XTPL

shaping global nanofuture

UNCONSOLIDATED QUARTERLY REPORT
FOR II QUARTER OF 2018

XTPL S.A.

SPÓŁKA NOTOWANA NA NEWCONNECT

Wrocław, 14 August 2018

TABLE OF CONTENTS

1. KEY INFORMATION ON THE COMPANY

1.1. CORPORATE INFORMATION:

Business name:	XTPL Spółka Akcyjna
Registered office:	Wrocław
Address:	Stabłowicka 147, 54-066 Wrocław
KRS	0000619674
Phone number:	+48 71 707 22 04
Website:	www.xt-pl.com
E-mail	investors@xt-pl.com

MANAGEMENT BOARD

- Filip Granek – Management Board President
- Maciej Adamczyk – Management Board Member

SUPERVISORY BOARD

- **Wiesław Rozłucki – Supervisory Board Member (since 17 April 2018), Supervisory Board Chairman since 10 May 2018.**
- **Konrad Pankiewicz – Supervisory Board Chairman until 10 May 2018, Supervisory Board Member since 11 May 2018.**
- **Bartosz Wojciechowski – Supervisory Board Member; since 10 May 2018, Deputy Chairman of the Supervisory Board**
- **Sebastian Młodziński – Supervisory Board Member**
- **Piotr Lembas – Supervisory Board Member since 29 May 2018**
- Piotr Janczewski – Supervisory Board member until 16 April 2018 (resigned)
- Agnieszka Młodzińska-Granek – Supervisory Board member until 28 May 2018 (resigned)

XTPL S.A. was formed as a result of transformation of a limited liability company trading as XTPL sp. z o.o. on the basis of a resolution of the Extraordinary General Meeting of Shareholders of the transformed company adopted on 25 April 2016, Repertory A No. 604/2016. The company is a going concern. The transformation was registered by the District Court for Wrocław Fabryczna in Wrocław, 6th Commercial Division of the National Court Register, on 1 June 2016.

The company has the status of a public company. Since 14 September 2017, its shares have been listed in the alternative trading system of the NewConnect market operated by the Warsaw Stock Exchange.

As regards financial reporting, the Company uses IASs/ IFRSs.

The Company's financial year is from 1 January to 31 December.

1.2. THE ISSUER'S BUSINESS PROFILE:

The Issuer operates in the nanotechnology segment. XTPL's interdisciplinary team develops a technology of ultra-precise printing of nanomaterials, which is innovative on a global scale and is protected by an international patent application. The XTPL solution has all the features of a disruptive technology and will be consistently developed as part of advanced research with a view to defining further, innovative uses of the solution in specific application areas.

The Company commercialises its solution in a phased approach: it intends to supply nanoprinting equipment, compatible nanoinks, dedicated to specific applications, and printing heads to buyers from e.g. the printed electronics sector. In the first place, XTPL prepares laboratory printers for R&D units of potential business clients and research centres. In the next phase, industrial printers will be provided.

In both cases, XTPL will supply equipment complete with a unique nanoink designed to meet the requirements of a specific implementation.

THE XTPL SOLUTION WILL ENABLE, INTER ALIA:

- production of new generation Transparent Conductive Films (TCF), primarily used by manufacturers of displays, monitors and touch screens. It can also be used in the sector of photovoltaic cells production. The characteristic features of TCF inlude:
  - lower unit cost (e.g. as no rare earth elements need to be used);
  - very high optical transparency while maintaining high energy efficiency (very low surface resistance);
  - flexibility, resistance to bending (a property which is significant in the context of development directions of the electronics market).
- a revolutionary application in the Open-Defect Repair industry, i.e. in the repair of broken metallic connections in thin-film electronic systems; the solution can be used for example in LCD and OLED displays, PCBs, integrated circuits and silicon solar cells, where progressive miniaturisation and increased complexity of electronic structures leads to:
  - an increase in the unit costs of manufacture, which gives economic sense to open-defect repair;
  - reduction of the width of printed conductive paths, with a simultaneous reduction of gaps between them;
  - increase in the total length of conductive paths, which leads to the need to reduce mechanical, thermal and electromagnetic stress in the production and repair process.

As a result, there is a need for a new technology for repairing broken conductive structures that would meet the above requirements. Today's methods of solving these problems are relatively costly, require the use of very toxic substances and have low efficiency in an industrial perspective. In turn, the XTPL technology can overcome all these three limitations of the present methods.

Due to the platform character of the technology being developed, in addition to working with the TCF and Open-Defect Repair industry, the Company is looking to apply the technology also in other areas, such as:

- production of biosensors;
- anti-counterfeit solutions.

The Company's registered office research laboratories are located at the EIT+ Wrocław Research Centre. Currently, the XTPL team consists of scientists and technologists with interdisciplinary experience in chemistry, physics, electronics, mechanics and numerical simulations (nine persons have a doctorate degree). XTPL is also a group of specialists in strategic management and technology commercialisation with experience and successful track record in product development, marketing and capital market. An important advantage is the fact that the Issuer's team includes many professionals with know-how developed in international markets, who in their professional career have cooperated

2. KEY FACTORS AND EVENTS AFFECTING THE COMPANY'S PERFORMANCE

RECEIPT OF AN INVITATION TO START NEGOTIATIONS

On 18 June, the Issuer announced that it had received an invitation to and begun negotiations on a cooperation agreement with a global China-based manufacturer of equipment for the production of displays (Current Report ESPI 8/2018). The agreement relates to the use of XTPL technology in the area of repairing broken metallic connectors ("open-defect repair") in thin-film electronic circuits. The potential client is a company listed on China stock exchange, and its capitalisation is more than USD 9 billion. As one of the world's leading suppliers of display production technology, the Chinese partner seeks to implement XTPL's unique solution as equipment for its technological lines. The talks could enter the phase of negotiating a commercial contract as a result of prior cooperation on a proof-of-concept project carried out at the Issuer's laboratory. The proof-of-concept project was undertaken as a result of identification of a new area of application of the XTPL technology, as announced by the Company in Current Report ESPI 6/2017. According to independent analyses, the value of the global market for open-defect repair solutions is estimated at approx. USD 4.5 billion and is growing at more than 7% per annum.

VERIFICATION OF TECHNICAL SPECIFICATIONS OF POTENTIAL CLIENTS

During the second quarter of 2018, the Issuer was consistently building a portfolio of proof-of-concept projects. It received technical specifications from potential clients representing US companies from the semiconductor and automotive industries. The technical specifications were verified by the XTPL application laboratory to obtain an initial assessment of whether the XTPL technology can be put to use for the particular partner. Meeting the criteria set by a potential client is an important stage that opens the door to further talks

on commercial cooperation. The schedule of business development work also covers more than 20 projects relating to the area of laboratory printers. The interested partners – scientific institutions and industrial R&D centres – are willing to start cooperation and do beta tests or purchase the printer on commercial basis and use it for prototyping. Both groups of potential clients can use the devices to carry out research projects and, as a consequence, to identify new areas of application of the XTPL technology in the field of printed electronics. In the case of industrial partners, the projects will additionally help to establish technological relations and start talks on potential industrial implementation of the technology in their newly developed products.

DISPLAY WEEK 2018 SHOW – AWARD FOR THE GREATEST TECHNOLOGICAL POTENTIAL IN THE INNOVATION ZONE

On 20–24 May 2018, the Company's representatives took part in the Display Week symposium and trade show in Los Angeles – the most important industry event of display manufacturers. During the show, XTPL received an award for one of the most promising technologies among the participants of the I-Zone (innovation zone). In this way, the Company again confirmed that in the pursuit of full commercialisation of its technology it is supported by the global industry, aware of the break-through nature of the ultra-precise printing of nanomaterials. The Display Week show was also attended by such global giants as Apple, Samsung, LG Display, Sharp and Intel.

