FORGING NEW PATHS IN CANCER TREATMENT

ANNUAL REPORT 2018

MagForce AG
Fighting Cancer with NanoTherm Therapy

magforce®
THE NANOMEDICINE COMPANY

FORGING NEW PATHS IN CANCER TREATMENT

2018 was a pivotal year for MagForce in which we made significant strides towards building the future of the Company, passed several major milestones and made progress on key goals along our two defined paths in the US and Europe: among those achievements, the start of our pivotal US prostate cancer study and treatment of first study patients and, in Europe, the first collaboration agreement with a clinic for our NanoTherm therapy for the commercial treatment of brain tumor patients outside of Germany.

MagForce is forging new paths in order to treat cancer successfully and gently: With NanoTherm therapy, we have developed an innovative approach based on nanotechnology, which we aim to make available to patients all over the world.

We are getting closer and closer to this goal: NanoTherm is the first and only nanotechnology-based therapy with European approval for the treatment of brain tumors. To date, over 100 patients have already been treated using this innovative approach.

End of Q1 2019, the first NanoTherm treatment center outside of Germany was opened in Lublin, Poland, and is now offering NanoTherm therapy as an additional treatment option. While in Germany, we announced in Q2 2019 a new cooperation with the Paracelsus Clinic in Zwickau where an additional treatment center with our patented therapy system is currently being set up. Furthermore, we are planning additional commercial sites in Germany, Italy, Spain, and other European countries.

In the US, a pivotal clinical study for the treatment of prostate cancer has been ongoing since July 2018 at selected specialized medical centers. Here, the goal is to obtain evidence for the effectiveness of the therapy and to subsequently gain regulatory approval. The favorable initial findings encourage us in our goal to supplement the current standard therapy with a less invasive, effective, and well-tolerated treatment option from which potentially 50,000 to 100,000 men in Active Surveillance Programs in the US could benefit.

FORGING NEW PATHS IN CANCER TREATMENT

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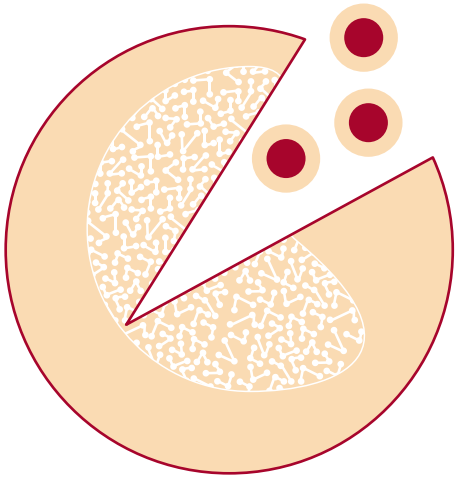
Imprint

HOW NANOTHERM THERAPY WORKS

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.

NanoTherm

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



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

Fluid & Nanoparticles

NanoTherm ferrofluid can be injected directly into the tumor.

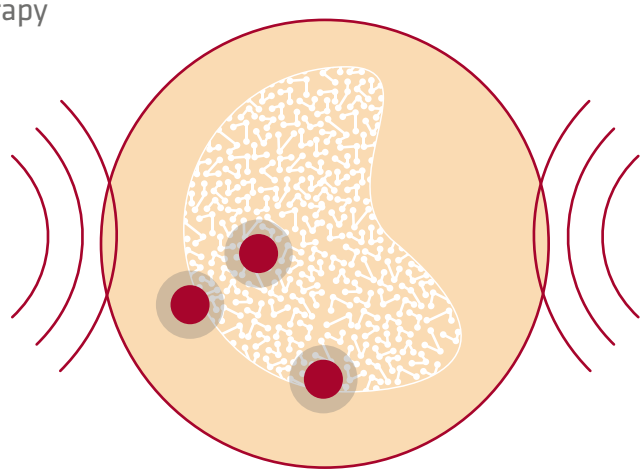
NanoPlan

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 take into consideration the tumor size, the distribution of the nanoparticles, and the location of the tumor.

Activation & Ablation

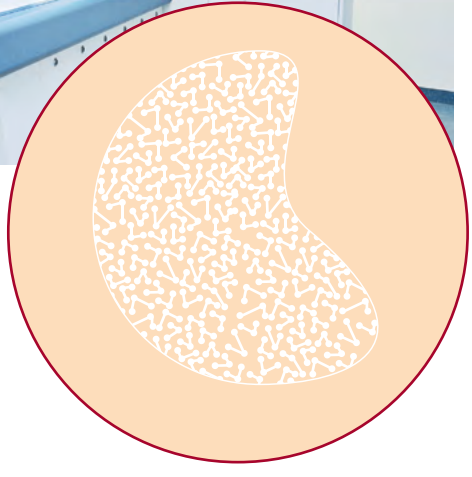
The magnetic field makes the iron oxide nanoparticles oscillate and produce heat. Heat either destroys the cancer cells (ablation) or sensitizes them for other therapies such as chemotherapy or radiotherapy (hyperthermia).



NanoActivator

NanoTherm therapy is performed in an alternating magnetic field applicator (NanoActivator). The strength of the magnetic field can be adjusted from 2 kA / m to 15 kA / m.

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



Magnetic Field & Treatment

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

HIGHLIGHTS 2018 / 2019

February 2018

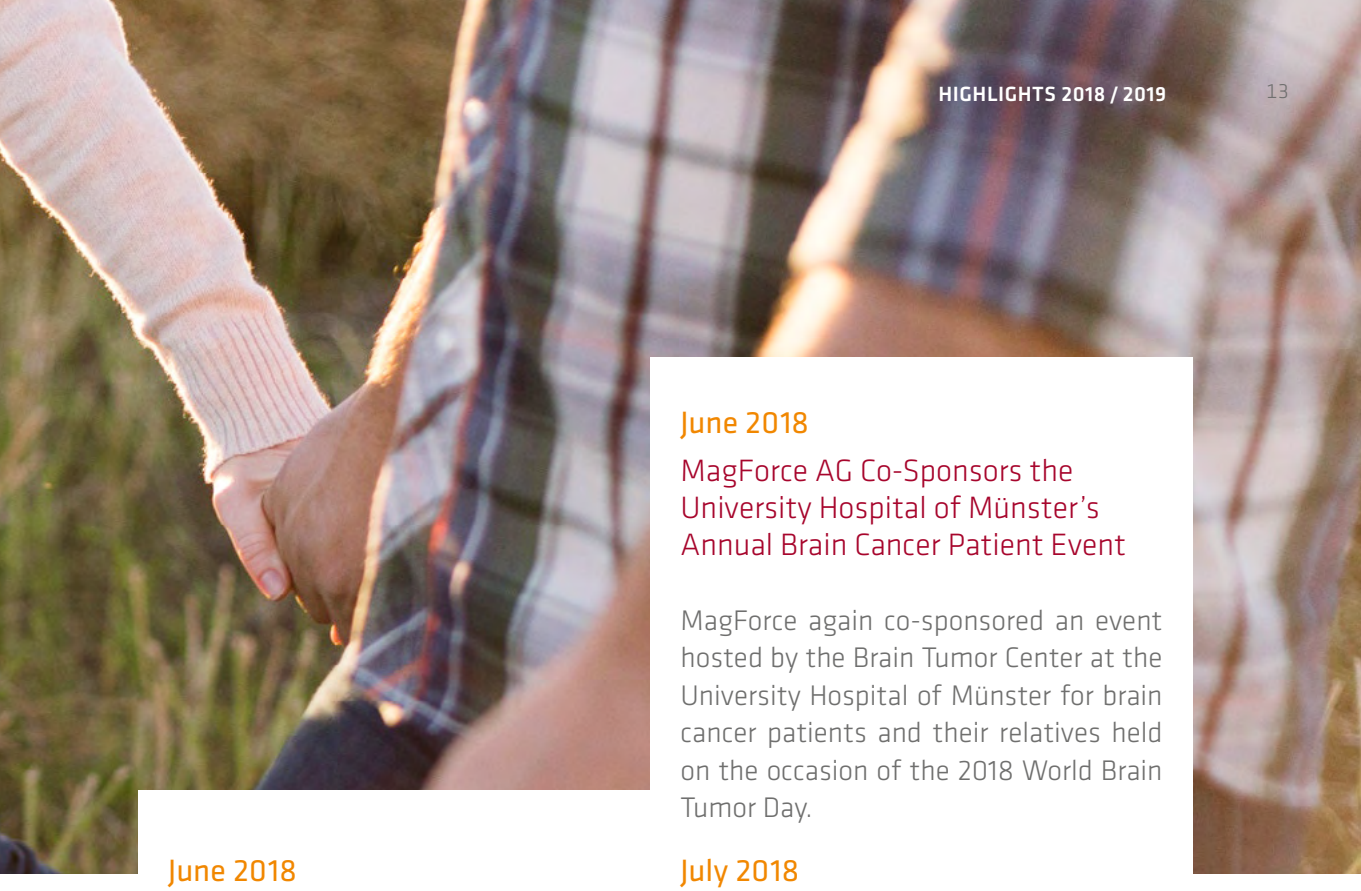
MagForce USA Receives FDA Investigational Device Exemption Approval to Conduct a Clinical Trial with NanoTherm Therapy as Focal Ablation Treatment for Intermediate Risk Prostate Cancer

In February 2018, MagForce AG's US-subsidiary MagForce USA, Inc. received U.S. Food and Drug Administration (FDA) Investigational Device Exemption (IDE) approval to conduct a clinical trial with NanoTherm therapy as focal ablation treatment for intermediate risk prostate cancer. The approval of this IDE allows MagForce to conduct a pivotal clinical evaluation with the Company's innovative NanoTherm therapy at selected medical centers in the US.

June 2018

MagForce AG Hosts Lunch Symposium about Local Therapies for Malignant Gliomas at the 2018 Meeting of the German Society of Neurosurgery (DGNC)

On June 4th, MagForce AG successfully hosted a scientific lunch symposium titled "Local Therapies for Malignant Gliomas" at the DGNC 2018. The one-hour lunch symposium featured three keynote speeches on the current status of local therapies for malignant glioblastoma, technical and immunological aspects of applying NanoTherm therapy with malignant gliomas tumor resections as well as future approaches with regard to intracavitary thermotherapy with superparamagnetic iron oxide nanoparticles.



June 2018

MagForce AG Co-Sponsors the University Hospital of Münster's Annual Brain Cancer Patient Event

MagForce again co-sponsored an event hosted by the Brain Tumor Center at the University Hospital of Münster for brain cancer patients and their relatives held on the occasion of the 2018 World Brain Tumor Day.

June 2018

MagForce AG Announces Collaboration Agreement for NanoTherm Therapy with Independent Public Clinical Hospital No. 4, Lublin, Poland

In June 2018, MagForce entered into a collaboration agreement with one of the most prestigious brain treatment centers in Poland which offers MagForce's NanoTherm therapy for the treatment of brain tumor patients as the first hospital outside of Germany and, thus, provides access for Polish brain cancer patients to be treated with MagForce's NanoTherm therapy in their home country.

July 2018

MagForce Announces Enrollment of First Patient in Its Pivotal, Staged, Single-Arm Study of Focal Ablation of Prostate Cancer with NanoTherm Therapy

Following the U.S. FDA IDE approval earlier in 2018, MagForce's subsidiary MagForce USA, Inc. announced in July 2018 that it had enrolled the first patient in its pivotal clinical evaluation with the Company's innovative NanoTherm selective ablation therapy.

August 2018

MagForce AG Announces Successful Capital Increase of the Subsidiary MagForce USA, Inc.

In August 2018, MagForce US-subsidiary MagForce USA, Inc. carried out a capital increase by exercising 700,000 subscription rights of MagForce USA, Inc. and by issuing 166,666 new shares in MagForce USA, Inc.

The gross proceeds of the capital increase accruing to the Company amounting to USD 9m are being used to finance the initiated pivotal clinical trial in the USA with NanoTherm Therapy for focal tumor ablation in intermediate risk prostate cancer and associated business operations.

August 2018

MagForce AG Announces Positive Results of 2018 Annual General Meeting

The Annual General Meeting approved all resolution items with a clear majority of more than 98 percent.

