Regional Expansion with a Defined Strategy

Annual Report 2016

MagForce AG
Fighting Cancer with NanoTherm Therapy

magforce®

THE NANOMEDICINE COMPANY

Regional Expansion with a Defined Strategy

MagForce has significantly increased awareness for NanoTherm therapy as a valued therapy for the treatment of brain cancer in Europe (Path 1) and laid the grounds to starts a pivotal trial for focal therapy of prostate cancer in the USA (Path 2).

Treatment of Brain Cancer in Europe During 2016, we have participated in several high caliber scientific conferences and congresses und thus increased the awareness of our unique therapy within the main target groups. We increasingly receive positive feedback from patients and neurosurgeons incorporating NanoTherm therapy into their usual treatment regimen.

#Path1 Update

Europe

At the same time, we have streamlined the implementation of the cross-border reimbursement process. We are in the process of obtaining domestic reimbursement for NanoTherm therapy in Germany and, as NanoTherm therapy has the CE Mark for the treatment of brain tumors, we are preparing the same for selected countries in the EU. In the context of a European roll-out plan, our commercial and medical teams have identified the respective countries and clinics which qualify as NanoTherm treatment centers, allowing patient treatment in their home countries and thus timely availability of NanoTherm therapy.

Focal Treatment of Intermediate Risk Prostate Cancer in the USA We have, in 2015, filed an Investigational Device Exemption (IDE) with the USA Food and Drug Administration (FDA) for NanoTherm therapy to treat Intermediate Risk Prostate Cancer. During 2016, MagForce USA repeated and updated its pre-clinical studies, which were previously conducted in Germany approximately ten years ago, at the recommendation of the FDA. These studies again confirmed the lack of toxicity and lack of migration of the nanoparticles once instilled into the prostate. The results and the proposed clinical trial protocol were submitted to the FDA in Q4 2016.

#Path2 Update

USA

We expect the registration clinical trial will prove that NanoTherm therapy can fulfill the desired outcome in the focal treatment of prostate cancer, avoiding surgery and other treatments with well-known side effects. We are still confident to achieve our original targets in terms of market entry and commercialization of NanoTherm therapy in the US.

Through "Regional Expansion with a Defined Strategy", in 2016 we are continuing to successfully establish our technology for the benefit of patients in both Europe and the U.S.

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A Year of Regional Expansion with a Defined Strategy

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NanoTherm Therapy

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.

#1 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 with a syringe directly into tumor tissue. Due to this special coating, the particles aggregate in the tumor directly after injection and stay where they are injected. This enables the repetition of the therapy at a later time if needed.

#2 NanoPlan

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. The calculations within NanoPlan simulation consider the tumor size, the distribution of the nanoparticles and the location of the nanoparticles and the location of the tumor.

#3 Nano Activator

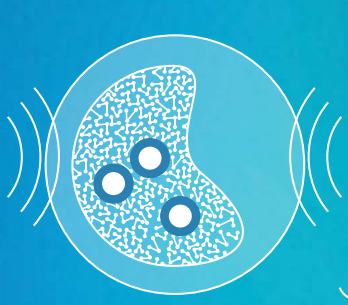
NanoTherm therapy is performed in an alternating magnetic field applicator (NanoActivator). The strength of the magnetic-field can be adjusted up to 18 kA/m. This magnetic field induces the oscillation of the iron oxide nanoparticles (NanoTherm) and thereby generate heat, reaching therapeutic treatment temperatures within the tumor. According to the temperature reached the heat either destroys the tumor cell directly (thermoablation) or sensitize them to any concomitant therapy e.g. radio- or chemotherapy.

Mode of Action

NanoTherm Therapy

1.

NanoTherm ferrofluid is injected directly into the tumor.



2.

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).

3.

With this treatment a majority of the cancer cells are destroyed.

Highlights 2016

#April

MagForce AG Announces Initiation of Commercial NanoTherm Treatments

for Brain Cancer at Vivantes Friedrichshain in collaboration with Charité – Universitätsmedizin Berlin. Vivantes Friedrichshain, Department of Neurosurgery has initiated to offer NanoTherm therapy to commercial patients in Berlin in conjunction with their excellent working relationship with the Clinic for Radiation Therapy of the Charité – Universitätsmedizin Berlin, Clinic for Radiation Therapy. This cooperation between the Charité and Vivantes will provide the opportunity for patients from outside Germany to obtain this NanoTherm therapy in Berlin, which is strategically close to Eastern European countries.

#May

MagForce AG Supports Brain Cancer Patient Event

of University Hospital Münster in the Run-up to World Brain Tumor Day 2016. MagForce was participating in the event for brain cancer patients and their relatives which was hosted by the Brain Tumor Center of University Hospital Münster. Purpose of the event was to inform the persons cocerned about the important and supporting concomitant therapies like art- an sports therapy to psycho-oncologically support the patients as well as about treatment options for brain cancer.

98.8%

of the Annual General Meeting approved the proposed agenda items

#June

MagForce AG Supports World Brain Tumor Day 2016

and Attends 67th Annual Meeting of the German Society of Neurosurgery. MagForce was represented with a booth at the 67th Annual Meeting of the German Society of Neurosurgery (Deutsche Gesellschaft für Neurochirurgie, DGNC) one of the biggest conferences for the neuro-surgical community in Germany and dedicated to large-scale scientific exchange with neurosurgery key opinion leaders. With its presence MagForce has the opportunity to further popularize its NanoTherm therapy for the treatment of glioblastoma and other brain tumors.

#August

MagForce AG Announces Positive Results

of 2016 Annual General Meeting. The Annual General Meeting approved all agenda items with a clear majority in excess of 98.8 percent. The CEO and Chairman of the Management Board, Dr. Ben J. Lipps, reported on the current operational developments and provided an overview of the 2015 fiscal year, as well as an outlook for the 2016 financial year. Subsequently, he gave an update on the status of the strategic plan.

#September

MagForce AG Attends EANS 2016

from September 4–8 in Athens, Greece; Abstract Won Prestigious "EANS 2016 Best Abstract Award". MagForce AG was represented by a booth in the 16th European Congress of Neurosurgery, EANS 2016, held by the European Association of Neurosurgical Societies in Athens, Greece. Moreover, the team of Prof. Dr. Walter Stummer, Director of the Department of Neurosurgery at the University Hospital Münster, had an oral presentation reporting on experiences with the NanoTherm Therapy. This abstract won the prestigious "EANS 2016 Best Abstract Award".

#September

MagForce AG Presented Its NanoTherm Therapy

for the Treatment of Brain Tumors at 36th ESSO Congress in Krakow, Poland. MagForce AG attended the 36th ESSO Congress, held by the European Society of Surgical Oncology from September 14–16, 2016, in Krakow, Poland. MagForce was presenting its NanoTherm therapy for the treatment of glioblastoma and other brain tumors.

36th

MagForce AG attended the 36th ESSO Congress, held by the European Society of Surgical Oncology

NOA

The NOA is a working group which coordinates interdisciplinary cooperation in the area of neuro-oncology as well as the development and realization of clinical studies

#December

MagForce AG Supports NOA Winter School 2016

from December 1–2 in Münster, Germany and Presented Data at SNO Annual Meeting 2016 in Arizona, USA. MagForce AG supported the NOA Winter School 2016, held by the Neuro-Oncology Working Group (Neuroonkologische Arbeitsgemeinschaft, NOA) as one of the main sponsors. The Team of Prof. Dr. Walter Stummer, Director of the Department of Neurosurgery, University of Münster, introduced a nano particles application technique in a presentation titled "Local Hyperthermia as an adjuvant for malignant glioma". Furthermore, Dr. Dr. med. Grauer, Associate Professor and Deputy Head of Neuro-Oncology Center at University Hospital Münster presented in a poster presentation at the 21st Annual Meeting and Education Day of the Society for Neuro-Oncology (SNO) in Arizona, USA. Data on the "Inflammatory response after modified NanoTherm and radiotherapy of recurrent glioblastoma" indicated strong immune-stimulating potential in addition to tumor ablation.

SNO

The SNO is a multidisciplinary organization dedicated to promoting advances in neurooncology through research and education

Highlights 2017

#January

MagForce AG Presented Its NanoTherm Therapy

for the Treatment of Brain Tumors at ECCO2017 from January 27–30, 2017 in Amsterdam. MagForce AG was represented by a booth in the ECCO2017 Congress, the European Cancer Congress held by the European CanCer Organisation (ECCO) from January 27–30, 2017, in Amsterdam, The Netherlands, presenting its NanoTherm therapy for the treatment of glioblastoma and other brain tumors.

#April

MagForce AG hosts Symposium for Focal Therapy

in Glioblastoma at WFNOS 2017 Meeting. MagForce AG hosted a Scientific Symposium titled "Focal Therapy in Glioblastoma – Current Status / What's New?" at the 5th Quadrennial Meeting of the World Federation of Neuro-Oncology Societies (WFNOS). Sponsored by the European Association of Neuro-Oncology (EANO), the WFNOS was held from May 4–7, 2017, in Zurich, Switzerland. The one hour lunch symposium featured three keynote speeches: besides an introduction of the current state of the art for glioma treatment by Prof. Weller, Prof. Michael Vogelbaum, MD / PhD / FAANS, Chair for Neuro-Oncology and Neurosurgery, Cleveland Clinic will present a latest update on focal therapy in gliomas and Prof. Walter Stummer, MD, Director of the Department of Neurosurgery at the University Hospital Münster, will talk about new aspects of thermotherapy in brain tumors.

#May

MagForce AG reported Highlights of Symposium for Focal Therapy

in Glioblastoma at WFNOS 2017 Meeting. MagForce AG hosted a very successful Scientific Symposium titled "Focal Therapy in Glioblastoma – Current Status / What's New?" on May 6 during the 5th Quadrennial Meeting of the World Federation of Neuro-Oncology Societies (WFNOS). The one-hour lunch symposium that featured three key note speeches saw record number of 300 attendees as well as a high and increasing international interest by a number of clinics and first-class neurosurgeons from other European countries for the Company's NanoTherm therapy which is especially valuable to MagForce, since the Company continues to expand its commercialization to additional European sites in order to allow patient treatment with NanoTherm therapy in their home countries.

300

attendees at MagForce's WFNOS 2017 lunch symposium

World Federation of Neuro-Oncology Societies

#Patient'sStory

My name is Mateusz Dobrowolski, I am 28 years old.

Mateusz Doborowski's world was turned upside down when he was diagnosed with brain tumor in March 2013 at the age of 24. Mateusz had just recently completed his full-time studies at the Gdańsk University of Technology. This supposedly healthy young man who was always leading an active lifestyle playing football in an amateur league was hospitalized following a series of severe headaches shortly after returning to his hometown, Starogard Gdański, a small town in northwestern Poland.

After undergoing a number of diagnostic tests at the hospital, including computer tomography, the cause of the severe headaches soon became clear.

Confronted with a devastating diagnosis: brain tumor

The diagnosis was devastating: the doctors suspected a glioblastoma, a high grade brain tumor and the most common primary brain tumor in adults.

