XTPL S.A. ANNUAL REPORT FOR 2019

Wrocław, 23 April 2020

LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

On behalf of the Management Board of XTPL S.A. and all of its employees, I am pleased to present to you this Annual Report summarizing the most important operational aspects and events of 2019.

XTPL was established to develop and commercialize the technology of ultra-precise printing of various types of materials (metals, semiconductors and others) to enable simplified manufacturing and new functionalities of technologically advanced electronic components.

I firmly believe that additive production in the micro and nano scale will be one of the key technological revolutions in the future. Over the last two decades, this revolution has been driven by rapid advances in nanotechnology and materials science, precision mechatronics and advanced software solutions. XTPL is a firm with the so-called "deep technology", which can play a major role in this transformation.

The company's vision is to take the innovative printing technology to the global production lines for the fabrication of modern electronic components. The future integration of XTPL technology with global production lines can create a significant commercial value for the company. However, XTPL will not be alone on the path towards reaching this goal. We are looking for strong alliances with experienced industrial equipment manufacturers, and we want to work with them to make industrial implementations possible.

2019 was a year of landmark events. Over the past 12 months, we achieved further milestones in technology development – for example, we carried out a successful printing of conductive lines with a width of merely 1.4 µm, which was much sought-after by the market and which significantly increased the potential of our solution. We strengthened cooperation with global leaders in the advanced technologies market (including the Chinese BOE and HPK Inc., the main supplier of devices for repairing open defects in displays for LG Display). Last year's successes also include our debut on the main market of the Warsaw Stock Exchange, launching a subsidiary in the United States and further development of the patent cloud for XTPL solutions. In 2020, we are still going strong. This is best evidenced by the Q1 events: we signed further agreements with important partners (including Cowin, the Chinese supplier for BOE and CSOT), and we also completed the first commercial contracts for the sale of nanoink.

Out of the contracts signed in 2019, particularly important were the two ones relating to the development of the XTPL technology. The first of them was an agreement on evaluation of our solution, signed with the Chinese BOE, the global display giant. The aim of the project is to evaluate the XTPL technology in the context of a technological challenge defined by the partner regarding the production of the latest generation of OLED displays, especially large-size ones. Another important document signed was the Memorandum of Understanding (MoU) with the Korean HPK – one of the main suppliers of open defect repair solutions for the LG Display group. The aim of this business relationship is to implement the nanoprinting technology in the partner's display production devices. The beginning of 2020 saw another technology evaluation agreement signed. In February, we started cooperation with the Chinese Suzhou Cowin Laser Technology Co. Ltd., which launched the process of evaluation of the XTPL technology in the area of open defect repair in displays.

The commercialization of advanced material technologies, focused on implementing new technologies for mass production, is a challenging and time-consuming process. It consists of five main stages, each taking a few, a dozen or even more months. Agreements signed in recent quarters mark the entry into the next stages of cooperation with individual partners. In the subsequent periods, successful completion of such projects will open the door to negotiating the terms of future commercial contracts, ultimately based on the licensing of XTPL technologies. We do believe that the commercialization of our ultra-precise nanoprinting method will address the numerous technological challenges and will help eliminate many problems that are currently faced by large corporations from at least several market sectors that we have identified. For example, successful cooperation with companies from the display industry creates an opportunity for the industrial implementation of the new method of repairing open defects in displays already at the production stage. Currently, due to defects, rejects on display production lines can reach up to 50% (the cost of semi-finished products in displays is often more than a half of the end product cost). The unparalleled precision of the XTPL printing technology can be an effective method of repairing such defects, in particular taking into account the increasing miniaturization and a simultaneous growth in resolution, trends which add to the existing problem.

Importantly, this is just a fragment of the broader market of printed, flexible and organic electronics, which is our target market. According to IDTechEx, the value of this market will double over the decade to reach a significant USD 74 billion.

Landmarks in our history are the first commercial orders, which we started last month. This is the result of many business talks held in 2019, as well as laboratory efforts on obtaining high-quality, unique XTPL nanoinks, which are the subject of these transactions. Developed by our in-house R&D unit, nanoinks have special innovative physicochemical properties which are interesting from the point of view of manufacturers of advanced electronics. The breakthrough nanoink formulations, protected by international patent applications, are among the key enablers of our excellent results in terms of printing precision. The first transactions confirm the great potential of the XTPL technology, unlock further commercial opportunities and increase the Company's credibility in the market.

In the area of research and development, 2019 has brought significant achievements that are bound to pay off in the future. The development of the process of printing features with intervals of 2 µm, new series of inks with a high concentration of silver nanoparticles, or the technology of printing on film for use in strain gauges, are just some of the results achieved by our experts. You can find out about details of these projects later on in this report.