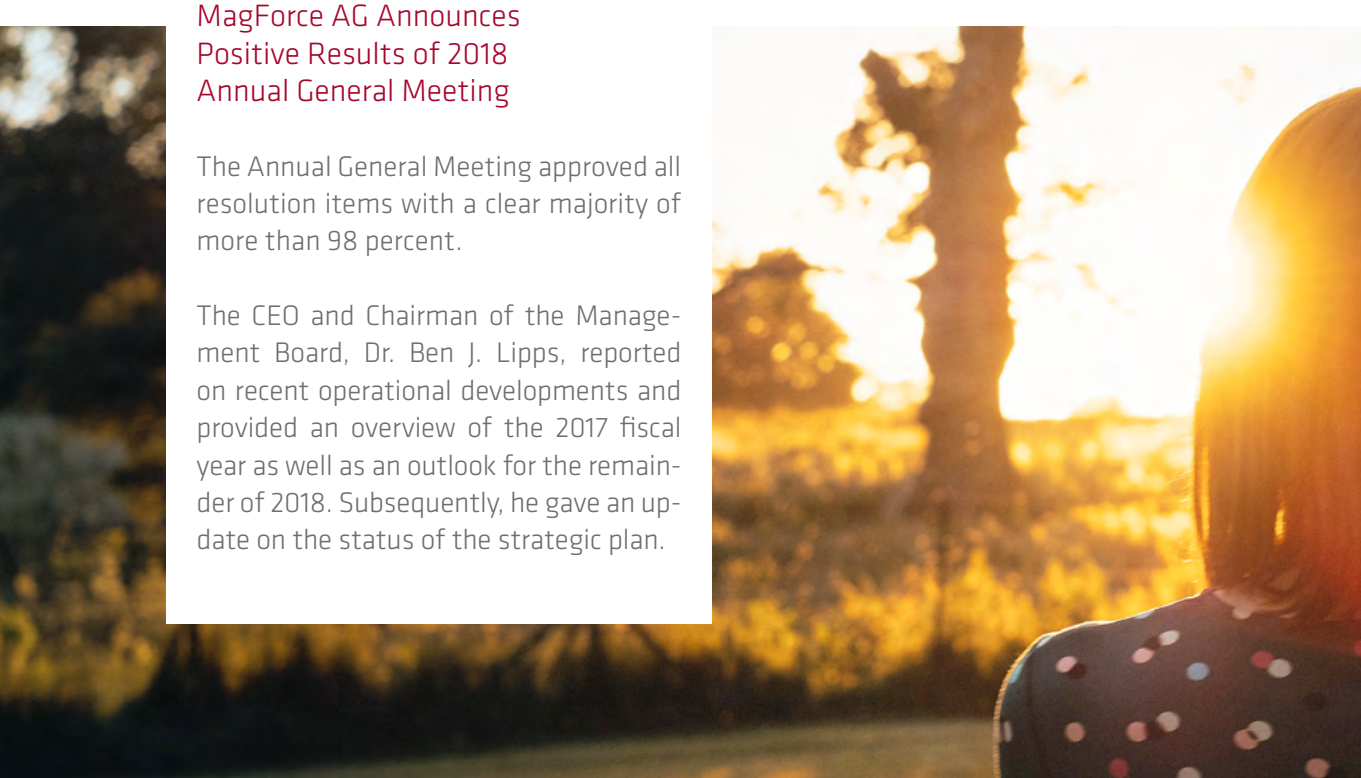
The CEO and Chairman of the Management Board, Dr. Ben J. Lipps, reported on recent operational developments and provided an overview of the 2017 fiscal year as well as an outlook for the remainder of 2018. Subsequently, he gave an update on the status of the strategic plan.

October 2018

MagForce AG to Host Lunch Symposium on Local Therapies for Malignant Gliomas at the 18th European Congress of Neurosurgery (EANS2018)

In October 2018, MagForce AG hosted a scientific lunch symposium titled “Local Therapies for Malignant Gliomas” at the 18th European Congress of Neurosurgery.

Following an introduction and overview on topical therapies for the treatment of malignant gliomas, the one-hour lunch symposium featured two keynote speeches on the current understanding of surgery and wafers as well as “Hyperthermia and radiotherapy: The NanoPaste experience”.



January 2019

MagForce AG: Newly Launched, NanoTherm Therapy School‘ Kicks off with Successful First Training Session

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

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

March 2019

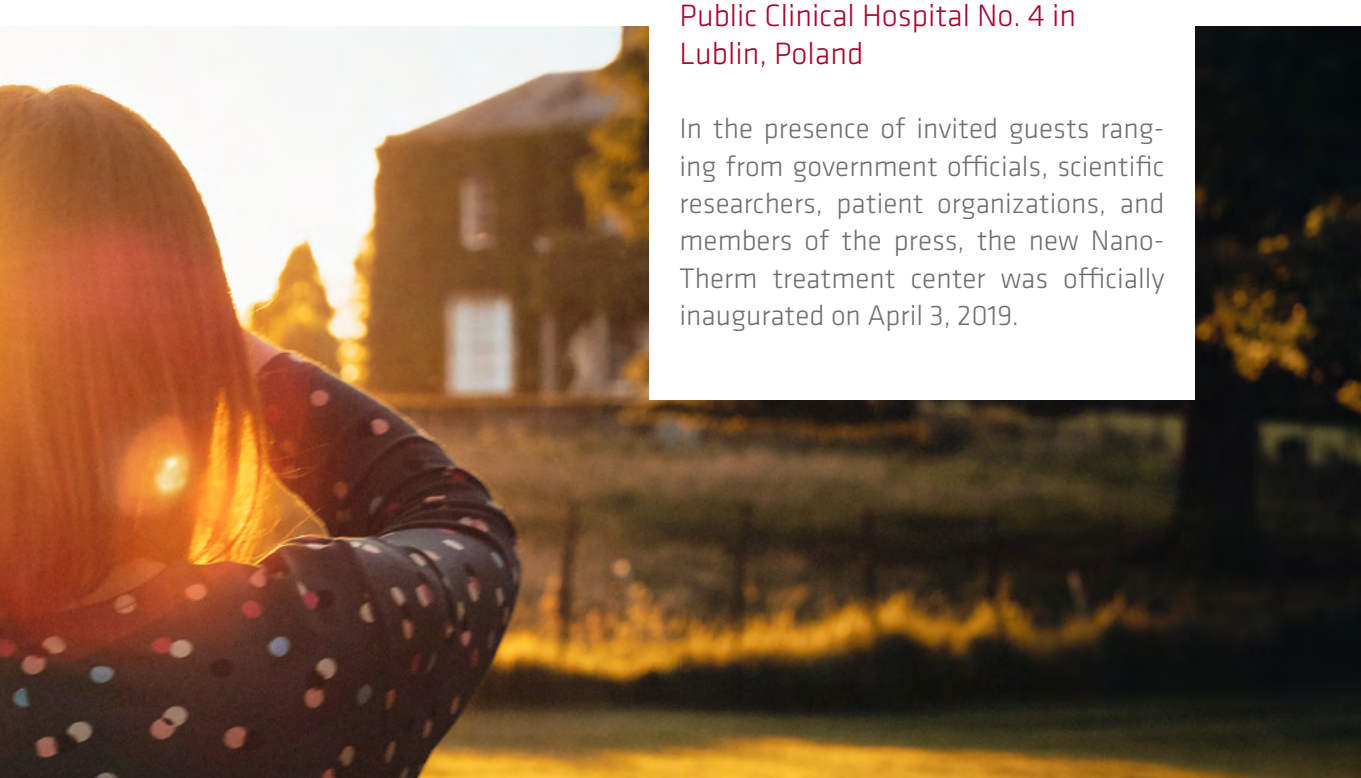
MagForce AG Successfully Completes Installation of Mobile NanoTherm Treatment Center for Brain Tumors in Poland

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

April 2019

Inauguration Ceremony Marks Official Opening of a New NanoTherm Treatment Center at Independent Public Clinical Hospital No. 4 in Lublin, Poland

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



June 2019

MagForce AG and the Paracelsus Clinic Zwickau Announce Cooperation Agreement and the Opening of a New NanoTherm Treatment Center

On the 20th anniversary of World Brain Tumor Day, MagForce and the Paracelsus Clinic Zwickau announced that they have entered into a cooperation agreement and plan to open a new NanoTherm treatment center for brain tumors in another geographically important location.

PARACELSUS KLINIK SACHSEN Zwickau

From left to right: Marcel Pilz, Sales Director Germany, MagForce AG; Prof. Dr. med. habil. Jan-Peter Warnke, Senior Consultant in the Neurosurgical Clinic, Paracelsus Clinic Zwickau; Tobias Hanitsch, Sales Manager, Magforce AG; Uta Ranke, Clinical Manager, Paracelsus Clinic Zwickau; Ahmad Al Housein, Specialist for Neurosurgery, Paracelsus Clinic Zwickau; Stefan Schnabel, Assistant Physician, Paracelsus Clinic Zwickau; Matthias Müller, Technical Director, Paracelsus Clinic Zwickau

Exterior view Paracelsus
Clinic Saxony, Zwickau

The Therapy Roll-Out: Bringing an Innovative Treatment Option to Polish Brain Cancer Patients

The first hospital outside of Germany, Independent Public University Hospital No. 4 (SPSK4) in Lublin, one of the most prestigious brain tumor treatment centers in Poland, now offers MagForce's NanoTherm therapy for the commercial treatment of brain tumor patients, after opening the doors of its NanoTherm treatment center in April 2019.

MagForce spoke to Prof. Radoslaw Rola who will be heading the NanoTherm treatment center at SPSK4.

Prof. Dr. hab. n. med. Tomasz Trojanowski, State Consultant in Neurosurgery and a member of the Scientific Advisory Board for the Minister of Health and former Head and Chairman of the Neurosurgery and Paediatric Neurosurgery Departments at SPSK4 in Lublin, with his successor Prof. Dr. hab. n. med. Radoslaw Rola.

"As one of the leading brain tumor centers in Poland, we are always interested in innovation and discovering new treatment modalities to help our patients. For many years our department has supported a number of research projects aiming to improve the outcome of treatment methodologies in patients with brain gliomas. Those included convection enhanced chemotherapy delivery, modifications in radiotherapy protocols, brachytherapy and many others."

Prof. Trojanowski

SPSK4 is now ready to offer NanoTherm therapy for the treatment of brain tumors in Poland. What made you decide to broaden your range of treatment options in this indication?

SPSK4 is one of the leading brain tumor centers in the country providing treatment for this type of diseases. In this role, we are always looking for the most advanced medical solutions to provide our patients with the highest quality of treatment in the world. Brain tumors cannot be removed without damaging surrounding important healthy tissue and therefore require additional therapies such as radiation and chemotherapy. Even then, current treatments are not successful

at eliminating all of the cancerous cells in the brain, creating an unmistakable need for innovation in neuro-oncology. With NanoTherm, we can now offer an additional postsurgical treatment option based on this highly innovative technology, that damages the tumor cells while sparing surrounding tissue.

There seems to be great interest by Polish patients in new therapies beyond the standard of treatment. Have you seen this trend play out in NanoTherm therapy?

The news about NanoTherm therapy at SPSK4 has travelled fast and has reached many patients and professionals in the medical community. We have since registered a high number of patients seeking additional information on the availability of the treatment as well as the qualification criteria. The high interest was also part of the motivation behind the Open Day at our new NanoTherm treatment center, which was held on occasion of the 2019 World brain Tumor Day at the beginning of June. We wanted to offer interested parties a chance to learn more about this therapy, ask questions and voice their concerns.

How did you and your team prepare and train for the application of NanoTherm therapy in real life?

The staff in our department have extensive experience in treating brain tumors, including gliomas. SPSK4 is a hospital that prides itself on being very open towards innovations. To give our patients the best treatment possible, we are using sophisticated methods, which are based on advanced imaging and surgical instrumentation and are working closely with other departments such as the departments of oncology and radiotherapy, to enhance the effectiveness of surgical tumor removal through applying state-of-the-art methods of radio-chemotherapy. As is the case with each new treatment method, the staff have extensively studied and discussed the new treatment modality and visited the Münster Department of Neurosurgery to learn the practical elements of the procedure. We are therefore well prepared to start treatment at SPSK4.

The Patient in Focus: NanoTherm Therapy for Prostate Cancer Offers Effective and Less Invasive Treatment Option

The justifications and aims of conducting clinical trials are well documented from an industry perspective, but what motivates patients and doctors to decide to participate in these trials?

A 63-year-old pastor from Boerne, Texas, John Ford, became a participant in the first phase of MagForce's pivotal US prostate cancer study in October 2018 after receiving his prostate cancer diagnosis.

"I knew that if I could be involved in getting something approved that might help offer men a better treatment than what I had been able to find, I wanted to be a part of it."

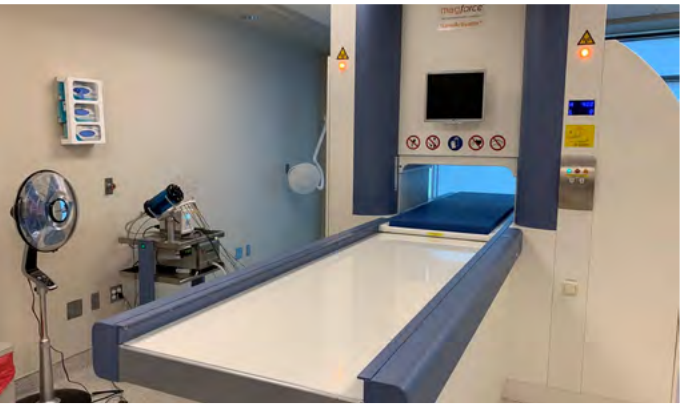
John Ford, study participant

Deciding to take part in a clinical trial is a deeply personal and weighing decision for patients. For John Ford, the choice to sign up for the NanoTherm therapy trial was straight forward, "One thing that kept coming up in my research was that there were no treatment options for prostate cancer that didn't have a pretty significant risk of side effects," Ford says. "I knew that if I could be involved in getting something approved that might help offer men a better treatment than what I had been able to find, I wanted to be a part of it."

After completing his participation, Ford noted that "I experienced very little discomfort through the whole process and there are no lingering effects of the trial treatment."

The staged clinical trial is currently being conducted at two sites, one in San Antonio, with principal investigators Dr. Thompson Jr., and Michael Liss, MD, urologist at UT Health San Antonio, and the second in Seattle with principal investigator Daniel Lin, MD. MagForce is adding a third study site, in Sarasota, Florida, that is now also bolstering recruitment for the next stage of the trial. Currently, three well-respected urological specialist centers – Texas Urology Group, University of Texas, San Antonio, and University of Washington, Seattle – are actively enrolling patients for the trial.

To bring novel technologies and innovative treatments such as Magforce's NanoTherm therapy on the market people must enroll in these types of clinical studies so that FDA requirements can be fulfilled. Therefore, we thank men like John Ford who have placed their trust in NanoTherm therapy.