DECISION OF THE COMPANY'S EGM TO CHANGE THE LISTING MARKET AND SUBMISSION OF A PROSPECTUS TO THE KNF

On 16 April 2018, the Extraordinary General Meeting of Shareholders of the Company adopted resolution No. 03/04/2018 on applying for admission and introduction of all XTPL shares to trading on the regulated market of the Warsaw Stock Exchange. The intention to apply for a change in the listing market is not connected with an issue of new shares. In pursuance of the decision taken by the Company's shareholders, on 9 May 2018, the Issuer's Management Board filed a request with the Polish Financial Supervision Authority (KNF) to approve its share prospectus. Currently, the KNF and the Issuer are in the process of completing the required formalities.

CHANGES IN THE SUPERVISORY BOARD

On 16 April 2018, due to resignation of Piotr Janczewski, the Company's Extraordinary General Meeting appointed Wiesław Rozłucki, the former president and co-founder of the Warsaw Stock Exchange, as a new member of the Company's Supervisory Board (Current Report EBI 10/2018). With his knowledge and experience, he will actively support XTPL in its activities connected with capital markets and corporate governance in its broad sense.

On 28 May 2018, the AGM appointed Piotr Lembas to the Company's Supervisory Board (Current Report EBI 10/2018). The new member of the Supervisory Board replaced Agnieszka Młodzińska-Granek after she had stepped down from her role.

ESTABLISHMENT OF AN INTERNATIONAL ADVISORY BOARD

In May 2018, the Issuer's Management Board and Supervisory Board approved the Terms of Reference of the XTPL Advisory Board. The Advisory Board will be a body supporting the Management Board and key managers in the process of taking strategic decisions. Its tasks will include transfer of expert knowledge to

help business and technology development, support in building the Company's credibility in target markets and direct assistance in the process of acquiring clients. In the same month, the Advisory Board was joined by Howard Hughes, a long-standing CFO and member of the executive board of Intel and a former CEO of Rambus. The new member of the Advisory Board has extensive experience and expertise in, inter alia, the semiconductor industry, using them with success to provide advice to pioneering technological companies from Silicon Valley. At present, in his advisory capacity, Harold Hughes also supports Kateeva, a company which commercialises breakthrough solutions in the area of nanoprinting and inks for the production of new generation OLED screens. At the level of the Advisory Board, Howard Hughes will support XTPL on its global expansion journey, particularly in the United States and Asia.

SUBMISSION OF ANOTHER PATENT APPLICATION

On 6 June 2018, the Issuer submitted another patent application to the British patent office. The application was drawn up in cooperation with Gill Jennings & Every LLP, a London-based law firm. The invention develops the XTPL printing method, and in particular relates to the conductive lines created by this method, which are characterised by higher current and mechanical strength. The solution has already been implemented at XTPL laboratory printers.

EVENTS AFTER 30/06/2018

RECEIPT OF DECLARATION FOR INTEREST IN NEW ISSUE OF SHARES

On 10 August 2018, the Company received from one of the shareholders - Universal-Investment-Gesellschaft mbH acting on behalf of and for the account of ACATIS Datini Valueflex Fonds ("Acatis") a declaration of interest regarding increasing Acatis's involvement in the Issuer's capital by taking up a new issue of shares. Acatis declared subscribing for 47,000 newly issued shares at a price determined based on VWAP (average price weighted with the trading volume) calculated for the last 3 months of listing for the day of August 9, 2018 prior to the opening of the session and discounted by 10% discount and rounded up to full zlotys, i.e. the issue price per share of the new issue will be PLN 94 per share, that is in total PLN 4,418,000.00. The Management Board intends (after obtaining appropriate consents of the Supervisory Board to deprive current shareholders of pre-emptive rights) to issue a share capital from the target capital pursuant to art. 444-447 of the Code of Commercial Companies and § 10 para. 4-8 of the Articles of Association in the form of a private subscription. The purpose of the issue of Shares will be to finance the Issuer's business development activities on the US market ("USA"). The funds obtained from the issue of Shares are to be used, among others, for securing the financing of the growth of the Issuer's sales activity in the USA. The described activities were not included in the objectives of the previous issue of the Issuer's shares. In the opinion of the Issuer's Management Board, offering a reputable financial institution, operating on the German stock market, the new series through a private subscription will contribute to building a higher credibility of the Company and may translate into interest and liquidity in the trading of XTPL S.A. on the German market, which is due to the plans to apply for the parallel listing of XTPL S.A. on the Open Market (Freiverkehr) market, operating at Deutsche Börse in Frankfurt (Germany) should be very important for the further growth of value for shareholders.

3. QUARTERLY CONDENSED FINANCIAL STATEMENTS

3.1. FINANCIAL HIGHLIGHTS

FIGURES IN PLN THOUSAND	1 APRIL – 30 JUNE 2018	1 APRIL – 30 JUNE 2017	1 JANUARY – 30 JUNE 2018	1 JANUARY – 30 JUNE 2017
Net revenue from sales	476	505	1,256	948
Profit (loss) on sales	-1,748	-740	-2,614	-1,474
Operating profit (loss) [EBIT]	-1,749	-740	-2,612	-1,474
EBITDA	-1,613	-648	-2,360	-1,270
Profit (loss) before tax	-1,746	-743	-2,547	-1,480
Net profit (loss)	-1,706	-743	-2,547	-1,480
Depreciation/ amortisation	136	92	252	205
Net cash flows from operating activities	-1,608	-90	-2,460	-1,613
Net cash flows from investing activities	-573	-147	-1,196	-249
Net cash flows from financing activities	-7	991	-14	1,001
Owner's equity	4,669	288	4,669	288
Short-term liabilities	1,166	1,802	1,166	1,802
Long-term liabilities	13	38	13	38
Cash and cash equivalents	2,521	560	2,521	560
Short-term receivables	752	285	752	285
Long-term receivables	157	17	157	17

3.2. STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
	PLN`000	PLN`000	PLN`000	PLN`000
CONTINUED OPERATIONS				
Sales	476	505	1,256	948
Revenue from research and development services	0	0	0	0
Revenue from the sale of finished goods	0	0	0	0
Revenue from grants	476	505	1,256	948
Cost of sales	772	610	1,477	1,180
Research and development expenses	772	610	1,477	1,180
Cost of finished goods sold	0	0		0
Gross profit (loss)	-295	-105	-220	-232
General and administrative expenses	1,453	635	2,394	1,242
Other operating revenues	0	0	3	0
Other operating expenses	1	0	1	0
Operating profit (loss)	-1,749	-740	-2,612	-1,474
Financial revenues	15	0	40	0
Financial expenses	12	3	15	6
Profit/ loss before tax	-1,746	-743	-2,587	-1,480
Income tax	-40	0	-40	0
Net profit (loss) on continued operations	-1,706	-743	-2,547	-1,480
DISCONTINUED OPERATIONS			-	-
Net profit (loss) on discontinued operations				
NET PROFIT (LOSS) ON CONTINUED AND DISCONTINUED OPERATIONS	-1,706	-743	-2,547	-1,480
OTHER COMPREHENSIVE INCOME			-	-
TOTAL COMPREHENSIVE INCOME	-1,706	-743	-2,547	-1,480

NET PROFIT (LOSS) PER SHARE (IN PLN)				
On continued operations				
Ordinary	-1.01	-0.44	-1.50	-0.87
Diluted	-1.01	-0.44	-1.50	-0.87
On continued and discontinued operations				
Ordinary	-1.01	-0.44	-1.50	-0.87
Diluted	-1.01	-0.44	-1.50	-0.87

3.3. STATEMENT OF FINANCIAL POSITION

ASSETS	31.12.2017	30.06.2018	30.06.2017
	PLN'000	PLN'000	PLN'000
NON-CURRENT ASSETS	1,595	2,575	1,121
Tangible assets	573	741	451
Intangible assets	973	1,603	653
Deferred tax assets	35	74	0
Long-term receivables	14	157	17
CURRENT ASSETS	6,492	3,273	1,007
Trade receivables	8	172	0
Other receivables	272	499	285
Short-term financial assets	0	66	0
Cash and cash equivalents	6,210	2,521	560
Other assets	2	15	162
TOTAL ASSETS	8,087	5,848	2,128

