coverage to increase the availability of our therapy is at the core of the roll-out strategy and will be significantly accelerated by using our mobile NanoTherm therapy center. Further essential activities will be the deepening of the cooperation with local and international patient organizations as well as a stronger presence at relevant events in order to further establish the therapy and increase the number of patient inquiries.

In parallel, pursuits are being continued to implement an efficient cost reimbursement procedure in Germany and the target countries for NanoTherm therapy and to train medical professionals, particularly as part of the NanoTherm Therapy School.

We are convinced that with a focused establishment of NanoTherm therapy through the successive commercialization of the therapy at selected treatment centers in Germany and other European countries, sustainable revenues will be generated. The profitability of MagForce AG will be secured in the long term, even if costs will initially rise as a result of these measures.
The Management Board’s assessment is also based on the positive reception of NanoTherm therapy by interested parties. The continuing immense demand for new forms of cancer therapy and the sustained growth of this market segment support this assessment.

Over the past two years, the management of MagForce AG has successfully taken the necessary measures to finance the expansion targets set for Europe.

Based on cash and cash equivalents of EUR 167 thousand as of December 31, 2019 (previous year: EUR 1,494 thousand) and available credit lines, MagForce AG has prepared a financial plan according to which the business activities for the years 2020 and 2021 can be financed. Under the corporate plan, the liquid funds and callable loans available as of December 31, 2019 and acquired up to the preparation date are sufficient to meet the payment obligations due at any time. The prerequisite for this, however, is that the assumptions on which the planning is based are met and that the budgeted amounts are achieved in actual terms.

In our opinion, the Company can finance its operating business with the liquid funds available and by a drawdown of the loans provided if the assumptions of the financial plan, in particular planned revenues, meeting projected cost budgets and further external financing measures occur.

Accordingly, the Management Board assumes that the Company will continue as a going concern.
The planning of MagForce AG involves by nature inherent risks and uncertainties. It is based on the current assumptions, expectations, estimates, and projections of MagForce AG that were made to the best knowledge and belief and in consideration of prudent business judgment. In this respect, deviations from the plan cannot be ruled out. Furthermore, uncertainties as to the forecast remain, as it cannot be ruled out that planned revenues may be delayed or may not materialize in the amount assumed in the plan, because MagForce has not generated material revenues to date.

Due to the outbreak of the corona pandemic, uncertainties arise which cannot be fully predicted at the present time and which could have a significant impact on MagForce AG’s planning.

Berlin, June 12, 2020

The Management Board

Dr. Ben J. Lipps
Chief Executive Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Christian von Volkmann
Chief Financial Officer
FINANCIAL STATEMENTS

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## Statement of Income

### in EUR

<table>
<thead>
<tr>
<th></th>
<th>01/01-12/31/2019</th>
<th>01/01-12/31/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>839,932.62</td>
<td>67,200.00</td>
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<tr>
<td>Other own work capitalized</td>
<td>218,105.69</td>
<td>0.00</td>
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<tr>
<td>Other operating income</td>
<td>903,506.43</td>
<td>14,908,995.58</td>
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<tr>
<td>thereof from exchange rate differences EUR 74,766.30 (previous year: EUR 71,101.30)</td>
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<tr>
<td></td>
<td><strong>1,961,544.74</strong></td>
<td><strong>14,976,195.58</strong></td>
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<td><strong>Cost of materials</strong></td>
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<td></td>
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<tr>
<td>a) Raw materials and supplies and purchased goods</td>
<td>25,762.59</td>
<td>33,197.84</td>
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<tr>
<td>b) Purchased services</td>
<td>138,703.50</td>
<td>422,150.35</td>
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<tr>
<td></td>
<td><strong>164,466.09</strong></td>
<td><strong>455,348.19</strong></td>
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<tr>
<td><strong>Personnel expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Salaries</td>
<td>3,628,240.76</td>
<td>3,597,521.61</td>
</tr>
<tr>
<td>b) Social security contributions</td>
<td>358,497.65</td>
<td>323,520.03</td>
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<td>thereof for retirement benefits EUR 42,178.32 (previous year: EUR 40,418.32)</td>
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<td></td>
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<tr>
<td></td>
<td><strong>3,986,738.41</strong></td>
<td><strong>3,921,041.64</strong></td>
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<tr>
<td><strong>Amortization and depreciation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of intangible assets and property, plant, and equipment</td>
<td>642,207.21</td>
<td>597,604.41</td>
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<tr>
<td><strong>Other operating expenses</strong></td>
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<td></td>
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<td></td>
<td><strong>8,164,481.94</strong></td>
<td><strong>8,147,856.55</strong></td>
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<tr>
<td>thereof from exchange rate differences EUR 123,153.15 (previous year: EUR 37,034.59)</td>
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<td></td>
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<td><strong>Operating result</strong></td>
<td>-6,202,937.20</td>
<td>6,828,339.03</td>
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<tr>
<td><strong>Other interest and similar income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>thereof from affiliated companies EUR 214,675.04 (previous year: EUR 214,675.04)</td>
<td>215,223.24</td>
<td>231,381.98</td>
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<tr>
<td><strong>Amortization of financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,058,200.00</td>
<td>876,891.16</td>
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<tr>
<td><strong>Interest and similar expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>thereof from affiliated companies EUR 17,769.04 (previous year: EUR 0.00)</td>
<td>1,682,938.03</td>
<td>1,822,820.57</td>
</tr>
<tr>
<td><strong>Financial result</strong></td>
<td>-2,525,914.79</td>
<td>-2,468,329.75</td>
</tr>
<tr>
<td><strong>Result before other taxes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-8,728,851.99</td>
<td>4,360,009.28</td>
</tr>
<tr>
<td><strong>Other taxes</strong></td>
<td>1,749.06</td>
<td>1,955.17</td>
</tr>
<tr>
<td><strong>Net loss / net profit</strong></td>
<td>-8,730,601.05</td>
<td>4,358,054.11</td>
</tr>
<tr>
<td><strong>Loss carried forward from the previous year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-52,064,160.62</td>
<td>-56,422,214.73</td>
</tr>
<tr>
<td><strong>Accumulated deficit</strong></td>
<td>-60,794,761.67</td>
<td>-52,064,160.62</td>
</tr>
</tbody>
</table>
Balance Sheet as of December 31, 2019

