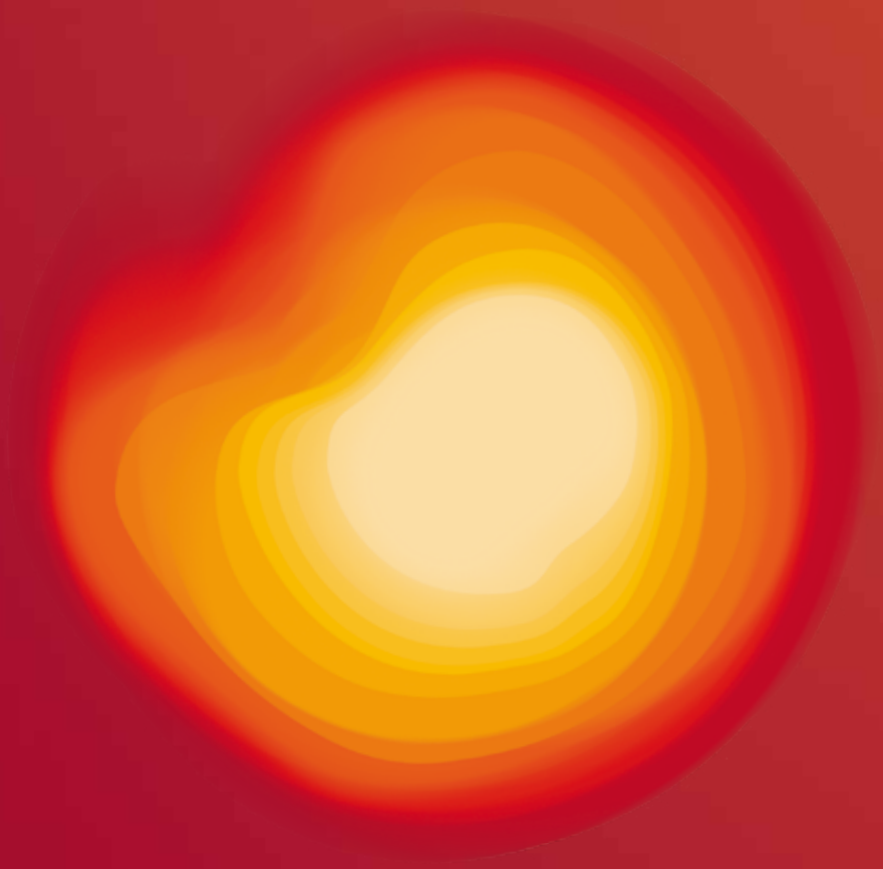
magforce®

THE NANOMEDICINE COMPANY

TURNING STRATEGY INTO ACTION

ANNUAL REPORT **2013**



TURNING STRATEGY INTO ACTION

FIGHTING CANCER WITH NANOTHERM™ THERAPY

MagForce has developed a unique technology that might change the treatment paradigm of solid tumors. During 2013, we have defined a targeted action plan to market our therapy for glioblastoma and prostate cancer patients in Europe and the US and are now turning our strategy into action.

Components of NanoTherm™ therapy

NanoTherm™

NanoTherm™ is a ferrofluid, i.e., a fluid containing superparamagnetic iron oxide nanoparticles that can be activated in an alternating magnetic field. The patented aminosilane coating enables these tiny magnets to be finely suspended in water to create what is known as a colloidal dispersion, which can be injected with a syringe directly into tumor tissue. Due to this special coating, the particles aggregate in the tumor directly after injection and stay where they are. This enables the repetition of the therapy at a later time if needed.

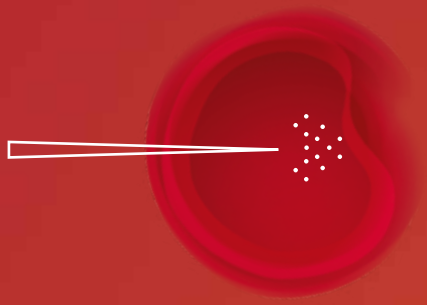
NanoPlan®

The NanoPlan® simulation software helps the treating physician to define the NanoTherm™ therapy schedule according to the distribution of the NanoTherm™ depots in the tumor in combination with the magnetic field strength to be applied to reach the therapeutic temperature needed. The calculations within NanoPlan® simulation consider the tumor size, the distribution and the concentration of the nanoparticles and the location of the tumor.

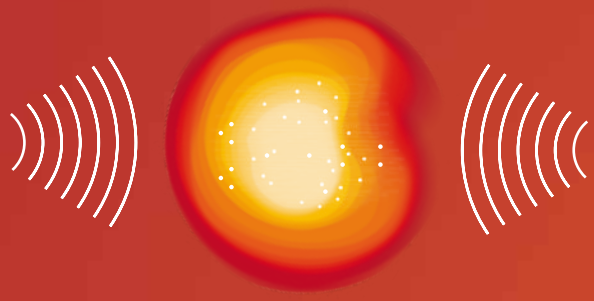
NanoActivator®

NanoTherm™ therapy is performed in an alternating magnetic field applicator (NanoActivator®). The strength of the magnetic field can be adjusted from 0.5 kA/m to 18 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 sensitize them to any concomitant therapy: radio- or chemotherapy for example.

NanoTherm™ Therapy mode of action



1 NanoTherm™ ferrofluid is injected directly into the tumor.



2 The magnetic field causes the iron oxide nanoparticles to oscillate and produce heat. Heat either destroys the cancer cells or sensitizes them for other therapies such as chemotherapy or radiotherapy.

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

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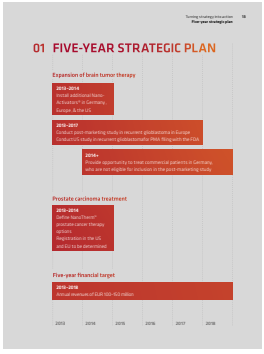

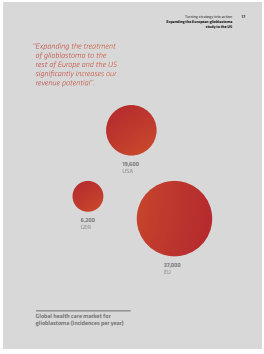

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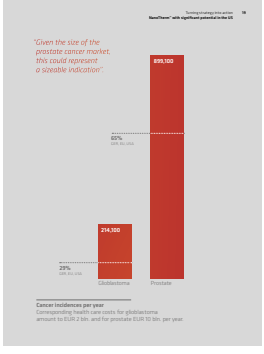

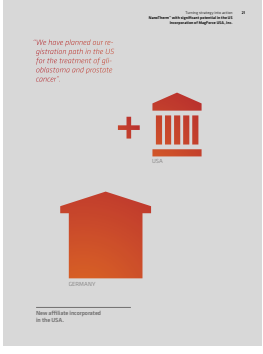

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HIGHLIGHTS 2013

March

Capital increase successfully completed

MagForce successfully completed the previously announced capital increase with preemptive rights against cash and noncash contributions of approximately EUR 33.5 million. The new shares were subscribed in return for cash payments and noncash contributions and shareholder loans of EUR 15.9 million were converted into equity. This left the Company debt-free and will support MagForce AG through the next significant stages of its growth.

April

BfArM grants approval for post-marketing glioblastoma study

At the start of April, MagForce received approval from the Bundesinstitut für Arzneimittel und Medizinprodukte (BfArM–the Federal Institute for Drugs and Medical Devices) to start a post-marketing study for patients with recurrent glioblastoma. The randomized, controlled, open-label study examines the efficacy and safety of NanoTherm™, both as a monotherapy and in combination with radiotherapy, compared with radiotherapy alone in up to 285 glioblastoma patients. The study will be conducted at approximately 15 clinics in total, starting with six leading German centers.

May

Another patent for NanoTherm™ therapy

The European Patent Office awarded MagForce another patent for its NanoTherm™ therapy. The patent covers a new generation of NanoTherm™ particles–nanoparticle-drug conjugates suitable for use in drug delivery systems. An externally applied alternating magnetic field heats the nanoparticle drug conjugates in the tumor, triggering the temperature-dependent release of the drug directly into the tumor tissue to produce high local concentrations. This approach also exploits the known synergistic effects of combining chemotherapy and hyperthermia. The appeal period expired at the beginning of May.

September

Dr. Ben J. Lipps starts as CEO of MagForce AG

As of September 1, 2013, Dr. Ben J. Lipps, former CEO of Fresenius Medical Care, became Chairman of the Management Board and Chief Executive Officer of MagForce. Along with his appointment as CEO of MagForce, Ben Lipps will continue his consulting work for Fresenius Medical Care. Management Board members, Prof. Hoda Tawfik (CMO/COO) and Christian von Volkmann (CFO), remained in their respective positions.

November

MagForce AG Installs NanoActivator® at the University Hospital Münster

MagForce installed a NanoActivator® in Münster. It was brought into operation as part of the preparations for the post-marketing glioblastoma study at the University Hospital Münster. This was the second NanoActivator® to be installed following the initial installation at the university hospital Charité in Berlin. With the installation of another NanoActivator®, the Company moved an important step closer to introducing the NanoTherm™ therapy to the medical community.

December

MagForce AG Installs NanoActivator® at the Kiel University Hospital

Magforce has installed its third NanoActivator® for the post-marketing glioblastoma study at the Kiel University Hospital. At the date of the publication of this report, NanoActivators® are available now in three German centers: Berlin, Münster, and Kiel.

2014

March

Enrollment of the first patient in post-marketing glioblastoma study at the Münster University Clinic

MagForce has enrolled the first patient in the MF 1001 clinical study. MF 1001 is an open-label, randomized, controlled clinical trial assessing the efficacy and safety of NanoTherm™ therapy as monotherapy and in combination with radiotherapy compared to radiotherapy alone in glioblastoma patients at the first relapse.

May

MagForce AG and MagForce USA, Inc. Announce FDA Pre-IDE meeting

MagForce, along with its subsidiary MagForce USA, Inc., has held an in-person meeting with the U.S. Food and Drug Administration's (FDA) Center for Devices and Radiological Health to discuss FDA's response to MagForce's NanoTherm™ therapy pre-submission of late December, 2013. The Company received very constructive feedback on its submission and has now a better understanding of the issues and process for registration of NanoTherm™ therapy in the USA. MagForce USA, Inc. will lead with the treatment of recurrent glioblastoma in concert with MagForce AG's post marketing clinical trial in Germany, which has already begun enrolling patients.

DR. BEN J. LIPPS
Chairman & Chief Executive Officer

Dear MagForce Shareholders,

I am pleased to report that we achieved our 2013 targets and are progressing well toward achieving our objectives for the year 2014:

Brain cancer therapy: Our main objective for 2013 was to facilitate our post-marketing clinical study in recurrent Glioblastoma (GBM) patients with the placement of NanoActivators® in three world class hospitals in Germany. We achieved this goal with the installation of NanoActivators® at Münster University Hospital and Kiel University Hospital and the reactivation of the NanoActivator® at Charité Hospital in Berlin. Regulatory approvals required prior to patient treatment were achieved. MagForce is pleased that we and our clinical investigators have reached a very significant milestone in the first quarter of 2014, with the enrollment of the first patient into our post-marketing study at Münster University Hospital. During 2014, we plan to install additional NanoActivators® in Germany to facilitate our clinical trial. In parallel, we also expect to treat patients commercially in 2014, as not every patient with recurrent GBM qualifies for the study, but can of course benefit from our therapy.