EQUITY AND LIABILITIES	31.12.2017	30.06.2018	30.06.2017
	PLN'000	PLN'000	PLN'000
TOTAL EQUITY	7,217	4,669	288
Share capital	170	170	154
Supplementary capital	11,381	7,431	4,310
Retained profit (loss carried forward)	-395	-384	-2,696
Net profit (loss)	-3,939	-2,547	-1,480
NON-CURRENT LIABILITIES	25	13	38
Long-term financial liabilities	25	13	38
SHORT TERM LIABILITIES	845	1,166	1,802
Trade liabilities	310	663	89
Short-term financial liabilities	25	25	25
Bank and other loans	0	0	1,366
Other liabilities	510	479	322
TOTAL EQUITY AND LIABILITIES	8,087	5,848	2,128

3.4. STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
	PLN`000	PLN`000	PLN`000	PLN`000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax	-1,706	-743	-2,547	-1,480
Total adjustments:	98	-187	88	-133
Depreciation/ amortisation	136	93	252	205
FX gains (losses)	0	0	0	0
Interest and profit distributions (dividends)	-14	0	-38	1
Profit (loss) on investing activities	0	0	-3	0
Change in the balance of provisions	0	0	0	0
Change in the balance of inventories	88	0	0	0
Change in the balance of receivables	-363	-138	-390	-163
Change in short-term liabilities, except bank and other loans	284	38	321	35
Change in prepayments/ accruals	-33	-181	-54	-211
Income tax paid	0	0	0	0
Other adjustments	0	0	0	0
Total cash flows from operating activities	-1,608	-930	-2,460	-1,613
CASH FLOWS FROM INVESTING ACTIVITIES	0	0		
Inflows	20	0	54	91
Disposal of tangible and intangible assets	0	0	3	91
Interest on financial assets	20	0	51	0
Outflows	593	147	1,250	340
Acquisition of tangible and intangible assets	593	147	1,050	340
Acquisition of financial assets	0	0	143	0
Other investment outflows	0	0	57	0
Total cash flows from investing activities	-573	-147	-1,196	-249

CASH FLOWS FROM FINANCING ACTIVITIES				
Inflows	-	998	-	1,030
Contributions to capital	0	0	0	14
Bank and other loans	0	998	0	1,016
Other financial inflows	0	0	0	0
Outflows	7	7	14	29
Acquisition of own shares	0	0	0	0
Payment of dividend	0	0	0	0
Repayment of bank and other loans	0	0	0	0
Finance lease payments	6	6	12	28
Interest	1	0	2	1
Total cash flows from financing activities	-7	991	-14	1,001
TOTAL NET CASH FLOWS	-2,189	-86	-3,670	-861
BALANCE SHEET CHANGE IN CASH AND CASH EQUIVALENTS, INCLUDING	-2,208	-86	-3,689	-861
— change in cash due to FX differences	0	0	0	0
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	4,708	646	6,189	1,421
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, INCLUDING:	2,519	560	2,519	560
— restricted cash			-	-

3.5. STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY	SHARE CAPITAL	SUPPLEMENTARY CAPITAL	RETAINED PROFIT (LOSS CARRIED FORWARD)	TOTAL
AS AT 1 APRIL 2018	170	11,393	-5,187	6,375
Comprehensive income:	0	0	-1,706	-1,706
Net profit (loss)	0	0	-1,706	-1,706
Other comprehensive income	0	0	0	0
Transactions with owners:	0	-3,962	3,962	0
Issue of shares	0	0	0	0
Distribution of profit	0	-3,962	3,962	0
AS AT 30 JUNE 2018	170	7,431	-2,931	4,669
AS AT 1 APRIL 2017	154	4,310	-3,433	1,031
Comprehensive income:	0	0	-743	-743
Net profit (loss)	0	0	-743	-743
Other comprehensive income	0	0	0	0
Transactions with owners:	0	0	0	0
Issue of shares	0	0	0	0
Distribution of profit	0	0	0	0
AS AT 30 JUNE 2017	154	4,310	-4,176	288
AS AT 1 JANUARY 2018	170	11,393	-4,346	7,216
Comprehensive income:	0	0	-2,547	-2,547
Net profit (loss)	0	0	-2,547	-2,547
Other comprehensive income	0	0	0	0
Transactions with owners:	0	-3,962	3,962	0
Issue of shares	0	0	0	0
Distribution of profit	0	-3,962	3,962	0
AS AT 30 JUNE 2018	170	7,431	-2,931	4,669
AS AT 1 JANUARY 2017	140	4,310	-2,696	1,754
Comprehensive income:	0	0	-1,480	-1,480
Net profit (loss)	0	0	-1,480	-1,480
Other comprehensive income	0	0	0	0
Transactions with owners:	14	0	0	14
Issue of shares	14	0	0	14
Distribution of profit	0	0	0	0
AS AT 30 JUNE 2017	154	4,310	-4,176	288

STATEMENT OF CONFORMITY

These interim financial statements have been drawn up in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission ("IASs/IFRSs", "IFRSs"), approved by the European Union ("EU").

IFRSs include the standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee (IFRIC).

Pursuant to the resolution of the Extraordinary General Meeting of XTPL S.A. of 16 April 2018 on the application of IASs/IFRSs, based on Article 45(1a) and Article 45(c) of the Accounting Act of 29 September 1994, the Issuer will prepare financial statements as of the reporting period starting on 1 January 2018 in accordance with IASs/IFRSs. Pursuant to item 20.1 of Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements , the Issuer is obliged to prepare historical financial information included in the prospectus in the form that will be adopted in the Issuer's next published financial report. As a result, the Issuer's Management Board has decided to present the Historical Financial Information in accordance with IASs/IFRSs.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

NOTE 1. INTANGIBLE ASSETS

All intangible assets are the property of the Company; none of these assets are used based on any rental, lease or a similar contract.

The intangible assets are not used as collateral.

As at 30 June 2018, the Company did not have any agreements whereby it would be required to purchase any intangible assets.

OTHER INTANGIBLE ASSETS	30.06.2018	30.06.2017
Acquired concessions, patents, licenses and similar rights	8	11
Intellectual property rights	444	642
Development	1,151	0
TOTAL	1,603	653

NOTE 2. NET REVENUE FROM SALES

NET REVENUE FROM SALES	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
Revenue from research and development services	0	0	0	0
Revenue from the sale of finished goods	0	0	0	0
Revenue from grants	476	505	1,256	948
TOTAL NET REVENUE FROM SALES	**476**	**505**	**1,256**	**948**

NOTE 3. OPERATING COSTS

OPERATING COSTS	1.04.2018– 30.06.2018	1.04.2017– 30.06.2017	1.01.2018– 30.06.2018	1.01.2017– 30.06.2017
Depreciation/amortisation:	136	92	252	204
— depreciation of tangible assets	72	38	131	93
— amortisation of intangible assets	64	54	121	111
Use of raw materials and consumables	194	82	310	122
External services	880	421	1,534	843
Cost of employee benefits	861	586	1,551	1,155
Fees and charges	17	25	33	28
Other costs by type	137	39	191	69
Value of goods and materials sold	0	0	0	0
TOTAL COSTS BY TYPE, INCLUDING:	**2,225**	**1,245**	**3,871**	**2,421**
Items reported as research and development costs	772	610	1,477	1,180
Items reported as cost of finished goods sold				0
Items reported as general and administrative expenses	1,453	636	2,394	1,242
Change in finished goods				
Cost of producing services for internal needs of the entity	0	0	0	0

External services include mainly costs related to the maintenance of laboratory and office space and equipment, specialist research services contracted by laboratories working on development of the XTPL technology, advisory and legal services necessary to support all areas of the Company's activity, promotion costs and services related to raising funds for funding R&D activities.

Costs which are not directly related to any R&D project are presented in the general and administrative expenses. They mainly include items specified under the "External services" heading, namely office rent, consulting and legal service costs, costs related to promotion and customer acquisition and remuneration of employees supporting R&D processes (logistics, finance, subsidies).