### Assets

<table>
<thead>
<tr>
<th>in EUR</th>
<th>12 / 31 / 2019</th>
<th>12 / 31 / 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I. Intangible fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Internally generated commercial trade mark rights and similar rights and values</td>
<td>218,105.69</td>
<td>0.00</td>
</tr>
<tr>
<td>2. Purchased commercial trade mark rights and similar rights and values, and licences in such rights and values</td>
<td>171,507.08</td>
<td>90,865.08</td>
</tr>
<tr>
<td>3. Prepayments</td>
<td>379,052.39</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>II. Tangible fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Leasehold improvements</td>
<td>7.00</td>
<td>114,148.00</td>
</tr>
<tr>
<td>2. Technical assets and machines</td>
<td>2,139,395.99</td>
<td>2,127,541.99</td>
</tr>
<tr>
<td>3. Other equipment, furniture, and fixtures</td>
<td>214,119.00</td>
<td>209,072.00</td>
</tr>
<tr>
<td>4. Prepayments and construction in progress</td>
<td>873,393.41</td>
<td>950,335.43</td>
</tr>
<tr>
<td><strong>III. Financial assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares in affiliated companies</td>
<td>30,982,654.78</td>
<td>30,977,654.78</td>
</tr>
<tr>
<td><strong>B. Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>I. Inventories</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Work in progress</td>
<td>291,046.25</td>
<td>291,046.25</td>
</tr>
<tr>
<td>2. Goods for resale</td>
<td>39,867.00</td>
<td>0.00</td>
</tr>
<tr>
<td>3. Customer advances</td>
<td>-272,326.21</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>II. Receivables and other assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Trade accounts receivables</td>
<td>95,863.79</td>
<td>95,015.00</td>
</tr>
<tr>
<td>2. Receivables from affiliated companies</td>
<td>1,027,536.28</td>
<td>450,017.57</td>
</tr>
<tr>
<td>3. Other assets</td>
<td>265,276.59</td>
<td>262,069.38</td>
</tr>
<tr>
<td><strong>III. Cash in hand and bank balances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>167,417.62</td>
<td>1,493,691.20</td>
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</tr>
<tr>
<td><strong>C. Prepaid expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>66,985.99</td>
<td>72,653.49</td>
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<tr>
<td><strong>36,659,902.65</strong></td>
<td><strong>37,134,110.17</strong></td>
<td></td>
</tr>
<tr>
<td>Shareholders' equity and liabilities</td>
<td>12 / 31 / 2019</td>
<td>12 / 31 / 2018</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>---------------</td>
<td>---------------</td>
</tr>
<tr>
<td><strong>A. Shareholders' equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. Subscribed capital</td>
<td>27,705,224.00</td>
<td>26,463,802.00</td>
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<tr>
<td>Contingent capital</td>
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<tr>
<td>(previous year: EUR 13,050,956.00)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>II. Capital reserves</td>
<td>47,797,608.75</td>
<td>43,759,398.26</td>
</tr>
<tr>
<td>III. Accumulated deficit</td>
<td>-60,794,761.67</td>
<td>-52,064,160.62</td>
</tr>
<tr>
<td></td>
<td><strong>14,708,071.08</strong></td>
<td><strong>18,159,039.64</strong></td>
</tr>
<tr>
<td><strong>B. Special item for investment subsidies for fixed assets</strong></td>
<td>39,122.63</td>
<td>49,826.12</td>
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<tr>
<td><strong>C. Provisions</strong></td>
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<tr>
<td>Other provisions</td>
<td>2,020,162.90</td>
<td>1,884,819.08</td>
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<tr>
<td><strong>D. Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Convertible note</td>
<td>5,000,000.00</td>
<td>5,000,000.00</td>
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<tr>
<td>thereof convertible EUR 5,000,000.00</td>
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<td></td>
</tr>
<tr>
<td>(previous year: EUR 5,000,000.00)</td>
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<td></td>
</tr>
<tr>
<td>2. Liabilities to financial institutions</td>
<td>11,673,666.85</td>
<td>10,876,348.33</td>
</tr>
<tr>
<td>3. Trade accounts payable</td>
<td>677,057.24</td>
<td>340,672.35</td>
</tr>
<tr>
<td>4. Liabilities to affiliated companies</td>
<td>1,842,365.10</td>
<td>50,159.81</td>
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<tr>
<td>5. Other liabilities</td>
<td>517,906.04</td>
<td>773,244.84</td>
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<tr>
<td>thereof taxes EUR 188,295.10</td>
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<td>(previous year: EUR 259,897.17)</td>
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<tr>
<td>thereof social security EUR 1,870.04</td>
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<tr>
<td>(previous year: EUR 4,776.22)</td>
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<td></td>
<td><strong>19,710,995.23</strong></td>
<td><strong>17,040,425.33</strong></td>
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<td><strong>E. Deferred income</strong></td>
<td>181,550.81</td>
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<tr>
<td></td>
<td><strong>36,659,902.65</strong></td>
<td><strong>37,134,110.17</strong></td>
</tr>
</tbody>
</table>
### Analysis of Fixed Assets