Mateusz was given 8 months to live. Right away, the family made the decision that he would undergo surgery, followed by radio- and chemotherapy, which is the standard procedure for the treatment of glioblastoma. Thankfully, the operation did not damage any vital functions; however the large tumor in Mateusz's right frontal lobe could not be fully removed. The histopathological result confirmed that the tumor was

#I had a headache for a week but took a pill and it went away. But then from one day to another my headache was getting worse and worse. Later, at the end of the week, I could not sleep at night because of it, the headache was so bad. My girlfriend got upset, insisting that we must go to the hospital, and that's it. Who knows, if she had not said that we were going to the hospital, would I still be sitting here? Maybe not anymore."

indeed a glioblastoma multiform IV, the highest grade for an astrocytoma, indicating it grows aggressively and spreads the fastest, invading surrounding tissues and spreading out irregularly in all directions. Mateusz completed the standard treatment in December 2013 and all follow-up MRIs (Magnetic Resonance Imaging) including July 2015 showed that the remaining tumor seemed to be shrinking.

Remission and regression

Fortunately for Mateusz, the therapy seemed to have a lasting effect on the tumor and for 2.5 years after the initial diagnosis he was able to live pain and symptom free. Then, in December 2015, the MRI performed during a regular checkup showed a recurrence of the tumor. Mateusz decided to travel to Warsaw to consult a renowned neurosurgeon, who advised that another surgery would be required and recommended to remove additional brain tissue. This is a common procedure in the treatment of brain tumors as often – even following very successful surgeries – residual microscopic tumor cells remain and usually regrow in direct vicinity of the original resection cavity.

#Recurrence was detected after more than two and a half years. Only after such a long time! I even visited a neuro-surgeon in Warsaw who said: "well, it should be cut out, and it can be cut out with some additional amount." When I heard, they could cut out a part of the brain with some additional amount, I got slightly scared. What additional amount? They will cut out my brain? It sounded weak to me, because the same thing again? And then all-around every two years I should allow myself to be cut and eat chemo which devastates your body terribly?"

Not giving up

Mateusz's family went through the enormous fear, concern, terror and helplessness in the wake of the first diagnosis in 2013. They had made it their mission to find out as much as possible about glioma and treatment options. It was during this research that they first came across NanoTherm therapy, a minimally invasiv method which was based on the concept of treating tumors with heat but which at that time was still in its early stages.

With this newly detected recurrence and not believing in simply going through the same treatment again – the removal of additional brain tissue – and the resulting risks and uncertainties, the family turned back to their research and once again came across NanoTherm therapy, which was now commercially available in Germany.

NanoTherm treatment – a novel solution to fighting the disease

The family then traveled to Berlin, the closest available treatment center to their hometown in Poland. Luckily, the tumor location allowed a surgery to remove the tumor regrowth and instill magnetic nanoparticles directly into the remaining parts.

Mateusz underwent another round of chemo- and radiotherapy; this time in combination with NanoTherm therapy. He was placed in the NanoActivator for six sessions; one hour at a time.

With NanoTherm therapy, superparamagnetic iron oxide nanoparticles are instilled into a tumor and heated up by an alternating magnetic field, generated by the NanoActivator. The heat either destroys the tumor cells or sensitizes them for additional therapies such as radiotherapy and / or chemotherapy. Thus, their efficacy is improved.

Today, more than 4 years after initial diagnosis, Mateusz is doing well. In June 2017, he again visited Berlin. His latest check ups results with his neuro-oncology specialists revealed no traces of new tumor growth. And, although he remains on guard for any signs of the cancer returning, Mateusz lives a healthy life. On this occasion, he also met with the MagForce team and updated us on his well-being. We will publish the complete interview on our website, shortly. Please visit www.magforce.com.

 # I am enormously lucky in this misfortune because from the beginning until now I have close people around me. My family has been supporting me all this time even though we had hard times in the past. There is hope, because without this hope, well … it is not worthwhile to live. All this time I had hope and I still hope I will get out of this."

#Letter to the Shareholders

Dr. Ben J. Lipps
Chairman & Chief Executive Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Christian von Volkmann
Chief Financial Officer

Dear MagForce Shareholders,

During 2016 and in the first half of 2017 MagForce has successfully moved forward on both of our defined paths:

Path 1: Treatment of brain cancer in Europe
Path 2: Treatment of intermediate risk prostate cancer in the USA

Treatment of brain cancer in Europe

MagForce AG is continuing to expand the commercialization of its innovative NanoTherm therapy for the treatment of brain cancer in Europe. In their quest to improve patient care, the neurosurgeons applying NanoTherm therapy to the treatment of brain tumors, continue to find additional medical benefits when NanoTherm therapy is incorporated into their primary treatment regimen.

MagForce presented at many renowned conferences and congresses, which increases the awareness of our unique therapy within the main target groups, such as patient advocacy groups, patients, their relatives, caregivers, and the medical community. We increasingly receive positive feedback from patients regarding their experiences with our NanoTherm therapy – about one of these examples you can also read on page 14.

During 2016, we have streamlined the implementation of the cross-border reimbursement process, however, due to the aggressiveness of glioblastoma, there is a limited time interval to achieve treatment. In order to give patients the benefit from our NanoTherm treatment, we continue to increase the medical awareness of the value of NanoTherm therapy to encourage patients and neurosurgeons to consider NanoTherm therapy earlier following the diagnosis of their tumor status. At the same time, we are in the process of obtaining domestic reimbursement for NanoTherm therapy in Germany.

Treatment of intermediate risk prostate cancer in the USA

MagForce USA, Inc. had filed an Investigational Device Exemption (IDE) with the USA Food and Drug Administration (FDA) for NanoTherm therapy to treat Intermediate Risk Prostate Cancer. During 2016, MagForce USA repeated and updated the pre-clinical studies (originally conducted in Germany about 10 years ago) with its clinical NanoActivator installed at University of Washington 2015.

The results of these pre-clinical studies and the proposed clinical trial protocol were submitted to the FDA in late fourth quarter, 2016. An in-person follow-up meeting with FDA representatives was held in early January, 2017 to discuss MagForce's submissions and identify required clarification. This meeting was again very productive and MagForce believes we can successfully address their questions.

We plan another in-person meeting with the FDA in the near future to determine if our proposed approach to address their requests is accepted.

The key to achieving our goals is to continue to establish our clinical treatment sites and obtain the necessary administrative approvals. We have completed the installation of the NanoActivator at our second site located at CHRISTUS Santa Rosa Hospital – Medical Center in San Antonio, Texas.

While we are now approximately six months behind our schedule, we are still confident and will make every effort to achieve our original targets in terms of market entry and commercialization of NanoTherm therapy in the USA – which is projected for 2018.

Financing

As mentioned in the past, MagForce's management was pursuing several financing options to reach our expansion goals.

On June 28, 2017 MagForce AG resolved and successfully implemented a capital increase from authorized capital. The Company's share capital will therefore be increased from EUR 25,622,711.00 to EUR 26,343,172.00 by issuing 720,461 new no-par-value shares at a price of EUR 6,94 per share by partially utilising existing authorized capital against cash

contributions. All new shares were subscribed by UK-based M&G International Investments Ltd. in a private placement. Gross proceeds for MagForce AG amount to EUR 5.0 million.

The cash inflow from the capital increase, which of course also boosts MagForce's equity base, is intended to be used for further growth and acceleration of our regional expansion, especially in Europe:

We have developed a European roll-out plan, anticipating treatment centers in selected European countries to allow patient treatment in their home countries. From this approach we expect advantages in the area of timely availability of NanoTherm therapy. Further, we are preparing reimbursement in selected countries in the EU where MagForce has the CE Mark for the treatment of brain tumors. Our commercial and medical teams have identified the respective countries and clinics which qualify as NanoTherm treatment centers.

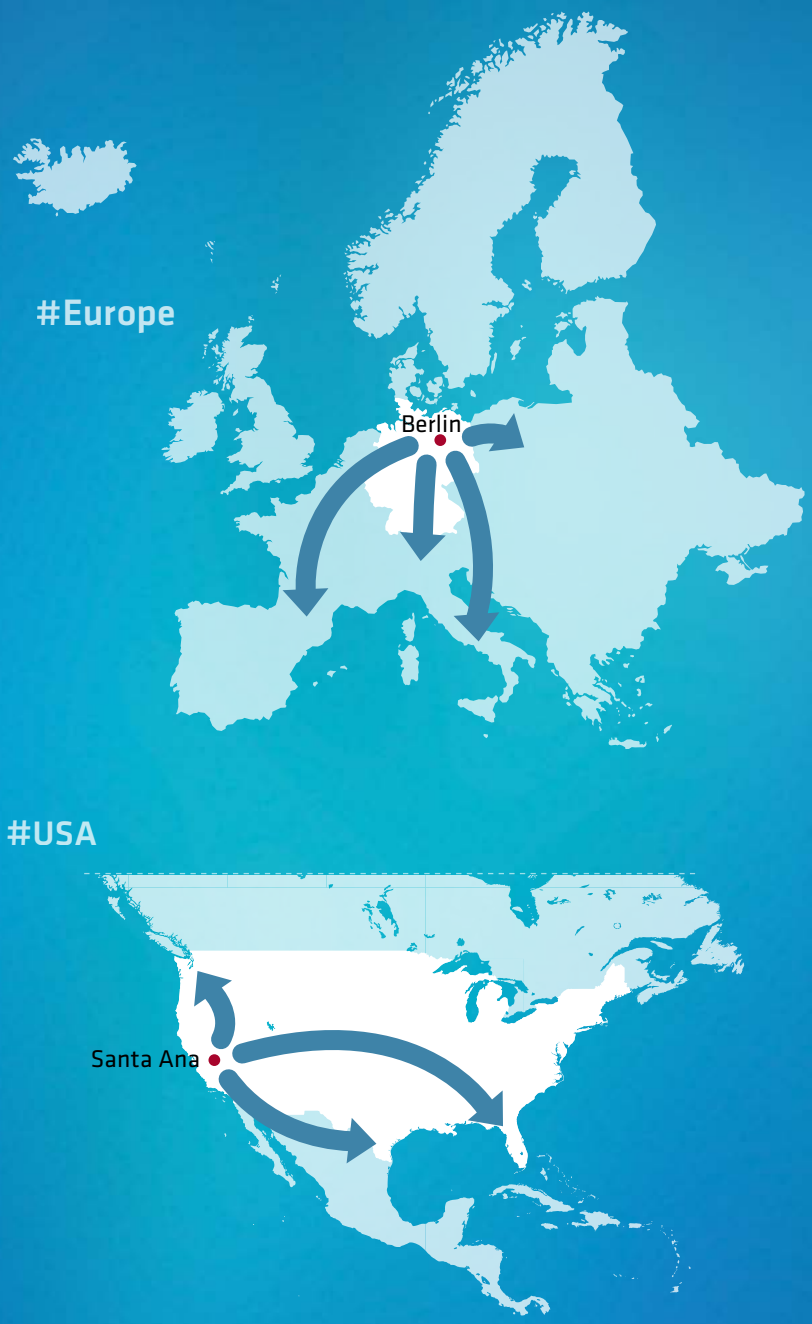
Based on the very gratifying medical results, management is confident that the European expansion starting in 2017, when combined with reimbursement approval in these countries, will significantly speed up revenue and profit generation in Europe.