The increase in general and administrative expenses compared with the corresponding period of the previous year results from extension of the organisational structure to include a new marketing department and business development department. Activities in the area of marketing include organisation of trade shows and conferences and promoting the company and the XTPL technology. The business development department is focused on identification of new markets and establishing business and commercial relations to acquire new partners and define customer needs. The cost base is also affected by the costs related to maintaining the company's presence on the NewConnect market (legal, advisory and accounting services).

NOTE 4. WRITE-DOWN OF INVENTORIES TO THEIR NET RECOVERABLE AMOUNT AND REVERSAL OF THE WRITE-DOWN

In the reporting period no write-down for inventories was created or reversed.

NOTE 5. IMPAIRMENT ALLOWANCE FOR FINANCIAL ASSETS, TANGIBLE ASSETS, INTANGIBLE ASSETS OR OTHER ASSETS AND REVERSAL OF THE IMPAIRMENT ALLOWANCE

In the reporting period no impairment allowance for financial assets, tangible assets, intangible assets or other assets were created or reversed.

NOTE 6. RELEASE OF PROVISIONS FOR RESTRUCTURING COSTS

In the reporting period, no provisions for restructuring costs were released.

NOTE 7. TYPES AND AMOUNTS OF CHANGES IN ESTIMATES PRESENTED IN PRIOR INTERIM PERIODS OF THE PRESENT FINANCIAL YEAR OR CHANGES TO ESTIMATES PRESENTED IN PRIOR FINANCIAL YEARS

In the reporting period no changes in estimates were made.

NOTE 8. SIGNIFICANT ACQUISITIONS OF TANGIBLE ASSETS

SIGNIFICANT ACQUISITIONS OF TANGIBLE ASSETS	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
XTPL printers	0	0	47	64
Computer sets	21	3	35	28
Server with software	0	6	30	6
Office equipment	0	4	0	4
TOTAL SIGNIFICANT ACQUISITIONS	**21**	**13**	**112**	**102**

NOTE 9. SIGNIFICANT LIABILITIES ON ACCOUNT OF PURCHASE OF TANGIBLE ASSETS

In the reporting period, the Company did not incur any significant liabilities on account of purchase of tangible assets.

NOTE 10. CORRECTION OF ERRORS FROM PREVIOUS PERIODS

In the second quarter of 2018, no such events occurred.

NOTE 11. CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS AS A RESULT OF A CHANGE IN THE PURPOSE OR USE OF THESE ASSETS

In the reporting period no changes were made in the classification of financial assets.

NOTE 12. TRANSFERS BETWEEN INDIVIDUAL FAIR VALUE HIERARCHY LEVELS IN RESPECT OF FINANCIAL INSTRUMENTS

In the reporting period no transfers took place between individual fair value hierarchy levels in respect of financial instruments.

NOTE 13. CHANGES IN THE CLASSIFICATION OF FINANCIAL INSTRUMENTS AS A RESULT OF A CHANGE IN THE PURPOSE OR USE OF THESE ASSETS

In the reporting period no changes took place in the classification of financial instruments as a result of a change in the purpose or use of these assets.

NOTE 14. NOTES TO THE STATEMENT OF CASH FLOWS

Presented below are notes to selected items of the statement of cash flows.

Reconciliation of the profit-before tax disclosed in the statement of cash flows

	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
PBT presented in the statement of comprehensive income	-1706	-743	-2,547	-1,480
PBT presented in the statement of cash flows	-1,706	-743	-2,547	-1,480

INTEREST AND DIVIDENDS IN THE STATEMENT OF CASH FLOWS	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
Realised interest on financing activities	0	0	1	1
Realised interest on investing activities	-20	0	-51	0
Non-realised interest on financing activities	6	0	12	0
TOTAL INTEREST AND DIVIDENDS:	**-14**	**0**	**-38**	**1**

CHANGE IN THE BALANCE OF RECEIVABLES	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
Change in the balance of trade receivables	-155	0	-163	0
Other receivables	-209	-138	-227	-163
TOTAL CHANGE IN THE BALANCE OF RECEIVABLES	**-364**	**-138**	**-390**	**-163**

CHANGE IN THE BALANCE OF LIABILITIES	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
Change in the balance of trade liabilities	341	41	352	40
Other liabilities	-56	-3	-31	-5
TOTAL CHANGE IN THE BALANCE OF LIABILITIES:	**285**	**38**	**321**	**35**

CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	01.04.2018 - 30.06.2018	01.04.2017 - 30.06.2017	1.01.2018 – 30.06.2018	1.01.2017 – 30.06.2017
Statement of cash flows	2,519	560	2,519	560
Statement of financial position	2,521	560	2,521	560

The difference is PLN 2000 between the balance of cash and cash equivalents at the end of the period beginning on 1 January 2018 and ending on 30 June 2018 between the statement of financial position and the statement of cash flows results from the calculation of interest on bank term deposits as at the balance sheet date.

INFLOWS FROM GRANTS	1.04.2018–30.06.2018	1.04.2017–30.06.2017	1.01.2018–30.06.2018	1.01.2017–30.06.2017
— to operations	476	505	1,256	948
— to assets	0	0	0	0
TOTAL INFLOWS FROM GRANTS	**476**	**505**	**1,256**	**948**

In its statement of cash flows the Company recognises inflows and outflows related to the received grants to its operating activities.

NOTE 15. RELATED-PARTY TRANSACTIONS

The table below presents related-party transactions as at the balance sheet date.

Q2 2018	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT PERSONNEL*	OTHER RELATED ENTITIES **
Purchase of services			43	24
Loans granted				0
Financial expenses – interest on loans				6

Q2 2017	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT PERSONNEL*	OTHER RELATED ENTITIES **
Purchase of services			30	45
Loans received			1,000	
Financial expenses – interest on loans				

2 QUARTERS OF 2018	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT PERSONNEL*	OTHER RELATED ENTITIES **
Purchase of services	0	0	69	36
Loans granted	0	0	0	200
Financial expenses – interest on loans	0	0	0	11

2 QUARTERS OF 2017	ASSOCIATES	JOINT VENTURES	KEY MANAGEMENT PERSONNEL*	OTHER RELATED ENTITIES **
Purchase of services	0	0	71	74
Loans received	0	0	1,000	0
Financial expenses – interest on loans	0	0	0	0

* the item includes members of the Management Board and Supervisory Board of the Company and its subsidiaries as well as their spouses, siblings, ascendants, descendants and other persons closely related to them

** the item includes related entities where the relations are based on key management or other units

Terms of transactions with related entities

Sales to and purchases from related parties are made on an arm's length basis. Any overdue liabilities/ receivables existing at the end of the period are interest-free and settled on cash or non-cash basis. The company does not charge late interest from other related entities. Receivables from or liabilities to related parties are not covered by any guarantees given or received. They are not secured in any other way either.

NOTE 16. MATERIAL SETTLEMENTS ON ACCOUNT OF COURT CASES

At the reporting date there are no court proceedings pending whose value would be considered material. Furthermore, in the period covered by the interim report no material settlements were made on account of court cases.

NOTE 17. INFORMATION ABOUT CHANGES IN THE ECONOMIC POSITION AND OPERATING CONDITIONS WHICH MIGHT HAVE A MATERIAL IMPACT ON THE FAIR VALUE OF THE FINANCIAL ASSETS AND LIABILITIES, WHETHER THOSE ASSETS AND LIABILITIES ARE RECOGNISEDD AT FAIR VALUE OR AT ADJUSTED PURCHASE PRICE (AMORTISED COST)

In the second quarter of 2018, no significant changes were identified in the economic position or operating conditions which would have a material impact on the fair value of the Company's financial assets and liabilities.

NOTE 18. INFORMATION ABOUT CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

On 4 April 2018, the Company and Bank Zachodni WBK S.A. ("BZ WBK") entered into an overdraft agreement ("Overdraft Agreement") whereby the Company obtained an overdraft up to PLN 300,000.00 to finance its working capital requirements. The company agreed to pay down the facility by 31 March 2019. The overdraft is secured by: (i) turnover in the Company's current account and other current accounts held with BZ WBK, denominated in PLN or foreign currencies, and (ii) a blank promissory note together with a promissory note declaration.