#### I. Intangible fixed assets

<table>
<thead>
<tr>
<th></th>
<th>01/01/2019</th>
<th>Additions</th>
<th>Reclassifications</th>
<th>Disposals</th>
<th>12/31/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internally generated commercial trade mark rights and similar rights and values</td>
<td>0.00</td>
<td>218,105.69</td>
<td>0.00</td>
<td>0.00</td>
<td>218,105.69</td>
</tr>
<tr>
<td>Purchased commercial trade mark rights and similar rights and values, and licences in such rights and values</td>
<td>117,079.47</td>
<td>112,204.00</td>
<td>0.00</td>
<td>0.00</td>
<td>229,283.47</td>
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<tr>
<td>Prepayments</td>
<td>0.00</td>
<td>379,052.39</td>
<td>0.00</td>
<td>0.00</td>
<td>379,052.39</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>117,079.47</strong></td>
<td><strong>709,362.08</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>826,441.55</strong></td>
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</table>

#### II. Tangible fixed assets

<table>
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<tr>
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<th>01/01/2019</th>
<th>Additions</th>
<th>Reclassifications</th>
<th>Disposals</th>
<th>12/31/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements</td>
<td>1,153,635.45</td>
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<td>0.00</td>
<td>0.00</td>
<td>1,153,635.45</td>
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<tr>
<td>Technical assets and machines</td>
<td>5,098,555.38</td>
<td>21,815.92</td>
<td>-434,071.11</td>
<td>974,490.42</td>
<td>4,579,951.99</td>
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<tr>
<td>Other equipment, furniture, and fixtures</td>
<td>623,567.01</td>
<td>57,519.18</td>
<td>0.00</td>
<td>0.00</td>
<td>681,086.19</td>
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<td>Prepayments and construction in progress</td>
<td>950,335.43</td>
<td>428,539.09</td>
<td>-434,071.11</td>
<td>71,410.00</td>
<td>873,393.41</td>
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<td><strong>Total</strong></td>
<td><strong>7,826,093.27</strong></td>
<td><strong>507,874.19</strong></td>
<td><strong>0.00</strong></td>
<td><strong>1,045,900.42</strong></td>
<td><strong>7,288,067.04</strong></td>
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</table>

#### III. Financial assets

<table>
<thead>
<tr>
<th></th>
<th>01/01/2019</th>
<th>Additions</th>
<th>Reclassifications</th>
<th>Disposals</th>
<th>12/31/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares in affiliated companies</td>
<td>31,882,371.14</td>
<td>1,063,200.00</td>
<td>0.00</td>
<td>0.00</td>
<td>32,945,571.14</td>
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<tr>
<td>Loans to affiliated companies</td>
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<td>0.00</td>
<td>0.00</td>
<td>2,453,107.83</td>
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<td><strong>Total</strong></td>
<td><strong>34,335,478.97</strong></td>
<td><strong>1,063,200.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
<td><strong>35,398,678.97</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>01/01/2019</th>
<th>Additions</th>
<th>Reclassifications</th>
<th>Disposals</th>
<th>12/31/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>42,278,651.71</strong></td>
<td><strong>2,280,436.27</strong></td>
<td><strong>0.00</strong></td>
<td><strong>1,045,900.42</strong></td>
<td><strong>43,513,187.56</strong></td>
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</tbody>
</table>
## Analysis of Fixed Assets

### Historical Cost

<table>
<thead>
<tr>
<th></th>
<th>01/01/2019</th>
<th>Additions</th>
<th>Disposals</th>
<th>12/31/2019</th>
<th>12/31/2018</th>
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</thead>
<tbody>
<tr>
<td>Accumulated depreciation</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>218,105.69</td>
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<td>Net book value</td>
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<tr>
<td></td>
<td>26,214.39</td>
<td>31,562.00</td>
<td>0.00</td>
<td>57,776.39</td>
<td>171,507.08</td>
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<td>57,776.39</td>
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<td>30,982,654.78</td>
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<td>30,982,654.78</td>
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<tr>
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<td>34,469,617.28</td>
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</tbody>
</table>
Notes to the Annual Financial Statements for the Financial Year 2019

Basis of presentation

MagForce AG has its place of business at Max-Planck-Straße 3 in 12489 Berlin, Germany and is registered in the commercial register of Berlin-Charlottenburg under HRB 98748 B.

The Company is a small corporation within the meaning of section 267(1) of the Handelsgesetzbuch (HGB – German Commercial Code). The annual financial statements for the period of January 1, 2019, to December 31, 2019, were prepared in accordance with the provisions of the HGB for small corporations and the provisions of the Aktiengesetz (AktG – German Stock Corporation Act).