Dear Shareholders, we are very grateful for your continuous support of our efforts.

Sincerely,

Dr. Ben J. Lipps
Chief Executive Officer & Chairman of the Management Board

Regional Expansion



#Update Europe

Treatment of Brain Cancer in Europe

MagForce AG is continuing to expand the commercialization of its innovative NanoTherm therapy. During the initial phase of executing our strategy we successfully installed NanoActivators in Germany. In May 2016, we were delighted to announce that also Vivantes Clinic for Neurosurgery at Friedrichshain, Berlin, Germany, is now offering commercial NanoTherm therapy treatments for brain tumors. Neurosurgeons and radiologists became familiar with our NanoTherm therapy and its applicability.

Awareness of MagForce's Unique NanoTherm Therapy Significantly Increasing and Driving Commercialization

During 2016 MagForce presented at several internationally renowned medical conferences and congresses, including those of the German Society of Neurosurgery (DGNC), in Frankfurt, Germany, the Neurological Societies (EANS) in Athens, Greece, the European Society of Surgical Oncology (ESSO) in Krakow, Poland, the 13th AIO Autumn Convention, in Berlin, Germany, the Society of Neurooncology (SNO) in Scottsdale, USA and the NOA Winter School 2016, in Münster, Germany. Participation in these conferences and congresses increases the awareness of our unique therapy within the main target groups, such as patient advocacy groups, patients, their relatives, caregivers, and the medical community.

In their quest to improve patient care, the neurosurgeons applying NanoTherm therapy to the treatment of brain tumors continue to find additional medical benefits when NanoTherm therapy is incorporated into their usual treatment regimen. Such a positive finding for example was described in our press release as of December 2, 2016.

We increasingly receive positive feedback also from patients regarding their experiences with our NanoTherm therapy. These examples, one of which we are showing in a video on our website and in this report on page 14, are an important driver for the commercialization of our innovative therapy.

European Roll-Out Plan Offers Advantages in Reimbursement and Timely Availability of Therapy

MagForce plans to install NanoActivators and register NanoTherm therapy for reimbursement in Germany and five other EU countries until 2021 – in order to provide the step to a recognized medical therapy procedure supported by insurance payors.

In order to give more patients the benefit from our NanoTherm treatment, we will continue to increase the medical awareness of the value of NanoTherm therapy to encourage patients and neurosurgeons to consider NanoTherm therapy earlier following the diagnosis of their tumor status. For this purpose, we have expanded the MagForce Commercial Patient Program with the recruitment of an experienced commercial development team with the primary focus on Germany but also countries near Germany.

Together we have developed a European roll-out plan, anticipating treatment centers in selected European countries to allow patient treatment in their home countries. From this approach we expect advantages in the areas of reimbursement and timely availability of NanoTherm therapy as there is a limited time interval to achieve treatment due to the aggressiveness of glioblastoma. At the same time, we are in the process of obtaining domestic reimbursement for NanoTherm therapy in Germany and, as NanoTherm therapy

has the CE Mark for the treatment of brain tumors, we are preparing the same for selected countries in the EU. Our commercial and medical teams have identified the respective countries and clinics which qualify as NanoTherm treatment centers.

In the expansion of our commercialization efforts to additional European sites it is particularly encouraging that our Scientific Symposium titled "Focal Therapy in Glioblastoma – Current Status / What's New?" on May 6 during the 5th Quadrennial Meeting of the World Federation of Neuro-Oncology Societies (WFNOS) saw record number of 300 attendees as well as a high and increasing international interest by a number of clinics and first-class neurosurgeons from various European countries for the Company's NanoTherm therapy.

Based on the very gratifying medical results and increasing awareness of our approach, management is confident that the European expansion starting in 2017, when combined with reimbursement approval in these countries, will provide access to our valuable therapy for many more patients that need alternative solutions for this devastating disease and significantly speed up revenue and profit generation in Europe.

#Update USA

Focal Treatment of Intermediate Risk Prostate Cancer in the USA

MagForce USA, Inc. in 2015, filed an Investigational Device Exemption (IDE) with the USA Food and Drug Administration (FDA) for NanoTherm therapy to treat Intermediate Risk Prostate Cancer. Our objective with this early filing was to obtain FDA guidance as to their required pre-clinical studies to allow a pivotal clinical evaluation with our innovative and novel NanoTherm therapy.

During 2016, MagForce USA repeated and updated its pre-clinical studies, which were previously conducted in Germany approximately ten years ago, at the recommendation of the FDA. MagForce USA repeated all of the previous biocompatibility studies designed to assess the toxicity and possible migration of MagForce's nanoparticles once instilled into the prostate. These studies again confirmed the lack of toxicity and lack of migration of the nanoparticles

The results of these pre-clinical studies and the proposed clinical trial protocol were submitted to the FDA in late fourth quarter, 2016. An in-person follow-up meeting with FDA representatives was held in early January, 2017 to discuss MagForce's submissions and identify required clarification. This meeting was again very productive and MagForce believes we successfully addressed their questions. Until then we are in close contact with the FDA to finalize all further requirements.

We are still confident and will make every effort to achieve our original targets in terms of market entry and commercialization of NanoTherm therapy in the USA – which is projected for 2018. The key to achieving our goals is to continue to establish our clinical treatment sites and obtain the necessary approvals to treat patients.

During 2015, we successfully installed the first clinical NanoActivator in the USA in Seattle, Washington, near the University of Washington Medical Center. It is operational and will be utilized in the Focal Thermal Ablation Registration Study for Prostate Cancer for which, the Company has filed the IDE and was used in pre-clinical studies. We are delighted that we have now, in addition to our lead site in Seattle, identified a second planned site to exclusively participate in the pivotal clinical studies.

The second site is located at CHRISTUS Santa Rosa Hospital – Medical Center in San Antonio, Texas. Ian M. Thompson Jr., MD, our Co-Principle Investigator, has been newly appointed as President of CHRISTUS Santa Rosa Hospital – Medical Center among his many responsibilities. This clinical site will encompass both a clinical office and the NanoActivator treatment center.

CHRISTUS Santa Rosa Health is an international Catholic, faith-based, not-for-profit health system, and comprised of over 500 services and facilities, including more than 50 hospitals and long-term facilities and 275 clinics and outpatient centers and thus an ideal partner for MagForce.

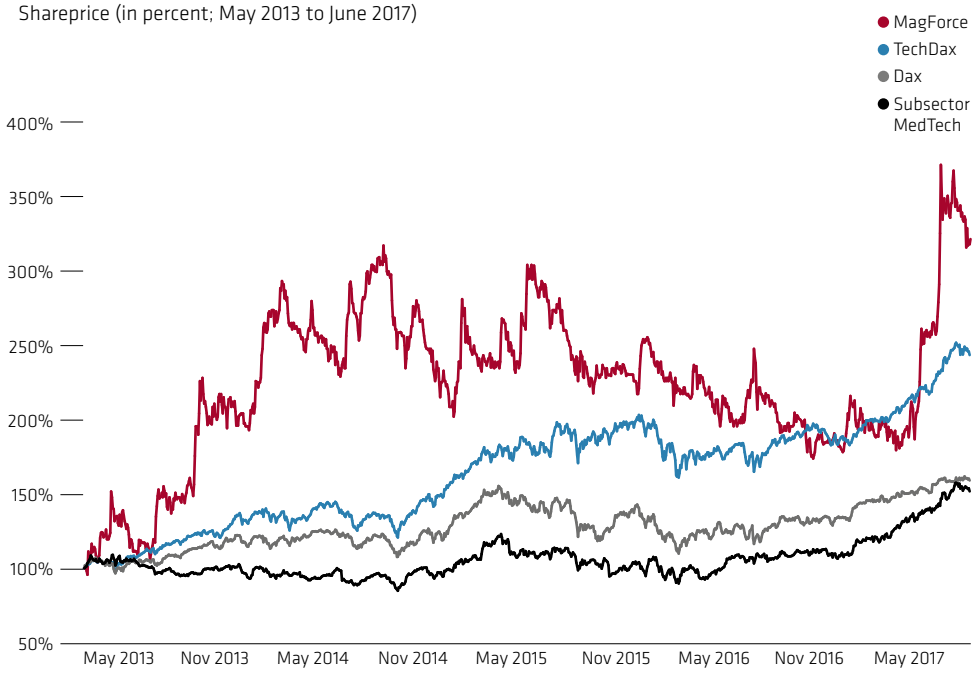
During 2016, MagForce AG and MagForce USA, Inc. started the development of the ambulatory NanoActivator device for focal prostate cancer treatment.

Investor Relations

MagForce's Shares

On December 30, 2016, MagForce shares (MF6.DE) closed at EUR 4.55. The share price high was at EUR 5.70 and the low was at EUR 3.75 during the fiscal year. The Company's market capitalization at the end of the reporting period amounted to EUR 116.56 million, down from from EUR 135.80 million at the beginning of the year, and increased significantly to EUR 197.30 million on June 15, 2017, prior to the publication of this report. The average daily trading volume of MagForce's shares on XETRA in 2016 was 15,642 shares.

MagForce Share Price Development



Key Facts MagForce Share

Number of shares issued at the beginning of the period	25,622,711
Number of shares issued at the end of the period	25,622,711
Free float	70%
18-month high (XETRA) in EUR	8.90
18-month low (XETRA) in EUR	3.75
Price at the beginning of the period (XETRA) in EUR	5.30
Price at the end of the period (XETRA) in EUR	4.55
Price at June 15, 2017 (XETRA) in EUR	7.70
Market capitalization at the beginning of the period (EUR millions)	135.80
Market capitalization at the end of the period (EUR millions)	116.56
Market capitalization at June 15, 2017 (EUR millions)	197.30
Average daily trading volume during the period (XETRA)	15,642
Average daily trading volume until June 15, 2017 (XETRA)	22,763

Transparent Communication for a Fair Valuation

As in the past, the Company continues to work on increasing the awareness for its shares in the financial community and sets great store on a regular dialog with its shareholders. The goal is to communicate the Company's strategy and development reliably and transparently to gain investor confidence in MagForce and achieve a fair valuation of our shares, which, since March 2017 are listed in the new "Scale" segment for small and medium-sized enterprises (SMEs) of Deutsche Börse. Scale has replaced the Entry Standard for equities and corporate bonds in which the MagForce share has been included previously.

Outside of the Annual General Meeting, in 2016 management presented at various renowned investor conferences in Europe and in the US. During those events and in the course of the international road shows, MagForce handled numerous one-on-one meetings with international existing and potential new shareholders.

In the first half of 2017, MagForce has presented at: 8. DVFA Frühjahrskonferenz 2017 in Frankfurt, Germany, Goldman Sachs European Small & Mid-Cap Symposium in London, United Kingdom, Berenberg European Conference USA 2017 in Tarrytown, USA and Deutsche Bank 20th Annual dbAccess German, Swiss & Austrian Conference in Berlin, Germany.