NOTE 19. INFORMATION ABOUT SEASONALITY OF BUSINESS AND CYCLES

The Issuer's activity is not subject to seasonality or cycles.

NOTE 20. EXTRAORDINARY FACTORS WHICH OCCURRED IN THE REPORTING PERIOD WITH AN INDICATION OF THEIR IMPACT ON THE FINANCIAL STATEMENTS

In the reporting period no significant extraordinary factors or events took place that could have an impact on the financial statements.

NOTE 21. INFORMATION ON ISSUE, REDEMPTION AND REPAYMENT OF DEBT AND EQUITY SECURITIES

In the reporting period no events took place in connection with an issue, redemption or repayment of debt or capital securities.

NOTE 22. DIVIDEND PAID OR DECLARED, IN TOTAL AND PER SHARE, WITH A DIVISION INTO ORDINARY AND PREFERENCE SHARES

In the reporting period the Company did not pay or declare any dividends.

NOTE 23. OPERATING SEGMENTS

In the period covered by this interim report, no operating segments have been identified in accordance with IFRS 8. The Company's development phase and a lack of revenues from operating activities made it impossible to identify segments that would meet the criteria set by the above standard.

NOTE 24. INFORMATION ABOUT THE INFLUENCE OF CHANGES IN THE COMPOSITION OF THE ENTITY DURING THE INTERIM PERIOD, ANY BUSINESS COMBINATIONS, ACQUISITION OR LOSS OF CONTROL OVER SUBSIDIARIES, LONG-TERM INVESTMENTS, RESTRUCTURES OR DISCONTINUED BUSINESSES.

In the reporting period no changes were made in the composition of the entity.

NOTE 25. INFORMATION ON DEFAULT ON ANY BANK AND OTHER LOANS OR A BREACH OF MATERIAL PROVISIONS OF BANK AND OTHER LOAN AGREEMENTS WHERE NO REMEDIAL ACTIONS HAVE BEEN TAKEN BEFORE THE END OF THE REPORTING PERIOD

No such events occurred in the reporting period.

NOTE 26. EFFECT OF APPLICATION OF NEW ACCOUNTING STANDARDS AND CHANGES IN ACCOUNTING POLICY

These financial statements are the first interim unconsolidated financial statements of the Company prepared in accordance with IFRSs. These financial statements have been drawn up in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards". IFRS 1 requires the Company to recognise all its assets and liabilities that meet the recognition criteria in accordance with IFRSs and refrain from recognising any assets and liabilities the recognition of which is not permitted by IFRSs and classify and measure all items in accordance with IFRSs. The Company adopted IFRSs as of 1 January 2016 and at this date prepared its opening balance following transformation of the closing balance as at 31 December 2015. The Company has drawn up these financial statements using those provisions of each respective applicable IFRS to the extent it was able to elect to do so as at 31 December 2017.

To take into account any identified differences between the Polish Accounting Standards ("PASs") and IFRSs, the Company made adjustments to its profit (loss) for 2017, as a result of which the financial result has been increased by PLN 23 thousand. As at the end of 2017, the Company's equity presented as per IFRSs changed in relation to the equity presented as per PASs, increasing by PLN 35 thousand. Other adjustments made by the Company are insignificant from the point of view of these financial statements and relate to the presentation only.

The tables below contain a detailed description of the adjustments.

CHANGES IN THE STATEMENT OF FINANCIAL POSITION	AS AT 31 DECEMBER 2017 AS PER PASS	ADJUSTMENTS IFRSS	AS AT 31 DECEMBER 2017 AS PER IFRSS	COMMENTARY
ASSETS				
Tangible assets	573	-	573	
Intangible assets	543	430	973	A
Deferred tax assets	-	35	35	B
Long-term receivables	14	-	-	
Trade receivables	8	-	8	
Other receivables	272	-	272	
Cash and cash equivalents	6,210	-	6,210	
Other assets (short-term prepayments)	432	(430)	2	A
TOTAL ASSETS	**8,052**	**35**	**8,087**	
EQUITY AND LIABILITIES				
Equity	7,182	35	7,217	B
Provision for pensions and similar benefits	96	(96)	-	C
Other provisions	14	(14)	-	D
Long-term loans and other sources of financing	25	-	25	
Trade liabilities	296	14	310	D
Short-term loans and other sources of financing	25	-	25	
Other short-term liabilities	414	96	510	C
TOTAL EQUITY AND LIABILITIES	**8,052**	**35**	**8,087**	

CHANGES IN THE STATEMENT OF COMPREHENSIVE INCOME	YEAR ENDED 31.12.2017 ACCORDING TO PASS	ADJUSTMENTS TO IFRSS	YEAR ENDED 31.12.2017 ACCORDING TO IFRSS	COMMENTARY
GROSS PROFIT (LOSS)	**-3,841**	**2,890**	**-951**	
General and administrative expenses	-	3,000	3,000	E
Other operating revenues	11	-	11	
Other operating expenses	121	(110)	11	C, D
OPERATING PROFIT (LOSS)	**(3,951)**	**-**	**(3,951)**	
Financial revenues	36	-	36	
Financial expenses	47	-	47	
PROFIT (LOSS) BEFORE TAX	**(3,962)**	**-**	**(3,962)**	
PROFIT (LOSS) AFTER TAX	**(3,962)**	**23**	**(3,939)**	**B**

CHANGES IN EQUITY	AS AT 1 JANUARY 2016 (DATE OF TRANSITION TO IFRSS)			COMMENTARY	AS AT 31 DECEMBER 2017 (END OF THE LAST PERIOD PRESENTED IN THE FINANCIAL STATEMENTS ACCORDING TO THE PASS)			COMMENTARY
	ACCORDING TO PASS	ADJUSTMENTS TO IFRSS	ACCORDING TO IFRSS		ACCORDING TO PASS	ADJUSTMENTS TO IFRSS	ACCORDING TO IFRSS	
Share capital	100	-	100		170	-	170	
Supplementary capital	1,455	-	1,455		11,381	-	11,381	
Retained profit (loss carried forward)	(407)	-	(407)		(4,369)	35	(4,334)	B
EQUITY	**1,148**	**-**	**1,148**		**7,182**	**35**	**7,217**	

As a result of transformation of the Company's financial statements as at the date of transition from the Polish Accounting Standards (PASs) to IFRSs, the Management Board made the adjustments presented below. Individual changes result from the following differences between PASs and IFRSs:

a) adjustments related to the transformation of financial statements into IFRSs:
   - change in presentation of expenditures on development (adjustment A)
   - change in presentation of short-term accruals for unutilised annual leaves (adjustment C)
   - change in presentation of other short-term provisions (adjustment D)

b) adjustments not related to the transformation of financial statements into IFRSs:
   - recognition of deferred income tax (adjustment B)

- change in presentation of the statement of comprehensive income from the nature of expenses method to the function of expenses method (adjustment E).

The changes described above in the Company's financial statements also influenced the presentation of the item in the statement of cash flows.

STATEMENT OF CASH FLOWS	YEAR ENDED 31.12.2017 ACCORDING TO PASS	ADJUSTMENTS TO IFRSS	YEAR ENDED 31.12.2017 ACCORDING TO IFRSS
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax	(3,962)	-	(3,962)
Total adjustments:	211	430	641
Depreciation/ amortisation	470	-	470
Interest and profit distributions (dividends)	1	-	1
Change in the balance of provisions	110	(110)	-
Change in the balance of inventories	5	(5)	-
Change in the balance of receivables	(146)	5	(141)
Change in short-term liabilities, except bank and other loans	311	110	421
Change in prepayments/ accruals	(540)	430	(110)
Other adjustments	-	-	-
Total cash flows from operating activities	(3,751)	430	(3,321)
CASH FLOWS FROM INVESTING ACTIVITIES			
Outflows	548	430	978
Total cash flows from investing activities	(443)	(430)	(873)
CASH FLOWS FROM FINANCING ACTIVITIES			
Total cash flows from financing activities	8,962	-	8,962
TOTAL NET CASH FLOWS	**4,768**	**-**	**4,768**

EFFECT ON DEFERRED TAX

The first-time adoption of the principles set out in IFRSs has not affected the deferred tax amount.