With respect to our expansion phase outside Germany, we continue preparing our registration path for the USA. In December, we filed a pre-submission with the FDA and in May, an in-person meeting was held with the U.S. Food and Drug Administration's (FDA) Center for Devices and Radiological Health to discuss FDA's response to MagForce's NanoTherm™ therapy pre-submission. The Company received very constructive feedback on its submission and now has a better understanding of the issues and process for registration of NanoTherm™ therapy in the USA.

Prostate cancer therapy: Regarding the application of our NanoTherm™ therapy to the treatment of prostate cancer, our unique technology is viewed as a very promising complement to current treatment approaches. Our near-term task was to determine the optimum regimen with our NanoTherm™ therapy and the path to commercialization. We are on track to have this path defined and to start the registration process in 2014. We will focus on two prostate cancer treatment options for NanoTherm™ therapy:

1. Focal treatment for intermediate primary prostate cancer; and
2. Combination treatment with external radiation therapy for recurrent prostate cancer.

We are evaluating the unmet medical needs and the commercialization resources required to successfully establish NanoTherm™ therapy as a valued treatment for these two stages in the USA where over 200,000 new cases of prostate cancer are diagnosed annually. Unfortunately, almost 30,000 patients die of prostate cancer each year in the USA.

Corporate: The incorporation of MagForce Ventures GmbH in 2013 and subsequent incorporation of MagForce USA, Inc. in the spring of 2014, along with the grant of a license for the development and commercialization of NanoTherm™ therapy in the field of brain tumors in the USA establishes the basis for MagForce to tap the US market and attract new groups of investors as well as new clients. In addition, the turnaround of our subsidiary MT-MedTech Engineering GmbH continues at great steps as we were able to reduce the net loss from EUR 1 million to approximately EUR 0 million in fiscal 2013 and stay on track in reaching profitability.

Financial: Our spending is on target; however, the loss from operating activities in 2013 was higher than in 2012. This is largely due to the start of the post-marketing clinical glioblastoma study and to preparations for market entry through our increased efforts to bring more devices to the market. On the other hand, results of the restructuring measures taken in 2012 materialized for the first time in full in 2013 resulting in a reduction of administrative expenses to a low single digit million Euro amount. Overall net loss, however, was significantly lower than in 2012, due to an accounting gain in connection with the contribution to equity of a license to develop and commercialize the NanoTherm™ therapy for the treatment of brain tumors in the USA to our newly established subsidiary MagForce Ventures GmbH. The shareholdings in Magforce Venturres GmbH were subsequently contributed to MagForce USA, Inc. against issuance of shares in 2014.Accordingly, operating loss for the year ended December 31, 2013, was in the range of EUR 7 million compared to EUR 6 million in 2012, while net loss amounted to EUR 2 million compared to EUR 6 million in 2012. Net cash at the year's end amounted to EUR 9 million compared to EUR 1 million in the prior year.

Investor Relations: Hand in hand with the progress we make, we also want to increase the awareness for MagForce in the financial community. In the first half of 2014, we presented at the Morgan Stanley European MedTech & Services Conference in London, the 17th dbAccess German, Swiss & Austrian Conference of Deutsche Bank in Berlin, and were also invited to three conferences in the US: the Deutsche Bank 39th Annual Health Care Conference in Boston, the Bank of America Merrill Lynch 2014 Health Care Conference in Las Vegas, and the UBS Global Healthcare Conference in New York.

Dear Shareholders, I am very pleased to reiterate that we have a management team and employees who are very talented and completely dedicated toward achieving MagForce's goals. In summary, we have successfully moved forward on our challenging path to develop NanoTherm™ therapy into a valued therapy for the treatments of glioblastoma and prostate cancer. The start of the post-marketing study in Germany and the enrollment of the first patient into that study are major achievements. We continue to target revenue initiation in the fourth quarter of 2014 for commercial glioblastoma treatments and are enthusiastically making progress, step-by-step, to achieving our five-year financial target which calls for annual revenues between EUR 100-150 million.

Again, thank you for your interest and support of MagForce.

Sincerely,

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

THE MANAGEMENT BOARD

DR. BEN J. LIPPS

Chairman & Chief Executive Officer of MagForce AG since September 1, 2013

- **Born 1940** in Connersville, Indiana, USA
- **May 1999 to December 2012:** Chairman & Chief Executive Officer of Fresenius Medical Care
- **From 1989 through 2004:** President, Chief Executive Officer, Chief Operating Officer and a director of Fresenius USA
- **Until 2004:** also Chief Executive Officer of Fresenius Medical Care North America

PROF. DR. HODA TAWFIK

Chief Medical Officer/Chief Operating Officer for Therapy Development of MagForce AG since October 1, 2012

- **Born 1955** in Cairo, Egypt
- **May 2011 to September 2012:** Vice President R & D/Medical Affairs at MagForce AG
- **2002 to 2011:** Head of Global Clinical Operations Department and Medical Affairs at Medigene AG
- **Over 20 years** of experience in the field of Clinical Development and Medical Affairs with CROs (Contract Research Organizations) as well as in the pharma/biotech industry.

CHRISTIAN VON VOLKMANN

Chief Financial Officer of MagForce AG
since October 1, 2012

- **Born 1971** in Wuppertal, Germany
- **May 2012 to September 2012:** Head of Finance at MagForce AG
- Consultant to a variety of life science and shipping enterprises
- **2004 to 2010:** Head of Finance, later on as Chief Financial Officer at Jerini AG
- **1998 to 2004:** auditor with Ernst & Young
- **More than 14 years** of experience in corporate finance/capital market transactions, group structuring and M & A with international background

Our technology has broad potential as a valid therapy for a wide range of solid tumors. In 2013, we have implemented a targeted strategy to develop and market our therapy for glioblastoma and prostate cancer patients. We made final preparations for the start of our post-marketing gliobastoma study to roll out NanoTherm™ in Europe where we want to start the treatment of commercial patients at the end of 2014. MagForce also filed a pre-submission with the FDA to develop and register the therapy for this indication in the US. In parallel, a development plan and the regulatory path was defined to additionally leverage NanoTherm™ to the benefit of prostate cancer patients in the US. We are enthusiastically turning our plan into action.

01 FIVE-YEAR STRATEGIC PLAN

Expansion of brain tumor therapy

2013–2014
Install additional Nano-Activators® in Germany, Europe, & the US

2013–2017
Conduct post-marketing study in recurrent glioblastoma in Europe
Conduct US study in recurrent glioblastomafor PMA filing with the FDA

2014+
Provide opportunity to treat commercial patients in Germany, who are not eligible for inclusion in the post-marketing study

Prostate carcinoma treatment

2013–2014
Define NanoTherm™ prostate cancer therapy options
Registration in the US and EU to be determined

Five-year financial target

2013–2018
Annual revenues of EUR 100–150 million

2013 2014 2015 2016 2017 2018

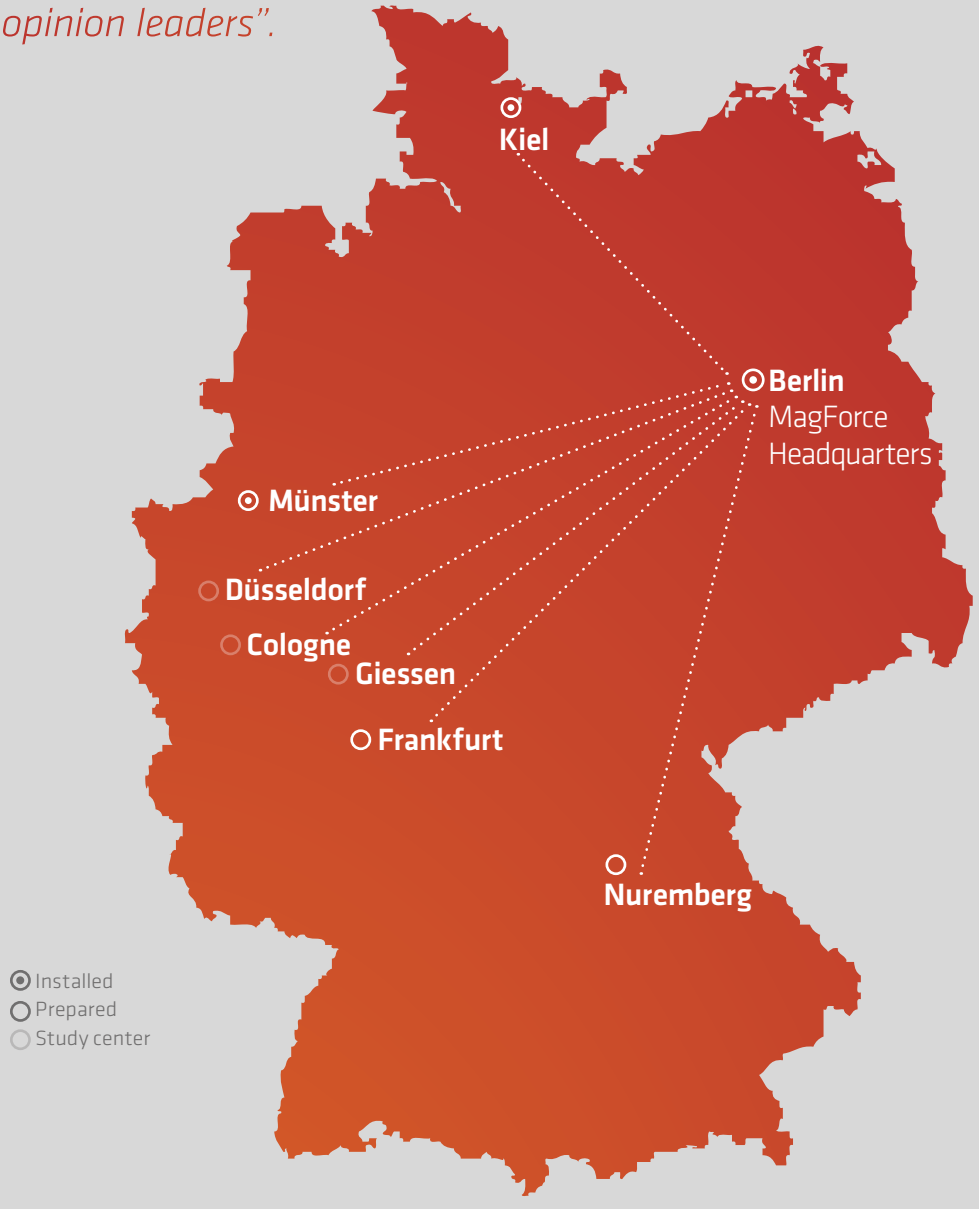
02 START OF THE POST-MARKETING GLIOBLASTOMA STUDY AND TREATMENT OF COMMERCIAL PATIENTS IN GERMANY

The post-marketing glioblastoma study started with the installation of NanoActivators® at the hospitals in Münster and Kiel in December 2013. The objective of the post-marketing study is to establish NanoTherm™ as a valued therapy for brain cancer in the medical community and prepare the ground for the start of the FDA approval process in the US. MagForce is running the study, along with renowned opinion leaders in Germany. The study is headed up by Prof .Dr. Walter Stummer, Director of the Clinic for Neurosurgery and Neurooncology at the University Hospital Münster. During the study, the participating neurosurgeons will gain experience with the treatment of patients and collect additional efficacy data to support the results from the registration trial. Once the physicians become familiar with this new treatment, commercial patients from all over the world can benefit from NanoTherm™ therapy through treatment in Germany, which we expect to start in late 2014.