During the second half of 2017, MagForce will present at: Berenberg & Goldman Sachs European Medtech & Healthcare Services Conference 2016 in London; Berenberg and Goldman Sachs Fifth Annual German Corporate Conference in Munich; and at the German Equity Forum in Frankfurt.

Shareholders have been informed about current developments via the letters to shareholders, and research coverage updates on MagForce were published.

Research Coverage

Research House	last update	Price target in EUR
GBC Investment Research	March 2017	13.90
Edison Investment Research	May 2017	8.80
Hauck & Aufhäuser	October 2016	14.90
Berenberg	July 2016	8.40

Directors' Dealings

During the course of the year 2016 MagForce CEO Ben J. Lipps increased his holding in MagForce through the acquisition of additional shares at a total volume of EUR 237,112, at six different occasions, stating his trust in the Company and its future growth. After period end, Mr. Lipps further invested EUR 118,064.

Laying the Groundwork for Future Development

MagForce's management is pursuing financing options to reach our European expansion goals. In addition, in order to bolster liquidity and facilitate new product development beyond 2017, we have issued a three-year convertible note. Product development includes laying the groundwork for expanding MagForce's therapy to additional tumors, like brain metastasis, and to also use our nanoparticles as a drug delivery mechanism. The note is in the amount of EUR 5 million, will bear an interest rate at 5 percent p.a. and have a conversion price at EUR 5.00 / share. The note has been issued to an investment vehicle managed by Lansdowne Partners Austria.

Further, on June 28, 2017 MagForce resolved and successfully implemented a capital increase from authorized capital. The Company's share capital will therefore be increased from EUR 25,622,711.00 to EUR 26,343,172.00 by issuing 720,461 new no-par-value shares at a price of EUR 6.94 per share by partially utilising existing authorised capital against cash contributions. All new shares were subscribed by UK-based M&G International Investments Ltd. in a private placement. Gross proceeds for MagForce AG amount to EUR 5.0 million. The additional capital will be mainly used to accelerate the on-going international expansion of MagForce, in particular in Europe.

Report of the Supervisory Board

The Supervisory Board was regularly informed of the progress of the business and the earnings of the Company during the financial year by written and oral reports.
The Supervisory Board constantly supervised management. In four meetings during the financial year 2016, all business transactions and upcoming decisions that require the approval of the Supervisory Board by law or the by-laws were discussed in detail. All members of the Supervisory Board attended all of these meetings.

The focus of these Supervisory Board meetings and the discussions were the securing the financial basis of the company, the operational and strategic restructuring and repositioning of the company and the accompanying package of measures. In detail the further commercialization of NanoTherm therapy and an accelerated roll out of therapy also to the USA was discussed. The development and financial plan were each quarter year subject of discussion by the Management Board and Supervisory Board.

At the meetings, among others, the following issues were discussed and the following resolutions were taken:
At the Supervisory Board meeting on April 8, 2016, the update on the development of the operational business of the Company and of MagForce USA Inc., the clinical and financial sector, as well as the provisional budget and cash flow for the financial year 2016, were discussed. The budget for 2016 was adopted and a forecast for the 2017 financial year was presented.
In the Supervisory Board call of June 9, 2016, the Supervisory Board were provided with a concrete overview of the financial statements for the year 2015, including the audit report and the audit opinion.
In the resolution adopted by the Supervisory Board on June 29, 2016, the Company's annual financial statements were approved as of December 31, 2015 and thus adopted.

At the meeting of the Supervisory Board on December 9, 2016, the current business situation for the financial year 2016, the negotiation stage for a financing loan, and the medical focus in the following year were discussed.

The Chairman of the Supervisory Board was in constant contact with the members of the Management Board. Topics such as corporate strategy, business development, patents and important events to the Company were discussed.

Furthermore, the Supervisory Board discussed key strategic projects with the Management Board. Subject were as in previous years ensuring ongoing competitiveness of the Company and concepts for future growth.

The annual financial statements as of December 31, 2016 and the management report for the financial year 2016 prepared by the Management Board as well as the accounts have been audited by the appointed auditor Ernst & Young GmbH, Berlin and were issued with an unqualified audit opinion.

The Supervisory Board thoroughly examined the annual financial statements and the management report of the Management Board. The auditor took part in the discussion of the annual financial statements on June 30, 2017 and was available for additional information. The documents to be examined and the audit reports of the auditors were provided to each Supervisory Board member in a timely manner.

The Supervisory Board has used its right to inspect the books and records of the Company, in particular by inspection of significant individual contracts, regardless of their need for consent. Transactions that require the approval of the Supervisory Board, whether by law or the by-laws, were examined by the Supervisory Board and resolutions were taken.

The reports of the auditors were noted and approved. The final results of our own examination fully concur with the findings of the audit. The Supervisory Board sees no reason to raise objections.

The Supervisory Board approved the annual financial statements prepared by the Management Board in the meeting held on June 30, 2017. The annual financial statements are thus adopted.
The Supervisory Board has not formed any committees.
The Supervisory Board thanks the Management Board and all employees for their great personal dedication and hard work in 2016 and 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 30, 2017
The Supervisory Board

Norbert Neef
Chairman of the Supervisory Board

Management Report

Business and Environment

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. In Germany, this innovative therapy is available to patients at the NanoTherm therapy centers. Additional therapy centers are planned in Europe.

MagForce USA Inc., with its place of Business in Nevada, USA, is a majority owned subsidiary of MagForce AG and was founded to develop NanoTherm therapy for treatment of brain tumors and prostate cancer in the USA and later on launch the NanoTherm therapy in the American market.

Macroeconomic situation

According to the 2016 / 2017 annual report of the German Council of Economic Experts on the assessment of overall economic development, there was also in 2016 a slight expansion of global economic condition. However, this slight economic growth is subject of many risks and political uncertainties such as the Brexit Vote, turbulences at financial markets, and the difficult transformation process in China. A slight growth of the global economy is also expected for 2017. However, due to the monetary policy of all big central banks sustainability of the economic growth can be doubted. The gross domestic product growth rates of 1.6 percent in 2016 and the expected 1.4 percent for 2017, remain relatively stable for the eurozone. Due to the stop of the oil price reduction in 2016 the inflation rate is expected to rise from 0.2 percent in 2016 to 1.3 percent in 2017.

With a GDP growth rate of 1.9 percent the cyclical upturn of the German economy has been continued in 2016. The German Council of economic Experts expects for 2017 only a growth rate of 1.3 percent, which is due to the higher number of holidays in 2017. Basically, the upward tendency of the German economy remains for 2017 stable. The stimuli for the growth rate comes mainly from the private consumption and the private house building sector. This is accompanied with a very good condition of the labour market and higher actual wages. The growth rate of the German exports is not expected to rise much, due to the only slight expansion of the global economic condition.

Market and industry conditions

MagForce is active in the medical device sector and is currently focused on commercialization of its NanoTherm therapy for treatment of brain tumors in Europe and the development of NanoTherm therapy for the treatment of prostate cancer in the USA. The projected annual treatment costs for the public health sector and the working environment amount in these indications to EUR 15 billion for prostate cancer and EUR 2 billion for brain tumors. Due to the increase of cancer patients, these expenses are assumed to grow significantly in the coming years.

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. The glioblastoma is surgically incurable and largely resistant to radiation and chemotherapy.

Around 7,000 people are diagnosed with brain cancer in Germany each year; approximately 3,800 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. (IARC: GLOBOCAN 2012. Estimated Cancer Incidence, Mortality and Prevalence Worldwide)

Conventional treatments for newly diagnosed glioblastoma are still dominated by surgery accompanied by radiotherapy and temozolomide (e.g. Merck & Co.'s Temodar™ / Temodal™ and generics). Only a few drugs are approved or in late-stage development for glioblastoma, and in recent years numerous drugs have disappointed in Phase III clinical studies. In March 2016 a newly developed immunotherapy that showed great promises for the treatment of glioblastoma failed again. The future use of Bevacizumab (Roche / Genentech / Chugai, Avastin™), approved in the United States for treatment of glioblastoma, is shrouded in the United States and Europe due to uncertainty following the announcement of equivocal data of this drug in Phase III clinical trials. In contrast to that another medical device in addition to the temozolomide therapy used after a standardchemotherapy could improve the mean survival time, as it was shown in the published results in April 2017. This medical device is based on an alternating electrical field (Novocure, Optune™ / NovoTTF™ 100A) and could become an important part of conventional treatment for glioblastoma.

Despite the intensive standard treatment, after a few months the tumor often grows back. There is no standard therapy for the treatment of a grown back tumor. A new resection, accompanied with a repeating chemotherapy (Alkylanz, Bevacizumab) or radiotherapy or a therapy option within a clinical study is commonly prescribed. Currently a final healing is nearly impossible in this indication. The average survival time with glioblastoma is 15 months only. Glioblastoma is almost always terminal. The median five-year survival rate following combined radiation and temozolomide therapy is 9.8 percent. There is, therefore, a clear need for new therapies with different mechanisms of action.

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 26 percent the most common type of cancer affecting men. In Germany, around 63,400 new prostate cancer diagnoses are made each year; in the United States over 233,000; and over 400,000 cases in Europe. (IARC: GLOBOCAN 2012. Estimated Cancer Incidence, Mortality and Prevalence Worldwide)

MagForce AG is determined to develop and establish its technology as a new, focal treatment method for intermediate prostate cancer. MagForce AG plans to enter this market through its subsidiary MagForce USA, Inc. In the financial year 2015, the Company filed an Investigational Device Exemption (IDE) with the American regulatory authority Food and Drug Administration (FDA).

Prostate cancer focal 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 final 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 equal alternative to the interventional therapy for low-grade prostate tumors. Treatment does not start until a specified diagnostic biopsy value is exceeded or an enlargement of the prostate tumor is indicated by a manual examination. However, there are doubts to miss the timeframe for an appropriate treatment.

The main thought behind focal therapy of the prostate is that most of the metastases develop from a dominant concentration of cancerous cells in the prostate gland. If it is possible to identify this cancer concentration of cells, they can be destroyed using focal therapies, and the number of metastasizing prostate cancer cases, and thus the morbidity rate, can be reduced while the patient's quality of life is maintained. The development of a focal therapy for treatment of prostate cancer therefore offers tremendous potential.

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.

Development of the Company in the financial year

NanoActivator

At year end 2016 a total of six NanoActivator devices were installed at the University medical centers in Berlin, Kiel, Münster, Cologne, Frankfurt, and Göttingen. Four of these NanoActivator centers are also providing the NanoTherm treatment of brain tumors to commercial patients. In April 2016 Vivantes clinic Friedrichshain, Department of Neurosurgery has initiated Commercial NanoTherm Treatments for brain cancer in collaboration with Charité – Universitätsmedizin Berlin, Clinic for Radiation Therapy. This cooperation between the Charité and Vivantes will provide the opportunity for patients from outside Germany to obtain this NanoTherm Therapy in Berlin, which is strategically close to Eastern European countries.

In the USA additionaly to the clinical study site with a NanoActivator device at the University of Washington, Seattle, set up in 2015 a further clinical study site has been established in 2016 at Christus Santa Rosa Hospital – Medical Center in San Antonio, Texas. This clinical site will encompass both a clinical office and the NanoActivator treatment center.