The total cost (nature of expense) format in accordance with section 275(2) of the HGB is used for the presentation of the statement of income.

The Company took advantage of some of the disclosure options for small corporations according to section 274a and 288 HGB.

Designation of the balance sheet items has been modified corresponding with the needs of the Company according to section 265(6) HGB.

Accounting policies

The following accounting policies were applied in the preparation of the annual financial statements.

Fixed assets

Internally generated intangible fixed assets were capitalized at the cost incurred in their development. There is no amortization because these are still in development.

Purchased intangible fixed assets are recognized at acquisition cost and amortized over their useful lives.
Property, plant, and equipment are valued at acquisition cost less scheduled depreciation. Depreciation is amortized on a pro-rata temporis basis using the straight-line method and the expected useful life.

Low-value assets costing up to EUR 800.00 are written off in the year of acquisition.

Long-term financial assets are carried at acquisition cost or the lower fair value.

**Current assets**

Inventories are valued at acquisition cost, taking into account the lower of cost or market principle. Use was made of the option pursuant to section 268(5) sentence 2 HGB to openly deduct advance payments received on orders from inventories.

Receivables and other current assets are recognized at their nominal value or the lower fair market value. The specific valuation allowances have been recognized for receivables for which it is unlikely that all contractually agreed payments can be collected at maturity.

Cash and cash equivalents are reported in the financial statements at the nominal value.

**Prepaid expenses and deferred income**

The prepaid expenses include payments made before the balance sheet date that represent expenses for certain periods after the balance sheet date.

The deferred income includes payments received before the balance sheet date that represent income for certain periods after the balance sheet date.

**Special items**

A special item was recognized for investment grants and subsidies that will be recognized in other operating income and depreciated over the remaining useful life of the underlying assets.
Provisions
Other provisions reflect all risks and uncertain obligations that were identifiable by the reporting date on the basis of prudent business judgment. They are recognized in the amount necessary to settle the obligations.

Liabilities
Liabilities are recognized at their settlement amounts.

Currency translation differences
Assets and liabilities denominated in foreign currencies are translated at the exchange rate at the balance sheet date. For a residual term of more than one year, the realization principle (section 252(1) No. 4 half-sentence 2 HGB) and the acquisition cost principle (section 253(1) sentence 1 HGB) were observed.

Balance sheet disclosures

Fixed assets
Changes in the items of fixed assets are presented in the analysis of fixed assets, based on acquisition cost.

Disclosures on shareholdings
The Company owns all shares of MT MedTech Engineering GmbH, Berlin. As of December 31, 2019, the reported negative equity of the subsidiary amounts to EUR 6,374 thousand (previous year: EUR 6,128 thousand). Net loss for the financial year from January 1 to December 31, 2019, amounts to EUR 1,304 thousand (previous year: EUR 1,105 thousand).

In the financial year, an amount of EUR 1,058 thousand (previous year: EUR 877 thousand) was paid into the free capital reserve in accordance with section 272(2) No. 4 HGB. An impairment charge was recognized for shareholdings in MT MedTech Engineering GmbH to carry the investment at the lower fair market value of EUR 1.00 according to the principle of conservatism. Should MT MedTech Engineering GmbH generate sustainable gains in the future, the carrying amount will be written back to its historic cost.
The Company holds 65.3 percent of the shares directly and indirectly in MagForce USA, Inc., Incline Village, United States of America. As of December 31, 2019, the reported equity of the subsidiary amounts to USD 28,678 thousand (previous year: USD 29,172 thousand). Net loss for the financial year from January 1 to December 31, 2019, amounts to USD 4,994 thousand (previous year: USD 3,920 thousand).

In addition, the Company holds 100 percent of the shares in MagForce USA Holding GmbH, based in Berlin. As of December 31, 2019, the Company’s equity amounts to EUR 19,520 thousand (previous year: EUR 19,537 thousand). Net loss for the financial year from January 1 to December 31, 2019 amounts to EUR 17 thousand (previous year: EUR 14 thousand).

MagForce AG holds 100 percent of the shares in the Polish subsidiary MagForce sp. z o. o., founded in 2018 and based in Warsaw. As of December 31, 2019, the Company’s negative equity amounts to PLN 78 thousand (previous year: PLN 1 thousand), and its net loss for the year amounts to PLN 77 thousand (previous year: PLN 6 thousand).

MagForce AG holds 100 percent of the shares in MagForce Nanomedicine S.L. based in Madrid. The Company was entered in the Spanish commercial register in January 2020. As of December 31, 2019, the Company’s equity amounts to EUR 5 thousand and the net result amounts to EUR 0 thousand.

**Inventories**

Work in progress amounting to EUR 291 thousand (previous year: EUR 291 thousand) relates to capitalized costs for the further development of the ambulatory NanoActivator for the focal treatment of prostate cancer which will be invoiced upon finalization of serial production.

Inventories also include stocks of catheters in the amount of EUR 40 thousand (previous year: EUR 0 thousand) that are used during the NanoTherm therapy.

**Receivables and other assets**

Receivables and other assets in the amount of EUR 30 thousand (previous year: EUR 25 thousand) have a remaining term of more than one year.
Receivables from affiliated companies include EUR 725 thousand (previous year: EUR 0 thousand) in trade receivables and EUR 303 thousand (previous year: EUR 450 thousand) in other assets.