Last year, we continued to build the international patent cloud of XTPL solutions. During this period, seven new international patent applications were submitted, covering the further scope of IP as part of the Company's unique nanoprinting technology. As at the date of this report, we had 13 registered applications. For XTPL intellectual property is a product and a competitive advantage, while the size of the patent cloud has a major impact on the Company's value. It is also a factor which supports the initiation of subsequent business relationships. We are confident that the proper degree of intellectual property protection will position XTPL well in negotiations about future commercial contracts, while ensuring security in the commercialization of our unique technology.

We wish to keep up the strong momentum in the following quarters. We expect to move to the next stages of commercialization of our technology in the individual processes delivered with our partners. We are already working intensively on establishing new business relations and continued execution of commercial transactions. At the same time, we are mindful of the global challenges posed by the spread of the coronavirus SARS-CoV-2. The XTPL business model is not based on operations in the sectors most exposed to the adverse impact of the epidemic and the global crisis. We are monitoring the situation on an ongoing basis, remaining in constant contact with our partners. Despite the obvious challenges, including logistic ones, the cooperation has been largely undisrupted, although some delays cannot be ruled out depending on how the global situation plays out.

I would like to thank everyone who has contributed to the development of XTPL in 2019. I also would like to extend my sincere thanks to our Shareholders for their trust and patience; members of the Supervisory Board for their support in the implementation of key projects, and the entire Team for their huge everyday commitment. My thanks also go to our business partners for the fruitful cooperation. I would like to emphasize that we will make every endeavor to ensure that the confidence and expectations that our Stakeholders put in XTPL S.A. are reflected in the constant development and building of the Company's value. The unparalleled precision of our nanoprinting technology, its cost effectiveness, scalability, speed and connection with global megatrends in the advanced electronics market are obvious competitive advantages which in my opinion will result in the future global successes of XTPL. This is what I wish for you and for myself.

Best regards,

Filip Granek, PhD
President of the Management Board of XTPL S.A.

XTPL Spółka Akcyjna, a joint stock company having its registered office at ul. Stabłowicka 147, 54-066 Wrocław, entered in the business register of the National Court Register kept by the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register under KRS No. 0000619674 ("**XTPL**", "**XTPL S.A.**", "**Company**", "**Entity**", "**Parent Company**", "**Issuer**"), NIP: 9512394886, REGON: 361898062.

As at 31 December 2019 ("**Balance Sheet Date**"), the share capital of XTPL S.A. amounted to PLN 190,422.20 and consisted of 1,904,222 shares with a nominal value of PLN 0.10 each ("**Shares**").

This document ("**Report**") contains the Report of the Management Board of XTPL S.A. on the activities of XTPL Group ("**Group**", "**XTPL Group**") and on the activities of XTPL S.A. for the financial year 2019 ("**Management Report**"), and the stand-alone and consolidated financial statements of XTPL S.A. and the Group, respectively.

The Group includes the parent company and a subsidiary (XTPL Inc. with its registered office in the USA), fully controlled by XTPL S.A. ("**Subsidiary**", "**Subsidiary Undertaking**", "**XTPL Inc.**").

The source of data in the Report is XTPL S.A., unless indicated otherwise.

The date of publication of the Report ("**Report Date**") is 23 April 2020.

The consolidated financial statements contained in the Report mean the consolidated financial statements (including the Company and the Subsidiary) for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The stand-alone financial statements contained in the Report mean the Parent Company's financial statements for the year started 1 January 2019 and ended 31 December 2019 ("**Reporting Period**"), prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

"**WSE**" – Warsaw Stock Exchange: Giełda Papierów Wartościowych w Warszawie S.A.

"**CCC**" – the Act of 15 September 2000 – Commercial Companies Code.

"**Regulation on current and financial reports**" – the Finance Minister's Regulation of 29 March 2018 on current and periodic reports released by the issuers of securities and the conditions for equivalent treatment of the information required by the laws of non-member states.

"**Articles of Association**" – the articles of association of XTPL S.A. available to the public at https://ir.xtpl.com/pl/materialy/korporacyjne/.

"**Public Offering Act**" – the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies.

"**Accounting Act**" – the Accounting Act of 29 September 1994.

Due to the fact that the activities of XTPL S.A. have a dominant impact on the Group's operations, the information presented in the Management Report relates both to XTPL S.A. and XTPL Group, unless indicated otherwise.

Unless stated otherwise, the financial data are presented in thousands.