The post-marketing glioblastoma study is intended to establish NanoTherm™ as a valued therapy for brain cancer in the medical community and prepare the ground for the US FDA registration process.

The randomized, controlled, open-label study investigates the efficacy and safety of NanoTherm™ both as a monotherapy and in combination with radiotherapy compared with radiotherapy alone in up to 285 patients with recurrent glioblastoma. At the date of the publication of this report, NanoActivator® devices have been installed in Berlin, Münster, and Kiel, study centers without a NanoActivator® are initiated in the University hospitals of Düsseldorf, Cologne, and Giessen. Installation of further NanoActivators® is planned in Frankfurt and Nuremberg. The study is expected to be conducted in about 15 centers in total.

"We will conduct the study in Germany along with renowned opinion leaders".



Location of existing and planned NanoActivators® in Germany

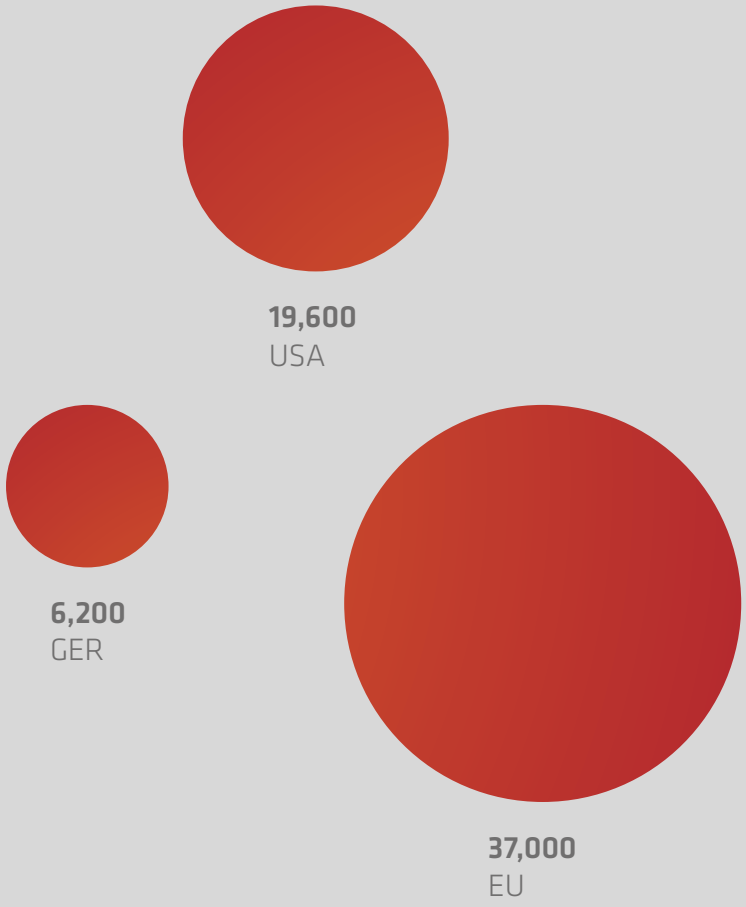
03 EXPANDING THE EUROPEAN GLIOBLASTOMA STUDY TO THE US

As a next step, the glioblastoma post-marketing study will be expanded to the US. For the US, MagForce has filed in late 2013 the pre-submission to develop NanoTherm™ therapy as a treatment option for glioblastoma (GBM). In a pre-submission meeting with the U.S. Food and Drug Administration (FDA) in May 2014, MagForce introduced the therapy to the agency and discussed the regulatory requirements to enable product registration and approval in the US. The FDA provided very constructive feedback on the submission and confirmed that, similar to Europe, NanoTherm™ therapy will be designated as a medical device in the US, which should confer shorter clinical development than for a typical drug candidate. On this basis, the Company has started a dialogue with US opinion leaders, in order to conduct an application trial with NanoTherm™ therapy and to prepare the US registration path. The Company is confident that MagForce's extensive pre-clinical and clinical studies will provide the solid background for a timely submission of an Investigational Device Exemption (IDE) for the application of NanoTherm™ therapy.

In a pre-submission meeting, the FDA gave very constructive feedback regarding the regulatory requirements to enable registration and approval in the US and confirmed that NanoTherm™ will be designated as a medical device.

Glioblastoma multiforme (GBM) is the most common and most aggressive malignant type of brain tumor in adults. Recent publications estimate that there are at least 10,000 new cases of GBM diagnosed annually that require treatment in the US, and it is expected that this number will grow constantly with increasing age and demographic changes. Standard therapy consists of surgical resection to the extent that is safely feasible, followed by adjuvant radiotherapy/chemotherapy. The prognosis for glioblastoma is extremely poor (medium survival is 1.2 years from the time of diagnosis) since recurrence is very likely (>90%) after primary standard treatment. There is no standard and effective treatment schedule for recurrent glioblastoma patients.

"Expanding the treatment of glioblastoma to the rest of Europe and the US significantly increases our revenue potential".



Global health care market for glioblastoma (incidences per year)

04 NANOTHERM™ WITH SIGNIFICANT POTENTIAL IN PROSTATE CANCER TREATMENT IN THE US

Prostate cancer is the most commonly diagnosed cancer in men in the USA. According to the National Cancer Institute, around 238,590 new cases of cancer will be diagnosed and about 29,720 men will have died of prostate cancer in the US in 2013. Due to demographic changes and extensive screening, incidence cases are expected to grow significantly in the next ten years.

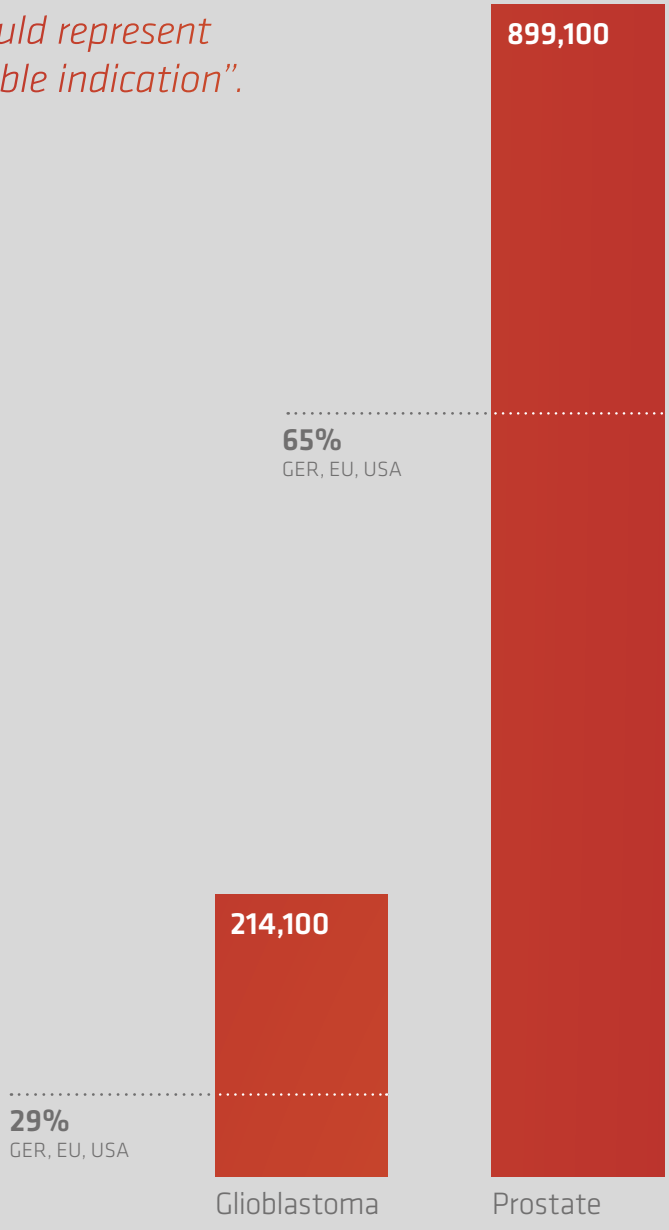
NanoTherm™ has the potential to be developed as a less-invasive, less toxic focal therapy, which can keep the slow growing cancer non-agressive and prolong the time for patients without requiring standard treatments with significant side effects.

With the use of PSA testing in the US during the past decades, prostate cancer has been identified and treated earlier, leading to a sharp decline in prostate cancer that has metastasized from the prostate gland. There is a growing consensus that the small, low-grade tumors (50–60% of the tumors detected) really don't need any treatment at all. Clinical studies monitoring surgery versus observation with no treatment at all found no reduction in mortality with surgery when compared to "doing nothing." Higher-risk patients with more focal and intermediate grade tumors, however, are generally not referred for active surveillance any more. They need to undergo the standard treatments like surgery, radiation, or brachytherapy with the downside of significant side effects such as urinary dysfunction, erectile dysfunction and loss of fertility.

There appears to be a major opportunity for NanoTherm™ therapy to be developed as a less-invasive and less-toxic focal therapy, which can be utilized to control the slow growing cancer and keep it non-aggressive. This could prolong the time for intermediate prostate cancer patients without requiring the present standard treatments, avoiding the side effects and enhancing the quality of life.

In addition, in high-risk recurrent prostate cancer patients, who show no evidence of metastases, there is potential for NanoTherm™ as a combination therapy, with the ability to significantly increase the efficacy of radiation and chemotherapy and allow for lower dosage and reduced side effects.

"Given the size of the prostate cancer market, this could represent a sizeable indication".



Cancer incidences per year
Corresponding health care costs for glioblastoma amount to EUR 2 bln. and for prostate EUR 10 bln. per year.

Feasibility and safety trials involving 29 prostate cancer patients in Europe have already been conducted, and the data was very promising.

MagForce is evaluating the application of NanoTherm™ therapy to both prostate cancer stages. Our evaluation includes:

- Size of unmet medical needs;
- Desired medical outcome;
- Competitive technologies and procedures;
- Required resources and registration timing; and
- Resources and timing for successful commercialization.

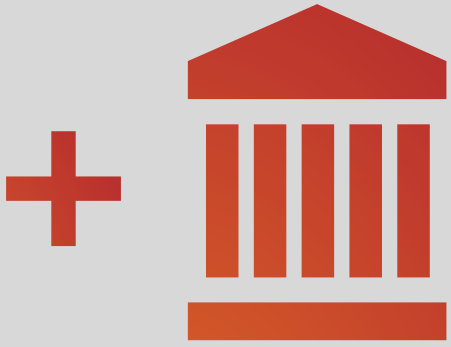
We expect to complete this evaluation in Q2, 2014.

05 INCORPORATION OF MAGFORCE USA, INC.

On March 10, 2014, MagForce USA, Inc. Nevada, USA, a wholly owned subsidiary of Magforce AG, was incorporated. The new subsidiary is intended to be an operating oncology company. MagForce AG plans to introduce NanoTherm™ therapy to the US for glioblastoma and prostate cancer through this new company. MagForce USA, Inc. will also be in charge of negotiations with the FDA team and drive commercialization.

The target is to develop the US market and to prepare the registration process with the FDA through the newly founded subsidiary MagForce USA, Inc.

"We have planned our registration path in the US for the treatment of glioblastoma and prostate cancer".



USA

GERMANY

New affiliate incorporated in the USA.