Other assets mainly include receivables from value added tax in the amount of EUR 135 thousand (previous year: EUR 94 thousand). In addition, other assets include rental deposits of EUR 30 thousand (previous year: EUR 25 thousand) with an indefinite remaining term.

**Subscribed capital**

As of January 1, 2019, the share capital amounted to EUR 26,463,802.00 and was divided into 26,463,802 no-par-value bearer shares (ordinary shares) with a pro rata amount of subscribed capital of EUR 1.00 per share.

By the implementation of a capital increase from Authorized Capital 2015 / I, the share capital was increased by 1,176,472 new no-par value bearer shares with a pro-rata amount of the share capital of EUR 1.00 each. The entry in the commercial register was effective on June 27, 2019.

Furthermore, the share capital is increased by 64,950 new no-par value bearer shares with a pro-rata amount of share capital of EUR 1.00 each through the exercise of subscription rights from Contingent Capital 2012 / II and 2013 / III during the financial year.

The subscribed capital of the Company as of December 31, 2019, amounts to EUR 27,705,224.00 and is comprised of 27,705,224 no-par-value bearer shares (ordinary shares) with a notional interest in the share capital of EUR 1.00 per share.

**Contingent Capital 2007 / I**

In accordance with the Company’s Articles of Association, its share capital was contingently increased by up to EUR 100,000.00 (Contingent Capital 2007 / I) by issuing up to 100,000 no-par value bearer shares (ordinary shares). The Annual General Meeting on August 10, 2017, resolved to release EUR 68,450.00 of the Contingent Capital 2007 / I.
Contingent Capital 2007 / I serves to settle rights to subscribe for shares under stock options that are issued under the 2007 Stock Option Plan on the basis of the authorization by the Annual General Meeting on June 29, 2007. The contingent capital increase will only be implemented to the extent that rights to subscribe for shares under stock options are exercised, and the Company does not settle the rights to subscribe for shares by way of a cash settlement or by granting treasury shares.

No expenses are recognized for the 2007 Stock Option Plan in accordance with the view expressed in part of the literature. The Stock Option Plan is designed for members of the Management Board and for selected employees who are designated by the Management Board with the approval of the Supervisory Board. One option entitles the holder to acquire one share following payment of the contractually agreed strike price. The Company reserves the right to settle the value of the stock options in cash.

As of January 1, 2019, the Contingent Capital 2007 / I amounted to EUR 31,550.00. There were no changes in the financial year.

As of January 1, 2019, 19,884 options had been issued from Contingent Capital 2007 / I. At the end of the year 6,058 options expired, leaving 13,826 options issued and exercisable as at December 31, 2019.

**Contingent Capital 2012 / II**

By resolution of the Annual General Meeting on August 16, 2012, the Company’s share capital was contingently increased by up to EUR 395,000.00 by issuing up to 395,000 no-par value bearer shares (Contingent Capital 2012 / II).

Contingent Capital 2012 / II exclusively serves to secure subscription rights for shares that were issued as part of the 2012 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 15, 2017. The contingent capital increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.
As of January 1, 2019, the Contingent Capital 2012 / II amounted to EUR 145,000.00. In the financial year, the Contingent Capital 2012 / II was reduced by EUR 37,500.00 due to the exercise of subscription rights and amounted to EUR 107,500.00 as of December 31, 2019.

In the period from 1 January 2019 to 31 December 2019, 37,500 stock options were exercised under the Stock Option Plan 2012 / II. Thus, 107,500 options from Contingent Capital 2012 / II were still issued and exercisable as of December 31, 2019.

**Contingent Capital 2013 / II**

The Annual General Meeting on August 6, 2013, authorized the Management Board, with the consent of the Supervisory Board, to issue bearer and / or registered bonds or notes with warrants and / or convertible bonds or notes with a total nominal value of up to EUR 100,000,000.00 and with a maximum maturity of 20 years on one or more occasions in the period up to August 5, 2018, and to grant options to the holders of bonds with warrants and conversion rights to the holders of convertible bonds for up to a total of 9,569,084 no-par value bearer shares of the Company with an aggregate notional interest in the share capital of up to EUR 9,569,084.00, as specified in greater detail by the terms and conditions of the bonds or notes with warrants or convertible bonds or notes.

On February 27, 2017, the Company resolved, with the approval of the Supervisory Board, to issue a convertible note from the contingent capital 2013 / II in the total amount of EUR 5,000,000.00 and a conversion price of EUR 5.00 per share.

By resolution of the Annual General Meeting on August 9, 2018, the Contingent Capital 2013 / II in the amount of EUR 8,569,084.00 was partially canceled and amounts to EUR 1,000,000.00 as of December 31, 2019.

**Contingent Capital 2013 / III**

With resolution of the Annual General Meeting on August 6, 2013, the Company’s share capital was contingently increased by up to EUR 2,142,271.00 by issuing up to 2,142,271 no-par value bearer shares (Contingent Capital 2013 / III).

Contingent Capital 2013 / III exclusively serves to secure subscription rights for shares that were issued as part of the 2013 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 5, 2018. The contingent capital
increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.

As of January 1, 2019, Contingent Capital 2013 / III amounted to EUR 1,739,642.00. In the financial year, Contingent Capital 2013 / III was reduced by EUR 27,450.00 due to the exercise of subscription rights and amounted to EUR 1,712,192.00 as of December 31, 2019.