Letter to the Shareholders

Dear MagForce Shareholders,

Cancer continues to be one of the most difficult global healthcare problems. Even though there is a large library of drugs and other forms of therapy available to treat cancer, the problem of selectively killing all cancer cells while reducing collateral toxicity and damage to healthy cells remains one of the greatest challenges in modern medicine. Providing a transformative solution to this devastating disease lies at the very heart of our Company and is the underlying force that has driven, and to this day continues to drive, our endeavours. With our innovative approach, NanoTherm therapy, we have successfully developed a proven treatment that has achieved exactly that – effectively destroying cancerous cells while minimizing damage to surrounding healthy tissue. But simply developing a solution that works, is not enough – bringing it to the patient is what matters.

2018 saw us move closer and closer towards this goal and I, therefore, begin this letter on the occasion of our annual report with a sense of pride for what we have achieved in the past and continue to achieve in the ongoing financial year to make this innovative therapy available to more and more patients worldwide. Our accomplishments over the past year, such as the U.S. FDA IDE approval, the start of our pivotal prostate cancer study, and the first collaboration agreement outside of Germany, which are covered in more depth on page 28 and 32 of our annual report, are the reason for my optimistic outlook on MagForce's future and have greatly shaped our direction moving forward.

European roll-out gaining traction with two additional hospitals offering MagForce's NanoTherm therapy for the treatment of brain tumors

In Germany and all member states of the European Union, our therapy holds the official approval for the treatment of brain tumors, and has been available for commercial treatment at selected clinics installed with our patented therapy system. As we deal with a very aggressive form of cancer, fast access to therapy is of the highest priority. To make NanoTherm more broadly available, thus allowing for an accelerated treatment option, our market development team has successfully focused on identifying and building relationships with potential partner hospitals throughout Europe. In April of 2019, we were pleased to report that the first hospital outside of

Germany, the Independent Public Clinical Hospital No. 4 (SPKS4) in Lublin, Poland, has opened its NanoTherm treatment center and is now offering our innovative therapy as an additional treatment option for brain tumor patients from Poland and surrounding countries. In addition, we recently announced that MagForce entered into a cooperation agreement with a further German hospital, the Paracelsus Clinic in Zwickau, where a treatment center is planned to open over the summer. Once construction has been completed, Paracelsus Clinic Zwickau will be one of four clinics – together with the University Hospitals Cologne and Münster as well as the SPKS4 in Lublin, Poland – currently offering MagForces NanoTherm therapy for the commercial treatment of brain tumor patients. The new partnerships in Germany and Poland both cover geographically important regions and therefore represent another important step in our European roll-out strategy.

We continue to see great interest in our therapy in Italy and Spain. Negotiations regarding first treatment centers there are ongoing, and we will update the market in due time once the next cooperation agreements have been concluded.

Geographic availability is, of course, a significant factor in the selection of a treatment plan, however, reimbursement and the certification of the treating neurosurgeons are of equal importance. Whereas reimbursement in Germany has been achieved so far in a rather lengthy process for each individual patient, we now have the number of cases necessary for the NanoTherm treatment centers to be able to negotiate their budgets with health insurance providers. These negotiations are currently underway and we continue to support these clinics in every way we can in order to achieve the best possible result and facilitate the reimbursement process. In Poland, a small Investigator Initiated Trial (IIT) is currently being conducted in order to apply to the Agency for Health Technology Assessment and Tariff System for the reimbursement of NanoTherm therapy as a supplementary treatment. Additionally, in 2019, we launched a comprehensive application training series consisting of three consecutive modules to certify surgeons in the use of our innovative NanoTherm technology. The first session, "Module A – the basics", which took place end of January 2019, was met with great excitement from participants and we are planning for the next modules, covering advanced techniques, to commence this summer.

Gearing up towards the next stage of our pivotal study for a unique focal treatment option for prostate cancer

Our ongoing pivotal clinical study in our second indication, prostate cancer, in the US is in full progress. With around 230,000 new cases being diagnosed per year, prostate cancer is one of the most frequently diagnosed forms of cancer in the country. Fortunately, prostate cancer is treatable if detected early. In our February letter to shareholders, we shared the favorable initial findings from the ongoing first stage of our single-arm pivotal prostate cancer study, that was designed to demonstrate a successful focal treatment procedure for intermediate risk prostate cancer patients with acceptable side effects. These findings encouraged us in our efforts to supplement the current standard therapy with a less invasive, effective, and well-tolerated treatment option from which potentially 50,000 to 100,000 men in Active Surveillance Programs (ASPs) in the US could benefit.

Building on the whole gland studies previously conducted in Germany more than a decade ago, MagForce USA over the past year has diligently worked to develop clinical procedures to allow accurate instillation of the NanoTherm particles with the latest, cutting-edge biopsy technology available into the targeted human prostate Region of Interest (ROI) at the required concentration that would destroy the cancerous cells without side effects. Our objective was to contain the nanoparticles in the two to four cc of the suspected cancerous region. The good news is that we have successfully developed the clinical procedure and standardized the process such that the instillation of the particles is equal across all study physicians. The most important finding is that with the changes to the NanoActivator and the developed instillation procedure, we have observed side effects that have not only significantly improved over the studies more than a decade ago, but are very similar to ones associated with a routine biopsy. To quote one of the Stage I patients, "I experienced very little discomfort through the whole process and there are no lingering effects of the trial treatment."

Due to the processes described above, Stage I has taken significantly longer than projected, but with the knowledge acquired we will make every effort to accelerate the study and expect to finalize the first stage soon. We are already diligently working towards preparing and accelerating recruitment for the next stages. This includes the extended recruitment of eligible patients, the addition of a third study site and, the introduction of ambulatory NanoActivator chairs to selected AS Programs.

We are very fortunate to be working with such well-respected partners, who have an extensive industry reach, for the recruitment process. The University of Washington Medicine group alone consists of a network of hospitals and clinics with a catchment area housing nearly six million people. Through their extended network, e.g. partnerships with the Seattle Cancer Care Alliance/Fred Hutchinson Cancer Research Center, one of the top ten cancer research facilities in the country, and the willingness of patients to travel for cancer care, this number is significantly increased. Additionally, the San Antonio/Austin and South Texas region covers a similar catchment area which houses nearly six million people.

As we expect the therapy procedure in the next clinical stage to only require a one to two day stay at one of MagForce's NanoActivator facilities, the catchment area is even greater as patients can be recruited from across the USA in addition to the catchment areas surrounding the MagForce facilities. With the interest in enrollment we receive from prostate cancer patients and their attending physicians remaining high and with strong recruitment partners through which MagForce has access to an extensive patient population, we are confident that we will be able to successfully enroll the required number of prostate cancer patients without difficulty. The additional study site we plan to add in the Eastern region of the United States will not only cover a further strategically important geographical area, facilitating easier access for further patient populations, but will also allow us to handle more patients simultaneously.

While patient recruitment is an important aspect of getting the therapy approved, it is also important to allow physicians to become acquainted with new treatment options. In order to prepare for commercialization and hit the ground running after approval, NanoActivator chairs will be placed in selected urology programs where medical professionals will be able to gain experience on training phantoms, commonly used for new urological procedures.

With this in mind, we remain confident that NanoTherm therapy has a huge potential to tap into the significant prostate cancer market as a unique focal treatment option.

Well positioned for the future

In the past year, we have passed several major milestones and have made significant progress both in the EU, with our roll-out strategy, and the US where we aim to bring our innovative approach to market in our second indication.

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

Sincerely,

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

Dr. Ben Lipps
Chairman &
Chief Executive Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Christian von Volkmann
Chief Financial Officer

UPDATE EUROPE

European roll-out to enable faster access to treatment after brain cancer diagnosis

During 2018, we have continued to pursue our refined European expansion strategy for the commercialization of our innovative NanoTherm therapy for the treatment of brain cancer and have reached important milestones. NanoTherm is the first and only nanotechnology-based therapy with European approval for the treatment of brain tumors. To date, over 100 patients have already been treated using our innovative approach at our

NanoTherm treatment centers situated in renowned neuro-surgical and neuro-oncological clinics across Germany. Just recently, in June 2019, we were pleased to announce that we entered into a new cooperation agreement with the Paracelsus Clinic in Zwickau, where an additional treatment center with our patented therapy system is currently being set up. Moreover, we continue to experience rising interest from clinics from all over Europe as our refined commercial strategy is gaining traction. As part of this strategy, MagForce developed a mobile treatment center enabling the Company to place the devices more quickly and cost-effectively by avoiding protracted construction and allowing for easy integration into existing hospital infrastructure. Thereby, we aim to provide patients faster access to the therapy.

First clinic outside of Germany to offer MagForce's NanoTherm therapy

Our refined strategy was well received and we were able to sign our first collaboration agreement with a clinic outside of Germany in July 2018 and are currently in negotiations with further hospitals. We are proud to have partnered with the Independent Public Clinical Hospital No. 4 in Lublin, one of the most prestigious brain treatment centers in Poland, where Prof. Dr. hab. n. med. Tomasz Trojanowski, former Head and Chairman of the Departments of Neurosurgery and Paediatric Neurosurgery, State Consultant in Neurosurgery, and a member of the Scientific Advisory Board for the Minister of Health, together with his successor Prof. Dr. hab. n. med. Radoslaw Rola, Head and Chairman of the Neurosurgery and Paediatric Neurosurgery Departments, with the support of their renowned medical team of qualified and experienced doctors and nurses, are now providing access to NanoTherm therapy for brain cancer patients from Poland and surrounding countries.

The collaboration with a Polish clinic was a natural progression as immediately, when we began treating patients commercially in Germany in late 2015 and early 2016, we saw an elevated interest for the therapy in patients from this country. In 2018, MagForce had over 700 inquiries and about 40 percent of these inquiries were from Poland. With NanoTherm therapy now available in their home country, these patients will have a significantly reduced economic burden to receive treatment, since non-NanoTherm therapy procedures are all reimbursed in Poland and travel will be limited. Consequently, only the NanoTherm therapy will have to be funded by private pay or crowdfunding until MagForce can get reimbursement for the treatment costs.

Awareness of MagForce's unique NanoTherm therapy steadily increases and drives commercialization; strong interest from further hospitals

During 2018, we have further strengthened our team, who continues to diligently work on identifying and building relationships with other potential partner hospitals throughout Europe, with the addition of two seasoned sales staff in Germany.

With reimbursement being an integral part when it comes to choosing a treatment plan, we are happy to report that MagForce was able to make headway towards reimbursement in Germany: whereas reimbursement in this country so far was achieved in a rather lengthy process for each individual patient, we now have the number of cases necessary for the NanoTherm treatment centers to be able to negotiate their budgets with the health insurance providers.

We have also made excellent progress with the identification process for treatment centers in Italy and Spain, where we see great interest for our therapy. To meet the demand for NanoActivator devices for these potential new centers, MagForce repurposed devices that were used in our post-marketing study in Germany. MagForce successfully concluded this study, aimed at demonstrating the expected medical value of NanoTherm therapy for the treatment of brain tumors. The study also helped clinics attract the necessary patient numbers for budget negotiations with insurers.

NanoTherm Therapy School: launch of comprehensive application training series to certify surgeons in the use of NanoTherm technology

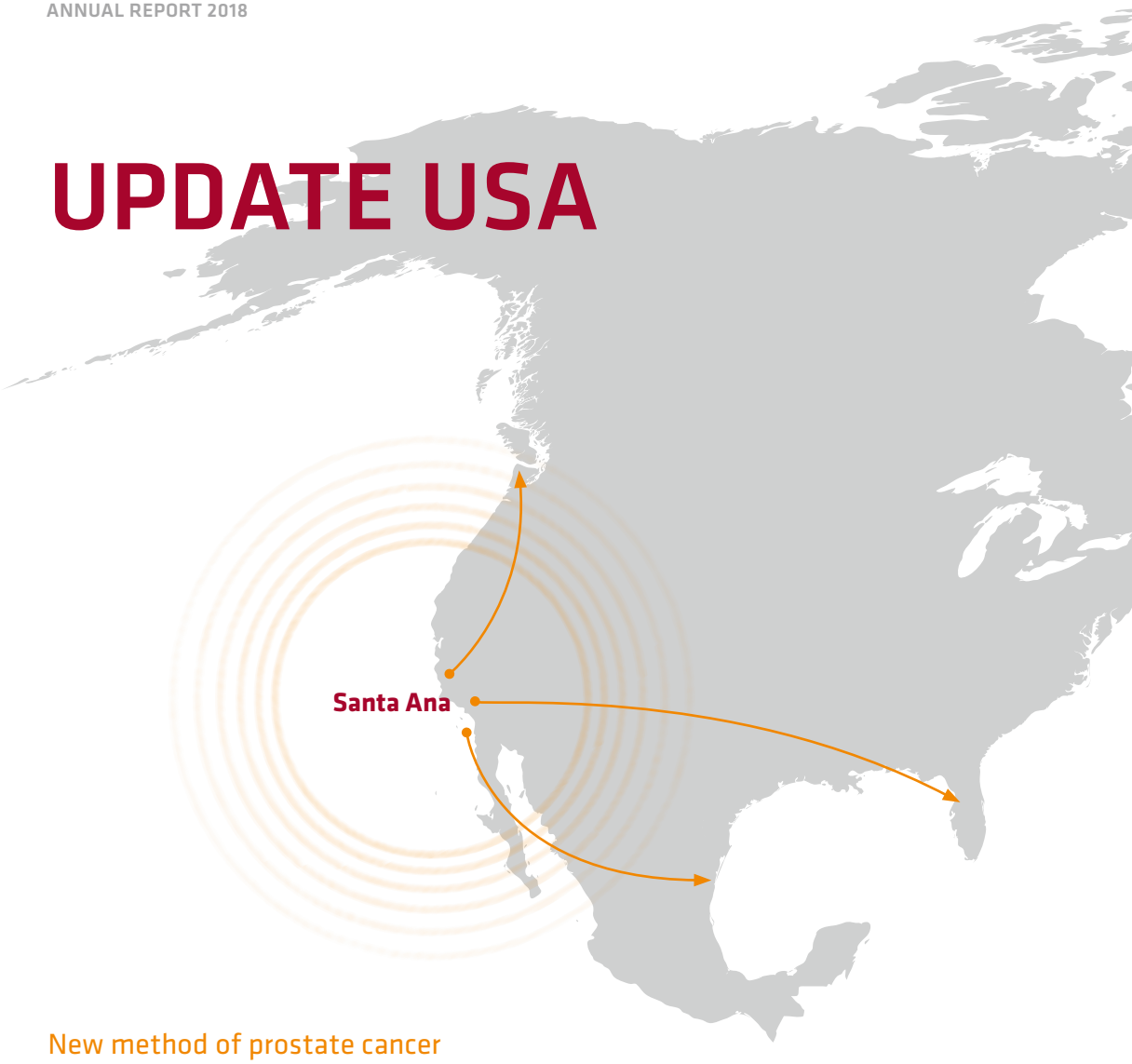
To facilitate for medical professionals working in the field of neuro-oncology interested in our NanoTherm therapy to become acquainted with its use, MagForce recently introduced a practice-oriented, unique, multifaceted application training series, the NanoTherm Therapy School. This way, surgeons are certified in the use of the Company's innovative NanoTherm technology.