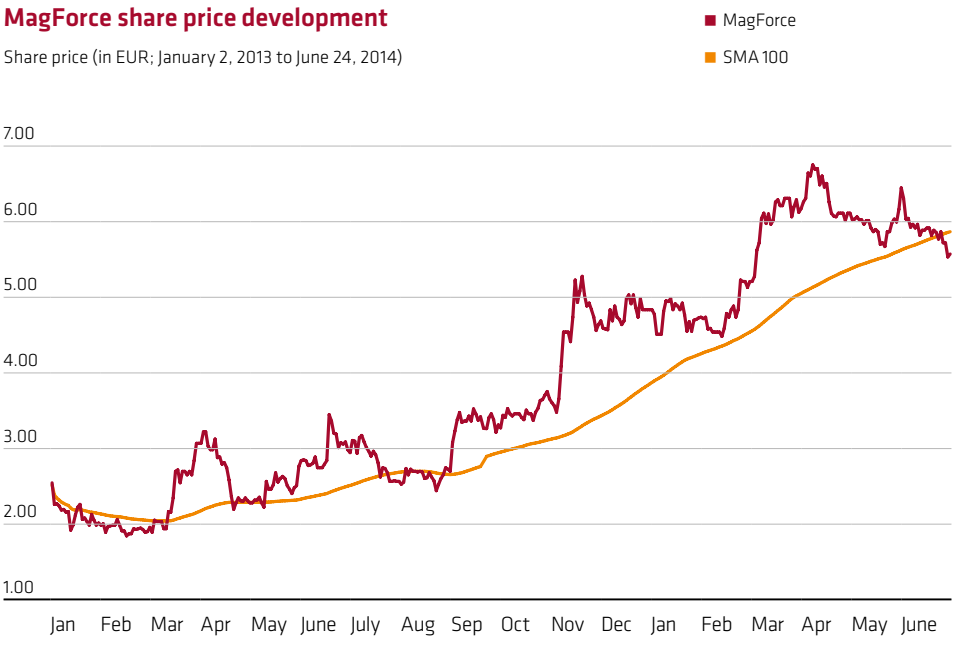
SHARE AND INVESTOR RELATIONS

MagForce's shares

On December 31, 2013, MagForce shares (MF6.DE) closed at EUR 4.60, up 105% compared to the closing price on January 2, 2013. The share price high was at EUR 5.34 and low at EUR 1.75 during the fiscal year, continuing to rise in 2014 to a share price high at EUR 6.75 in the first half of 2014. The Company's market capitalization rose considerably in the reporting period, from EUR 12 million to EUR 110 million, further increasing to EUR 132 million by the date of publication. The liquidity of MagForce's shares also continued to improve: the average daily trading volume in 2013 on XETRA was 26,950, shares compared with 9,489 shares in the full year of 2012.

MagForce share price development

Share price (in EUR; January 2, 2013 to June 24, 2014)



Investor Relations

The Company's management sets great store on regular communication with shareholders. The aim of its investor relations activities is to attract capital market participants as key partners in MagForce's future development. The goal is to communicate the Company's strategic focus and development reliably and transparently to gain investor confidence in MagForce and achieve a realistic and fair valuation of our shares. This is particularly important at this stage when the Company is implementing a promising US strategy to broaden the commercialization of its technology and not yet generating revenues. Outside of annual general meetings, the Management Board has held numerous discussions with investors at roadshows and conferences. These discussions revolved around the capital increase in March 2013, the Company's operational performance and strategic focus, as well as the new five-year plan implemented by new CEO, Ben Lipps, in the fall of 2013. Starting in the second half of the year, shareholders have also been informed about current developments via a quarterly letter from Ben Lipps. Additionally, Edison Investment Research initiated coverage of MagForce in December 2013.

Key facts MagForce shares

Number of shares issued at the beginning of the period	5,316,158
Number of shares issued at the end of the period	23,922,711
Free float	31%–35%
18-month high (XETRA) in EUR	6.75
18-month low (XETRA) in EUR	1.75
Price at the beginning of the period (XETRA) in EUR	2.24
Price at the end of period (XETRA) in EUR	4.60
Price at the end of June 2014 (XETRA) in EUR	5.55
Market capitalization at the beginning of the period (EUR 000's)	11,908
Market capitalization at the end of the period (EUR 000's)	110,044
Market capitalization at the end of June 2014 (EUR 000's)	132,770
Average daily trading volume during the period	26,950

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board was regularly informed of the progress of business and the earnings of the Company during the financial year by written and oral reports.

The Supervisory Board constantly supervised management. In seven meetings in fiscal year 2013, all business transactions and upcoming decisions that require the approval of the Supervisory Board by law or the bylaws were discussed in detail. All members of the Supervisory Board attended all of these meetings.

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

At the meetings, among others, the following issues were discussed and the following resolutions were taken:

On February 8, 2013, the Supervisory Board unanimously approved the decision of the Management Board regarding the details of the capital increase resolved by the General Meeting on January 25, 2013. The capital increase announced at the end of 2012 against cash and contribution in kind was implemented as proposed to and resolved by the General Meeting on January 25, 2013, in Berlin.

Accordingly, the Supervisory Board approved unanimously by resolution of March 22, 2014, the resolution taken on the same date by the Management Board to execute the announced capital increase against cash contributions and contribution in kind granting preemptive rights to the shareholders in a total volume of around EUR 33.5 million, and the corresponding adjustment of sectiion 6 of the bylaws. A total of 18,606,553 new no-par value bearer shares were subscribed. Of these, 9,750,846 new shares against cash and 8,855,707 new shares were subscribed against contribution in kind in the form of a debt to equity swap of EUR 15.9 million of shareholder loans.

In the Supervisory Board call of June 12, 2013, the Supervisory Board approved the decision of the Management Board dated June 11, 2013, to combine the new and old stock certificates resulting from the capital increase under a single WKN/ISIN.

The Supervisory Board approved the audit report of Ernst & Young GmbH on the audit of the financial statements 2012 as part of its audit committee call on June 12, 2013. In the same meeting, the Company's financial statements as of December 31, 2012, and the management report for the fiscal year 2012 were approved.

At the meeting of the Supervisory Board in Berlin on June 14, 2013, Dr. Ben Lipps was appointed with effect from September 1, 2013, for a period of three years as CEO of the company.

In his presence meeting on October 15, 2013, at the premises of the company in Berlin, the economic situation of the company and strategic objectives for the coming years were discussed. In this session the investment in NanoActivators® and the issuance of stock options were discussed.

As a result of these discussions, the Supervisory Board resolved unanimously on December 19, 2013, to incorporate the wholly owned subsidiary of MagForce, MagForce Ventures GmbH, with a share capital of EUR 25,000.00. With the same decision the conclusion of a contract for the licensing of rights to the NanoTherm™ therapy, for the treatment of brain tumors in the territory of the United States between MagForce AG and Magforce Ventures GmbH was unanimously approved.

With regard to this matter, a written resolution was taken on January 24/26, 2014 ,to approve the conclusion of a contract for the licensing of rights to the NanoTherm™ therapy, for the treatment of prostate cancer in the territory of the United States between MagForce AG and Magforce Ventures GmbH was approved unanimously. Furthermore, the incorporation of MagForce USA, Inc. and the contribution of all shares of MagForce Ventures GmbH by MagForce AG to Magforce USA, Inc. was unanimously approved by way of written resolution of Apri 4, 7, and 10, 2014.

In connection with the preparation of financial statements, individual accounting values were discussed in detail as well as the resulting impact on the capital structure of the Company.

The accumulated deficit has increased only marginally as a result of the out-licensing during the year. Other income from the grant of US territorial rights for the United States for the treatment of brain tumors and the consequential strengthening of the equity by EUR 5.1 million in the fiscal year of 2013 were discussed in detail. Furthermore, the capital increase of the Company in March 2013 had a positive effect on the Company's equity, so that a positive equity position is presented on the balance sheet as of December 31, 2013.

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

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

The annual financial statements as of December 31, 2013, and the management report for the financial year 2013 prepared by the Management Board, as well as the accounts, have been audited by the appointed auditor, Ernst & Young GmbH, Berlin and were issued with an unqualified audit opinion.

The Supervisory Board thoroughly examined the annual financial statements and the management report of the Management Board. The auditor took part in the discussion of the annual financial statements on June 27, 2014 and was available for additional information.

The documents to be examined and the audit reports of the auditors were provided to each Supervisory Board member in a timely manner.

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

The Supervisory Board has not formed any committees.

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

The Supervisory Board approved the annual financial statements prepared by the Management Board in the meeting held on June 27, 2014. The annual financial statements are thus adopted.

During the year, Dr. Jan zur Hausen resigned from the Supervisory Board. Dr. Jan zur Hausen was replaced by Mr. Stephan Jakober, who was appointed as a new member of the Supervisory Board.

The Supervisory Board thanks the Management Board and all employees for their great personal dedication and hard work in 2013.

Berlin, June 26, 2014
The Supervisory Board

Norbert Neef, LL.M.
Chairman of the Supervisory Board

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Business and environment

Company overview

MagForce is a Berlin-based oncology company engaged in the research, development, manufacturing and commercialization of innovative medical devices and therapies for the treatment of solid, localized cancer tumors. Its novel targeted cancer treatment, NanoTherm™ therapy, consists of three interrelated components: NanoTherm™ magnetic fluid containing iron-oxide nanoparticles, NanoActivator®, magnetic field applicator and NanoPlan®, treatment planning software. These three products are manufactured within the Magforce Group of Companies and are classified, in the EU, as medical devices. They are the first and only nanomedicine-based medical devices to have received EU-wide CE Mark approval for the treatment of brain tumors based on the efficacy and safety proven in clinical trials.

The goal of this new type of cancer treatment is to become established as another pillar for treating cancer, in addition to the conventional therapies such as surgery, radiotherapy and chemotherapy. NanoTherm™ therapy involves the minimally-invasive injection of magnetic nanoparticles into solid tumors and the heating of these nanoparticles through the application of an alternating magnetic field produced by the NanoActivator®. Depending on the temperature achieved within the tumor and the length of treatment, the method can either be deployed as hyperthermia to support conventional types of treatment or alone as thermoablation for the direct destruction of tumor cells. Once injected into the target tissue, the nanoparticles remain in place, allowing for repeated treatment of the same region for several years without further injections. The NanoTherm™ treatment is associated with fewer and less severe side effects compared to chemo- and radiotherapy or conventional thermotherapy techniques, as it specifically targets malignant cells and spares healthy tissue. When used in combination with other therapy approaches, NanoTherm™ increases the efficacy of conventional treatment modalities, without adding significant additional side effects.

MagForce focuses on highly underserved indications in oncology that are characterized by the severity of the disease, high incidence level, substantial medical need and limited available treatment options.

The technology is approved in Europe for the treatment of brain tumors. The Company will now investigate the treatment of localized prostate cancer with NanoTherm™ therapy. Given the size of the prostate cancer market, this could represent a sizeable indication.

MagForce's therapeutic platform is protected by longstanding in-house know-how and a broad intellectual property portfolio comprising 16 international patent families and approximately 190 single patents and patent applications. Through continued research and development activities, MagForce AG aims to ensure and further extend its technical leadership in treating solid tumors with NanoTherm™ therapy.

Research and development activities are focused on enhancements to MagForce's nanoparticles and on expanding the treatment to cover other oncology indications.