Upon transformation of the financial statements, the Company recognised, for the first time, deferred tax assets on deductible temporary differences in the amount of PLN 12,000 as at 31 December 2016. No deferred tax liability was recognised as at 31 December 2016.

NOTE 27. DATE OF APPROVAL OF THE FINANCIAL STATEMENTS FOR PUBLICATION

This historical financial information for the periods 01.01.2017–30.06.2017 and 01.01.2018–30.06.2018 was approved for publication by the Entity's Management Board on 14 August 2018.

NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE THAT HAVE NOT BEEN REFLECTED IN THE INTERIM FINANCIAL STATEMENTS

No events occurred that would have a material impact on the financial statements presented, in particular on the Entity's equity or financial result, or its ability to continue as a going concern.

4. THE MANAGEMENT BOARD OPINION ON THE ABILITY TO ACHIEVE ITS PUBLISHED PERFORMANCE FORECASTS FOR A PARTICULAR GIVEN YEAR IN THE LIGHT OF THE RESULTS PRESENTED IN THE QUARTERLY REPORT

Not applicable. The Issuer did not release any performance forecasts to the public.

5. WHERE THE ISSUER'S INFORMATION DOCUMENT CONTAINED INFORMATION REFERRED TO IN § 10(13)(A) OF APPENDIX 1 TO THE TERMS OF REFERENCE OF THE ALTERNATIVE TRADING SYSTEM – DESCRIPTION OF THE PROGRESS OF THE ISSUER'S ACTIONS AND INVESTMENTS TOGETHER WITH THEIR IMPLEMENTATION SCHEDULE

COMMERCIALISATION THE START OF FULL COMMERCIALISATION OF XTPL SOLUTIONS IS A THREE-PHASE PROCESS:

- **Phase 1 (completed)** – Development of the laboratory printer prototype and a formulation of the ink compatible with the printer. The Company did not generate any operating revenue at this stage; its activities were mostly financed using external sources, such as grants, subsidies and proceeds from the issue of series M shares.

- **Phase 2 (in progress)** – At this stage, the Company offers a "Minimum Viable Product" (MVP) in the form of a laboratory printer.

  The laboratory printer will be addressed to R&D centres of business entities and scientific institutions. The main purpose of this phase is to validate the technology and present it to R&D units of potential clients, build relationships at the technological level, enable prototyping and define further breakthrough applications in specific areas.

  At this phase, the Company expects to obtain its first revenue (from the sale of laboratory printers and nanoink); at the same time it will look for partners – potential clients with whom Joint Development Agreements (JDAs) could be signed to support technology development, with the work to be co-financed by the partner in return for, e.g. a preemptive right for the purchase of the final solution).

- **Phase 3**- at this stage XTPL will offer comprehensive solutions for the industry. Industrial printers will be different from lab printers in terms of size, functionality (higher performance) and degree of technological maturity. At this phase the printer is to be manufactured by an external partner (contracted by XTPL), the printing head by XTPL and the nanoink by a partner-subcontractor. The nanoink, the printing head and the implementation service at the client's facility (technology consulting) will be sold directly by XTPL.

At this phase, the Company expects to generate revenue by selling printing heads (one-off transactions), the nanoink (recurring transactions) and dedicated implementation services (one-off transactions).

6. THE KEY STRATEGIC INITIATIVES PLANNED BY THE ISSUER IN THE AREA OF TECHNOLOGY COMMERCIALISATION INCLUDE

- production and sale of laboratory printers;
- extension of the patent family related to the XTPL technology;
- development of structures supporting business development outside of Poland (primarily in the US market);
- starting R&D cooperation (under JDAs or JVs) with potential business clients and research institutes operating in selected application segments;
- starting cooperation on building prototypes of XTPL printing heads for industrial purposes;
- development of the application laboratory (including examination of new application areas);
- obtaining additional subsidies (grants) to support the technology commercialisation phase.

7. INFORMATION ON INITIATIVES DESIGNED TO INTRODUCE INNOVATIVE SOLUTIONS IN THE AREA OF BUSINESS DEVELOPMENT

The Issuer's main area of activity is development and commercialisation of the innovative technology of ultra-precise printing of nanomaterials.

In the R&D area, in Q2 2018, the Company:

- started testing the lab printer in the beta version, which marked another milestone on the road to commercialisation of technology in the scientific prototyping area;
- continued, in accordance with the adopted schedule, work aimed at using the developed technology in the area of Transparent Conductive Films (TCF) for application in displays and solar cells;
- conducted preliminary research work designed to verify if the developed technology can be applied to printing quantum dots used in the display industry. This work led to development of a proof-of-concept, which will be the basis for further research and preliminary talks with industry representatives.

8. INFORMATION ON THE PRINCIPLES ADOPTED IN THE PREPARATION OF THE REPORT, INCLUDING INFORMATION ABOUT CHANGES IN ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") approved by the EU. In the first quarter, no changes were made in the accounting policies and calculation methods applied by the Company.

New standards that will come into force as of 1 January 2018 and will be applied by the Company are:

IFRS 9 "Financial Instruments" – approved by the EU on 22 November 2016 (applicable to the annual periods commencing on or after 1 January 2018). The new standard has replaced IAS 39.

IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS" – approved by the EU on 22 September 2016 (applicable to the annual periods commencing on or after 1 January 2018.

The above standards, which entered into force on 1 January 2018, have no material impact on the financial statements; their impact has been presented in the Company's report for 2017.

UNIFORM DESCRIPTION OF SIGNIFICANT ACCOUNTING PRINCIPLES

- **INTANGIBLE ASSETS**

  Intangible assets are recognised if it is probable that in the future they will result in a flow to the entity of economic benefits connected with these assets. Intangible assets are initially recognised at cost. After initial recognition, intangible assets are carried at cost less amortisation and impairment.

  In accordance with IAS 38 "Intangible Assets", the costs of development is recognised depending on whether:

  — the level of their technical advancement and the available funds allow the intangible asset to be completed as to make it fit for use/ sale;

  — it is intended for use or sale;

  — it is possible to measure reliably the expenditure attributable to the intangible asset during its development;

  — it is possible to identify how future economic benefits will be obtained from the intangible asset (there is a market for the asset or products/ services generated by that asset).

  If the above conditions are met and expenditure is related to future benefits, the Company will capitalise the incurred development cost in its carrying amount as a component of intangible fixed assets. Where there is no certainty as to fulfillment of the above conditions, development costs are recognised in the statement of comprehensive income in the period in which they were incurred.

  Intangible assets are amortised on a straight-line basis over the anticipated period of their economic

life. Amortisation of intangible assets is recognised in the income statement under the "Amortisation" heading.

Intangible assets used by the Company with their corresponding amortisation rates:

Computer software	2 to 5 years
Licenses for computer programmes	2 to 5 years
Completed development	
During the period of using the effects of development	
Intellectual property rights (know-how)	5 years

- **TANGIBLE ASSETS**

The initial value of tangible assets includes the price of acquisition increased by all the costs directly relating to the purchase and adaptation of the asset for use less depreciation and impairment losses, if applicable.

Costs incurred the after the tangible assets had been put in use, such as repair and maintenance costs and running costs are reflected in profit or loss of the reporting period in which they were incurred. However, if it is possible to demonstrate that the expenditure caused an increase in the expected future economic benefits from ownership of the asset above the originally expected benefits, then the expenditure increases the initial value of such asset (improvement).

At the time of liquidation or sale of tangible assets, any ensuing gains or losses are recognised in the statement of financial position as a difference between net proceeds from disposal (if any) and the carrying amount of this item.

In the case of tangible assets financed with grants, the amount corresponding to the initial value of such assets in the part financed with the grant is recognised in deferred income and settled over time as a subsidy together with depreciation of such assets.

Tangible assets are depreciated on a straight-line basis over the anticipated period of their economic life, which is as follows:

Technical equipment and machines	4 to 15 years
Vehicles	3 to 10 years
Other tangible assets	Over a useful life determined on a case by case basis

Estimates regarding the economic useful life and the depreciation method are reviewed at the end of each financial year to verify if the depreciation methods and period correspond to the anticipated time distribution of the economic benefits conveyed by the tangible asset.