In Germany, approximately 8,000 patients are diagnosed with a primary brain tumor annually. In the remaining 26 EU countries, an additional 42,000 patients suffer from brain cancer and research shows that the number of new diagnoses grows annually by four percent. Despite major advances in the treatment of patients suffering from malignant brain tumors such as glioblastoma and high-grade glioma, a cure is rarely possible due to the location and biology of the tumor making therapy particularly difficult. In addition, the time interval to achieve treatment is limited due to the aggressiveness of the cancer. Current treatments, including brain surgery, radiation and chemotherapy, often are not successful at eliminating all of the cancer cells from the brain creating an unmistakable medical need for new therapies in neuro-oncology. MagForce AG remains committed to continuing its work to expand the commercialization of its innovative NanoTherm therapy in order to make this therapy readily available for brain cancer patients in Europe.

Designed in three consecutive modules, the series aims at introducing participants to the theoretical knowledge and practical techniques required to successfully apply MagForce's NanoTherm technology whilst practicing their skills and familiarizing themselves with the procedures and device usages in a stress-free environment under largely real surgery conditions.

The concept was developed in close collaboration with Prof Dr. Walter Stummer, Prof. Dr. Dr. Oliver Grauer, University Hospital Münster, and Prof. Dr. Johannes Wölfer, Hufeland Klinikum GmbH Mühlhausen, drawing on their longstanding experience in the treatment of brain tumor patients with NanoTherm therapy.

UPDATE USA



New method of prostate cancer treatment: US pivotal study for unique focal treatment option progressing well

2018 started off with the news we all had been waiting for – in February of 2018, the U.S. FDA approved MagForce's Investigational Device Exemption (IDE) application for the focal ablation of intermediate risk prostate cancer, after having reviewed all the safety and new preclinical data the Company provided in 2016 and 2017. Additionally, the Company reconducted and updated its preclinical biocompatibility studies conducted in Germany more than ten years ago to the FDA's latest preclinical standards in order to assess toxicity and demonstrate that the nanoparticles remain where they

were instilled and do not wander in the patient's body. Based on the successful confirmation of the lack of toxicity and migration, the FDA granted device status to our nanoparticles which are now the only nanoparticles with said classification.

This is a significant milestone in the development of NanoTherm therapy for the treatment of prostate cancer in the US and a significant step towards our goal – to supplement the current standard therapy with a less invasive, effective, and well-tolerated form of treatment. The results we have seen so far are very promising and we expect that the registration clinical trial will prove that our innovative therapy can fulfill the desired outcome – providing men diagnosed with prostate cancer the highest quality of life possible while delaying or even completely avoiding invasive treatments.

Testing a new treatment path for a less invasive, effective, and well-tolerated treatment option

The IDE approval allowed us to commence with our pivotal clinical evaluation of NanoTherm therapy as focal ablation treatment for intermediate risk prostate cancer. The objective of this study is to demonstrate that this approach can ablate prostate cancer lesions with minimal side effects and after having received Institutional Review Board (IRB) approval from the two clinical US sites, CHRISTUS Santa Rosa Hospital – Medical Center in San Antonio, Texas, and University of Washington in Seattle, the clinics started enrolling the first patients in July of 2018.

As this is the very first time, that NanoTherm therapy is applied as a focal option and as the treatment of the first 10 patients in Stage I of the study will define the therapy to be used in the next up to 100-patient stage, it was of utmost importance to take the required time and focus the work during the past months on precisely instilling the NanoTherm particles into the targeted human prostate Region of Interest (ROI).

In this context, MagForce diligently worked to quantify the effect of prostate perfusion and optimized the nanoparticle infusion process with the latest, cutting-edge biopsy technology that is available for surgeons. In order to ensure that the instillation of the particles is equal across all study physicians, and thus optimum results are achieved, a standardized process was introduced.

Based on our experience so far, we anticipate to show with successful completion of Stage I that there are only minimal treatment-related side effects which are tolerable and similar to those commonly associated with biopsies. Furthermore, we are confident that the registration trial will prove that NanoTherm therapy can focally ablate prostate cancer lesions and thus allow men diagnosed with prostate cancer to maintain a higher quality of life, while delaying or even avoiding invasive treatments.

Gearing up towards the next stages: extending patient recruitment and facilitating training

While proceeding diligently with the first 10 patients in Stage I of the study, the Company is simultaneously in the process of preparing for the next stage. In this context, MagForce has partnered with three well-respected urological specialist centers to extent recruitment for the next stages of the study and, in addition, will proceed with introducing the ambulatory NanoActivator chair to selected urology programs, so called Active Surveillance Programs, to allow gaining experience with training phantoms, which are commonly used for new urological procedures.

Advantage of NanoTherm focal ablation therapy

Prostate cancer, although one of the most frequently diagnosed forms of cancer in men worldwide, is treatable, if detected early. According to estimates of the National Cancer Institute, around 230,000 new cases of prostate cancer have been diagnosed per year in the USA.

Although current treatment methods for early stage prostate cancer are highly effective, they often come with lifelong side effects. For many patients, the benefits of treatment simply do not outweigh the risks, leading many with low- to medium-risk prostate cancer to opt for active surveillance, i.e. the monitoring of the cancer's growth with the goal to ensure the highest quality of life possible while delaying or even completely avoiding invasive treatments.

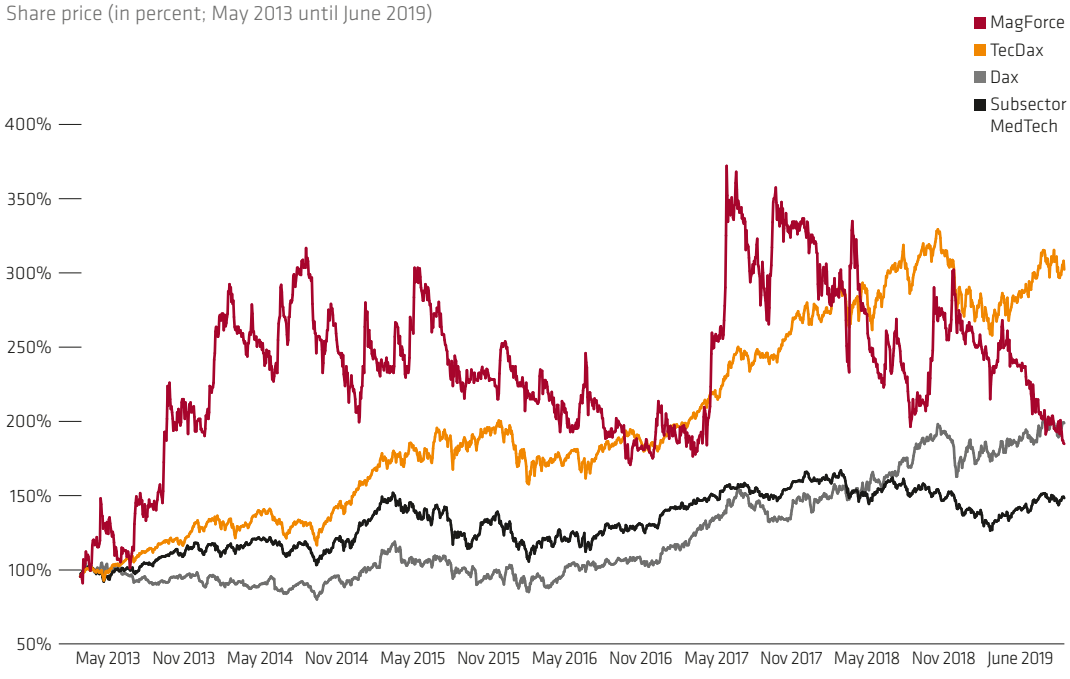
Still, approx. 60 percent of the 50,000 to 100,000 patients participating in one of the over 250 US Active Surveillance Programs (ASPs) will require definitive therapies at one point. Ablation therapies, such as NanoTherm therapy, could reduce the risk of overtreatment, effectively sorting out tumors that do not need to be treated, aggressively treat high-risk tumors and potentially ablate those intermediate-risk tumors that could later be fatal. With successful NanoTherm treatment, it is anticipated that the patients can return to Active Surveillance and keep their quality of life.

INVESTOR RELATIONS

MagForce's Share

On December 28, 2018, MagForce shares (MF6.DE) closed at EUR 5.22, and thus lost 18 percent over the business year 2018. During the reporting period, the share price high was EUR 8.18 and the low was EUR 4.38. The Company's market capitalization at the beginning of January was EUR 168 million, at the end of December EUR 137 million. The average daily trading volume of MagForce's shares on XETRA in 2018 was 33,779 shares and thus again more than in the previous year's (33,603 shares).

MagForce Share Price Development



Key Fatcs MagForce Share

Number of shares issued at the beginning of the period	26.348.172
Number of shares issued at the end of the period	26.463.802
Free float	70%
2018 high (XETRA) in EUR	8,18
2018 low (XETRA) in EUR	4,38
Price at the beginning of the period (XETRA) in EUR	6,40
Price at the end of the period (XETRA) in EUR	5,22
Price on June 13, 2019 (XETRA) in EUR	4,33
Market capitalization at the beginning of the period (EUR millions)	168
Market capitalization at the end of the period (EUR millions)	137
Market capitalization on June 13, 2019 (EUR millions)	114
Average daily trading volume during the period (XETRA)	33.779
Average daily trading volume until June 13, 2019 (XETRA)	27.992

Scale 30 Index – Listing Increases MagForce's Visibility

MagForce is included in the Scale 30 Index of the Deutsche Börse (German Stock Exchange) since it was launched in March 2017. The Scale segment of Deutsche Börse that has replaced the Entry Standard for equities and corporate bonds in which the Company's share has been included previously. The selection index tracks the performance of the 30 most liquid companies listed in the SME segment Scale. Eligibility for index inclusion depends on order book turnover on Xetra and Frankfurt Stock Exchange.

Research Coverage

Institute	Latest update	Price target in EUR
Berenberg	September 2018	10.10
Edison Investment Research	November 2018	11.50
GBC Investment Research	November 2018	15.30
Hauck & Aufhäuser	February 2019	11.50
MAINFIRST	February 2019	15.60

Directors Dealings: CEO Ben Lipps and Hallmann Holding Further Increase Holding

During the course of the year 2018, MagForce CEO Ben J. Lipps increased his holding in MagForce through the acquisition of additional 16,404 shares by a total volume of EUR 90,062, stating his trust in the Company and its future growth.

In addition, Hallmann Holding International Investment GmbH acquired 10,000 shares at a total volume of EUR 70,512. Hallmann Holding together with Supervisory Board member Klemens Hallmann is one of MagForce's core shareholders.

Successful Financing of the Subsidiary MagForce USA, Inc.

In August 2018, MagForce announced the successful completion of a capital increase of its subsidiary MagForce USA, Inc. The capital increase was carried out by exercising 700,000 subscription rights of MagForce USA, Inc. and by issuing 166,666 new shares in MagForce USA, Inc. The subscription rights were issued in 2014 to US investors as part of a growth financing round and had a term limit of four years. There are no outstanding subscription rights remaining after the exercise. The issuance of a total of 866,666 new shares will generate gross proceeds of approximately USD 9.0 million for MagForce USA, Inc. The new MagForce USA, Inc. shares were subscribed by a new US investor.

Following the issue of the new shares, MagForce AG holds 67.9 percent of the shares in MagForce USA, Inc. and will continue to retain a majority ownership position in the US subsidiary. Post-transaction ownership structure MagForce USA, Inc.: MagForce AG 67.9 percent, Lipps & Associates 17.0 percent, other US investors 15.1 percent.

Proceeds from the capital increase are being used to finance the initiated pivotal clinical trial in the USA with NanoTherm Therapy for focal tumor ablation in intermediate risk prostate cancer and associated business operations.

Transparent Communication for a Fair Valuation

MagForce's 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 its shares. As in the past, the Company continues to work on increasing awareness for its shares and its equity story in the financial community and sets great store on a regular dialog with its shareholders.