NanoTherm™ therapy is currently available in six centers throughout Germany with NanoActivator® devices installed in Berlin, Muenster and Kiel. Roll-out to further sites and installation of additional devices will follow in 2014.

Macroeconomic situation

In the fifth year after the financial crisis began, the world economy has continued to grow. However, global growth in 2013 was clearly weaker than in the pre-crisis years. While emerging economies have, for the most part, continued growing strongly, their growth rates have also decelerated and the slowdown experienced since 2011 has been more pronounced.

The recovery in the US and EU economies in 2014 should contribute to an acceleration in the growth of world trade.

Global activity was strengthened during the second half of 2013, as anticipated in the October 2013 World Economic Outlook by the International Monetary Fund. Activity is expected to improve further in 2014 and 2015, based on continued recovery in the advanced economies. Global growth is now projected to be slightly higher in 2014, at around 3.7%, rising to 3.9% in 2015. But downward revisions to growth forecasts in some economies highlight continued fragilities and downside risks remain.

The Euro area is turning the corner from recession to recovery. Growth is projected to strengthen to 1.0% in 2014 and 1.4% in 2015, but the recovery will be uneven. The pickup will generally be more modest in economies under stress, despite some upward revisions. High debt, both public and private, and financial fragmentation will hold back domestic demand, while exports should contribute to further growth.

Market and industry conditions

MagForce is active in the medical device sector and is currently focused treatments for glioblastoma and prostate cancer. The projected annual medical treatment costs in these indications amount to EUR 10 billion for prostate cancer and to EUR 2 billion for brain tumors. Due to the increase in cancer patients these expenses are assumed to grow significantly within the next years. Please see the more detailed explanation that follows.

Medical devices in the oncology market

The oncology devices market is made up of both diagnostic and therapeutic products. The therapeutics market can be segmented into two major categories: type and application. There are two types of devices: brachytherapy devices and endoscopic devices. Segmentation by application covers: external radiation beam therapy, systemic radiation therapy, and brachytherapy. MagForce's NanoTherm™ therapy could establish itself as an additional segment with local thermoablation.

According to a report by the American Cancer Society, 50% of men and 30% of women are likely to develop cancer in their lifetime. The increasing number of cancer patients is the major driver of sales in the oncology devices market. The increasing amount of tobacco consumption and carcinogens in polluted air or in any other form, are also accepted accelerators for the oncology devices market. Other important growth factors in this market include: rising disposable income, which enables patients to access expensive treatments, easily available medical insurance policies and rising medical tourism activities. Growth will also be enhanced by the increasing awareness of current technologies, launch of innovative products and rapidly expanding global economies are further growth drivers.

Government policies, such as the restrictions imposed by the US Food and Drug Administration (FDA) or the German G-BA on medical devices, act as a restraint for the oncology devices market. The inability to detect cancer at an early stage or ignoring the early symptoms reduces the chances of patient survival, which also acts as a restraint on the market. Developing countries provide immense opportunities for oncology devices as such economies have a great demand and the supply of therapeutic options is yet to match this demand.

Glioblastoma, prostate cancer and treatment

Glioblastoma

Glioblastomas are the most common and most aggressive brain tumors. These tumors mainly affect adults and are classified as grade IV tumors by the World Health Organization due to the very poor prognosis and the difficulty or impossibility of treatment. Most glioblastomas are surgically incurable and largely resistant to radiation and chemotherapy.

Around 6,200 people are diagnosed with brain cancer in Germany each year, thereof approximately 3,500 with glioblastoma, accounting for about 0.8% 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, in the United States this number amounts to nearly 10,000.

The first stage of conventional cancer treatment is surgical removal of the glioblastoma. Following surgery, radiotherapy is usually prescribed, in most cases accompanied by chemotherapy. Despite the intensive treatment, after a few months the tumor often grows back. There is currently no real cure for this disease and the average survival time is a matter of months.

Only few drugs are in late-stage development for glioblastoma and in recent years numerous drugs have disappointed in Phase III clinical studies; current treatments for newly diagnosed glioblastoma is still dominated by surgery accompanied by radiotherapy and temozolomide (Merck & Co.'s Temodar/Temodal and generics). The future use of bevacizumab (Roche/Genentech/Chugai's Avastin) in the United States and Europe is shrouded in uncertainty following the announcement of equivocal data of this agent in Phase III clinical trials. Two therapeutic vaccines in Phase III development hold promise for prolonging overall survival.

Glioblastoma is almost always terminal. The median five-year survival rate following combined radiation and temozolomide therapy is 9.8%. There is, therefore, a clear need for new therapies with different mechanisms of action.

The glioblastoma market is significant and worth billions of dollars. Worldwide sales of Temodar reached more than USD 900 million in 2012. It is believed that the market will nearly double within the next decade.

Prostate cancer

As of 2012, prostate cancer is the second most frequently diagnosed cancer and the sixth leading cause of cancer death in males worldwide. In Germany, around 68,000 new prostate cancer diagnoses are expected in 2014, in the United States, there will be over 230,000 and over 320,000 cases in Europe. Prostate cancer is the most common type of cancer affecting men. In 2012, it was the third most diagnosed cancer in Europe, after breast and colorectal at 417,000 cases.

Prostate cancer develops primarily in men over fifty. More than 80% of men will develop prostate cancer by the age of 80. However, in the majority of cases, this disease will be slow-growing and harmless.

Clearly with the use of prostate specific antigen (PSA) testing in the USA during the past two decades, prostate cancer has been identified and treated earlier, leading to a sharp decline in prostate cancer that has metastasized outside of the prostate gland. Following active surveillance current treatments are radiation and surgery; both approaches are likely to cause major side effects, such as urinary incontinence and erectile dysfunction. These facts therefore speak for a major opportunity to develop solid tumor therapies with less side effects while the number of metastasized prostate cancer cases continues to decline.

In 2012, the total prostate therapeutics market was worth USD 5.7 billion. Growth in prostate cancer therapies can be directly attributed to an increase in the number of prostate cancer incidences in men aged 60 and above. In 2013, statisctics reveal that an estimated 238,590 new prostate cancer cases were diagnosed in the US alone.

The market is forecast to grow at a CAGR of 10.4% between 2014 and 2017, generating sales worth USD 9.3 billion in 2017. MagForce aims to enter this market through its subsidiary MagForce USA, Inc.

Competition

MagForce's competitors comprise pharmaceutical, biotech, and medical technology companies that are active in the field of oncology. Apart from the molecular approach to heat-based cancer therapy, there is currently no comparable clinically proven thermotherapy procedure on the market in which heat is generated directly in the tumor. With conventional heat therapy devices, 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 tumor. 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 effective treatment.

Developments in the Company for the fiscal year

Successful recapitalization and balance sheet reorganization

The hallmark of the reporting period was the successful capital increase in cash and noncash contributions in the spring of 2013. Overall a total of 18,606,553 new no-par value bearer shares were issued. In total, 9,750,846 new shares were issued against cash contributions and 8,855,707 new shares were issued against contributions in kind by a debt to equity swap of loans in the amount of EUR 15.9 million. The new shares were offered to the Company's shareholders for subscription at a ratio of 2:7. The subscription price for the new shares was EUR 1.80 per share.

The objective of the increase in the Company's share capital was a balance sheet restructuring and securing the Company's long-term financing. In consequence, MagForce was debt-free in 2013.

The cash inflow generated from the issuance of shares is used to fund the further clinical development and commercialization of the NanoTherm™ therapy as well as to expand distribution and strategic partnerships.

Incorporation of MagForce Ventures GmbH

In December 2013, MagForce incorporated MagForce Ventures GmbH and contributed the right to market and develop NanoTherm™ therapy for the indication brain tumors in the territory of the USA and Puerto Rico as a contribution in kind to the capital reserves of MagForce Ventures GmbH. The contribution at current value resulted in a gain of EUR 5,100 thousand.

As of May 15, 2014 all shares of Magforce Ventures GmbH were contributed against the issuance of 5,000,000 common shares to MagForce USA, Inc. Nevada, USA.

MagForce USA, Inc., a wholly owned subsidiary of MagForce AG, was incorporated on March 10, 2014. MagForce USA, Inc. will focus on the development of the MagForce technology in the USA and is expected to be financed privately through strategic investors and Life Science specialist investors.

Clinical development

In 2013, MagForce started its new glioblastoma study with key opinion leaders in Germany. In this context, MagForce continued with preparations and the installation of NanoActivator® devices throughout the year under review. By the date of this report three NanoActivators® had been installed and included in the clinical study, at the University Hospitals of Muenster and Kiel adding to the already installed device at Charite Hospital in Berlin.

In addition to the sites with a NanoActivator®, other clinical centers are located in Cologne, Duesseldorf and Giessen. A total of six clinical centers were initiated and included in the clinical study by the date of this report, with further study centers being initiated throughout 2014.

Through its subsidiary MT MedTech Engineering the Company continuously produces further NanoActivators® for the study centers and roll-out of its technology.

Additions to the Management and Supervisory Boards

On September 1, 2013, Dr. Ben J. Lipps joined the Management Board of MagForce AG as the new CEO. Dr. Lipps brings to MagForce more than 30 years of experience in top management positions with DAX and Dow-Jones medical technology companies. Previously, under his leadership, Fresenius Medical Care was developed into an independent, listed corporation with a market capitalization of EUR 16.5 billion. Dr. Lipps was CEO of Fresenius Medical Care (FMC) from 1999 to 2012. Before this he served as CEO of Fresenius USA from 1985 and CEO of Fresenius Medical Care USA. With his excellent contacts and his decades of experience in successfully developing and building companies in the medical sector he is clearly the ideal candidate to help MagForce harvest the full potential of its NanoTherm™ therapy.

Supervisory Board member Dr. Jan zur Hausen resigned from office effective as of September 13, 2013. Stephan Jakober was assigned as his successor to the Supervisory Board by court order of the local court Berlin Charlottenburg as of October 1, 2013.

Results of operations, net assets, and financial position

Results of operations

Net loss for the fiscal year was EUR 1,628 thousand (2012: EUR 5,718 thousand). The reduction is largely due to the outlicensing of NanoTherm™ therapy in the USA for the treatment of brain tumors. The outlicensing transaction resulted in a gain of EUR 5,100 thousand that was contributed to the capital reserves of the newly founded subsidiary Magforce Ventures GmbH. Excluding this effect, net loss for the period increased by EUR 1,010 thousand compared to prior year's loss.

The increase in operating expenses is mainly attributable to increased travel and investor relation fees in connection with the fund raising activities in Spring 2013 of EUR 727 thousand (2012: EUR 181 thousand) as well as an increase of legal and consulting fees to EUR 586 thousand (2012: EUR 145 thousand). These increases were partly offset by a reduction in facility cost by EUR 275 thousand.

Other operating income amounted to EUR 5,443 thousand (2012: EUR 955 thousand) and is mainly due to the outlicensing of the US rights to MagForce Ventures GmbH at a current value of EUR 5,100 thousand.

Interest and similar expenses decreased to EUR 276 thousand (2012: EUR 1,013 thousand) in connection with the elimination of all long term liabilities.

Net assets

Total assets decreased by EUR 1,864 thousand during the period under review to EUR 17,727 thousand. Tangible fixed assets increased by EUR 723 thousand as a result of the installation of two NanoActivators® in Muenster and Kiel that were capitalized in the fiscal year and additional Devices being under constructionn. In addition, financial assets rose by EUR 5,125 thousand due to the outlicensing of the US rights to the NanoTherm™ therapy for the treatment of brain tumors leading to an increase of the shareholdings in MagForce Ventures GmbH. Shareholdings in MT MedTech Engineering were impaired and are carried at fair value of EUR 1.00 at year end. The impairment was due to the continuig over-indebtedness of the company that can only be reduced slowly over time.