Commercialization

During 2016, the Company further accelerated the implementation of a cross-border reimbursement process. The time frame for a treatment is very limited due to the aggressiveness of glioblastoma. In order to give patients the benefit from our NanoTherm treatment, MagForce is also working to increase the medical awareness of the value of NanoTherm therapy to encourage patients and neurosurgeons to consider the NanoTherm therapy earlier following the diagnosis of their tumor status.

Further, MagForce has developed a European roll-out plan, anticipating treatment centers in selected European countries to allow patients treatment in their home countries. From this approach the Company expects advantages in the areas of reimbursement and timely availability of NanoTherm therapy.

At the same time, the Company is in process of obtaining and broaden domestic reimbursement for the NanoTherm therapy in Germany and is preparing the same for those selected countries in the EU where MagForce has the CE Mark for the treatment of brain tumors.

On the basis of this pleasing medical findings, the Management is confident that the European expansion started in 2017, together with the refund of treatment costs in these particular countries, will accelerate the generation of revenues in Europe in the following years.

IDE submission

Following the filing of an Investigational Device Exemption (IDE) with the USA Food and Drug Administration (FDA) for NanoTherm therapy to treat Intermediate Risk Prostate Cancer in 2015 MagForce USA repeated and updated its pre-clinical studies throughout 2016 at the recommendation of the FDA. MagForce USA repeated all of the previous biocompatibility studies designed to assess the toxicity and possible migration of MagForce's nanoparticles once instilled into the prostate. These studies again confirmed the lack of toxicity and lack of migration of the nanoparticles.

The results of these pre-clinical studies and the proposed clinical trial protocol were submitted to the FDA in the late fourth quarter, 2016. In-person follow-up meetings with FDA representatives were held in early January, 2017 to discuss MagForce's submissions and identify required clarification. This meeting was again very productive and MagForce believes it can successfully address their questions and begin the clinical study in the second half-year 2017.

Results of Operations, Net Assets, and Financial Position

Results of operations

Net loss for the business year was EUR 7,231 thousand (prior year: EUR 1,547 thousand) while Non GAAP net loss with EUR 5,107 thousand remained almost stable in 2016 (prior year: EUR 5,050 thousand).

Revenue and other operating income amounted to EUR 1,581 thousand (prior year: EUR 7,702 thousand), while Non GAAP revenue and other operating income increased by EUR 136 thousand to EUR 1,581 thousand (prior year: EUR 1,445 thousand). The Non GAAP increase chiefly stems from higher recharges to subsidiaries. Revenue and other operating income were adjusted to arrive at Non-GAAP figures by the prior-year amounts resulting from the extension of the distribution and development rights for the countries Canada and Mexico in January 2015 amounting to EUR 3,033 thousand as well as by the sale of four NanoActivator devices to MagForce USA, Inc. in the amount of EUR 2,421 thousand and by the write-up of the loans of MT MedTech GmbH in the amount of EUR 803 thousand.

Compared to the prior year reporting period personnel expenses increased by EUR 262 thousand due to the increased average number of employees during the year 2016 (29; prior year: 23) as well as from higher bonus payments in 2016.

Other operating expenses increased to EUR 4,309 thousand (prior year: EUR 3,173 thousand), while Non GAAP operating expenses remains almost the same with EUR 6,918 thousand (prior year: EUR 6,824 thousand). Other operating expenses were adjusted for the impairment of the loans to MT MedTech GmbH in the amount of EUR 1,218 thousand (prior year: nil) to arrive at Non GAAP.

Non GAAP measures

Non GAAP financial measures are used by MagForce's Management to make operating decisions because they facilitate internal comparisons of MagForce's performance to historical results. The Non GAAP measures are presented in this year-end financial report as MagForce's Management believes that they will provide investors with means of evaluating, and an understanding of how MagForce's Management evaluates, MagForce's performance and results on a comparable basis that is not otherwise apparent on a German GAAP basis, since many non-recurring, infrequent or non-cash items that MagForce's

Management believes are not indicative of the core performance of the business may not be excluded when preparing financial measures under German GAAP.

These Non GAAP measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with German GAAP.

Non GAAP reconciliation

The following table is a reconciliation to arrive at Non GAAP measures:

in EUR thousand	**01/01/2016 –12/31/2016**	01/01/2015 –12/31/2015
German GAAP Net loss / Net gain	**-7,231**	**-1,547**
Revenue and other operating income adjustments:		
- Sale of NanoActivators to MagForce USA, Inc.	–	-2,421
- License extension of distribution and development rights	–	-3,033
- Write-up of MT MedTech GmbH loan	–	-803
Cost of Materials adjustment for NanoActivators sold in 2015	–	+2,298
Non-cash depreciation and amortization adjustments	+906	+456
Other operating expenses adjustments:		–
- Impairment loan to MT MedTech GmbH	+1,218	
Non GAAP Net loss	**-5,107**	**-5,050**

Net assets

In the reporting period, total assets decreased by EUR 4,580 thousand to EUR 20,278 thousand. On the asset side, the amount for tangible fixed assets decreased by EUR 787 thousand to EUR 3,706 thousand. Current assets decreased by EUR 2,986 thousand to EUR 691 thousand. The decrease is due to short term loans that were fully repaid by lenders and accordingly decreased by EUR 3,102 thousand to EUR nil, whilst intercompany receivables were slightly increased to EUR 346 thousand (prior year: EUR 148 thousand). Cash and cash equivalents as of December 31, 2016 amounted to EUR 614 thousand (prior year: EUR 1,393 thousand).

On the liabilities side, the net accumulated deficit increased by EUR 7,231 thousand to EUR 48,957 thousand, whereas the Company's suscribed capital and the capital reserves remained unchanged. During the reporting period accrued liabilities increased by EUR 186 thousand to EUR 1,256 thousand. Liabilities increased by EUR 2,556 thousand to EUR 3,215 thousand compared to the end of the financial year 2015, mainly due to intercompany loans from MagForce USA, Inc. in the amount of USD 3,000 thousand.

Financial position

Net loss of the Company for the year amounted to EUR 7,231 thousand (prior year: EUR 1,547 thousand). Cash outflows from operating activities amounted to EUR -6,575 thousand (prior year: EUR -5,185 thousand). Cash inflows from investing activities amounted to EUR 3,073 thousand (prior year: Cash outflow of EUR -2,575 thousand), and cash flows from financing activities amounted to EUR 2,723 (prior year: EUR nil). Cash and cash equivalents amounted to EUR 614 thousand at the end of the year (December 31, 2015: EUR 1,393 thousand).

Net cash used in operating activities was indirectly derived from the net loss for the reporting period. The cash outflows largely relate to financing of the operating business.

Cash inflows for the year 2016 are largely due to repayments of short term loans in the amount of EUR 3,000 thousand and liquidity allocationfs from MagForce USA, Inc. in the amount of USD 3,000 thousand.

MagForce AG could meet all its payment obligations at any time during the reporting period.

Financial position of the Company after the end of period

In order to improve the liquidity and to ensure the development of new products beyond 2017, the Company issued on March 2, 2017 a convertible bond of EUR 5,000 thousand with a maturity of three years, an interest rate of 5 percent p.a., and a conversion price at EUR 5.00 per share.

Furthermore, the Company was granted a loan of EUR 400 thousand by Lipps & Associates LLC with a contract dated February 1, 2017. The loan is due on June 30, 2019 and bears interest at 5 percent. Additional loans with a total of USD 3,000 thousand have been granted to MagForce AG as of June 26, 2017. These new loans are charged with 4 percent interest and are due on June 30, 2019 as well. These loans are designed to accelerate the planned expansion strategy for NanoTherm therapy in the indication brain tumor in Europe accompanied with a clinical trial to ensure refund of treatment expenses in selected European countries.

On June 28, 2017, the Management Board of MagForce AG decided, with the consent of the Supervisory Board from June 28, 2017 and making use of the authorized capital 2015/I, to increase the Company's share capital from EUR 25,622,711.00 by EUR 720,461.00 to EUR 26,343,172.00 by issuing up to 720,461 no-par value bearer shares with an amount of

EUR 1.00 on the subscribed capital. The issue price amounted to EUR 6.94. The Annual General Meeting of August 18, 2015 excluded the subscription right of shareholders. Gross proceeds of this transaction amounted to EUR 5.0 million. The registration in the commercial register is outstanding at the time of the annual reports' preparation date. The registration in the commercial register took place on June 30, 2017.

Comparison of results of operations, net assets, and financial position with prior year forecast

Sales revenues for NanoTherm therapy increased slightly. However, the Company's revenues for the commercial treatment of patients increased less than planned. The reason for this is on the one hand the long refund process for each individual case and on the other hand the ongoing negotiations with health insurers. Operating costs remained at the same level as in the previous year and could not be significantly reduced. Therefore, the net loss for the year has not been reduced as planned but increased.

Summary of the results of operations, net assets, and financial position

The Company started with the commercialization in the prior year and furthermore achieved other important targets, such as the implementation of a commercial department accompanied with an increase of patient inquiries, increase of patients awareness for foreigners due to the availability of patient information in the Internet in 9 different languages, and the development of a prototype of an ambulatory NanoActivator device for the treatment of prostate cancer. However, in the reporting period 2016, the Company achieved less sales from the commercial treatment of patients than planned. The measures taken by the Company to increase the number of commercial patients have had only slight effects so far. In 2017 additional measures are planned to speed up the process of commercialization. The planned expansion to further EU states will start in 2017 and the first results are expected in 2018. Furthermore the Management is confident to increase the number of private paying patients.

In the indication of prostate cancer, the next milestone, the approval of the clinical study in the USA is expected for 2017.

The Company plans to develop the NanoTherm therapy in other oncological indications as well, thereby exploiting the potential of its technology.

Currently the Company regulates its operational business through the result for the period and the operating cash outflow in the particular areas of operation.

Research and Development

Clinical development in the indications glioblastoma and prostate cancer

The clinical trial MF 1001 for the treatment of recurrent glioblastoma was closed at the end of 2016.

In the financial year 2016, the US subsidiary MagForce USA, Inc. updated and revised the necessary preclinical studies based on the recommendation of the FDA, after filing in 2015 an Investigational Device Exemption (IDE) for approval of the clinical trial with the NanoTherm therapy for treatment of prostate cancer. MagForce USA, Inc. repeated all of the previous biocompatibility studies designed to assess the toxicity and possible migration of MagForce's nanoparticles once instilled into the prostate. These studies confirmed again the lack of toxicity and lack of migration of the nanoparticles. The results of these pre-clinical studies and the proposed clinical trial protocol were submitted to the FDA in late fourth quarter, 2016. In-person follow-up meetings with FDA representatives were held in early January, 2017 to discuss submitted materials by MagForce and to answer further questions. These meetings were very productive. MagForce assumes it could successfully address their questions and to begin the study in the second half-year 2017.

Patent and brand applications

Intellectual property protection of MagForce AG's NanoTherm and NanoPlan is secured by internally won know-how and a broadly based Patent portfolio that includes 12 patent groups and approximately 153 single patents and patent applications.