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

In the first half of 2019, MagForce presented at: Goldman Sachs European Small & Mid-Cap Symposium, London, UK; German Spring Conference 2019 and MAINFIRST SMID Cap Conference, both in Frankfurt, Germany,

During the second half of 2018, MagForce presented at: Berenberg & Goldman Sachs European Medtech & Services Conference 2018 in London, UK; Berenberg Bank and Goldman Sachs Annual German Corporate Conference 2018 in Munich, Germany, German Equity Forum in Frankfurt, Germany, and the Prior Kapitalmarktkonferenz, both in Frankfurt, Germany.

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

Report of the Supervisory Board

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

The Supervisory Board monitored the management of the Company on an ongoing basis. At five meetings in the financial year 2018, all business transactions and pending decisions requiring the approval of the Supervisory Board in accordance with the law and the Articles of Association were discussed in detail. All members of the Supervisory Board attended these meetings.

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

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

In the telephone meeting on January 30, 2018, the Supervisory Board approved the extension of the Management Board contracts for all members of the Management Board for a further two years. At the same meeting, the budget for 2018 and the planning for 2019 were discussed and approved.

At the Supervisory Board meeting on March 21, 2018, the update on the operating business of the Company and MagForce USA Inc. including the clinical and financial development was discussed. Furthermore, the next meeting dates were agreed at the same meeting.

At its meeting on April 16, 2018, the Supervisory Board was given a concrete overview of the 2017 annual financial statements, including the audit report and the audit opinion.

In its telephone meeting on April 24, 2018, the Supervisory Board discussed the 2017 annual financial statements with the Company's auditor and Management Board member Christian von Volkmann.

By resolution adopted by written circulation on April 27, 2018, the Supervisory Board resolved to amend the Articles of Association following the partial utilization of Contingent Capital 2012/II as a result of the exercise of subscription rights under the Stock Option Plan 2012.

The Supervisory Board adopted the 2017 financial statements and the management report by way of written circular resolution dated May 2, 2018 and approved the appointment of NEEF LEGAL Rechtsanwälte for legal advice of up to 24.25 hours under the existing consulting, liability and remuneration agreements.

At its meeting on May 16, 2018, the Supervisory Board was provided with an updated overview of the operating business development in the USA and Europe, the Company's financial development and changes in equity.

The Supervisory Board approved the agenda for the Company's Annual General Meeting on August 9, 2018 by written circular resolution of June 29, 2018.

In its attendance meeting on August 9, 2018, the Supervisory Board followed up the Annual General Meeting.

By resolution adopted by written circulation on August 30, 2018, the Supervisory Board approved the signing of a guarantee agreement with the European Investment Bank and the amendment of the related financial agreement and the capital increase at MagForce USA, Inc. by issuing 166,666 new shares.

At its meeting on October 11, the Supervisory Board was given an overview of the 2018 half-year financial statements and discussed the financing plan for 2019. In addition, the most recent developments in the operating business were explained to the Supervisory Board.

By resolution of November 13, 2018 by written circulation, the Supervisory Board approved the further appointment of NEEF LEGAL Rechtsanwälte to provide 24.25 hours of legal advice.

At its meeting on November 29, 2018, the Supervisory Board discussed the budget for 2019 and the planning for 2020.

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

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

The annual financial statements as of December 31, 2018 and the management report for the financial year 2018 prepared by the Management Board as well as the accounts were audited by the appointed auditor AIOS GmbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Berlin, the auditors appointed by the Annual General Meeting, and were issued with an unqualified audit opinion.

The Supervisory Board also carefully examined the annual financial statements as of December 31, 2018 and the management report of the Management Board for the financial year 2018. The auditor participated in the discussion of the annual financial statements and was available to provide additional information.

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

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

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

On June 19, 2019, the Supervisory Board approved the annual financial statements as of December 31, 2018 prepared by the Management Board. The annual financial statements are thus adopted.

The Supervisory Board would like to thank the Management Board and all employees for their great personal commitment and the work they have done in 2018, 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, 19 June 2019

The Supervisory Board

Norbert Neef
Chairman of the Supervisory Board

MANAGEMENT REPORT

for the financial year 2018

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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. The first mobile NanoTherm therapy center was officially inaugurated and put into operation in March 2019 in Lublin, Poland. Additional therapy centers are planned in Europe.

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

The US subsidiary MagForce USA Inc., with its place of Business in Nevada, USA, is currently developing NanoTherm therapy for the focal treatment of prostate cancer as part of a pivotal clinical trial and will then start marketing in the USA, Canada and Mexico. MagForce Ventures GmbH, Berlin, owns the distribution and development rights in the indications of prostate cancer and brain tumors for the regions USA, Canada and Mexico and is a 100 percent subsidiary of MagForce USA, Inc. Together with the wholly owned subsidiary MagForce USA Holding GmbH, Berlin, which acts as a holding company, MagForce AG holds the majority of the shares in MagForce USA, Inc.

In the fourth quarter of 2018, MagForce sp. z o.o. was established as a sales unit based in Warsaw. MagForce AG holds 100 percent of the shares in the company. With our new subsidiary, we provide Polish patients access to our NanoTherm therapy.

The production and development of the NanoActivator devices for the companies of the MagForce group is carried out by our wholly owned subsidiary MT MedTech Engineering GmbH based in Berlin.

Macroeconomic situation

According to the 2018 / 2019 annual report and the economic forecast 2019 and 2020 of the German Council of Economic Experts on the assessment of overall economic development, the global economy continues to grow, but at a significantly slower pace. While the global economy grew by 3.4 percent in 2017, it fell to 3.2 percent in 2018. For 2019, the German Council of Economic Experts has revised its original forecast of 3.0 percent to just 2.7 percent.

The euro zone fell behind the growth rates of 2017. While GDP grew by 2.4 percent in 2017, it fell to 1.8 percent in 2018. The German Council of Economic Experts forecasts economic output of 1.2 percent for 2019, thus revising its original forecast by -0.5 percentage points.

The times of boom in German economy have ended for the time being. The pace of expansion has slowed considerably. GDP in 2018 was only 1.4 percent compared with 2.2 percent in 2017. The German Council of Economic Experts forecasts an annual average growth rate of 0.8 percent for GDP in 2019, thus revising its forecast from the 2018 / 2019 annual report by -0.7 percentage points.

The possibility of a disorderly Brexit, turbulences in individual emerging markets and ongoing trade disputes are likely to weigh on the economy. Increasingly utilized production capacities and weaker impulses from abroad are among the reasons for the lower growth rates of the German economy. The contribution of exports is likely to be lower due to the moderate growth in world trade. Positive effects, on the other hand, will come from the buoyant construction sector and continued growth in private consumption, which will be supported by robust employment growth with historically low unemployment rates. In view of the stable domestic economy, the German Council of Economic Experts does not expect any recession in the German economy.

Market and industry conditions

MagForce is active in the medical device sector and is currently focused on commercialization of its NanoTherm therapy for the treatment of brain tumors in Europe and the development of NanoTherm therapy for the treatment of prostate cancer in the USA. The global market volume for treatment of prostate cancer is expected to grow to USD 13.6 billion until the year 2021 and for Glioblastoma to USD 3.3 billion until the year 2024.

Glioblastoma, prostate cancer and treatment

Glioblastoma

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

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

Conventional treatments for newly diagnosed glioblastoma are still dominated by surgery accompanied by radiotherapy and temozolomide. Other forms of treatment, such as the use of angiogenesis inhibitors, have not proven successful in first-line therapy. In contrast to that another medical device in addition to the temozolomide therapy used after a standard chemotherapy has shown an improvement in the mean survival time and the five-year survival of glioblastoma patients. However, a breakthrough in the therapy was not achieved so far.

Despite the intensive standard treatment, after a few months the tumor often grows back. There is no standard therapy for the treatment of a recurrent tumor. A new resection, accompanied with a repeating chemotherapy (Alkylanz, Bevacizumab) or radiotherapy or a therapy option within a clinical study is commonly prescribed.

Currently a definitive cure is nearly impossible in this indication. The average survival time with glioblastoma is 16-20 months only. The median five-year survival rate following combined radiation and temozolomide therapy is 5-10 percent. There is, therefore, a clear need for new therapies with different mechanisms of action. NanoTherm therapy represents such a new therapy method, which is applied. Negotiations on the reimbursement of costs are currently being conducted in parallel with further broadening of the data situation.

Prostate cancer

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

Focal prostate cancer therapies are aimed at destroying only the prostate cancer lesions, sparing the healthy tissue in order to avoid side effects and to maintain the patient's quality of life. Therapies affecting the whole prostate gland, for example radical prostatectomy and radiation therapy, are considered definitive therapies, but come with a significant impairment of a patient's quality of life, which includes incontinence, erectile dysfunctions and other side effects. Active surveillance of prostate cancer is regarded as equal alternative to the interventional therapy for low-grade prostate tumors. Treatment does not start until a specified diagnostic biopsy value in the blood (e.g. PSA) is exceeded or an enlargement of the prostate tumor is indicated by a manual examination. However, there are 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.

MagForce AG is testing the technologies it has developed as a new, focal treatment method for intermediate prostate cancer as a part of a pivotal registration trial in the USA and plans to enter this market through its subsidiary MagForce USA, Inc.

Competition

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

Development of the Company in the financial year

Finance

MagForce AG

The first tranche of the loan from the European Investment Bank (EIB) in the amount of EUR 10.0 million was received in January 2018. Further tranches of EUR 25.0 million may be drawn in the next two years, if certain success criteria are met.

These transactions have been enabled by the European Fund for Strategic Investments (EFSI), the centerpiece of the EU investment plan. With this initiative the EIB group and the European Commission as strategic partners intent to increase the competitiveness of the European economy.

The EIB financing supports the European wide launch of NanoTherm therapy for the treatment of brain tumors. Moreover, it will help MagForce to apply for the EU and worldwide admission of the therapy for the treatment of prostate cancer, another cancer indication that is suitable for the treatment with NanoTherm therapy.

The EIB financing covers a volume of up to EUR 35.0 million and enables the MagForce AG to follow up its medium and long-term targets consistently. There neither is the obligation to call these tranches, nor are there any commitment interests to pay. Every tranche must be repaid within five years after drawing.

Through the exercise of 115,630 stock options from contingent capital 2013 / III, MagForce AG received cash in the amount of EUR 313 thousand in the fourth quarter of 2018.

MagForce USA, Inc.

In August 2018 a capital increase of the subsidiary MagForce USA, Inc. was successfully completed. The capital increase was carried out by exercising 700,000 subscription rights of MagForce USA, Inc. and by issuing 166,666 new shares in MagForce USA, Inc. The subscription rights were issued in 2014 to US investors as part of a growth-financing round. There are no outstanding subscription rights remaining after the exercise. The new MagForce USA, Inc. shares were subscribed by a new US investor. The issuance of a total of 866,666 new shares generated gross proceeds of approximately USD 9.0 million for MagForce USA, Inc. Proceeds from the capital increase are used to finance the initiated pivotal clinical trial in the USA with NanoTherm therapy for focal tumor ablation in intermediate risk prostate cancer and related business operations.

Foundation of MagForce sp. z o.o.

With the establishment of the wholly owned Polish subsidiary in 2018, MagForce is consistently pursuing its European roll-out plan and allow Polish brain tumor patients easier access to NanoTherm therapy. The company acts as a local sales unit in Poland.

Commercialization

MagForce's focused sales strategy in Europe is beginning to bear fruit. A collaboration agreement was concluded with one of the most renowned treatment centers for brain tumors in Poland, the Independent Public Clinical Hospital No. 4 of the Medical University in Lublin, and a NanoTherm therapy center was opened. The Independent Public Clinical Hospital No. 4 in Lublin is the largest hospital in Lublin Province, providing learning and research facilities for the Medical University in Lublin. The hospital serves patients from Lublin Province as well as from other regions of the country and abroad. Over 1,600 patients per year receive surgery, and about 6,000 consultations are given in an outpatient neurosurgical clinic. Going forward, the clinic will offer the NanoTherm therapy of MagForce as a treatment option.

The majority of patient inquiries for which treatment with NanoTherm is considered come from Poland. With the installation of a mobile NanoTherm treatment center in Lublin, MagForce has gained a foothold in one of the most important markets. MagForce continues to identify and build relationships with potential partner clinics in other European countries. In Italy and Spain, where interest in NanoTherm therapy is high, MagForce is in concrete negotiations with interested parties.

MagForce has developed a mobile solution for the placement of NanoActivator devices. This makes it possible to integrate the NanoActivator into a hospital's existing infrastructure without time-consuming and cost-intensive reconstruction work. In view of the aggressiveness of glioblastomas, timely treatment is necessary. With the help of the mobile solution, MagForce can provide NanoTherm therapy centers quickly and cost-efficiently. The successful installation in Lublin, Poland, confirms the positive reception of this mobile solution by the market.

The treatment of patients on site is also a key success factor in terms of reimbursement. The costs of NanoTherm therapy vary from country to country, and the share of costs borne by the health systems also varies. Placing NanoActivators in the patients' home countries will make it easier to reimburse costs and, in particular, enable patients to cover the treatment costs. MagForce continues to work with experts to improve both domestic and cross-border reimbursement.

In 2018, important successes were achieved in implementing the European roll-out plan, thus creating the conditions for increasing sales from these markets.

US pivotal study

The clinical trial ("Investigational Device Exemption", IDE) approved by the U.S. Food and Drug Administration (FDA) for the application of focal NanoTherm therapy in intermediate prostate cancer is currently in the first of two stages. The aim of the staged, single-arm study, which includes up to 120 patients, is to show that NanoTherm therapy can locally destroy carcinogenic lesions of the prostate with minimal side effects.

To best achieve this goal, MagForce has refined its instillation technique by performing the particle placement process using accompanying precision technology. As a result, the particles are placed with high precision in the target region, which is crucial for the success of the therapy.