In the period from 1 January 2019 to 31 December 2019, 27,450 stock options were exercised under the Stock Option Plan 2013 / III and 15,000 options expired. As a result, 1,697,192 options from Contingent Capital 2013 / III were still issued and exercisable as of December 31, 2019.

**Contingent Capital 2015 / I**

With resolution of the Annual General Meeting on August 18, 2015, the Company’s share capital was contingently increased by up to EUR 170,000.00 by issuing up to 170,000 no-par value bearer shares (Contingent Capital 2015 / I).

Contingent Capital 2015 / I exclusively serves to secure subscription rights for shares that were issued as part of the 2015 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 17, 2020. The contingent capital increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.

As of January 1, 2019, the Contingent Capital 2015 / I amounted to EUR 50,000.00. There were no changes in the financial year.

As of January 1, 2019, as well as of December 31, 2019, 50,000 options from Contingent Capital 2015 / I were issued and exercisable.
Contingent Capital 2017 / I

With resolution of the Annual General Meeting on August 10, 2017, the Company’s share capital was contingently increased by up to EUR 547,495.00 by issuing up to 547,495 no-par value bearer shares (Contingent Capital 2017 / I).

Contingent Capital 2017 / I exclusively serves to secure subscription rights for shares that were issued as part of the 2017 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 9, 2022. The contingent capital increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.

As of January 1, 2019, the Contingent Capital 2017 / I amounted to EUR 547,495.00. There were no changes in the financial year.

As of January 1, 2019, no options had been issued from Contingent Capital 2017 / I. As of December 31, 2019, 52,500 options had been issued.

Contingent Capital 2018 / I

The Annual General Meeting on August 9, 2018, authorized the Management Board, with the consent of the Supervisory Board, to issue bearer and / or registered bonds or notes with warrants and / or convertible bonds or notes with a total nominal value of up to EUR 100,000,000.00 and with a maximum maturity of 20 years on one or more occasions in the period up to August 8, 2023, and to grant options to the holders of bonds with warrants and conversion rights to the holders of convertible bonds for up to a total of 9,537,269 no-par value bearer shares of the Company with an aggregate notional interest in the share capital of up to EUR 9,537,269.00, as specified in greater detail by the terms and conditions of the bonds or notes with warrants or convertible bonds or notes.

As of January 1, 2019, Contingent Capital 2018 / I amounted to EUR 9,537,269.00. There were no changes in the financial year.
**Authorized Capital 2015 / I**

The Annual General Meeting on August 18, 2015, authorized the Management Board to increase the Company’s share capital, with the consent of the Supervisory Board, once or in multiple partial installments in the period up to August 17, 2020, by up to a total of EUR 12,811,355.00 against cash and/or noncash contributions (including mixed noncash contributions) by issuing up to 12,811,355 no-par value bearer shares (Authorized Capital 2015 / I). The subscription right of shareholders is excluded in certain cases.

As of January 1, 2019, the Authorized Capital 2015 / I amounted to EUR 12,090,894.00. In the financial year, a reduction was made in the course of a capital increase from the Authorized Capital 2015 / I in the amount of EUR 1,176,472.00. As of December 31, 2019, the Authorized Capital 2015 / I amounted to EUR 10,914,422.00.

**Capital reserves**

The capital reserves were increased by EUR 4,038 thousand in the financial year 2019 as a result of a capital increase from Authorized Capital 2015 / I and the exercise of stock options from Contingent Capital 2012 / II and 2013 / III.

**Net accumulated losses**

The net accumulated losses contain accumulated losses brought forward of EUR 52,064 thousand. Net accumulated losses developed as follows:

<table>
<thead>
<tr>
<th>in EUR thousand</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Net accumulated losses as of December 31, 2018</td>
<td>52,064</td>
</tr>
<tr>
<td>Net loss for the financial year January 1 to December 31, 2019</td>
<td>8,731</td>
</tr>
<tr>
<td><strong>Net accumulated losses as of December 31, 2019</strong></td>
<td><strong>60,795</strong></td>
</tr>
</tbody>
</table>
**Special item for investment subsidies for fixed assets**

The investment grants were made in accordance with the Investitionszulagengesetz (German Investment Grants Act). In the period January 1 to December 31, 2019, EUR 11 thousand (previous year: EUR 29 thousand) was reversed to the income statement from the special reserve for investment grants and subsidies.

**Provisions**

In comparison to the previous year, the other provisions in the financial year are composed of the following items:

<table>
<thead>
<tr>
<th>in EUR thousand</th>
<th>12 / 31 / 2019</th>
<th>12 / 31 / 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>384</td>
<td>314</td>
</tr>
<tr>
<td>Outstanding supplier invoices</td>
<td>97</td>
<td>91</td>
</tr>
<tr>
<td>Supervisory Board renumeration</td>
<td>28</td>
<td>37</td>
</tr>
<tr>
<td>Audit costs</td>
<td>41</td>
<td>45</td>
</tr>
<tr>
<td>Other</td>
<td>1,470</td>
<td>1,398</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,020</strong></td>
<td><strong>1,885</strong></td>
</tr>
</tbody>
</table>

The other accrued liabilities include provisions for dismantling commitments amounting to EUR 103 thousand (previous year: EUR 109 thousand), for the annual report amounting to EUR 32 thousand (previous year: EUR 30 thousand), and for the annual general meeting amounting to EUR 38 thousand (previous year: EUR 33 thousand). Furthermore, share price-linked debt components amounting to EUR 1,290 thousand (previous year: EUR 1,216 thousand) are included.
Liabilities

The Company issued a convertible note in the amount of EUR 5,000 thousand at an interest rate of 5 percent each year on March 2, 2017. The conversion price at the end of the term is EUR 5.00 per share. The remaining term of the convertible note is up to one year.