While the adjustment of the protective rights portfolio, which had already been introduced in the previous year to reduce costs, was continued in 2016, further progress could be made in the central patents of NanoTherm therapy. In particular, several patents in EP (member states of the European patent convention), USA, and China were granted for specific NanoTherm coating. Regarding the international patent application concerning the temperature simulation implemented in the NanoPlan software, the patent was granted in Japan.

Employees

At the end of the year 2016, MagForce AG had 28 employees (excluding members of the Management Board) and therefore 3 more compared to the prior year. As of December 31, 2016, 64 percent of the employees were women. The MagForce Group of companies employed a total of 46 employees in four companies at the end of the year.

Opportunities and Risks

Opportunities

The Company's vision is to establish its innovative therapy as a widely applicable, effective, and well tolerated alternative or supplement to conventional cancer treatments such as surgery, chemotherapy, and radiotherapy. The analysis of the data from the proof of concept study in glioblastoma shows that NanoTherm therapy is a well-tolerated therapeutic procedure with a positive benefit-to-risk ratio and that is generally much less onerous for patients compared to radiotherapy or chemotherapy.

MagForce could increase acceptance of the NanoTherm therapy due to the support of leading glioblastoma experts and the technology could be successfully commercialized for the treatment of glioblastoma. The first brain tumor patients have been already successfully commrecially treated with the NanoTherm therapy between 2014 and 2016.

The Company is also planning to develop the NanoTherm therapy for other promising oncology indications, such as prostate cancer. In addition, MagForce AG plans to continue developing the technology in the US by MagForce USA, Inc. In the case of successful development, the potential of the technology could increase enormously.

The projected clinical study in the USA will be held at three well-respected hospitals that are strategically well located. MagForce is convinced that it has with these three hospitals strategically valuable partners. For example the Christus Santa Rosa Hospital, an institution of CHRISTUS HEALTH, is a charitable health organization based on the catholic religion, which covers more than 600 health services in over 60 hospitals and long-term care facilities as well as 350 clinics and health care centers. The services of Christus Santa Rosa are

offered in over 100 cities in the USA, Chile, Mexico, and Columbia. The organization employs more than 45,000 employees and its medical staff includes over 15,000 physicians.

Given to the excellent experience and extensive know-how of CHRISTUS Santa Rosa Hospital and its team MagForce looks forward to the collaboration. As soon as the FDA has given the approval for NanoTherm in the USA and our partners at CHRISTUS Santa Rosa Hospital found a satisfactory treatment procedure, Mag Force has access to the established network of this organization.

The Company is aiming to attract strategic development partners for specific indications and regions to carry out and finance its development activities. Should the Company be able to find such partners it would substantially expand its financial room for maneuver, as well as potentially accelerating the technology's market penetration.

The area of research and development also offers further potential with regard to enhancement of products, new indications, and new partnerships.

Risks

The various risks – particularly the financial risks – described below are matched by corresponding opportunities in the case of positive outcomes.

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 generated so far only 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 failure in compliants to 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 products design.

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 to 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 28 employees, some of whom are the only people performing their functions or who hold several important positions. 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 suitable 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 relates 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, and thus resulting in net revenues short of expectations, the Company may be dependent on cash inflows from outside of its business.

Risk management targets and methods in relation to financial instruments

As of December 31, 2016, MagForce AG's main financial instruments were cash.

The Company has various other financial instruments (i. e. trade receivables, trade payables and other non-interest-bearing, short-term financial assets), which arise in the course of normal business activities. The primary purpose of these financial instruments is to fund the Company's business activities. The Company holds any funds that are not immediately required in overnight deposit accounts.

The Company's receivables are not collateralized. Consequently, the Company is exposed to risk in the amount of the receivables that could become irrecoverable.

The Company does not use derivative financial instruments to hedge the foreign exchange risk which could arise through its business operations, as its business is currently restricted almost exclusively to the euro zone.

Report on Expected Developments

In 2017, the Company's development is focusing on:

- To establish an expansion strategy for NanoTherm therapy in Europe for the treatment of brain tumors
- To initiate a study to ensure refund of treatment expenses in selected European countries
- To start the clinical study for marketing authorization of NanoTherm therapy for the treatment of prostate cancer in the USA through its subsidiary MagForce USA Inc.
- To initiate the production of ambulatory NanoActivator devices for the treatment of prostate cancer in the USA

Expected results

The Company expects to expand its business activities in the financial year 2017 by launching the planned expansion strategy for the NanoTherm Therapy in the indication brain tumor and the associated initiation of a cost reimbursement study in the participating countries.

Even though revenues from the sale of NanoTherm in the USA and for NanoTherm Therapies in Germany were slightly increased, the operating result was lower than in the previous year and was therefore not significantly improved as expected, which was due, among other things, to higher depreciation for tenant installations. In addition, operating costs remained at the same level compared to the previous year and were not significantly reduced. As a result, the net loss for the year has not been reduced but increased.

Due to the start of the clinical study in the USA the Management assumes an increasing production of NanoTherm for stockpiling of the anticipated launch in the USA. In the course of this development the revenue situation of the subsidiary MT MedTech Engineering GmbH should substantially improve. The Company expects for the businsess year 2017 a slight reduction of the net loss for the period with a, depending on the Company funding, scaleable cash outflow in the operating business that is expected to be lower in the clinical sector. On the other hand the planned expansion will lead to a significant increased cash outflow in the commercial sector.

Summary of expected developments by the Management Board

The Company's business model has a strong focus on short-term value drivers. These include commercializing NanoTherm therapy in Germany and in the regions covered by the Company's distribution partners. Medium term target of the Company is to develop NanoTherm therapy in the indication of prostate cancer and seeking approval from the FDA for NanoTherm therapy via its US subsidiary, MagForce USA, Inc. In the long term it is planned to develop NanoTherm therapy in other indications, as well as to advance the development of NanoTherm particles.

For the years 2017 and 2018 the Company plans to intensify cooperation with local and international patient organizations to further establish NanoTherm therapy and to increase the number of patient inquiries. Furthermore new ways for reimbursement in Germany and selected countries will be established to make NanoTherm therapy available to many patients as possible. Also the Company plans to enhance its presence on appropriate events and foreign patient organizations. The range of measures adopted is based on the assumption that the focused establishment of NanoTherm therapy on a step by step commercialization of activities in selected treatment centres in Germany and broadening of activities to certain neighbor countries will generate sustainable sales. Even if due to the ongoing clinical glioblastoma study, commercialization activities and the market entry in other countries costs should initially increase, ultimately these measures will ensure MagForce AG's long-term economic survival.

The Management Board's assessment is also based on the positive reception of NanoTherm therapy by interested parties for NanoTherm therapy. This view is further supported by the fact that there is still an enormous need for new cancer therapies and that this market segment is experiencing sustained growth.

The MagForce AG expects that in 2017 the refund of NanoTherm therapy costs will continue to improve for brain tumors (primer and recurrent brain tumors). The Management of the MagForce AG has taken necessary measures to finance the Company's expansion targets for Europe.

Based on the liquid funds of the Company that amounted to EUR 614 thousand as of December 31, 2016 (prior year: EUR 1,393 thousand) and available credit lines, the MagForce AG has set up a financial plan, according to which the activities for the years 2017 and 2018 can be financed. According to the Company's financial plan, cash and cash equivalents available as of December 31, 2016, will be sufficient to meet the payment obligations at any time. A prerequisite for this conclusion is that the assumptions underlying the plan will materialize as planned.

A significant risk relates to the timely and quantitatively sufficient availability of financial resources to ensure the meeting of the corporate goals. According to the Company's business plan, based on expected numbers of treatment and the funds available at the time of its construction, the costs expected to generate revenue projections and thereof resulting cash flows, which in combination with the monetarization of assets, will be sufficient to secure the liquidity of the Company during the period under the prognosis. In case these assumption should not be realized in full or in part, the Company has identified cost potential savings to balance any liquidity insufficiencies and to enable it to continue as a going-concern.

The solvency of the Company and hence the ability to continue as a going concern depend on the assumptions underlying the 12-months financial plan; in particular, the ocurrence of the planned sales development and further financing measures as expected. Otherwise, the Company will further depend on the financial support of its shareholders. According to the long term planning, the Company's ability to pay its obligations and to continue as a going concern will depend on further financing measures.

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 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.

In our opinion, the Company is able to finance its operations through the use of available liquid funds and granted loans, if the assumptions of the financial plan, in particular the planned revenues, the projected cost budgets, and other external financing measures materialize.

Consequently, the Management Board assumes that the Company will continue as a going concern.

The Company currently focuses on the use of NanoTherm therapy to treat brain tumors and the development in the indication prostate cancer through its subsidiary MagForce USA, Inc. To unveil the full potential of NanoTherm therapy in other indications, the Company may be dependent on additional financing measures.

Report on Post-Balance Sheet Date Events

Regarding the report on essential events happened after the balance sheet date the Management refers to the information given in the Notes.

Berlin, June 30, 2017

Dr. Ben J. Lipps
Chief Executive Officer

Christian von Volkmann
Chief Financial Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Financial Statements

Statement of Income

in EUR	2016	2015
Revenues	473,776.83	2,575,885.28
Other operating income	1,106,852.85	5,125,775.89
thereof from exchange rate differences EUR 43.396,03 (Prior year: EUR 207.323,91)		
	1,580,629.68	**7,701,661.17**
Cost of materials		
a) Raw materials and supplies and purchased goods	38,810.70	2,338,787.90
b) Purchased services	535,619.47	620,100.75
	574,430.17	**2,958,888.65**
Personnel expenses		
a) Salaries	2,934,918.82	2,704,625.78
b) Social security contributions	317,073.63	285,097.02
thereof for retirement benefits EUR 43.592,46 (Prior year: EUR 44.108,04)		
	3,251,992.45	**2,989,722.80**
Amortization and depreciation		
of intangible assets and property, plant and equipment	906,135.49	456,137.72
Other operating expenses	4,309,275.72	3,172,718.27
thereof from exchange rate differences EUR 163,556.04 (Prior year: EUR 192,075.58)		
	9,041,833.83	**9,577,467.44**
Other interest and similar income	284,080.84	329,233.37
thereof from affiliated companies EUR 173.321,69 (Prior year: EUR 176.608,67)		
Interest and similar expenses	53,087.94	69.10
thereof from affiliated companies EUR 53.087,94 (Prior year: nil)		
	230,992.90	**329,164.27**
Result before other taxes	-7,230,211.25	-1,546,642.00
Other taxes	1,071.70	125.75
Net loss	7,231,282.95	1,546,767.75
Loss carried forward from the prior year	41,725,767.92	40,179,000.17
Accumulated deficit	**48,957,050.87**	**41,725,767.92**