The study is being conducted by three renowned urology centers – the Texas Urology Group, the University of Texas, San Antonio, and the University of Washington, Seattle.

The strong interest of patients and treating physicians to be included in the study underlines the great medical need for focal therapies with reduced side effects and thus the opportunity to establish NanoTherm therapy as a well-tolerated, less invasive but effective treatment alternative to standard therapies in the USA.

Results of operations, net assets, and financial position

Following is a presentation of operations, net assets, and financial position of the Company. In addition, reference is made to the explanations in the notes, where the individual items of the balance sheet and the income statement are presented in detail.

Results of operations

In the financial year, revenues amounted to EUR 67 thousand (previous year: EUR 716 thousand). Revenues recorded as realized result mainly from commercial treatments of patients with NanoTherm therapy. Hospital-specific reimbursement of NanoTherm therapy by health insurance companies, which is currently being negotiated, and thus such amounts are currently not being reflected in revenues. Furthermore, treatments of foreign patients declined due to bureaucratic hurdles and extensive cross-border reimbursement procedures. In addition, intragroup deliveries and services were lower than previous year.

Compared to the previous year, other operating income increased by EUR 11,280 thousand from EUR 3,629 thousand to EUR 14,909 thousand. Most of the other operating income resulted from the transfer of 975,000 shares in MagForce USA, Inc. to MagForce USA Holding GmbH, with hidden reserves of EUR 13,895 thousand being lifted (previous year: EUR 2,024 thousand). Further positive effects resulted from the recharging of management services and other administrative services to subsidiaries in the amount of EUR 561 thousand (previous year: EUR 690 thousand), the reversal of provisions in the amount of EUR 293 thousand (previous year: EUR 80 thousand) and exchange rate differences in the amount of EUR 71 thousand (previous year: EUR 187 thousand).

The cost of materials decreased from EUR 974 thousand to EUR 455 thousand and was therefore EUR 519 thousand lower than in the previous year. In addition to the lower use of raw materials and supplies, this was due in particular to the reduction in expenses for the development of the NanoActivator for the treatment of prostate cancer.

Personnel expenses of EUR 3,921 thousand (previous year: EUR 3,298 thousand) also include bonus payments. In addition to salary raises, the reason for the increase in personnel expenses is in particular the exercise of stock options (EUR 308 thousand).

Amortization of intangible assets and depreciation of property, plant and equipment amounted to EUR 597 thousand and was EUR 74 thousand lower than in the previous year (EUR 671 thousand).

The reduction in other operating expenses by EUR 3,931 thousand from EUR 7,105 thousand to EUR 3,174 thousand is due to the decrease in expenses for external financing measures. Furthermore, unlike previous years, in 2018 MagForce AG financed MedTech Engineering via contributions to the capital reserves. Thus, unscheduled amortization of contributions is presented within the financial result.

The operating result in 2018 was positive at EUR 6,828 thousand, whereas the previous year ended with a negative operating result of EUR -7,411 thousand.

The slight increase in other interest and similar income from EUR 212 thousand to EUR 231 thousand was more than offset by the increase in interest and similar expenses from EUR 265 thousand to EUR 1,823 thousand. The higher interest expenses are due in particular to the first tranche of the EIB loan received in January 2018, which influences interest expenses in addition to the convertible bond issued in 2017. The negative financial result was also increased from EUR – 53 thousand in 2017 to EUR – 2,468 thousand in 2018 by the unscheduled depreciation of the funding granted to the subsidiary MT MedTech Engineering GmbH in the amount of EUR 877 thousand.

The year 2018 closed with a net profit for the year of EUR 4,358 thousand (previous year: net loss of EUR 7,465 thousand).

Net assets

In the reporting period, total assets increased by EUR 15,102 thousand to EUR 37,134 thousand, mainly due to the transfer of the shares in MagForce USA, Inc. to MagForce USA Holding GmbH at fair value. This resulted in profit recognition of EUR 13,895 thousand.

On the assets side, tangible fixed assets decreased by EUR 188 thousand to EUR 3,401 thousand. Financial assets increased from EUR 17,082 thousand to EUR 30,978 thousand mainly as a result of the transaction described above.

Receivables and other assets increased by EUR 456 thousand to EUR 807 thousand. The increase is mainly due to the increase in receivables from affiliated companies, which amounted to EUR 450 thousand in the reporting year (previous year: EUR 32 thousand). Cash and cash equivalents amounted to EUR 1,494 thousand at the end of the reporting period (previous year: EUR 666 thousand).

On the liabilities side, the net accumulated deficit decreased by EUR 4,358 thousand to EUR 52,064 thousand, as a result of the net gain for the year. Furthermore, the exercise of stock options in the reporting year increased shareholders equity by EUR 608 thousand. The Company's subscribed capital was increased from EUR 26,348 thousand to EUR 26,464 thousand by issuing 115,630 new shares against cash contribution. The capital reserve increased by EUR 492 thousand to EUR 43,759 thousand.

The decrease in other provisions by EUR 106 thousand to EUR 1,885 thousand is due to the reversal of provisions and the lower addition to provisions for outstanding invoices and personnel costs.

Liabilities increased by EUR 10,280 thousand to EUR 17,040 thousand in the financial year, mainly due to the disbursement of the first tranche of the EIB loan in the amount of EUR 10,000 thousand and accrued interests.

Financial position

Net gain for the year of the Company amounted to EUR 4,358 thousand (previous year net loss: EUR 7,465 thousand).

Cash flow from operating activities amounted to EUR -7,106 thousand (previous year: EUR -5,341 thousand). The higher cash outflow chiefly results from changes in net working capital. The cash outflow from operating activities was derived indirectly from the net profit for the year. The cash outflows mainly relate to the financing of operating activities.

Cash flow from investing activities amounted to EUR -1,370 thousand (previous year: EUR – 578 thousand) and related primarily to the contributions made in the reporting

year to provide financial support for the subsidiary MT MedTech Engineering GmbH and the construction of the mobile NanoActivator therapy center.

The cash flow from financing activities amounted to EUR 9,304 thousand (previous year: EUR 5,970 thousand) and is mainly attributable to the draw-down of the first tranche of the EIB facility as well as to the proceeds from the exercise of stock options, which were offset by cash outflows from the repayment of previously existing loans and the payment of interest.

At the end of the year, the freely available liquidity amounted to EUR 1,494 thousand (previous year: EUR 666 thousand).

MagForce AG was able to meet all its payment obligations at any time during the reporting period.

Comparison of results of operations, net assets, and financial position with previous year's forecast

The year closed with a net gain of EUR 4,358 thousand. Compared to the previous year, the net result was improved by EUR 11,823 thousand, in particular as a result of further corporate structuring measures with the transfer of shares in MagForce USA, Inc. into the capital reserves of MagForce USA Holding GmbH at fair value.

Significant progress was made in the context of the European roll-out.

The positive operating result of EUR 6,828 thousand is due to the extraordinary effect of the corporate structuring measure aforementioned. Without this extraordinary effect, the operating result would have been negative at EUR 7,067 thousand and as forecasted.

The negative financial result rose significantly in line with the forecast. This is due to the expansion of debt financing through the inflow of the first tranche of the EIB loan and the associated increase in debt service, which now includes interest on the EIB loan in addition to the convertible bond issued in 2017.

The targeted earnings improvement of the subsidiary MT MedTech Engineering GmbH could not be achieved in 2018. The planned expansion of the production of prostate NanoActivators has not yet been commissioned in 2018, as this will only begin with the progress of the second phase of the prostate cancer study as planned. In this respect, the improvement in the earnings situation is shifting in relation to the prostate cancer study.

Research and development

Clinical development

The US subsidiary MagForce USA, Inc. has updated and repeated the required preclinical studies on the recommendation of the FDA after submitting the application for approval to conduct a clinical trial with NanoTherm therapy. MagForce USA, Inc. repeated all previous biocompatibility studies with the aim of assessing toxicity and whether nanoparticles migrate in the body after being instilled into the prostate. These studies again confirmed the lack of toxicity and lack of migration of the nanoparticles. The results of these preclinical studies and the proposed clinical trial protocol were submitted to the FDA for approval towards the end of the fourth quarter of 2016. Throughout 2017, various follow-up meetings were held to discuss MagForce's submitted documentation, to answer further questions and to adjust the design of the trial. The Investigational Device Exemption (IDE) application for NanoTherm therapy in intermediate prostate cancer was approved by the FDA in 2018. The ethics committees then approved the study during the year and the first patients were included in the study. The Texas Urology Group, the University of Texas, San Antonio and the University of Washington, Seattle – three prestigious urology centers – are actively recruiting patients. MagForce USA, Inc. continued to refine the instillation technique during 2018 by performing the process of particle placement using accompanying precision technology, achieving a level of automation that is a critical advantage for particle placement in the target region.

During the financial year, MT MedTech Engineering GmbH worked on the further development of the ambulatory NanoActivator device for the treatment of prostate cancer and successfully completed the implementation of a standard for mobile NanoTherm therapy centers.

Patent and brand applications

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

Employees

At the end of the year 2018, MagForce AG had 28 employees (excluding members of the Management Board), six more than in the previous year. As of December 31, 2018, 46 percent of the employees were women. The MagForce group employed a total of 57 employees at the end of the year.

Opportunities and risks

Opportunities

With its innovative treatment method, which is widely applicable, effective and well tolerated by the patient, MagForce has set itself the goal of establishing an alternative or supplement to conventional forms of cancer therapy such as surgery, chemotherapy and radiotherapy. The data show that NanoTherm therapy is a well-tolerated therapy with a positive benefit-to-risk ratio, and is generally much less onerous for patients than conventional therapy methods such as radiation or chemotherapy or radical prostatectomy in the case of prostate cancer.

MagForce AG has succeeded in further increasing the acceptance of its NanoTherm therapy through the support of leading experts in the indication “brain tumor”. Since 2015, patients have been treated commercially with NanoTherm therapy. In 2018, the therapy was first included in the negotiations of hospital budgets with the health insurances.

The pivotal clinical registration study for the application of NanoTherm therapy in the treatment of focal intermediate prostate cancer in the US holds enormous potential both for the value of the Company as a whole and for the widespread use of NanoTherm therapy in the treatment of cancer. MagForce is convinced that it has chosen strategically valuable partners with the clinics participating in the study. For example, the CHRISTUS Santa Rosa Hospital, an institution of CHRISTUS HEALTH, an international non-profit health organization based on the Catholic faith, 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 Colombia. The organization employs more than 45,000 people and its medical staff includes more than 15,000 physicians.

In regard to the outstanding experience and extensive expertise of the CHRISTUS Santa Rosa Hospital and its team, we look forward to a highly motivated cooperation. Following the successful completion of the clinical registration study and FDA approval for commercial treatment, this partnership gives MagForce the opportunity to use the established network of this organization.

In addition, the area of research and development offers significant potential for the further development of products, new indications, and partnerships.

With the financial resources secured in recent years, a solid financial basis has been laid for the further development of the Company.

Risks

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

Risk of lack of profitability and liquidity

The Company has sustained operating losses in the past and might not become profitable in the medium-term. Moreover, MagForce AG 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 non-compliance with legal requirements could lead to the withdrawal of product approval.

Commercial success depends on acceptance of NanoTherm therapy

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

Risks from general development delays

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

Limited protection offered by industrial property rights

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

Risks from industrial property rights of third parties

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

Risks related to debt, interest expenses and other similar expenses

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

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

Capital market risks, interest rates

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

Exchange rate risks

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

Overall picture of the risk situation

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

Risk management targets and methods in relation to financial instruments

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

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

Report on expected developments

For the year 2019, the following focal points are planned for the Company's development:

- Commercial treatment of first patients with NanoTherm therapy in Poland
- Continuation of the planned European expansion strategy for NanoTherm therapy in the indication brain tumors in other countries
- Establishment of further treatment centers in Germany and increase in the number of patients treated with NanoTherm therapy
- Conduction of the registration study for the NanoTherm therapy in the indication prostate cancer for the territory of the USA by the subsidiary MagForce USA, Inc.

› Establishment of the „NanoTherm Therapy School“ as application training for the use of NanoTherm therapy with the aim of certifying surgeons using the innovative NanoTherm technology

Expected results

The Company expects a further expansion of its business activities in Europe in the financial year 2019. The commercial treatment of first patients in Poland will make a positive contribution to the Company's success.

Due to the execution of the registration study and the preparations for commercialization in the USA and market entry in Poland, an increase in production volumes of NanoTherm is expected. The ambulatory NanoActivator devices required for the treatment of prostate cancer will be produced depending on the progress of the prostate study.

Even if the European expansion strategy should bear first fruit with sales from Poland, a significant operating loss is expected for the financial year 2019, in particular due to the intensified continuation of the expansion strategy and the associated initiation of treatment series to obtain reimbursement as well as the necessary expansion of commercialization activities.

In the case of financing the expanded business activity by drawing additional tranches from the EIB loan, the financial result is expected to be significantly more negative than in the previous year.

Summary of expected developments by the Management Board

The Company's business model is characterized by its focus on value drivers that can be realized in the short and medium term. This includes in particular the commercialization of NanoTherm therapy in Germany and its neighbouring states as well as in other EU states. The medium-term goal is to complete the registration study for FDA approval for the commercialization of NanoTherm therapy by the American subsidiary MagForce USA, Inc. in the indication prostate cancer and to secure reimbursement. In the long term, development in other indications and further development of NanoTherm particles are planned.