- **ASSETS UNDER CONSTRUCTION**

  Assets under construction are measured at the overall cost directly related to their acquisition or generation, including financial costs (except exchange differences which do not represent an adjustment to interest paid), less impairment losses. Fixed assets under construction are not depreciated until they are completed and put in use.

- **FINANCIAL INSTRUMENTS**

  The Company has financial instruments classified into the following categories:

  — loans and receivables

  — other financial liabilities.

  The classification is based on an analysis of the characteristics and purpose of the investment. The classification is made at the initial recognition of financial assets and liabilities.

  Instruments with maturities over 12 months from the end of the reporting period are classified as long-term assets or liabilities. Short-term assets or liabilities are financial instruments with maturities up to 12 months from the end of the reporting period.

  The rules for classifying financial instruments to individual categories and the principles of their measurement are presented below:

  LOANS AND RECEIVABLES

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company spends funds, provides goods or services directly to the debtor, without an intention to classify these receivables to financial assets measured at fair value through profit or loss.

  Loans and receivables are recognised as current assets unless their maturity date is longer than 12 months from the end of the reporting period. Loans grated and receivables with a maturity longer than 12 months from the end of the reporting period are recognised as tangible assets. Loans and receivables are recognised in the statement of financial position as trade receivables and other receivables.

  OTHER FINANCIAL LIABILITIES

  An entity classifies in this category financial liabilities other than liabilities measured at fair value through profit or loss.

  Upon initial recognition, the entity measures all financial liabilities, other than those classified instruments measured at fair value through profit or loss, at amortised cost using the effective interest method.

FAIR VALUATION

Unless there are indications that a financial instrument has not been acquired at a price which corresponds to its fair value, fair value at initial recognition is the purchase price of the instrument or, in the case of financial liabilities, the selling price of the instrument.

At the end of the reporting period, the fair value of financial instruments for which there is an active market is determined based on their current purchase/ sales price. If the market for a particular financial asset or liability is not active (also in the case of unlisted securities), the Company determines the fair value using appropriate valuation techniques. They include the use of prices from recent transactions closed on normal market terms, comparison to other instruments that are essentially identical, a discounted cash flow analysis, option valuation models and other valuation techniques/ models commonly used in the market, adapted the specific nature and parameters of the financial instrument subject to valuation.

IMPAIRMENT OF FINANCIAL ASSETS

At the end of each reporting period, an assessment is made to see if there is objective evidence that a financial asset or a group of financial assets are impaired. Significant impairment indicators (evidence) include in particular: serious financial problems of the debtor, instigation of legal proceedings against the debtor, disappearance of an active market for a particular financial instrument, emergence of a significant adverse change in the economic, legal or market environment of the financial instrument's issuer and continued decline of the financial instrument's fair value below the cost level.

In the case of equity instruments measured at fair value, classified as available-for-sale financial assets, the Company recognises an impairment loss if the decrease in the fair value of the equity instrument below the cost of acquisition has been maintained for at least 12 months or when the decrease in fair value in relation to the acquisition cost of the equity instrument is at least 20 percent. If the Company has identified impairment of available-for-sale financial assets, the total losses recognised to date in other comprehensive income, determined as the difference between the purchase price and the present fair value less any impairment losses previously recognised in profit or loss are eliminated from other comprehensive income and transferred to profit or loss as a reclassification adjustment.

Impairment losses recognised in profit or loss and those relating to equity instruments are reversed in correspondence with other comprehensive income. The reversal of impairment losses on financial debt securities is recognised in the profit or loss if, in the following periods, after the impairment is recognised the fair value of such financial instruments increases as a result of events occurring after impairment recognition

If there is indication of impairment of unlisted equity instruments which are recognised at cost (as a reliable measurement of the fair value is not possible), the impairment loss is determined as the difference between the carrying value of the asset and the present value of estimated future cash flows discounted at similar financial assets' present market rate of return. Such impairment losses are not reversed.

If there is evidence of potential impairment of loans and receivables or of held-to-maturity investments measured at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at the initial recognition for fixed interest rate assets, and the effective interest rate computed at the last revaluation for floating interest rate assets). An impairment loss is recognised in profit or loss.

- **LEASES**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership onto the lessee. All other leases are treated as operating leases. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Company is not a party to any contracts under which it would be a lessor.

The Company is a party to contracts which transfer substantially all risks and rewards incidental to ownership of the underlying assets. A lease is recognised as a tangible asset at the lower of its fair value and the present value of minimum lease payments determined at the lease commencement date. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Financial expenses are recognised directly in the statement of comprehensive income.

Tangible assets used on the basis of lease contracts are depreciated over the anticipated period of their useful life.

The operating lease fees and the subsequent lease payments are expensed in the statement of comprehensive income on a straight-line basis throughout the lease term.

With regard to leases, the company uses the principles set out in IAS 17 "Leases".

- **FOREIGN CURRENCY TRANSACTIONS**

The items included in the financial statements are presented in the Polish zloty, which is the functional currency of the Company.

Transactions expressed in foreign currencies are translated at initial recognition into the functional currency as follows:

— at the exchange rate actually used, i.e. at the buy or sell rate applied by the bank at which the transaction takes place, in the case of currency sale or purchase transactions and payment of receivables or liabilities, or at the rate arising from contracts signed with the entity's bank or the rate agreed through negotiations;

— at the average exchange rate set for the particular currency by the National Bank of Poland as at the transaction date for other transactions. The exchange rate applicable at the transaction

date is the average exchange rate of the National Banking of Poland announced on the last business day before the transaction.

At the end of each reporting period:

- any cash items expressed in foreign currency are converted using the closing rate applicable on that day, i.e. the average exchange rate set for the particular currency by the National Bank of Poland;
- any non-cash items measured at historical cost in a foreign currency are converted using the exchange rate (i.e. the average exchange rate set for the particular currency by the National Bank of Poland) applicable on the transaction date, and
- any non-cash items measured at fair value in a foreign currency are converted using the exchange rate (i.e. the average exchange rate set for the particular currency by the National Bank of Poland) applicable on the date of determination of the fair value.

Foreign exchange gains and losses arising from:

- settlement of transactions in a foreign currency;
- balance sheet valuation of cash assets and liabilities other than derivative instruments expressed in foreign currencies are recognised in profit or loss.

- **PREPAYMENTS AND ACCRUALS**

The entity recognises prepayments and accruals to comply with the matching principle. Prepayments are measured at cost at initial recognition. At the balance sheet date, the cost is adjusted by the part of the written off cost or income attributable to the previous period.

Accruals are presented jointly as part of liabilities, in accordance with IAS 37.

The company recognises accrued/ deferred income if its relates to future reporting periods. Accrued/ deferred income is carried at the nominal value.

- **EQUITY**

The Company's equity is divided into:

- Registered (share) capital – recognised at the value stated in the Company's Articles of Association and entered in the National Court Register (KRS);
- Supplementary capital;
- Retained profit (loss)

- **PROVISIONS**

Provisions are recognised when the entity has a present legal or constructive obligation towards third parties as a result of past events and when it is certain or highly likely than an outflow of resources (tantamount to economic losses) will be required to settle the obligation, and when the amount of the obligation can be reliably estimated.

- **BANK LOANS AND OTHER LOANS RECEIVED**

  At initial recognition, bank loans are recognised at cost, which is the value of cash received and which includes the cost of obtaining the loan. Then all bank and other loans are measured at adjusted purchase price (amortised cost), using the effective interest rate.

- **BORROWING COSTS**

  Borrowing costs are recognised in profit or loss in the period to which they relate.

  Borrowing costs that may be directly attributed to the acquisition, construction or production of a qualifying asset affect its initial value as a part of the cost of that asset. The costs are capitalised when it is probable that they will result in future economic benefits to the entity and the costs can be measured reliably.