Liabilities to financial institutions in the amount of EUR 11,674 thousand (previous year: EUR 10,876 thousand) result from the drawdown of the first tranche of the European Investment Bank (EIB) loan of EUR 10,000 thousand and accrued interest. The remaining term of the loan is three years. In connection with the financing agreement, certain rights to NanoTherm therapy were secured by the EIB.

As in the previous year, trade accounts payable amounting to EUR 677 thousand (previous year: EUR 341 thousand) are due within one year.

Liabilities to affiliated companies include EUR 51 thousand (previous year: EUR 49 thousand) of trade payables and EUR 1,791 thousand (previous year: EUR 1 thousand) of other liabilities.

Other liabilities mainly include liabilities from wages and salaries in the amount of EUR 234 thousand (previous year: EUR 421 thousand) and from wage and church taxes in the amount of EUR 177 thousand (previous year: EUR 252 thousand). It also includes the interest accrued up to December 31, 2019, and due on March 1, 2020, for the convertible note in the amount of EUR 82 thousand (previous year: EUR 81 thousand).

All other liabilities, unless otherwise specified, have a remaining term of up to one year. This results in a total of liabilities with a remaining term of up to one year of EUR 8,037 thousand (previous year: EUR 6,164 thousand) and over one year of EUR 11,674 thousand (previous year: EUR 10,876 thousand).
Income statement disclosures

Revenues
In the financial year the Company generated sales revenues in the amount of EUR 840 thousand (previous year: EUR 67 thousand).

Revenues result from the commercial treatment of patients with NanoTherm therapy in Germany amounting to EUR 47 thousand (previous year: EUR 66 thousand) and NanoTherm deliveries to subsidiaries amounting to EUR 793 thousand (previous year: EUR 0 thousand).

Other own work capitalized
Other own work capitalized relates to capitalized expenses for the preparation of product files for MagForce AG’s medical products in accordance with the requirements of the new Medical Device Regulation (MDR).

Other operating income
Other operating income mainly consists of costs recharged to subsidiaries for management services and other administrative services in the amount of EUR 545 thousand (previous year: EUR 561 thousand), the reversal of provisions in the amount of EUR 173 thousand (previous year: EUR 293 thousand), exchange rate differences in the amount of EUR 75 thousand (previous year: EUR 71 thousand) and income relating to other periods in the amount of EUR 47 thousand (previous year: EUR 7 thousand). The high amount of other operating income in the previous year was influenced by the extraordinary effect of the transfer of shares in MagForce USA, Inc. to MagForce USA Holding GmbH with the realization of hidden reserves amounting to EUR 13,895 thousand.

Cost of materials
Cost of materials consists of expenses for raw materials and supplies, and for purchased goods in the amount of EUR 26 thousand (previous year: EUR 33 thousand), and expenses for purchased services in the amount of EUR 139 thousand (previous year: EUR 422 thousand). Compared to the previous year, cost of materials decreased by EUR 291 thousand.
**Personnel expenses**

Personnel expenses in the amount of EUR 3,987 thousand (previous year: EUR 3,921 thousand) consist of expenses for wages and salaries in the amount of EUR 3,628 thousand (previous year: EUR 3,598 thousand) as well as expenses for social security and retirement benefits in the amount of EUR 358 thousand (previous year: EUR 323 thousand). Personnel expenses thus remained relatively stable and increased slightly by EUR 66 thousand.

Personnel expenses of EUR 346 thousand (previous year: EUR 423 thousand) from the performance of management services were recharged to the subsidiaries.

Expenses for retirement benefit plans amount to EUR 42 thousand (previous year: EUR 40 thousand) resulting from a defined contributions pension scheme.

**Other operating expenses**

Other operating expenses of EUR 3,371 thousand (previous year: EUR 3,174 thousand) are mostly at the previous year’s level and mainly comprise expenses for legal, auditing and consulting costs of EUR 548 thousand (previous year: EUR 391 thousand), commercialization / marketing of EUR 400 thousand (previous year: EUR 320 thousand), travel expenses of EUR 394 thousand (previous year: EUR 456 thousand), investor relations of EUR 338 thousand (previous year: EUR 350 thousand) and IT and maintenance of EUR 243 thousand (previous year: EUR 264 thousand). It also includes an impairment loss of EUR 215 thousand (previous year: EUR 119 thousand) on interest receivables from the subsidiary MT MedTech Engineering GmbH, patent costs of EUR 211 thousand (previous year: EUR 150 thousand), premises costs of EUR 190 thousand (previous year: EUR 229 thousand), expenses from exchange rate differences of EUR 123 thousand (previous year: EUR 37 thousand) and financing costs of EUR 104 thousand (previous year: EUR 53 thousand).
Other interest and similar income
Other interest and similar income of EUR 215 thousand (previous year: EUR 231 thousand) relates to interest income from affiliated companies (previous year: EUR 215 thousand).