Furthermore, as a result of the capital increase in spring 2013, cash and cash equivalents increased by year end to EUR 9,271 thousand compared to EUR 689 thousand in the prior year.

Liabilities decreased by EUR 17,463 thousand to EUR 1,410 thousand mainly as a result of the debt to equity swap that formed part of the capital increase in the spring of 2013.

Financial position

Net loss for the year amounted to EUR 1,628 thousand (prior year: EUR 5,718 thousand) Cash outflows from operating activities amounted to EUR –6,792 thousand (prior year: EUR –5,473 thousand). Cash outflows from investing activities amounted to EUR –886 thousand (prior year: EUR –40 thousand), and cash flows from financing activities to EUR 16,261 thousand (prior year: EUR 6,187 thousand).

The available liquidity at the end of the period under review amounted to EUR 9,271 thousand compared to EUR 689 thousand at the beginning of the period. During the reporting period, the Company received cash funds of EUR 17,552 thousand from capital increases.

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

The cash inflows were mainly attributable to the capital increase in spring 2013, a total of EUR 17,552 thousand. In addition, the Company received EUR 650 thousand in loans from affiliated companies that were paid off during the first six months of the year.

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

By the end of 2012, management prepared, with the Supervisory Board's approval, capitalization measures to secure funding for MagForce AG. The aim of the plan was to increase the Company's capital by up to EUR 18.6 million against cash and noncash contributions, granting preemptive rights to the shareholders. The measures were approved at the extraordinary general meeting on January 25, 2013, and a total of EUR 33.5 million was raised in March 2013.

A total of 18,606,553 new no-par value bearer shares were subscribed. In total, 9,750,846 of these new shares were subscribed in return for cash payments and 8,855,707 new shares were subscribed in return for noncash contributions, and shareholder loans of EUR 15.9 million were converted into equity. The new shares were offered to the Company's shareholders for subscription at a ratio of 2:7. The subscription price for the new shares was EUR 1.80 per share.

In future, the Company is planning to develop the NanoTherm™ therapy for other critical oncology indications, further leveraging the potential offered by this technology. In addition to financing these activities itself, the Company will be attempting to attract the support of strategic development partners for specific indications and/or regions.

MagForce's financial development in 2013 was in line with the management's expectations. In particular, the Company's financing was secured and, consequently, the new Glioblastoma clinical trial was launched.

Research and development

Production

After relocation of the production facilities in December 2012 certification for the production line needed to be renewed. The production process at the new site was validated in the first quarter 2013 and the full recertification of the production process was finalized in the second quarter 2013.

Clinical development

Glioblastoma

On April 8, 2013, MagForce announced that the Company had received approval from the German Federal Institute for Drugs and Medical Devices (Bundesinstitut für Arzneimittel und Medizinprodukte – BfArM) to start the post-marketing clinical study in recurrent glioblastoma. The final authorization by the Federal Office for Radiation Protection (Bundesamt für Strahlenschutz – BfS) was granted by mid-year 2013. Starting in the third quarter 2013, MagForce was able to deploy additional NanoActivators® and install them in the University Hospitals in Muenster and Kiel. By year-end 2013, the Company had three NanoActivators® ready for use, as was forecast by the management. Additional devices will be installed throughout 2014.

As of March 31, 2014 the first patient was enrolled in the clinical study.

Patent and brand applications

Intellectual Property protection of MagForce's medical devices had been strenghtened in fiscal year 2013. Both international patent applications from 2012 were either granted a positive opinion of the International Searching Authority or have been granted a preliminary positive audit report as to patentability by the authority executing the international patent examination. Hence, a prolonged patent protection for NanoPlan® and NanoTherm™ is deemed to be granted. An international patent application for temperature simulation as realized with NanoPlan® software has been prolonged by national and regional phases in EP, USA, Australia, Canada, India, Japan, South Korea, Mexico and Russia. A patent family licensed from INM Leibnitz-Institut für Neue Materialien gGmbH regarding the production of surface optimized ceramic powder expired in 2013.

Employees

At the end of 2013, MagForce had 20 employees (excluding members of the Management Board), an increase of two from the start of 2013. As of December 31, 2013, 65% of the employees were women.

Opportunities and risks

Opportunities

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

In 2013, the Company received approval to conduct a post-marketing clinical study for glioblastoma. This study is now being performed together with key opinion leaders in several centers throughout Germany. If MagForce increases acceptance of the NanoTherm™ therapy as a result of the study findings and the support of leading glioblastoma experts, this technology could be successfully commercialized for the treatment of glioblastoma in the near future.

The Company is also planning to develop NanoTherm™ therapy for other promising oncology indications, such as prostate cancer. In addition, MagForce expects to find an affiliate in the USA to prepare roll-out of the therapy in the US market. If development is successful, the technology's potential could increase enormously.

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

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

Risks

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

Risk of lack of profitability and liquidity
The Company has sustained operating losses in the past and might never be profitable. Moreover, MagForce has not generated noteworthy revenues at any point in its history. Regarding the risk to continue as a going concern with reference to the liquidity of the Company we refer to 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 approval being withdrawn
Approval of the Company's products under the Medizinproduktegesetz (MPG – German Medicinal Products Act) can be withdrawn. Approval of the Company's products is dependent on the declaration of conformity. This is reviewed and renewed at regular intervals in audits 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. New findings that arise during audits or changes to legal requirements could lead to considerable delays or even to the withdrawal of product approval.

Reliance on third parties to perform studies
MagForce relies on cooperation with clinical study managers, investigators, study centers, and participating patients to perform its clinical studies, and these have a significant influence on whether or not the quality requirements for the studies are met. Therefore, it is one of the MagForce clinical team' major task to tightly control the study performance. Failure to properly perform a study can lead to delays or the rejection of the study in the approval process.

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. This exposes it to a high level of marketing risk.

Risks associated with the limited availability of appropriate patients for clinical studies
Recruiting a sufficient number of appropriate patients to participate in the studies might not be possible at all or within the planned time frame. This could significantly delay or prevent the performance of the study.

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 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 protect its own inventions or enforce any industrial property rights.

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

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

Reliance on employees
MagForce currently has 20 employees, some of whom are the only people performing their functions or who hold several important positions. Business operations could be jeopardized if an employee is unavailable for work, the Company loses staff, or if it is not in a position to recruit additional suitable technical and management employees over the long term. MagForce'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 associated with the lack of sales experience
The Company has not yet sold any products and has no experience in the successful distribution of its products.

Risk of costs not being covered by health insurance funds and other health care providers and insurers
It cannot be guaranteed that the cost of MagForce's nanotherapy will be covered by statutory and private health insurance funds outside Germany.

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 good 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.

Reliance on MT MedTech Engineering GmbH
Major parts of the development process are performed by the Company's subsidiary, MT MedTech Engineering GmbH. Should MT MedTech Engineering GmbH have to cease operation, it could be difficult or impossible to replace it with a different external supplier or service provider.

Risk management targets and methods in relation to financial instruments

As of December 31, 2013, MagForce's main financial instruments were cash and three months interest bearing notes.

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

The Company's receivables are not collateralized. Consequently, the Company is exposed to risk in the amount of the receivables that could become irrecoverable. Due to its low sales, the Company has not had any bad debts in the past.

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

Report on expected developments

In the year 2014, the Company's development will focus on:

- Continuing to establish additional NanoTherm™ therapy centers throughout Germany
- Continuing to install additional NanoActivators® throughout Germany
- Develop the US market and prepare the application process with the FDA through its newly founded subsidiary MagForce USA, Inc. by
  - adjusting the NanoActivator® device to adhere to US standards,
  - executing an FDA compliance program to prepare for market entry in the USA

Given the roll-out plan and the ongoing clinical study, the Company expects the net loss from operating activities to be higher than in 2013. This increase in net loss is in line with the measures taken in 2013 and the corresponding focus of the Company on key strategic value drivers. However, management expects first revenues from commercial patients starting in 2014.

The Company is forecasting a higher negative operating cash flow for fiscal year 2014 due, among other things, to increasing production activities, deployment of additional NanoActivators® and other activities to establish its NanoTherm™ therapy.

Summary of expected developments by the Management Board

The Company's business model has a strong focus on short-term value drivers. These include commercializing NanoTherm™ therapy in Germany and in the regions covered by the Company's distribution partners as well as continuing to develop NanoTherm™ therapy in other indications such as prostate cancer or seeking approval from the FDA via its wholly owned subsidiary MagForce USA, Inc.

The range of measures adopted is based on the premise that establishing NanoTherm™ Therapy will generate sustainable sales. Costs will initially increase due to the new clinical glioblastoma study and preparation of market entry in further countries. However, ultimately these measures will ensure MagForce's long-term economic survival. The successful execution of the capital increase in the spring of 2013 marked the endpoint of MagForce's corporate restructuring activies that began in 2012.

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

Based on the cash and cash equivalents as of December 31, 2013 of EUR 9,271 thousand (prior year: EUR 689 thousand), we have set up a financial plan, according to which the activities for the years 2014 and 2015 can be financed. On the basis of this financial plan cash and cash equivalents available as of December 31, 2013 will be sufficient to meet the payment obligations. A requirement for this conclusion is that the assumptions underlying the plan will materialize as planned.

A key risk relates to the timely and quantitatively sufficient availability of financial resources to ensure meeting the corporate goals. Based on our financial planning, there is no need for further financial support from the shareholders. Should the plan, however, be missed, further financial support from the shareholders would be required.

In our opinion, the Company can finance the operations with the available cash if the assumptions of the financial plan, in particular planned revenues, materialize. At the time of the financial closing the Company had not planned any capital increases or debt financings.

The planning of MagForce involves 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 prudent business judgement. In this respect, deviations from the plan cannot be ruled out. Furthermore, uncertainties as to the forecast reamain as it can't be ruled out that planned revenues may be delayed or may not materialize in the amount assumed in the plan, since MagForce has not generated material revenues to date.

The solvency of the Company and hence the ability to continue as a going concern depend on assumptions of the financial plan. In particular, the materialization of revenues that are due to start in 2014 and will increase thereafter at a moderate rate. Otherwise, the Company will further depend on the financial support of the shareholders.

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

The Company currently focusses on the use of NanoTherm™ technology to treat glioblastoma. To unveil the full potential of NanoTherm™ therapy in other indications the Company will continue to depend on additional financings.

Report on post-balance sheet date events

Corporate transactions

As of March 8, 2014 MagForce AG contributed the right to market and develop NanoTherm™ Therapy for the indication prostate cancer in the territory of the USA and Puerto Rico as a contribution in kind to the capital reserves of MagForce Ventures GmbH.

On March 10, 2014, MagForce USA, Inc. Nevada, USA, a wholly owned subsidiary of Magforce AG was incorporated.

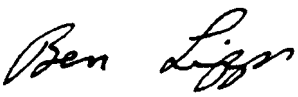
As of May 15, 2014 all shares of Magforce Ventures GmbH were contributed against issuance of 5,000,000 common shares to MagForce USA, Inc.

New Glioblastoma study

As of March 31, 2014, MagForce announced that the first patient was enrolled in the clinical study.