Balance Sheet as of December 31, 2016

Assets

in EUR	12/31/2016	12/31/2015
A. Intangible assets		
I. Intangible assets		
Purchased commercial trade mark rights and similar rights and values like licenses to those rights and values	2,811.08	6,762.08
II. Tangible fixed assets		
1. Buildings and leasehold improvements	389,969.00	653,313.00
2. Technical assets and machines	1,317,281.99	1,607,736.99
3. Other equipment, furniture and fixtures	252,432.00	258,215.00
4. Advance payments made and construction in progress	1,746,757.74	1,974,249.20
	3,706,440.73	**4,493,514.19**
III. Financial assets		
Shares in affiliated companies	15,033,058.85	15,033,058.85
	18,742,310.66	**19,533,335.12**
B. Current assets		
I. Inventories		
Goods for sale	71,250.00	80,750.00
II. Receivables and other assets		
1. Trade accounts receivables	71,120.00	91,033.46
2. Receivables from affiliated companies	346,181.42	148,314.11
3. Other assets		
a) Short-term loans	0.00	3,101,547.56
b) Remaining other assets	273,384.20	335,843.01
	690,685.62	**3,676,738.14**
III. Cash in hand, bank balances and checks	613,884.43	1,393,081.41
C. Prepaid expenses	159,997.55	174,353.28
	20,278,128.26	**24,858,257.95**

Shareholders' equity and liabilities

in EUR	12/31/2016	12/31/2015
A. Shareholders' equity		
I. Subscribed capital	25,622,711.00	25,622,711.00
Contingent capital: 12,131,355.00		
II. Additional paid-in capital	38,984,211.76	38,984,211.76
III. Accumulated deficit	-48,957,050.87	-41,725,767.92
	15,649,871.89	**22,881,154.84**
B. Special item for contributions designated to a purpose	39,286.81	90,041.53
C. Special item for investment subsidies for fixed assets	118,160.78	157,823.78
D. Accrued liabilities		
Other accruals	1,255,738.06	1,070,367.64
E. Liabilities		
1. Trade accounts payables	260,197.59	522,472.70
2. Liabilities against subsidiaries	2,903,123.63	62,467.00
3. Other liabilities	51,749.50	73,930.46
thereof taxes EUR 32.966,64 (Prior year: EUR 46.905,64)		
thereof social security EUR 1.977,42 (Prior year: EUR 2.140,03)		
	3,215,070.72	**658,870.16**
	20,278,128.26	**24,858,257.95**

Analysis of Fixed Assets

	Acquisition costs					
in EUR	01/01/2016	Additions	Disposals	Reclassifications	12/31/2016	
A. FIXED ASSETS						
I. Intangible assets						
Purchased commercial trade mark rights and similar rights	**22,394.68**	**0.00**	**0.00**	**0.00**	**22,394.68**	
II. Fixed tangible assets						
Buildings and leasehold improvements	857,124.40	0.00	0.00	296,511.05	1,153,635.45	
Technical assets and machines	3,403,365.72	578.00	0.00	0.00	3,403,943.72	
Other equipment, furniture and fixtures	521,070.26	42,513.44	0.00	3,000.00	566,583.70	
Advance payments made and construction in progress	1,974,249.20	72,019.59	0.00	-299,511.05	1,746,757.74	
	6,755,809.58	**115,111.03**	**0.00**	**0.00**	**6,870,920.61**	
III. Financial assets						
Shares in affiliated companies	15,060,884.05	0.00	0.00	0.00	15,060,884.05	
Loans to affiliated companies	2,453,107.83	0.00	0.00	0.00	2,453,107.83	
	17,513,991.88	**0.00**	**0.00**	**0.00**	**17,513,991.88**	
	24,292,196.14	**115,111.03**	**0.00**	**0.00**	**24,407,307.17**	

	Accumulated depreciation				Net book value	
	01/01/2016	Additions	Disposals	12/31/2016	**12/31/2016**	12/31/2015
	15,632.60	**3,951.00**	**0.00**	**19,583.60**	**2,811.08**	**6,762.08**
	203,811.40	559,855.05	0.00	763,666.45	389,969.00	653,313.00
	1,795,628.73	291,033.00	0.00	2,086,661.73	1,317,281.99	1,607,736.99
	262,855.26	51,296.44	0.00	314,151.70	252,432.00	258,215.00
	0.00	0.00	0.00	0.00	1,746,757.74	1,974,249.20
	2,262,295.39	**902,184.49**	**0.00**	**3,164,479.88**	**3,706,440.73**	**4,493,514.19**
	27,825.20	0.00	0.00	27,825.20	15,033,058.85	15,033,058.85
	2,453,107.83	0.00	0.00	2,453,107.83	0.00	0.00
	2,480,933.03	**0.00**	**0.00**	**2,480,933.03**	**15,033,058.85**	**15,033,058.85**
	4,758,861.02	**906,135.49**	**0.00**	**5,664,996.51**	**18,742,310.66**	**19,533,335.12**

Notes to the Annual Financial Statements for the Period of January 1, 2016, to December 31, 2016

Basis of presentation

MagForce AG has its place of business at Max-Planck-Str. 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, 2016, to December 31, 2016, 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 income statement.

The Company took advantage of some of the disclosure options for small corporations according to section 288(1) HGB.

Accounting policies

As in the prior year, the following accounting policies were applied in preparing the annual financial statements. In the financial year, the amended provisions of the German Commercial Code (Handelsgesetzbuch) made by the Accounts Directive Implementation Act (Bilanz-Richtlinienumsetzung Gesetz – BilRuG) have been applied for the first time, which are required for the fiscal year commences on January 1, 2016. The application of the provisions of the BilRUG changes the structure of the income statement. There were no changes to the allocation of the sales revenues according to the new revenue definition according to section 277 HGB (Article 75 (2) EGHGB).

Fixed assets

Purchased intangible fixed assets are recognized at acquisition costs and amortized over their useful lives. Tangible fixed assets are recognized at acquisition costs and depreciated using the straight-line method.

Property, plant, and equipment are valued at acquisition cost less scheduled depreciation. Depreciation is amortized on a prorata temporis basis using the straight-line method and the expected useful life.

Low-value assets costing up to EUR 410.00 are written off in the year of acquisition.

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

Current assets

Inventories are valued at acquisition cost, taking into account the lower of cost or market principle.

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.

Payments made to support the subsidiary MT MedTech Engineering GmbH are reported at the lower fair value. Expenses relating to the fair value adjustment of the receivables are recognized in other operating expenses.

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

Prepaid expenses

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

Special items

A special item was recognized for contributions designated to a purpose that were received from third parties to support patient programs. The item is depreciated according to utilization of funds in the patient program.

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 (i. e., including future cost and price increases).

Liabilities

Liabilities are recognized at their settlement amounts.

Deferred taxes

For the calculation of deferred taxes attributable to temporary or quasi-permanent differences between the carrying amounts of assets, liabilities, prepaid expenses, and items of deferred income in the financial statements and their tax base, or to tax loss carryforwards, the amounts of the resulting tax liabilities and benefits are measured using the tax rate of the reporting entity that applies when the differences reverse and are not discounted. Deferred tax assets and liabilities are offset. No deferred tax assets are reported because the corresponding recognition option is exercised.

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 para. 1 no. 4 half sentence 2 HGB) and the acquisition cost principle (section 253 para. 1 sentence 1 HGB) were observed.

Balance sheet disclosures

Fixed assets

Changes in the items of fixed assets are presented in the summary of fixed assets, based on acquisition costs.

In the financial year, an exceptional depreciation of EUR 356 thousand was recognized for tenant improvements.

Disclosures on shareholdings

The Company owns all shares of MT MedTech Engineering GmbH, Berlin. As of December 31, 2016 the reported negative equity of the subsidiary amounts to EUR 5,230 (previous year: EUR 4,187 thousand). Net loss for the fiscal year from January 1 to December 31, 2016, amounted to EUR 1,044 (previous year: EUR 239 thousand).

In 2013 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 prudent business practice. Should MT MedTech Engineering generate sustainable gains in the future, the carrying amount will be appreciated in value to its historic costs.

Furthermore, the carrying amount of the investment in MagForce USA, Inc. amounts to EUR 15,033 thousand. The Company was incorporated by contract on March 10, 2014.

Equity of this subsidiary amounted to USD 27,108 thousand (previous year: USD 28,084 thousand) as of December 31, 2016. The net loss for the financial year 2016 amounted to USD 4,312 thousand (previous year: USD 2,646 thousand) and chiefly resulted from personnel expenses amounted to USD 1,368 thousand and legal and consulting expenses amounted to USD 1,226 thousand.

Inventories

The inventories amount to EUR 71 thousand (previous year: EUR 81 thousand) and consist of catheters intended for clinical trials and the commercial use in hospitals.

Receivables and other assets

In the reporting year, all receivables and other assets are due within one year.

Trade accounts receivables include allowance adjustments for bad debts in the amount of EUR 78 thousand (previous year: EUR 65 thousand).

Receivables against affiliated companies are trade receivables.

Other assets mainly comprise value added tax receivables in the amount of EUR 91 thousand (previous year: EUR 139 thousand). The short term loans, including accrued interest income, in the amount of EUR 0 (previous year: EUR 3,102 thousand) were fully repaid in the financial year 2016.

Subscribed capital

December 31, 2016 share capital remained unchanged compared to the previous year's balance sheet balance at EUR 25,622,711, and was composed of 25,622,711 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 325,000.00 (Contingent Capital 2007/I) by issuing up to 325,000 no-par value bearer shares (ordinary shares). The Annual General Meeting on August 16, 2012, resolved to release EUR 225,000 of the Contingent Capital 2007/I in accordance with Article 6 (2) of the Company's Articles of Association. It therefore amounts to EUR 100,000.00.

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, 2016, 32,605 options were outstanding and not forfeited. During the fiscal year 2016 no further options had been granted out of Contingent Capital 2007/I and 3,556 options had been forfeited. Thus, as of December 31, 2016, a total of 29,049 options were outstanding and exercisable.

Contingent Capital 2012/II

With 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.

By resolution of the Annual General Meeting on August 6, 2013, an amount of EUR 245,000.00 has been cancelled out of Contingent Capital 2012/II according to section 6 of the Company's bylaws. Accordingly, the Contingent Capital 2012/II amounts to EUR 150,000.00.

In the financial year 2016 no options were granted under the 2012/II Stock Option Plan.

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 with warrants and / or convertible bonds 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 with warrants or convertible bonds.

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, 2016, 1,857,746 options were outstanding from the Contingent Capital 2013/III. In the 2016 financial year, no stock options were issued under the 2013 Stock Option Plan.

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.

In the 2016 financial year, 50,000 stock options were issued under the Stock Option Plan 2015.

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 instalments 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.

Capital reserves

The capital reserves contain an amount of EUR 38,484 thousand within the meaning of section 272(2) no. 1 of the HGB and an amount of EUR 500 thousand within the meaning of section 272(2) no. 4 of the HGB.

Net accumulated losses

The net accumulated losses contain accumulated losses brought forward of EUR 41,726 thousand. Net accumulated losses developed as follows:

in EUR thousand	
Net accumulated losses as of December 31, 2015	41,726
Net loss for the fiscal year January 1 to December 31, 2016	7,231
Net accumulated losses as of December 31, 2016	**48,957**

Special item for contributions designated to a purpose

The Company received the funds from third parties under the condition to use them solely to support the Company's patient programs.