Amortization of financial assets
The amortization of financial assets relates to the write-down of the capital contributions made for financial support of the subsidiary MT MedTech Engineering GmbH.

Interest and similar expenses
Interest and similar expenses were attributable to long-term loans in the amount of EUR 1,401 thousand. This item also includes interest on the convertible note of March 2, 2017 in the amount of EUR 250 thousand and interest to affiliated companies in the amount of EUR 18 thousand.

Supplemental disclosures

Other financial obligations
Other financial obligations totaling EUR 940 thousand (previous year: EUR 352 thousand) result from rental contracts for premises, leasing of cars and office equipment as well as purchase commitments.

Employees
The Company employed 26 (previous year: 26) employees (without Management Board) on average over the financial year.

Shareholder structure
Irrespective of the total number of shares held by them, all shareholders have the same voting rights per share in accordance with the Articles of Association of MagForce AG.

Furthermore, MagForce AG is not aware of which direct or indirect participations or controlling interests exist in it, or who holds these investments or exercises such control and what type of control it is.
Preparation of consolidated financial statements

MagForce AG is not required to prepare consolidated financial statements for the period ending on December 31, 2019.

Governing bodies of the Company

Management Board

<table>
<thead>
<tr>
<th>Name / position</th>
<th>Member since</th>
<th>Appointed until</th>
<th>Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Ben J. Lipps / Chemical Engineer</td>
<td>09 / 01 / 2013</td>
<td>08 / 31 / 2020</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Prof. Dr. Hoda Tawfik / Pharmacist</td>
<td>10 / 01 / 2012</td>
<td>09 / 30 / 2020</td>
<td>Chief Medical Officer</td>
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<tr>
<td>Christian von Volkmann / MBA</td>
<td>10 / 01 / 2012</td>
<td>09 / 30 / 2020</td>
<td>Chief Financial Officer</td>
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Supervisory Board

› **Norbert Neef** (Chairman), lawyer in Berlin; chairman of the supervisory board of Singularity Capital AG, Frankfurt am Main; supervisory board of Gyant.com, Inc., San Francisco.

› **Klemens Hallmann** (Deputy Chairman), entrepreneur, supervisory board mandates:
  
  › JDC Group AG, Wiesbaden
  
  › C-Quadrat Investment AG, Vienna
  
  › SÜBA Liegenschaftsbeteiligungs GmbH, Vienna
  
  › Film House Germany AG, Berlin.

› **Dr. Wiebke Rösler**, physician.
Report on subsequent events

MagForce AG, together with its subsidiary MagForce USA Inc., announced on April 28, 2020 that the FDA has approved a streamlined trial protocol for the next stage of the Company’s US pivotal study with the NanoTherm therapy system for the focal ablation of intermediate risk prostate cancer.

MagForce AG and Hufeland Klinikum GmbH announced the conclusion of a cooperation agreement on March 23, 2020. The opening of the NanoTherm treatment center at the clinic location Mühlhausen in Thuringia is planned for the third quarter of 2020. This will make the Hufeland Klinikum the fourth clinic in Europe to offer the NanoTherm therapy system from MagForce AG for the commercial treatment of brain tumors.

On March 11, 2020, MagForce AG was able to communicate the encouraging news that in the first two months of the new financial year, patient treatments have already exceeded the total number of treatments in 2019.

Another important step in the Company’s roll-out strategy was taken with the founding of the Spanish subsidiary MagForce Nanomedicine S.L. in January 2020.

On January 20, 2020, MagForce AG received further financial resources in the amount of EUR 3,000 thousand out of the loan from the European Investment Bank.

There were no other events after the end of the financial year that had a material impact on the financial position and performance of the Company.

Berlin, June 12, 2020

The Management Board

Dr. Ben J. Lipps
Chief Executive Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Christian von Volkmann
Chief Financial Officer
Independent Auditor’s Report

To MagForce AG, Berlin

Audit Opinions

We have audited the annual financial statements of MagForce AG, Berlin, which comprise the balance sheet as of December 31, 2019, and the statement of profit and loss for the financial year from January 1 to December 31, 2019, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of MagForce AG, Berlin, for the financial year from January 1 to December 31, 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

› the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and

› the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.
Basis for the Audit Opinions
We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Note to highlight a fact
Without restricting this opinion, we point out that keeping to corporate planning is of fundamental importance for the continued existence of the Company. Our audit opinion on the annual financial statements is not modified in this respect.

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report
The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the annual financial statements, the executive directors are responsible for assessing the Company’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that as a whole provides an appropriate view of the Company’s position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company’s financial reporting process for the preparation of the annual financial statements and of the management report.

**Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Management Report**

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company’s position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our [audit] opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Mis-
statements 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

› Identify and assess the risks of material misstatement of the annual financial statements and of the management report, 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 [audit] opinions. 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 controls.

› Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an [audit] opinion on the effectiveness of these systems of the Company.

› Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

› Conclude on the appropriateness of the executive directors’ 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 the auditor’s report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective [audit] opinions. 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 be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company’s position it provides.

- Perform audit procedures on the prospective information presented by the
executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate [audit] opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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.

Berlin, June 12, 2020

**AIOS GmbH**
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

**Marco Schneider**
German Public Auditor

**Sebastian Motzkus**
German Public Auditor
Imprint

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MagForce AG

Editing and text
MagForce AG

Concept and design
IR-ONE, Hamburg
www.ir-one.de

Date of publication
June 30, 2020

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