There were no other significant post-balance sheet date events or developments with a material impact on the net assets, results of operations, or financial position of the Company that are required to be reported here or that would change the assertions contained in the annual financial statements.

Berlin, June 26, 2014



Dr. Ben J. Lipps
Chief Executive Officer

Christian von Volkmann
Chief Financial Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer and
Chief Operating Officer for the Therapy Development

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Income statement

Income statement

in EUR	2013	2012
Other operating income	5,442,512.14	954.621,57
	5,442,512.14	**954.621,57**
Cost of materials		
Cost of raw materials, consumables, and supplies	92,958.62	37,228.93
Cost of purchased services	480,303.71	155,790.53
	573,262.33	**193,019.46**
Personnel expenses		
Wages and salaries	1,891,402.07	1,903,962.65
Social security and post-employment benefit costs	210,940.14	247,542.86
Depreciation, amortization, and write-downs	127,506.03	284,785.99
Other operating expenses	4,218,958.03	3,216,533.96
	7,022,068.60	**5,845,844.92**
Other interest and similar income	257,052.71	187,586.27
Writedowns of long-term financial assets	27,825.20	0.00
Interest and similar expenses	276,099.43	1,013,136.05
	-46,871.92	**-825,549.78**
Result from ordinary activities	-1,626,428.38	-5,716.773.13
Other taxes	1,126.00	1,200.72
Net loss for the financial year	1,627,554.38	5,717.973.85
Accumulated losses brought forward	37,543,259.69	31,825,285.84
Net accumulated losses	**39,170,814.07**	**37,543,259.69**

Balance sheet

Assets

in EUR	12/31/2013	12/31/2012
Fixed assets		
Intangible fixed assets		
Purchased industrial and similar rights and assets, and licenses in such rights and assets	16,162.08	3,735.58
Tangible fixed assets		
Technical equipment and machinery	392,161.50	297,756.50
Other equipment, operating and office equipment	311,232.00	326,416.82
Prepayments and assets under construction	1,598,571.12	954,416.26
	2,301,964.62	**1,578,589.58**
Long-term financial assets		
Shares in affiliated companies	5,125,001.00	27,826.20
	7,443,127.70	**1,610,151.36**
Current assets		
Receivables and other assets		
Receivables from affiliated companies	839.78	0.00
Other assets	982,930.52	639,329.79
	983,770.30	**639,329.79**
Cash-in-hand, bank balances	9,271,175.23	688,555.29
Prepaid expenses	28,582.74	24,937.64
Deficit not covered by equity	0.00	16,628,132.33
	17,726,655.97	**19,591,106.41**

Equity and liabilities

in EUR	12/31/2013	12/31/2012
Equity		
Subscribed capital	23,922,711.00	5,316,158.00
Capital reserves	30,484,211.76	15,598,969.36
Net accumulated losses	–39,170,814.07	–37,543,259.69
	15,236,108.69	**–16,628,132.33**
of which: deficit not covered by equity	0.00	16,628,132.33
	15,236,108.69	0.00
Special reserve for investment grants and subsidies for fixed assets	237,149.86	198,491.74
Provisions		
Other provisions	843,328.48	519,121.45
Liabilities		
Trade payables	1,215,114.61	1,082,243.23
Liabilities to affiliated companies	130,063.65	1,420,461.44
Other liabilities	64,890.68	16,370,788.55
	1,410,068.94	**18,873,493.22**
	17,726,655.97	**19,591,106.41**

Analysis of fixed assets

Analysis of fixed assets

			Cost		
in EUR	**01/01/2013**	Additions	Disposals	**12/31/2013**	
Intangible fixed assets					
Purchased industrial and similar rights	11,704.58	17,780.32	0.00	29,484.90	
Tangible fixed assets					
Technical equipment and machinery	1,656,466.25	177,822.46	0.00	1,834,288.71	
Other equipment, operating and office equipment	539,818.40	29,736.70	7,133.74	562,421.36	
Prepayments	954,416.26	644,154.86	0.00	1,598,571.12	
	3,150,700.91	**851,714.02**	**7,133.74**	**3,995,281.19**	
Long-term financial assets					
Shares in affiliated companies	27,826.20	5,125,000.00	0.00	5,152,826.20	
Loans to affiliated companies	2,386,382.64	869,444.96	0.00	3,255,827.60	
	2,414,208.84	**5,994,444.96**	**0.00**	**8,408,653.80**	
	5,576,614.33	**6,863,939.30**	**7,133.74**	**12,433,419.89**	

	Cumulative depreciation, amortization, and writedowns				Carrying amounts	
	01/01/2013	Additions	Disposals	**12/31/2013**	**12/31/2013**	**12/31/2012**
	7,969.00	5,353.82	0.00	13.322.82	16,162.08	3,735.58
	1,358,709.75	83,417.46	0.00	1,442,127.21	392,161.50	297,756.50
	213,401.58	38,734.75	946.97	251,189.36	311,232.00	326,416.82
	0.00	0.00	0.00	0.00	1,598,571.12	954,416.26
	1,572,111.33	**122,152.21**	**946.97**	**1,693,316.57**	**2,301,964.62**	**1,578,589.58**
	0.00	27,825.20	0.00	27,825.20	5,125,001.00	27,826.20
	2,386,382.64	869,444.96	0.00	3,255,827.60	0.00	0.00
	2,386,382.64	**897,270.16**	**0.00**	**3,283,652.80**	**5,125,001.00**	**27,826.20**
	3,966,462.97	**1,024,776.19**	**946.97**	**4,990,292.19**	**7,443,127.70**	**1,610,151.36**

Notes to the annual finacial statments for the period January 1, 2013, to December 31, 2013

Basis of presentation

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 January 1, 2013, to December 31, 2013, were prepared in accordance with the provisions of the HGB for small corporations and the provisions of the Aktiengesetz (AktG – German Stock Corporation Act).

The total cost (nature of expense) format in accordance with section 275(2) of the HGB is used for the presentation of the income statement. The Company took advantage of some of the disclosure options for small corporations according to section 288(1) HGB.

Accounting polices

As in the prior year, the following accounting policies were applied in preparing the annual financial statements:

Fixed assets

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

Tangible fixed assets are recognized at cost and depreciated using the straight-line method.

Low-value assets costing up to EUR 410.00 are written off in the year of acquisition. Pooled items were recognized in the financial statements for simplification reasons for assets that were acquired before January 1, 2011, and whose cost was between EUR 150.01 and EUR 1,000.00. These annual pooled items, whose amount is insignificant in the aggregate, are depreciated by 20% each tax year in accordance with the tax regulations.

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

Current assets

Receivables and other current assets are recognized at their nominal value or the lower fair market value.

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

Special reserve

A special reserve was recognized for investment grants and subsidies that will be recognized in other operating income over the remaining useful life of the underlying assets.

Provisions

The other provisions reflect all risks and uncertain obligations that were identifiable by the reporting date on the basis of prudent business judgment. They are recognized in the amount necessary to settle the obligations (i. e., including future cost and price increases).

Liabilities

Liabilities are recognized at their settlement amounts.

Deferred taxes

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

Balance sheet disclosures

Fixed assets

Changes in the items of fixed assets are presented in the statement of changes in fixed assets, based on the acquisition cost of the fixed assets.

In connection with the relocation, the leasehold improvements remaining at the old site were not usable anymore and were recognized in prior year as an unscheduled write-down (EUR 36 thousand). The value remained unchanged in the current year.

Disclosures on shareholdings

The Company holds all shares of MT MedTech Engineering GmbH, Berlin. This subsidiary's negative equity amounted to EUR 3,655 thousand as of December 31, 2013. The net loss for the fiscal year from January 1 to December 31, 2013, amounted to EUR 182 thousand.

An impairment charge was recognized for shareholdings in MT MedTech engineering GmbH to carry the investment at the lower fair market value of EUR 1.00 according to prudent business practice. Should MT MedTech Engineering generate sustainable gains in the future the carrying amount will be written back to historic costs.

Furthermore the Company owns all shares of MagForce Ventures GmbH, Berlin. MagForce Ventures GmbH was incorporated by contract on December 19, 2013. As of December 31, 2013 subscribed capital amounted to EUR 5,124 thousand. Net Loss for the stub period 2013 amounted to EUR 705.70 stemming from registering fees for the notary public.

With contract dated December 27, 2013 MagForce AG licensed the distribution and development rights for NanoTherm™ therapy for the indication brain tumor and the territory of the USA and Puerto Rico to MagForce Ventures GmbH. The license was granted free of charge. The license was transferred as a contribution in kind in the amount of EUR 5,100 thousand to the capital reserves of MagForce Ventures GmbH.

Receivables and other assets

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

The other assets mainly include VAT receivables in the amount of EUR 401 thousand (prior year: EUR 42 thousand) as well as rental deposits of EUR 145 thousand (prior year: EUR 145 thousand).

Subscribed capital

The share capital amounted to EUR 5,316,158.00 as of January 1, 2013, and was composed of 5,316,158 no-par value bearer shares (ordinary shares) with a notional interest in the share capital of EUR 1.00 per share.

By way of a resolution by the Management Board on March 20, 2013, and with the approval of the Supervisory Board on the same date, the Company's share capital was increased by EUR 18,606,553.00, from EUR 5,316,158.00 to EUR 23,922,711.00, by issuing 8,855,707 new no-par value bearer shares against noncash contributions and by issuing 9,750,846 new no-par value bearer shares against cash contributions.

The Company's share capital recorded in the commercial register of Berlin Charlottenburg amounted to EUR 23,922,711.00 as of December 31, 2013, and is composed of 23,922,711 no-par value bearer shares (ordinary shares) with a notional interest in the share capital of EUR 1.00 per share.

Contingent Capital 2007/I

In accordance with the Company's Articles of Association, its share capital was contingently increased by up to EUR 325,000 by issuing up to 325,000 no-par value bearer shares (ordinary shares) (Contingent Capital 2007/I). The Annual General Meeting on August 16, 2012, resolved to release EUR 225,000 of the Contingent Capital 2007/I in accordance with Article 6 (2) of the Company's Articles of Association. It therefore amounts to EUR 100,000.

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.

On January 1, 2013 out of Contingent Capital 2007/I 78,133 options had been granted and were not forfeited. During the fiscal year 2013 no further option had been granted out of Contingent Capital 2007/I and 40,851 options forfeited. Thus as of December 31, 2013 a total of 37,282 options were outstanding of which 28,349 options were exercisable.

Contingent Capital 2012/1

The Annual General Meeting on August 16, 2012, authorized the Management Board, with the consent of the Supervisory Board, to issue bearer and/or registered bonds with warrants and/or convertible bonds with a total nominal value of up to EUR 100,000,000.00 and with a maximum maturity of 20 years on one or more occasions in the period up to August 15, 2017, 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 1,981,224 no-par value bearer shares of the Company with an aggregate notional interest in the share capital of up to EUR 1,981,224.00, as specified in greater detail by the terms and conditions of the bonds with warrants or convertible bonds.

Contingent Capital 2012/I had been cancelled by resolution of the General Meeting on January 25, 2013.

Contingent Capital 2012/II

With the 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 Sec. 6 of the Company's bylaws. Accordingly the Contingent Capital 2012/II amounts to EUR 150,000.00.

In fiscal year 2013 and 2012, a total of no stock options and 150,000 stock options were issued as part of the 2012 Stock Option Plan, respectively.