For the years 2019 and 2020, the Company plans to intensify its collaboration with local and international patient organizations to further establish the therapy and increase the number of patient inquiries. The Company's presence at relevant events

and at foreign patient organizations is also to be increased. Furthermore, new ways of reimbursement will be introduced in Germany and selected countries in order to make NanoTherm therapy accessible to the widest possible patient group. In particular, the mobile NanoTherm Therapy Center will contribute to making NanoTherm therapy more quickly accessible to patients abroad. Another element in establishing MagForce's innovative cancer therapy is the continuation of the NanoTherm Therapy School with the aim of certifying surgeons in the use of NanoTherm technology.

This catalog of measures is based on the assumption that a focused establishment of NanoTherm therapy through a successive commercialization of the therapy at selected treatment centers in Germany and other European countries will generate sustainable revenues. Even if the costs in these areas initially rise as a result of these measures, the profitability of MagForce AG will ultimately be ensured in the long term.

The Management Board's assessment is also based on the positive reception of NanoTherm therapy by interested parties. The continuing immense demand for new forms of cancer therapy and the sustained growth of this market segment support this assessment.

The management of MagForce AG has successfully completed the necessary measures over the past two years to finance the expansion targets set for Europe.

Based on cash and cash equivalents of EUR 1,494 thousand as of December 31, 2018 (previous year: EUR 666 thousand) and available credit lines, MagForce AG has prepared a financial plan according to which the business activities for the years 2019 and 2020 can be financed. Under the corporate plan, the liquid funds and callable loans available as of December 31, 2018 and acquired up to the preparation date are sufficient to meet the payment obligations due at any time. The prerequisite for this, however, is that the assumptions on which the planning is based are met and that the budgeted amounts are achieved in actual terms.

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

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

The planning of MagForce AG involves by nature inherent risks and uncertainties. It is based on the current assumptions, expectations, estimates, and projections of MagForce 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.

Berlin, June 14, 2019

Dr. Ben J. Lipps
Chief Executive Officer

Christian von Volkmann
Chief Financial Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

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Statement of Income

in EUR	01/01-12/31/2018	01/01-12/31/2017
Revenues	67,200.00	716,117.83
Decrease or increase in finished goods and work in process	0.00	291,046.25
Other operating income	14,908,995.58	3,629,234.23
thereof from exchange rate differences EUR 71,101.30 (Previous year: EUR 186,821.97)		
	14,976,195.58	**4,636,398.31**
Cost of materials		
a) Raw materials and supplies and purchased goods	33,197.84	86,386.32
b) Purchased services	422,150.35	887,336.99
	455,348.19	**973,723.31**
Personnel expenses		
a) Salaries	3,597,521.61	3,016,168.14
b) Social security contributions	323,520.03	281,388.86
thereof for retirement benefits EUR 40,418.32 (Previous year: EUR 38,428.32)		
	3,921,041.64	**3,297,557.00**
Amortization and depreciation		
of intangible assets and property, plant, and equipment	597,604.41	671,220.35
Other operating expenses	3,173,862.31	7,104,542.98
thereof from exchange rate differences EUR 37,034.59 (Previous year: EUR 216,366.90)		
	8,147,856.55	**12,047,043.64**
Operating result	6,828,339.03	-7,410,645.33
Other interest and similar income	231,381.98	211,755.62
thereof from affiliated companies EUR 214,675.04 (Previous year: EUR 211,657.11)		
Amortization of financial assets	876,891.16	0.00
Interest and similar expenses	1,822,820.57	265,081.53
thereof from affiliated companies EUR 0.00 (Previous year: EUR 30,842.40)		
Financial result	**-2,468,329.75**	**-53,325.91**
Result before other taxes	4,360,009.28	-7,463,971.24
Other taxes	1,955.17	1,192.62
Net profit / net loss	4,358,054.11	-7,465,163.86
Loss carried forward from the previous year	-56,422,214.73	-48,957,050.87
Accumulated deficit	**-52,064,160.62**	**-56,422,214.73**

Balance Sheet as of December 31, 2018

Assets

in EUR	12 / 31 / 2018	12 / 31 / 2017
A. Fixed assets		
I. Intangible fixed assets		
Purchased commercial trade mark rights and similar rights and values like licenses to those rights and values	90,865.08	1,936.08
II. Tangible fixed assets		
1. Buildings and leasehold improvements	114,148.00	234,137.00
2. Technical assets and machines	2,127,541.99	2,542,227.99
3. Other equipment, furniture, and fixtures	209,072.00	229,022.00
4. Advance payments made and construction in progress	950,335.43	583,593.18
	3,401,097.42	**3,588,980.17**
III. Financial assets		
Shares in affiliated companies	30,977,654.78	17,081,570.85
	34,469,617.28	**20,672,487.10**
B. Current assets		
I. Inventories		
1. Work in progress	291,046.25	291,046.25
2. Goods for sale	0.00	10,450.00
	291,046.25	**301,496.25**
II. Receivables and other assets		
1. Trade accounts receivables	95,015.00	85,475.00
2. Receivables from affiliated companies	450,017.57	32,401.90
3. Other assets	262,069.38	233,449.69
	807,101.95	**351,326.59**
III. Cash in hand, bank balances and checks	1,493,691.20	665,556.62
C. Prepaid expenses	72,653.49	41,323.02
	37,134,110.17	**22,032,189.58**

Shareholders' equity and liabilities

in EUR	12 / 31 / 2018	12 / 31 / 2017
A. Shareholders' equity		
I. Subscribed capital	26,463,802.00	26,348,172.00
Contingent capital: EUR 13,050,956.00 (Previous year: EUR 12,198,401.00)		
II. Capital reserves	43,759,398.26	43,267,400.10
III. Accumulated deficit	-52,064,160.62	-56,422,214.73
	18,159,039.64	**13,193,357.37**
B. Special item for contributions designated to a purpose	0.00	8,545.85
C. Special item for investment subsidies for fixed assets	49,826.12	78,497.78
D. Provisions		
Other provisions	1,884,819.08	1,991,234.28
E. Liabilities		
1. Convertible note	5,000,000.00	5,000,000.00
2. Liabilities to financial institutions	10,876,348.33	12,382.02
3. Trade accounts payable	340,672.35	249,953.80
4. Liabilities to affiliated companies	50,159.81	863,911.98
5. Other liabilities	773,244.84	634,206.50
thereof taxes EUR 259,897.17 (Previous year: EUR 38,141.30)		
thereof social security EUR 4,776.22 (Previous year: EUR 1,814.38)		
	17,040,425.33	**6,760,454.30**
F. Deferred income	0.00	100.00
	37,134,110.17	**22,032,189.58**

Analysis of Fixed Assets

	Acquisition costs				
in EUR	01 / 01 / 2018	Additions	Disposals	12 / 31 / 2018	
A. Fixed assets					
I. Intangible fixed assets					
Purchased commercial trade mark rights and similar rights	**22,394.68**	**94,684.79**	**0.00**	**117,079.47**	
II. Tangible fixed assets					
Buildings and leasehold improvements	1,153,635.45	0.00	0.00	1,153,635.45	
Technical assets and machines	5,097,847.88	707.50	0.00	5,098,555.38	
Other equipment, furniture, and fixtures	588,728.89	36,517.12	1,679.00	623,567.01	
Advance payments made and construction in progress	583,593.18	366,742.25	0.00	950,335.43	
	7,423,805.40	**403,966.87**	**1,679.00**	**7,826,093.27**	
III. Financial assets					
Shares in affiliated companies	17,109,396.05	17,704,423.09	2,931,448.00	31,882,371.14	
Loans to affiliated companies	2,453,107.83	0.00	0.00	2,453,107.83	
	19,562,503.88	**17,704,423.09**	**2,931,448.00**	**34,335,478.97**	
	27,008,703.96	**18,203,074.75**	**2,933,127.00**	**42,278,651.71**	

	Accumulated depreciation				Net book value	
	01 / 01 / 2018	Additions	Disposals	12 / 31 / 2018	**12 / 31 / 2018**	12 / 31 / 2017
	20,458.60	**5,755.79**	**0.00**	**26,214.39**	**90,865.08**	**1,936.08**
	919,498.45	119,989.00	0.00	1,039,487.45	114,148.00	234,137.00
	2,555,619.89	415,393.50	0.00	2,971,013.39	2,127,541.99	2,542,227.99
	359,706.89	56,466.12	1,678.00	414,495.01	209,072.00	229,022.00
	0.00	0.00	0.00	0.00	950,335.43	583,593.18
	3,834,825.23	**591,848.62**	**1,678.00**	**4,424,995.85**	**3,401,097.42**	**3,588,980.17**
	27,825.20	876,891.16	0.00	904,716.36	30,977,654.78	17,081,570.85
	2,453,107.83	0.00	0.00	2,453,107.83	0.00	0.00
	2,480,933.03	**876,891.16**	**0.00**	**3,357,824.19**	**30,977,654.78**	**17,081,570.85**
	6,336,216.86	**1,474,495.57**	**1,678.00**	**7,809,034.43**	**34,469,617.28**	**20,672,487.10**

Notes to the Annual Financial Statements for the Financial Year 2018

Basis of presentation

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

The Company is a small corporation within the meaning of section 267(1) of the Handelsgesetzbuch (HGB – German Commercial Code). The annual financial statements for the period of January 1, 2018, to December 31, 2018, were prepared in accordance with the provisions of the HGB for small corporations and the provisions of the Aktiengesetz (AktG – German Stock Corporation Act).

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

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

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

Accounting policies

As in the previous year, the following accounting policies were applied in the preparation of the annual financial statements.

Fixed assets

Purchased intangible fixed assets are recognized at acquisition cost and amortized over their useful lives.

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

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

Long-term financial assets are carried at acquisition 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. The disclosure of the expenses relating to the fair value adjustment of the receivables are made under other operating expenses.

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

Prepaid expenses

The prepaid expenses include payments made 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. In 2018, the item was fully 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.

Liabilities

Liabilities are recognized at their settlement amounts.

Currency translation differences

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

Balance sheet disclosures

Fixed assets

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

Disclosures on shareholdings

The Company owns all shares of MT MedTech Engineering GmbH, Berlin. As of December 31, 2018, the reported negative equity of the subsidiary amounts to EUR 6,128 thousand (previous year: EUR 5,901 thousand). Net loss for the financial year from January 1 to December 31, 2018, amounted to EUR 1,105 thousand (previous year: EUR 670 thousand).

In 2018, the Company made a payment of EUR 877 thousand into the free capital reserve acc. section 272 (2) No 4 HGB. An impairment charge was recognized for shareholdings in MT MedTech Engineering GmbH to carry the investment at the lower fair market value of EUR 1.00 according to the principle of conservatism. Should MT MedTech Engineering GmbH generate sustainable gains in the future, the carrying amount will be written back to its historic costs.

The Company holds 67.9 percent of the shares directly and indirectly in MagForce USA, Inc., Incline Village, United States of America. As of December 31, 2018, the reported equity of the subsidiary amounts to USD 29,172 thousand (previous year: USD 24,092 thousand). Net loss for the financial year from January 1 to December 31, 2018, amounted to USD 3,920 thousand (previous year: USD 3,315 thousand).

In addition, the Company is the sole shareholder of MagForce USA Holding GmbH, headquartered in Berlin. The Company's equity as at December 31, 2018, amounted to EUR 19,537 thousand (previous year: EUR 2,725 thousand). Net loss for the financial year from January 1 to December 31, 2018, amounted to EUR 14 thousand (previous year: EUR 0 thousand). On June 25, 2018, MagForce AG, being the sole shareholder of MagForce USA Holding GmbH, contributed 975,000 shares in MagForce USA, Inc. to the capital reserves of MagForce USA Holding GmbH with hidden reserves at a fair value of EUR 16,826 thousand. The transaction resulted in other operating income of EUR 13,895 thousand at MagForce AG level.

In 2018, the Polish company MagForce sp. z o. o. with its registered office in Warsaw was incorporated. MagForce AG holds 100 percent of the shares. As of December 31, 2018, the equity of the subsidiary amounts to PLN 5 thousand, the net income for the year to PLN 0 thousand.

Inventories

The inventories amount to EUR 291 thousand (previous year: EUR 301 thousand) and consist of capitalized development costs for the further development of the ambulatory NanoActivator for the focal treatment of prostate cancer which will be invoiced upon finalization of serial production.

Receivables and other assets

Receivables and other assets in the amount of EUR 25 thousand (previous year: EUR 25 thousand) have a remaining term of more than one year.

Receivables from affiliated companies include EUR 450 thousand (previous year: EUR 32 thousand) in other assets.

Other assets mainly include receivables from value added tax in the amount of EUR 94 thousand (previous year: EUR 172 thousand). In addition other assets include rental deposits of EUR 25 thousand (previous year: EUR 25 thousand) with an indefinite remaining term.

Subscribed capital

As of January 1, 2018, the share capital amounted to EUR 26,348,172.00 and was divided into 26,348,172 no-par value bearer shares (ordinary shares) with a pro-rata amount of subscribed capital of EUR 1.00 per share.

By exercising subscription rights from the contingent capital 2013 / III, the share capital was increased during the financial year by 115,630 new no-par value bearer shares with a pro-rata amount of the share capital of EUR 1.00 each. The entry in the commercial register was effective on March 28, 2019.

The subscribed capital of the Company as of December 31, 2018, amounts to EUR 26,463,802.00 and is comprised of 26,463,802 no-par value bearer shares (ordinary shares) with a notional interest in the share capital of EUR 1.00 each share.

Contingent Capital 2007 / I

In accordance with the Company's Articles of Association, its share capital was contingently increased by up to EUR 100,000.00 (Contingent Capital 2007 / I) by issuing up to 100,000 no-par value bearer shares (ordinary shares). The Annual General Meeting on August 10, 2017, resolved to release EUR 68,450.00 of the Contingent Capital 2007 / I. After partial cancellation the Contingent Capital 2007 / I amounts to EUR 31,550.00.