  Borrowing costs which were incurred without any specific purpose and used for the purpose of financing the acquisition or production of a qualifying asset affect the initial value of this asset in the amount determined by applying the capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

  Exchange differences on borrowings drawn in a foreign currency (both specific and general) affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. The value of exchange rate differences adjusting the interest costs is the difference between the interest costs on similar borrowings that the Company would incur in its functional currency and the cost incurred for the foreign currency borrowings.

- **CURRENT AND DEFERRED TAX**

  Income tax recognised in profit or loss includes current and deferred tax.

  Current tax is calculated in accordance with the applicable tax law.

  Deferred tax is determined using tax rates (and laws) that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

  A deferred tax liability is recognised for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax liability is recognised in the full amount. The liability is not discounted.

  A deferred tax asset is recognised for all deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference or tax loss can be utilised.

Deferred tax assets and liabilities are recognised regardless of when they are to be utilised.

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:

— is not a business combination;

— at the time of the transaction, affects neither the pre-tax profit nor taxable profit. No deferred tax assets and deferred tax liabilities are recognised for temporary differences resulting from the initial recognition of goodwill.

Deferred tax is recognised in profit or loss for a given period, unless the deferred tax:

— arises from transactions or events which are directly recognised in other comprehensive income – in which case the deferred tax is also recognised in other comprehensive income; or

— arises from a business combination – in which case the deferred tax affects goodwill or a gain on a bargain purchase.

Deferred tax assets and deferred tax liabilities are offset if the Group entities have a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

- **RECOGNITION OF REVENUE**

REVENUE FROM THE SALE OF SERVICES (FINISHED GOODS)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

— the amount of the revenue can be measured reliably;

— it is probable that the economic benefits associated with the transaction will flow to the enterprise;

— the stage of completion of the transaction at the balance sheet date can be measured reliably;

— the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

REVENUE FROM THE SALE OF GOODS AND MATERIALS

The Company recognised revenue from the sale of goods and materials when the following conditions are satisfied:

— the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;

- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of the revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the enterprise;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is recognised at the fair value of the consideration received or receivable.

GRANTS

Grants are disclosed in financial statements if there is reasonable assurance that the enterprise meets the conditions relating to their sanction and that the grants will be received. Grants are recognised in the statement of comprehensive income as revenue in the period when they became receivable. Grants to remuneration are presented as a revenue in a separate line item of the statement of comprehensive income. Grants do not reduce costs.

INTEREST

Interest income is recognised pro-rata to the passage of time, using an effective interest rate. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and gradually unwinds the discount in correspondence with interest income. Interest income on loans which have become impaired is recognised at the original effective interest rate.

- **GRANTS**

Non-cash grants are recognised in the books at fair value.

Cash government grants are presented in the statement of financial position as deferred income.

Grants related to income are presented as part of profit or loss, either separately or under a general heading such as “Other income”; alternatively, they are deducted in reporting the related expense.

A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

They are not credited directly to equity.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable as the above fact has been disclosed.

Grants related to income are presented as income, separately from the related costs which the grants

are intended to compensate. Grants are recognised as income regardless of whether they were received in the form of cash or as a decrease of liabilities.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, which is recognised and measured in accordance with IAS 39, i.e. at the amount of the difference between the initial carrying amount of the loan determined in accordance with IAS 39 and the inflows received. The grant is accounted for in accordance with IAS 20.

- **CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

A contingent liability is defined as:

a) a possible obligation that arises from past events and of which the existence will be confirmed [...] only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) a present obligation that arises from past events but is not recognised in financial statements because:

— it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

— the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

- **MANAGEMENT BOARD'S ESTIMATES**

The preparation of financial statements requires the management board of the entity to make estimates and assumptions that affect the amounts reported in these financial statements and notes thereto. Actual results may be different from estimates. These estimates concern, inter alia, provisions and impairment allowances, prepayments and accruals and adopted depreciation/ amortisation rates.

ACCRUALS FOR UNUSED ANNUAL LEAVES

Accruals for unused holiday leaves are determined on the basis of the number of unused leave days as at a particular date and the employee's average salary as at that date, increased by the national insurance contributions payable by the employer.

USEFUL LIVES OF TANGIBLE ASSETS

Each year, the Company's management board reviews the residual value, depreciation methods and useful lives of tangible assets subject to depreciation. As at 31 December 2017, the management board is of the opinion that the useful lives of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are measured at the tax rates which according to the available projections will be apply at the time when the asset is realised or the liability is settled based on tax laws that were in force or were substantively in force at the end of the reporting period.

IMPAIRMENT TEST FOR TANGIBLE AND INTANGIBLE ASSETS

In accordance with the requirements of IAS 36, the Company monitors its assets in terms of impairment on an ongoing basis.

If there are any indications of impairment of assets, the Company posts relevant impairment allowances. Impairment tests are carried out to ensure that assets are carried at a value not exceeding their recoverable amount. The recoverable amount is the higher of:

- fair value, less costs to sell, if the fair value can be determined;
- value in use determined on the basis of the present value (i.e. after discounting) of the future cash flows related to the assets to be tested.

The indicators of impairment of assets at the Company are as follows:

- an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes of technological, market, economic or legal nature, with an adverse effect on the entity have taken place or are expected to take place;
- evidence is available of obsolescence or physical damage of an asset;
- significant changes to the use of an asset, with an adverse effect on the entity, have taken place or are expected to take place;
- the economic performance of an asset is or will be worse than expected.

In the second quarter of 2018, no impairment of tangible or intangible assets has been observed.

9. DESCRIPTION OF THE CORPORATE GROUP, INDICATING CONSOLIDATED ENTITIES

Not applicable. As at the date of publication of the report, the Issuer has no subsidiaries and therefore does not form any corporate group

10. IF THE ISSUER FORMS A CORPORATE GROUP AND DOES NOT PREPARE CONSOLIDATED FINANCIAL STATEMENTS – INDICATION OF THE REASONS WHY NO SUCH FINANCIAL STATEMENTS ARE PREPARED

Not applicable. As at the date of publication of the report, the Issuer has no subsidiaries and therefore does not form any corporate group.

11. INFORMATION ON THE COMPANY'S SHAREHOLDING STRUCTURE, WITH AN INDICATION OF SHAREHOLDERS WHO HOLD, AT THE DATE OF THIS REPORT, AT LEAST 5% OF VOTING POWER AT THE COMPANY'S GENERAL MEETING

A list of shareholders holding at least a 5% share in the share capital and voting power at the General Meeting as at the date of this quarterly report.

L.P.	SHAREHOLDER	NUMBER OF SHARES HELD	% SHARE
1	Filip Granek	303 000	17,87%
2	Sebastian Młodziński	300 000	17,70%
3	Leonarto Sp. z o.o. *	298 000	17.58%
4	TPL Sp. z o.o. **	140 020	8,26%
5	Stefan Twardak	103 081	6,08%
6	Heidelberger Beteiligungsholding AG	102 000	6,02%
7	Universal-Investment-Gesellschaft Mit Beschrankter Haftiung on behalf of Acatis Investment GMBH	94 000	5,55%
8	Konrad Pankiewicz *	2 223	0,13%
9	Others	352 896	20,82%
	TOTAL	**1 695 220**	**100,00%**

Number of shares = Number of votes % of shares = % of votes

*Konrad Pankiewicz, Member of the Supervisory Board, is the only one shareholder and the Chairman of the Board of Leonarto Sp. z o.o. Konrad Pankiewicz together with his affiliated entity own 300 223 shares of the company and 17,71% of the equity

** TPL Sp. z o.o. posess Series L shares, issued for emploies shares option program, that are not listed on NewConnect market. Shareholders of TPL Sp. z o.o. are: Filip Granek, Chairman of the Board of the Issuer (34% of shares), Sebastian Młodziński, Member of the Board of the Issuer (33% of shares) and Adriana Pankiewicz who is Konrad Pankiewicz's wife (33 % of shares)

12. INFORMATION ON THE NUMBER OF PEOPLE EMPLOYED BY THE ISSUER IN FULL TIME EQUIVALENT UNITS

The Company employs 33 persons under contracts of employment in full time equivalent units (as at 30 June 2018).

ON BEHALF OF THE MANAGEMENT BOARD:
Maciej Adamczyk
Management Board Member