Contingent Capital 2013/I

The General Meeting on January 25, 2013, authorized the Management Board, with the consent of the Supervisory Board, to issue bearer and/or registered bonds with warrants and/or convertible bonds with a total nominal value of up to EUR 100,000,000.00 and with a maximum maturity of 20 years on one or more occasions in the period up to January 24, 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 2,163,079 no-par value bearer shares of the Company with an aggregate notional interest in the share capital of up to EUR 2,163,079.00, as specified in greater detail by the terms and conditions of the bonds with warrants or convertible bonds.

Contingent Capital 2013/I had been cancelled by resolution of the Annual General Meeting on August 6, 2013.

Contingent Capital 2013/II

The Annual General Meeting on August 6, 2013, authorized the Management Board, with the consent of the Supervisory Board, to issue bearer and/or registered bonds with warrants and/or convertible bonds with a total nominal value of up to EUR 100,000,000.00 and with a maximum maturity of 20 years on one or more occasions in the period up to August 5, 2018, and to grant options to the holders of bonds with warrants and conversion rights to the holders of convertible bonds for up to a total of 9,569,084 no-par value bearer shares of the Company with an aggregate notional interest in the share capital of up to EUR 9,569,08400, as specified in greater detail by the terms and conditions of the bonds with warrants or convertible bonds.

Contingent Capital 2013/III

With the resolution of the Annual General Meeting on August 6, 2013, the Company's share capital was contingently increased by up to EUR 2,142,271.00 by issuing up to 2,142,271 no-par value bearer shares (Contingent Capital 2013/III). Contingent Capital 2013/III exclusively serves to secure subscription rights for shares that were issued as part of the 2013 Stock Option Plan to Management Board members and Company employ-

ees 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.

In fiscal year 2013, a total of 1,797,405 stock options were issued as part of the 2013 Stock Option Plan.

Authorized Capital 2012/I

The Annual General Meeting on August 16, 2012, authorized the Management Board to increase the Company's share capital, with the consent of the Supervisory Board, once or in multiple partial installments in the period up to August 16, 2017, by up to a total of EUR 2,476,224.00 against cash and/or noncash contributions (including mixed noncash contributions) by issuing up to 2,476,224 no-par value bearer shares (Authorized Capital 2012/I).

The authorized capital 2012/I was cancelled following partial utilization pursuant to the resolution of the Annual General Meeting from August 16, 2012.

Authorized Capital 2013/I

The Annual General Meeting on January 25, 2013, authorized the Management Board to increase the Company's share capital, with the consent of the Supervisory Board, once or in multiple partial installments in the period up to January 25, 2018, by up to a total of EUR 545,564.00 against cash and/or noncash contributions (including mixed noncash contributions) by issuing up to 545,564 no-par value bearer shares (Authorized Capital 2013/I).

The authorized capital 2013/I was cancelled pursuant to the resolution of the Annual General Meeting from August 6, 2013.

Authorized Capital 2013/II

The Annual General Meeting on January 25, 2013, authorized the Management Board to increase the Company's share capital, with the consent of the Supervisory Board, once or in multiple partial installments in the period up to January 25, 2018, by up to a total of EUR 2,800,000.00 against cash and/or noncash contributions (including mixed noncash contributions) by issuing up to 2,800,000 no-par value bearer shares (Authorized Capital 2013/II).

Authorized Capital 2013/II has not been filed for registration with the trade register, as the Company had no need to for the additional latitude resulting from the registration of the Authorized Capital 2013/II due to the successful capital increase in the amount of EUR 18,606,553.00 finalized in March 2013 and the upcoming annual general meeting on August 6, 2013 proposing to resolve on a new Authorized Capital 2013/III. Accordingly, authorized capital 2013/III was cancelled pursuant to the resolution of the Annual General Meeting from August 6, 2013.

Authorized Capital 2013/III

The Annual General Meeting on August 6, 2013, authorized the Management Board to increase the Company's share capital, with the consent of the Supervisory Board, once or in multiple partial installments in the period up to August 5, 2018, by up to a total of EUR 11,961,355.00 against cash and/or noncash contributions (including mixed noncash contributions) by issuing up to 11,961,355 no-par value bearer shares (Authorized Capital 2013/III).

Capital reserves

In connection with the increase in the subscribed capital in fiscal year 2013 from the issuance of 18,606,553 ordinary shares, contributions to capital reserves in accordance with section 272(2) no. 1 of the HGB amounted to EUR 14,885 thousand.

The capital reserves contain an amount of EUR 29,984 thousand within the meaning of section 272(2) no. 1 of the HGB and an amount of EUR 500 thousand within the meaning of section 272(2) no. 4 of the HGB.

Net accumulated losses

The net accumulated losses contain accumulated losses brought forward of EUR 37,543 thousand. Net accumulated losses changed as follows:

Net accumulated losses

in EUR thousand	
Net accumulated losses as of December 31, 2012	37,543
Net loss for the fiscal year January 1 to December 31, 2013	1,628
Net accumulated losses as of December 31, 2013	39,171

Special reserve for investment grants and subsidies for fixed assets

The investment subsidies were granted from funds made available under the "Joint Scheme for Improving Regional Economic Structures". The investment grants were made in accordance with the Investitionszulagengesetz (German Investment Grants Act). In the period January 1 to December 31, 2013, EUR 91 thousand (prior year: EUR 30 thousand) was reversed to the income statement from the special reserve for investment grants and subsidies.

Other provisions

The other provisions are composed of the following items:

Other provisions

in EUR thousand	
Personnel-related	271
Litigation risk	204
Outstanding supplier invoices	103
Vacation	77
Supervisory Board remuneration	68
Audit fees	30
Financial statement closing cost	24
Annual General Meetings	23
Other	43
Total	**843**

Liabilities

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

Liabilities to affiliated companies relate to liabilities to MT MedTech Engineering GmbH stemming from the delivery of the NanoActivator® to Kiel University Hospital.

In prior year liabilities to affiliated companies in the amount of EUR 1,420 thousand were due to shareholders.

As in prior year liabilities to affiliated companies were due within one year.

In prior year loans that were due to affiliated Companies in the amount of EUR 11,818 and accrued interest in the amount of EUR 4,263 thousand were transferred to an external creditor. The new creditor was Avalon Capital One GmbH. Thus, in prior year other liabilities increased of EUR 16,081 thousand plus accrued interest of EUR 87 thousand resulted from this transaction. As of balance sheet date other liabilities decreased by EUR 15,940 thousand due to the contribution in kind of the loans due to Avalon Capital One GmbH.

Other liabilities primarily contain payroll and church tax liabilities.

Income statement disclosures

As in prior year the Company did not generate any revenues from sales.

Expenses of EUR 29 thousand attributable to a defined benefit plan for pensions were incurred in 2013 (prior year: EUR 29 thousand).

With contract dated December 27, 2013 MagForce AG licensed the exclusive distribution and development rights for NanoTherm™ therapy for the indication brain tumor and the territory of the USA and Puerto Rico to MagForce Ventures GmbH. The distribution and development rights were contribution to the capital reserves of MagForce Ventures GmbH at current value. The transaction resulted in a gain of EUR 5,100 thousand. Expenses for other accounting periods amounted to EUR 98 thousand (prior year: EUR 1 thousand).

Other interest and similar income amounted to EUR 257 thousand (prior year: EUR 188 thousand) and related to credit interest.

Other interest and similar income in the amount of EUR 235 thousand (prior year: EUR 188 thousand) referred to affiliated companies.

Amortization of financial assets in the amount of EUR 28 thousand (prior year: EUR 0 thousand) was attributable to shareholdings in affiliated companies.

Out of EUR 276 thousand an amount of EUR 4 thousand (prior year: EUR 1,013 thousand) of other interest and similar expenses were attributable to affiliated companies.

Supplemental disclosures

Other financial obligations

Other financial obligations amounting to EUR 820 thousand resulted from rental contracts for the rented premises in Berlin-Adlershof and Martinsried as well as from leases for vehicles and office equipment.

Shareholder structure

in %	
Avalon Capital One GmbH	37.02
Nanostart AG	9.78
Nanostart Russia Asset Management Ltd.	1.99
Management Board Members	1.15
VentureTech Equity-Partners GmbH	0.28
Free Float	49.78
Total	**100.00**

[1] The shares that are held by Nanostart Russia Holding GmbH and VentureTech Equity-Partners GmbH are attributed to Nanostart AG in accordance with section 16(4) of the AktG.

In accordance with Article 20(6) of MagForce's Articles of Association, all shareholders have equal voting rights per share, irrespective of the total number of shares they hold. Over and above the shareholdings disclosed above, MagForce is not aware of any direct or indirect investments in the Company, or of any shareholdings conveying control, or of the identity of any party holding such investments or exercising such control, or of the nature of that control.

Governing bodies of the Company

Name/Position	Member since	Appointed until	Function
Dr. Ben J. Lipps Chemical Engineer	09/01/2013	09/01/2016	Chief Executive Officer
Prof. Dr. Hoda Tawfik Pharmacist	10/01/2012	10/01/2015	Chief Medical Officer and Chief Operating Officer for the Therapy Development
Christian von Volkmann MBA	10/01/2012	10/01/2015	Chief Financial Officer
Dr. Andreas Jordan Biologist	10/06/2005	06/30/2013	Chief Scientific Officer

Supervisory Board

The Supervisory Board consists of the following individuals:
Norbert Neef (Chairman), lawyer in Berlin. Mr. Neef is a member of a number of advisory boards of privately held companies.

Dr. Jan zur Hausen (Deputy Chairman, declined on September 13, 2013), investment banker, Managing Shareholder of Bergmann zur Hausen & Cie. GmbH, Frankfurt am Main, member of the Board of Directors of Dualsystem Biotech AG, Zurich/Schlieren, Switzerland.

Stephan Jakober (Deputy Chairman since October 1, 2013, court appointed), CFO of Film House Germany AG, Berlin, Chairman, new i-d media AG, Cologne

Mr. Bernd Förtsch, publisher, Chairman of the Management Board of Börsenmedien AG, member of the Supervisory Boards of LivingLogic AG, ViTrade AG, and Panthera Capital AG.

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

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

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

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

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

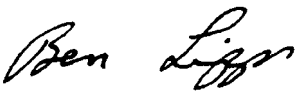
Avalon Capital One GmbH, Frankfurt am Main, notified MagForce in accordance with para. 20 sec. 1 AktG by letter dated June 4, 2013 that it holds an interest of more than 25% in MagForce AG's subscribed capital.

Preparation of consolidated financial statements

MagForce AG is not required to prepare consolidated financial statements for the period ended December 31, 2013.

Berlin, June 26, 2014

The Management Board



Dr. Ben J. Lipps
Chief Executive Officer

Christian von Volkmann
Chief Financial Officer

Prof. Dr. Hoda Tawfik
Chief Medical Officer and
Chief Operating Officer for the Therapy Development

Audit opinion

To MagForce AG

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of MagForce AG, Berlin, for the fiscal year from January 1 to December 31, 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.
Our audit has not led to any reservations.

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

Without qualifying this opinion, we wish to draw attention to the information presented by the Management Board in section "Report on expected developments; Summary of expected developments by the Management Board" of the management report, according to which the solvency of the Company and hence its ability to continue as a going concern depend on the assumptions underlying the planning materializing as expected, in particular revenue development, which is due to start in 2014 and then increase at a moderate rate, or that further financial support will be provided by the shareholders.

Berlin, June 26, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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