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, 2018, 29,049 options were outstanding and not forfeited. During the financial year 2018, 9,165 options had been forfeited and no further options had been granted out of Contingent Capital 2007 / I.

Thus, as of December 31, 2018, a total of 19,884 options were outstanding and exercisable.

Contingent Capital 2012 / II

By resolution of the Annual General Meeting on August 16, 2012, the Company's share capital was contingently increased by up to EUR 395,000.00 by issuing up to 395,000 no-par value bearer shares (Contingent Capital 2012 / II). Contingent Capital 2012 / II exclusively serves to secure subscription rights for shares that were issued as part of the 2012 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 15, 2017. The contingent capital increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.

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 Articles of Association. In addition, the Contingent Capital 2012 / II was reduced by EUR 5,000.00 in 2017 through the exercise of subscription rights and, accordingly, it amounts to EUR 145,000.00.

In the period from January 1, 2018, to December 31, 2018, no further options had been granted or exercised out of Contingent Capital 2012 / II.

Contingent Capital 2013 / II

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

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

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

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 has been canceled by resolution of the Annual General Meeting of August 10, 2017, in the amount of EUR 286,999.00. Furthermore, in 2018, the Contingent Capital 2013 / III was reduced by EUR 115,630.00 through the exercise of subscription rights and accordingly amounts to EUR 1,739,642.00. 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 December 31, 2018, 1,739,642 options were issued and exercisable from the Contingent Capital 2013 / III.

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 was canceled by resolution of the Annual General Meeting on August 10, 2017, in the amount of EUR 120,000.00. Contingent Capital 2015 / I amounts to EUR 50,000.00 after partial cancellation. Contingent Capital 2015 / I exclusively serves to secure subscription rights for shares that were issued as part of the 2015 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 17, 2020. The contingent capital increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.

As of January 1, 2018, as well as of December 31, 2018, 50,000 stock options were issued under the Stock Option Plan 2015 / I.

Contingent Capital 2017 / I

With resolution of the Annual General Meeting on August 10, 2017, the Company's share capital was contingently increased by up to EUR 547,495.00 by issuing up to 547,495 no-par value bearer shares (Contingent Capital 2017 / I). Contingent Capital 2017 / I exclusively serves to secure subscription rights for shares that were issued as part of the 2017 Stock Option Plan to Management Board members and Company employees as well as to managers and employees at affiliated companies in the period up to and including August 9, 2022. The contingent capital increase will only be implemented to the extent that subscription rights are issued and their bearers exercise their subscription rights for shares in the Company and the Company does not grant treasury shares or make cash settlements when settling these subscription rights.

In the period from January 1, 2018, to December 31, 2018, no options were granted under the 2017 / I Stock Option Plan.

Contingent Capital 2018 / I

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

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 authorized capital 2015 / I amounts to EUR 12,090,894.00 after partial utilization. The subscription right of shareholders is excluded in certain cases.

Capital reserves

By exercising stock options, the capital reserves were increased in the financial year 2018 by the amount of EUR 492 thousand.

Net accumulated losses

The net accumulated losses contain accumulated losses brought forward of EUR 56,422 thousand. Net accumulated losses developed as follows:

in EUR thousand	
Net accumulated losses as of December 31, 2017	56,422
Net profit for the financial year January 1 to December 31, 2018	4,358
Net accumulated losses as of December 31, 2018	**52,064**

Special item for investment subsidies for fixed assets

The investment grants were made in accordance with the Investitionszulagengesetz (German Investment Grants Act). In the period January 1 to December 31, 2018, EUR 29 thousand (previous year: EUR 40 thousand) was reversed to the income statement from the special reserve for investment grants and subsidies.

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. The item was fully used in the financial year.

Provisions

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

in EUR thousand	12 / 31 / 2018	12 / 31 / 2017
Personnel-related	314	494
Outstanding supplier invoices	91	162
Supervisory Board remuneration	37	72
Audit costs	45	40
Other	1,398	1,223
Total	**1,885**	**1,991**

Other includes provisions for dismantling commitments amounting to EUR 109 thousand (previous year: EUR 109 thousand), for the annual report amounting to EUR 30 thousand (previous year: EUR 30 thousand), and for the annual general meeting amounting to EUR 33 thousand (previous year: EUR 30 thousand).

Furthermore, other provisions include share-price-linked debt components with a remaining term of 4 years amounting to EUR 1,216 thousand (previous year: EUR 1,012 thousand).

Liabilities

As of March 2, 2017, the Company had issued a convertible note in the amount of EUR 5,000 thousand with a term of three years and an interest rate of 5 percent each year. The conversion price after the end of the term is EUR 5.00 per share.

Liabilities to financial institutions in the amount of EUR 10,876 (previous year: EUR 12 thousand) relate to the drawdown of the first tranche of EUR 10,000 thousand in January 2018 plus interest due to the loan agreement with the European Investment Bank, Luxembourg (EIB), and have a remaining term of 4 years.

As in the previous year, trade accounts payable amounting to EUR 341 thousand (previous year: EUR 250 thousand) are due within one year.

Liabilities to affiliated companies include EUR 49 thousand (previous year: EUR 264 thousand) of trade payables and EUR 1 thousand (previous year: EUR 600 thousand) of other liabilities.

Other liabilities mainly include liabilities from wages and salaries in the amount of EUR 421 thousand (previous year: EUR 94 thousand) and from wage and church taxes in the amount of EUR 252 thousand (previous year: EUR 38 thousand). It also includes the interest accrued up to December 31, 2018, and due on March 1, 2019, for the convertible note in the amount of EUR 81 thousand (previous year: EUR 83 thousand). The loan from Lipps & Associates, LLC, Inc., Incline Village, USA, in the amount of EUR 400 thousand plus interest has been completely repaid on May 16, 2018.

All other liabilites, unless otherwise specified, have a remaining term of up to one year.

In connection with the financing agreement, certain rights to NanoTherm therapy were secured by the EIB.

INCOME STATEMENT DISCLOSURES

Revenues

In the financial year the Company generated sales revenues in the amount of EUR 67 thousand (previous year: EUR 716 thousand).

Revenues recorded as realized result mainly from the commercial treatment of patients with NanoTherm therapy and amounted to EUR 66 thousand (previous year: EUR 152 thousand). In the financial year 2018, there were no recharge of development costs and no NanoTherm deliveries to subsidiaries (previous year: EUR 491 thousand).

Other operating income

Other operating income mainly results from the transfer of 975,000 shares of MagForce USA, Inc. to MagForce USA Holding GmbH with the lifting of hidden reserves in the amount of EUR 13,895 thousand (previous year: EUR 2,024 thousand). Further income results from recharging of management services and other administrative services to subsidiaries in the amount of EUR 561 thousand (previous year: EUR 690 thousand), from the reversal of provisions in the amount of EUR 293 thousand (previous year: EUR 80 thousand), and from exchange rate differences in the amount of EUR 71 thousand (previous year: EUR 187 thousand).

Cost of material

Cost of material consists of expenses for raw materials and supplies, and for purchased goods in the amount of EUR 33 thousand (previous year: EUR 86 thousand), and expenses for purchased services in the amount of EUR 422 thousand (previous year: EUR 887 thousand). The reduction in the cost of materials compared to the previous year is mainly due to the decrease in expenses for the development of the NanoActivator for the treatment of prostate cancer.

Personnel expenses

Personnel expenses in the amount of EUR 3,921 thousand (previous year: EUR 3,298 thousand) consist mainly of expenses for wages and salaries in the amount of EUR 3,598 thousand (previous year: EUR 3,016 thousand) as well as expenses for social security and retirement benefits in the amount of EUR 323 thousand (previous year: EUR 281 thousand). The increase in personnel expenses is chiefly attributable to salary increases and the exercise of stock options, which contributed with a non-cash expense of EUR 308 to personnel expense.

Personnel expenses of EUR 423 thousand (previous year: EUR 427 thousand) from the performance of management services were recharged to the subsidiaries.

In 2018, the expenses for retirement benefit plans amounted to EUR 40 thousand (previous year: EUR 38 thousand) resulting from a defined contributions pension scheme.

Other operating expenses

in EUR thousand	12 / 31 / 2018	12 / 31 / 2017
Accomodation and travelling expenses	456	317
Other	409	341
Allocation to provision for share price linked debt components	395	1.012
Legal, audit, and consulting	391	511
Investor Relations	350	426
Commercialization	320	387
IT and maintenance	264	169
Rent and upkeep	229	192
Patents	150	196
Expenses relating to other periods	120	828
Finance costs	53	2.510
Expenses from exchange rate differences	37	216
Total	**3,174**	**7,105**

The decline in other operating expenses is mainly due to lower finance costs. Furthermore granted funding to MT MedTech Engineering GmbH were made as payments into equity and therefore not recognized as receivables as in previous years. As a consequence, unscheduled depreciations of the funding are shown within the financial result and not within other operating expenses.

Other interest and similar income

Other interest and similar income amounting to EUR 231 thousand (previous year: EUR 212 thousand) are related to interest income. Other interest and similar income in the amount of EUR 215 thousand (previous year: EUR 211 thousand) are attributable to affiliated companies.

Amortization of financial assets

The amortization of financial assets relate to the impairment of the investments in the subsidiary MT MedTech Engineering GmbH in 2018.

Interest and similar expenses

Interest and similar expenses in the amount of EUR 1,541 thousand related to long-term loans. Furthermore, interest and similar expenses include EUR 250 thousand of interest expenses on the convertible note of March 2, 2017, and interest expenses on the loan of Lipps & Associates, LLC amounting to EUR 8, which was fully repaid on May 16, 2018.

Supplemental disclosures

Other financial obligations

Other financial obligations amounting to EUR 352 thousand (previous year: EUR 438 thousand) resulted from rental contracts for offices in Berlin-Adlershof and Martinsried as well as from leases for car vehicles and office equipment.

Employees

The Company employed 26 (prior year: 24) employees (without Management Board) on average over the financial year.

Shareholder structure

Irrespective of the total number of shares held by them, all shareholders have the same voting rights per share in accordance with section 20 (6) of the Articles of Association of MagForce AG.

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

Preparation of consolidated financial statements

MagForce AG is not required to prepare consolidated financial statements for the period ending on December 31, 2018.

Governing bodies of the Company

Management Board

Name / Position	Member since	Appointed until	Function
Dr. Ben J. Lipps Chemical Engineer	09 / 01 / 2013	08 / 31 / 2020	Chief Executive Officer
Prof. Dr. Hoda Tawfik Pharmacist	10 / 01 / 2012	09 / 30 / 2020	Chief Medical Officer
Christian von Volkmann MBA	10 / 01 / 2012	09 / 30 / 2020	Chief Financial Officer

Supervisory Board

- **Norbert Neef** (Chairman), lawyer in Berlin; chairman of the supervisory board of Singularity Capital AG, Frankfurt am Main; supervisory board of Gyant.com, Inc., San Francisco.
- **Klemens Hallmann** (Deputy Chairman), entrepreneur, supervisory board mandates:
  - JDC Group AG, Wiesbaden
  - C-Quadrat Investment AG, Vienna
  - SÜBA Liegenschaftsbeteiligungs GmbH, Vienna
  - Film House Germany AG, Berlin.
- **Dr. Wiebke Rösler**, physician.

Report on subsequent events

On March 21, 2019, MagForce AG announced that the installation of the mobile NanoTherm treatment center for brain tumors in Poland has been completed. The NanoActivator at the Independent Public Clinic Nr. 4 in Lublin is ready for use for the treatment of patients from Poland and other surrounding countries after successful acceptance by the official institutions.

MagForce AG launched its "NanoTherm Therapy School" in January 2019. This is a practice-oriented user training for the use of NanoTherm therapy in the treatment of brain tumors. Due to the modular structure in three logically coordinated units, the participants are taught the necessary knowledge and understanding of NanoTherm technology, starting with the basic application "Nanopasting" (module A), followed by advanced techniques (module B) and experimental forms of application (module C). The aim is to certify surgeons using the innovative NanoTherm technology of MagForce AG.

The new Company website also went online in January 2019. The completely redesigned website with clear design, improved functionality, and expanded content areas is designed to help patients, healthcare professionals, and investors to make informed decisions. To give patients around the world access to the latest information on the innovative NanoTherm therapy, the online presence is available in English and German and provides detailed patient information in seven additional languages.

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

Berlin, June 14, 2019

The Management Board

Dr. Ben J. Lipps
Chief Executive Officer

Christian von Volkmann
Chief Financial Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer

Independent Auditor's Report

To MagForce AG, Berlin:

Audit Opinions

We have audited the annual financial statements of MagForce AG, Berlin, which comprise the balance sheet as of 31 December 2018, and the statement of profit and loss for the financial year from January 1, 2018 to December 31, 2018, and notes to the financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the management report of MagForce AG, Berlin, for the financial year from January 1, 2018 to December 31, 2018.

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

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2018 and of its financial performance for the financial year from January 1 to December 31, 2018 in compliance with German Legally Required Accounting Principles, and

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

Pursuant to section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Audit Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's

Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the annual financial statements and on the management report.

Note to highlight a fact

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

Responsibilities of the Executive Directors and the Supervisory Board for the Annual Financial Statements and the Management Report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

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

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our [audit] opinions. The risk of not detecting a material misstatement resulting from

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

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

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective [audit] opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

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

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

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

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

Berlin, June 19, 2019

AIOS GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Marco Schneider
German Public Auditor

Matthias Könke
German Public Auditor

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