Special item for investment subsidies for fixed assets

The investment subsidies were granted from funds made available under the "Joint Scheme for Improving Regional Economic Structures". The investment grants were made in accordance with the Investitionszulagengesetz (German Investment Grants Act). In the period January 1 to December 31, 2016, EUR 40 thousand (previous year: EUR 40 thousand) was reversed to the income statement from the special reserve for investment grants and subsidies.

Other provisions

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

in EUR thousand	2016	2015
Personnel-related	518	440
Outstanding supplier invoices	251	327
Supervisory Board remuneration	90	81
Audit costs	53	40
Litigation risk	20	15
Provision for contingent losses	0	24
Other	324	143
Total	**1,256**	**1,070**

The personnel-related provisions have been increased in the reporting period due to the increased number of employees. The amount of other provisions is essentially the result of costs for dismantling commitments amounting to EUR 150 thousand (previous year: EUR 28 thousand), for sales tax deferrals of EUR 99 thousand (previous year: nil), for the annual report in the amount of EUR 35 thousand (previous year: EUR 62 thousand), as well as for the Annual General Meeting in the amount of EUR 30 thousand (previous year: EUR 42 thousand).

Liabilities

As in the previous year, trade payables and other liabilities are due within one year.

Liabilities to affiliated companies relates to loans from MagForce USA, Inc. amounting to USD 3,000 thousand as well as cost transfers from MagForce USA, Inc.

Other liabilities primarily contain payroll and church tax liabilities.

Income statement disclosures

Revenues

In the business year the Company generated sales revenues in the amount of EUR 474 thousand (previous year: EUR 2,576 thousand).

This includes mainly sales made to the subsidiary MagForce USA, Inc. from the development of the ambulatory NanoActivator device for the focal treatment of prostate cancer

amounting to EUR 217 thousand and from the sale of NanoTherm for the update of the preclinical trial as a result of the discussions with the FDA as part of the approval of the admission of the trial for intermediate focal prostate cancer amounting to EUR 81 thousand.

Sales revenues from the commercial treatment of patients with NanoTherm therapy increased in the financial year to EUR 176 thousand (previous year: EUR 155 thousand). Commercial sales were generated by sales of NanoTherm particles and by the use of the NanoActivator devices.

The revenues of the previous year came mainly from the sale of a total of four NanoActivator units to the subsidiary MagForce USA Inc. in the amount of EUR 2,421 thousand.

Other operating income

Other operating income in the amount of EUR 1,107 thousand (previous year: EUR 5,126 thousand) essentially resulted from recharges to subsidiaries in the amount of EUR 939 thousand (previous year: EUR 775 thousand), from the release of special items for previous year assigned grants in the amount of EUR 51 thousand (previous year: EUR 62 thousand) and from exchange rate differences in the amount of EUR 43 thousand (previous year: EUR 207 thousand).

The decline of other operating income is mainly due to a previous year gain resulted from the extension of the distribution and development rights to MagForce USA, Inc. for the countries Canada and Mexico as of January, 2 2015 in the amount of EUR 3,033 thousand; as well as an previous year gain from the appreciation in value of the written-off loans against MT MedTech Engineering GmbH of EUR 803 thousand.

Cost of material

The decrease in costs for raw materials, supplies, and purchased goods is mainly attributable to the costs for the four NanoActivator devices sold in the previous year to MagForce USA, Inc. in the amount of EUR 2,298 thousand.

The decline in costs for purchased services comes mainly from the termination of the Post-Marketing clinical trial. Expenses for the Post-Marketing clinical trial amounts to EUR 57 thousand (previous year: EUR 466 thousand). By contrast, in the financial year costs in the amount of EUR 161 thousand (previous year: nil) are included for purchased services for the development of an ambulatory NanoActivator device in the indication prostate cancer and for the establishment and application of NanoTherm therapy in the amount of EUR 124 thousand (previous year: nil).

Personnel expenses

Personnel expenses in the amount of EUR 3,252 thousand (previous year: EUR 2,990 thousand) mainly comprises of salaries in the amount of EUR 2,935 thousand (previous year: EUR 2,705 thousand) as well as expenses for social security and retirement benefits in the amount of EUR 317 thousand (previous year: EUR 285 thousand). The increase in personnel expense results from an increased average number of employees during the financial year 2016 (29; previous year: 23). Personnel expenses amounting to EUR 663 thousand (previous year: EUR 518 thousand) were charged to the subsidiary MagForce USA, Inc. for management duties and development services.

In 2016 the expenses for retirement benefit plans amounts to EUR 44 thousand (previous year: EUR 44 thousand) resulting from a defined contributions pension scheme.

Other operating expenses

Other operating expenses amounting to EUR 4,309 thousand (previous year: EUR 3,173 thousand) chiefly comprise expenses associated with investor relations and marketing activities amounting to EUR 636 thousand (previous year: EUR 753 thousand); as well as patent costs of EUR 165 thousand (previous year: EUR 329 thousand); and legal, audit, and consulting expenses of EUR 292 thousand (previous year: EUR 259 thousand). Furthermore, car and travelling expenses of EUR 382 thousand (previous year EUR 384 thousand) and impairment charges on current intercompany loan receivables of EUR 1,218 (previous year: TEUR 0) are included in other operating expenses. In addition, expenses for exchange rate differences of EUR 164 thousand (previous year EUR 192) are included. Expenses for other accounting periods amounted to EUR 111 thousand (previous year: EUR 1 thousand).

Other interest and similar income

Other interest and similar income amounting to EUR 284 thousand (previous year: EUR 329 thousand) are related to interest income. Other interest and similar income in the amount of EUR 173 thousand (previous year: EUR 177 thousand) are attributable to affiliated companies.

Interest and similar expenses

Interest and similar expenses in the amount of EUR 53 thousand results from interest for the loans from MagForce USA Inc.

Supplemental disclosures

Other financial obligations

Other financial obligations amounting to EUR 469 thousand (previous year: EUR 608 thousand) resulted from rental contracts for the rented premises in Berlin-Adlershof and Martinsried as well as from leases for vehicles and office equipment.

Employees

The Company employed 29 (prior year: 23) employees (without Management Board) on average over the financial year.

Shareholder structure

All of the shares are ordinary shares and carry an equal participating interest in the company's share capital. In accordance with Article 20 (6) of MagForce's Articles of Association, all shareholders have equal voting rights per share, irrespective of the total number of shares they hold.

Over and above the shareholdings disclosed above, MagForce is not aware of any direct or indirect investments in the Company, or of any shareholdings conveying control, or of the identity of any party holding such investments or exercising such control, or of the nature of that control.

Governing bodies of the Company

Management Board

Name / Position	Member since	Appointed until	Function
Dr. Ben J. Lipps Chemiker	09/01/2013	08/31/2018	Chief Executive Officer
Prof. Dr. Hoda Tawfik Pharmazeutin	10/01/2012	09/30/2018	Chief Medical Officer
Christian von Volkmann Dipl.-Kaufmann	10/01/2012	09/30/2018	Chief Financial Officer

Supervisory Board

The Supervisory Board consists of the following individuals:

- **Norbert Neef** (Chairman), lawyer in Berlin, management board of Nanostart AG until June 2016, chairman of the supervisory board of Singularity Capital AG, supervisory board of Gyant.com, Inc.
- **Stephan Jakober** (Deputy Chairman), business consultant.
- **Dr. Wiebke Rösler,** physician.

Notifications in accordance with section 20 of the AktG in conjunction with section 160(1) no. 8 of the AktG

The shareholder Nanostart AG complied with its notification requirements in accordance with section 20 of the AktG within the context of the Investment and Shareholder Agreement dated June 11, 2004, and the Investment and Shareholder Agreement dated October 10, 2006, by means of a notification dated July 3, 2007. By way of the notification dated July 3, 2007, the Company announced that Nanostart AG held more than 25 percent of the shares of MagForce AG and also that Nanostart AG held a majority interest in MagForce AG.

In a letter dated August 17, 2012, Nanostart AG, Frankfurt am Main, notified MagForce AG that it no longer held a majority interest in MagForce AG in accordance with section 16(1) of the AktG and that it no longer held an interest of more than 25 percent.

In a letter dated April 9, 2013, Nanostart AG, Frankfurt am Main, notified MagForce AG that it no longer held a majority interest in MagForce AG in accordance with section 16(1) of the AktG and that it no longer held an interest of more than 25 percent.

On the same date, BF Holding GmbH, Kulmbach, notified MagForce AG that BF Holding GmbH's indirect interest in MagForce AG was no longer a majority interest within the meaning of section 16(1) of the AktG and that this no longer related to an interest of more than 25 percent.

Avalon Capital One GmbH, Frankfurt am Main, notified MagForce in accordance with para. 20 sec. 1 AktG by letter dated June 4, 2013 that it holds an interest of more than 25 percent in MagForce AG's subscribed capital.

Preparation of consolidated financial statements

MagForce AG is not required to prepare consolidated financial statements for the period ending on December 31, 2016.

Report on post-balance-sheet date events

In order to improve the liquidity and to ensure the development of new products beyond 2017, the Company issued on March 2, 2017 a convertible bond of EUR 5,000 thousand with a maturity of three years, an interest rate of 5 percent p.a., and a conversion price at EUR 5.00 per share.

Furthermore, the company was granted a loan of EUR 400 thousand by Lipps & Associates LLC with a contract dated February 1, 2017. The loan is due on June 30, 2019 and bears interest at 5 percent. Additional loans with a total of USD 3.0 million have been granted to MagForce AG as of June 26, 2017. These new loans are charged with 4 percent interest and are due on June 30, 2019 as well. These loans are designed to accelerate the planned expansion strategy for NanoTherm therapy in the indication brain tumor in Europe accompanied with a clinical trial to ensure refund of treatment expenses in selected European countries.

On June 28, 2017, the Management Board of MagForce AG decided, with the consent of the Supervisory Board from June 28, 2017 and making use of the authorized capital 2015/I, to increase the Company's share capital from EUR 25,622,711.00 by EUR 720,461.00 to EUR 26,343,172.00 by issuing up to 720,461 no-par value bearer shares with an amount of EUR 1.00 on the subscribed capital. The issue price amounted to EUR 6.94. The Annual General Meeting of August 18, 2015 excluded the subscription right of shareholders. Gross proceeds of this transaction amounted to EUR 5.0 million. The registration in the commercial register is outstanding at the time of annual reports' preparation date. The registration in the commercial register took place on June 30, 2017.

Berlin, June 30, 2017
The Management Board

Dr. Ben J. Lipps
Chief Executive Officer

Christian von Volkmann
Chief Financial Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Audit Opinion

To MagForce AG,

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of MagForce AG, Berlin, for the fiscal year from January 1 to December 31, 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we wish to draw attention to the information presented by the Management Board in section "Report on expected developments; summary of expected developments by the Management Board" of the management report, according to which the solvency of the Company and hence its ability to continue as a going concern depend on the assumptions underlying the 12 month planning materializing as expected, in particular meeting projected cost budgets. In case of exceeding the cost budgets, solvency and the ability to continue as a going concern depend on additional financings. According to the long term planning of the Company the ability to continue as a going concern beyond the mentioned period will depend on additional financings.

Berlin, June 30, 2017

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