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Financial highlights

1 Financial highlights

1.1 Selected stand-alone figures

	1 January - 31 December 2019 (PLN thousand)	1 January - 31 December 2018 (PLN thousand)	1 January - 31 December 2019 (EUR thousand)	1 January - 31 December 2018 (EUR thousand)
Net revenue from sales	2 063	2 267	480	531
Profit (loss) on sales	-5 253	-809	-1 219	-190
Profit (loss) before tax	-24 609	-7 243	-5 721	-1 698
Profit (loss) after tax	-24 678	-7 209	-5 737	-1 690
Depreciation/amortization	590	531	137	124
Net cash flows from operating activities	-8 665	-6 797	-2 014	-1 593
Net cash flows from investing activities	-2 280	-2 758	-530	-646
Net cash flows from financing activities	9 564	8 902	2 223	2 086
Shareholder's equity	6 892	8 937	1 618	2 078
Current liabilities	1 900	1 031	446	240
Non-current liabilities	-	1	-	1
Cash and cash equivalents	4 153	5 537	975	1 288
Current receivables	936	486	220	113
Non-current receivables	291	233	68	54

	2019 January - December	2018 January - December
exchange rates used in the financial statements	EUR	EUR
for the balance sheet items	4.2585	4.3000
for profit or loss and cash flow items	4.3018	4.2669

1.2 Selected consolidated figures

	1 January - 31 December 2019 (PLN thousand)	1 January 31 December 2018 (PLN thousand)*	1 January 31 December 2019 (EUR thousand)	1 January - 31 December 2018 (EUR thousand) *
Net revenue from sales	2 063	2 267	480	531
Profit (loss) on sales	-5 253	-809	-1 221	-190
Profit (loss) before tax	-24 125	-7 243	-5 608	-1 698
Profit (loss) after tax	-24 198	-7 209	-5 625	-1 690
Depreciation/amortization	590	531	137	124
Net cash flows from operating activities	-10 617	-6 797	-2 468	-1 593
Net cash flows from investing activities	-276	-2 758	-64	-646
Net cash flows from financing activities	9 564	8 902	2 223	2 086
Owner's equity	6 907	8 937	1 622	2 078
Current liabilities	1 931	1 031	453	240
Non-current liabilities	-	1	-	1
Cash and cash equivalents	4 206	5 537	988	1 288
Current receivables	935	486	220	113
Non-current receivables	272	233	64	54

* In 2018, the Issuer did not form a group and did not publish consolidated financial statements. Stand-alone data of the Parent Company were indicated as comparative data.

	2019 January - December	2018 January - December
exchange rates used in the financial statements	EUR	EUR
for the balance sheet items	4.2585	4.3000
for profit or loss and cash flow items	4.3018	4.2669

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shaping global nanofuture

Management Board's Report on the Activities of XTPL S.A. and the XTPL S.A. Group

Ω (ohm) means a unit of electrical resistance

Ω / □ means resistance per square, or normalized resistance

µm means micrometer, i.e. one millionth of a meter (1/1,000,000 m)

nm means nanometer, i.e. one billionth of a meter (1/1,000,000,000 m)

Rs is the surface resistance, i.e. the measure of the resistance of a thin layer

T means transmittance, i.e. layer transparency expressed as a percentage

Adhesion means the tendency of different materials to stick together

AMOLED (active-matrix organic light-emitting diode) means OLED diode with an active matrix

CAGR means Compound Annual Growth Rate – the average rate of annual growth over the period under analysis, assuming that annual increases are added to the base value of the next period

Design In means the phase of the technology commercialization process which aims to adapt the technology to the specific requirements of the client's production process

Ink formulation means precise formulation of the ink, giving it the desired physicochemical properties

FPD (Flat-Panel Display) means a flat display

Inkjet means the printing method used in traditional ink printers, which consists of injecting ink droplets onto the surface

IP (Intellectual Property) means intellectual and industrial property

Conductance means electrical conductivity, which is the inverse of resistance

Quantum dots mean small particles whose optical and electrical properties differ from those of larger particles, which is due to the quantum effect

Subtractive methods mean the methods whereby material is subtracted to obtain a specific structure. Therefore, these methods are the opposite of additive methods, whereby material is added to obtain a specific structure

NDA (Non-Disclosure Agreement) means a confidentiality agreement

OLED (organic light-emitting diode) means an LED based on organic material

PCBs (Printed circuit boards) mean printed circuit boards used in electronic components

Post-processing means the processes carried out after the printing of structures, including sintering nanoparticles to obtain an appropriate resistance and adhesion of the printed path

Electrochromatic coating means a layer whose transparency can be changed through the applied electric voltage.

Proof of concept means the prototype implementation of an idea to prove that it is fit for purpose

QLED (quantum-dot light-emitting diode) means an LED based on quantum dots

R&D means Research and Development

Resistance means electrical resistance

SEM means scanning electron microscope

Photonic sintering means a method of sintering nanoparticles with a laser or xenon lamp

Convection sintering means a traditional sintering method based on convective heat exchange where the printed structure is placed in an oven or a heat chamber

TEA means a Technology Evaluation Agreement

Strain gauge means a device for measuring strain on an object

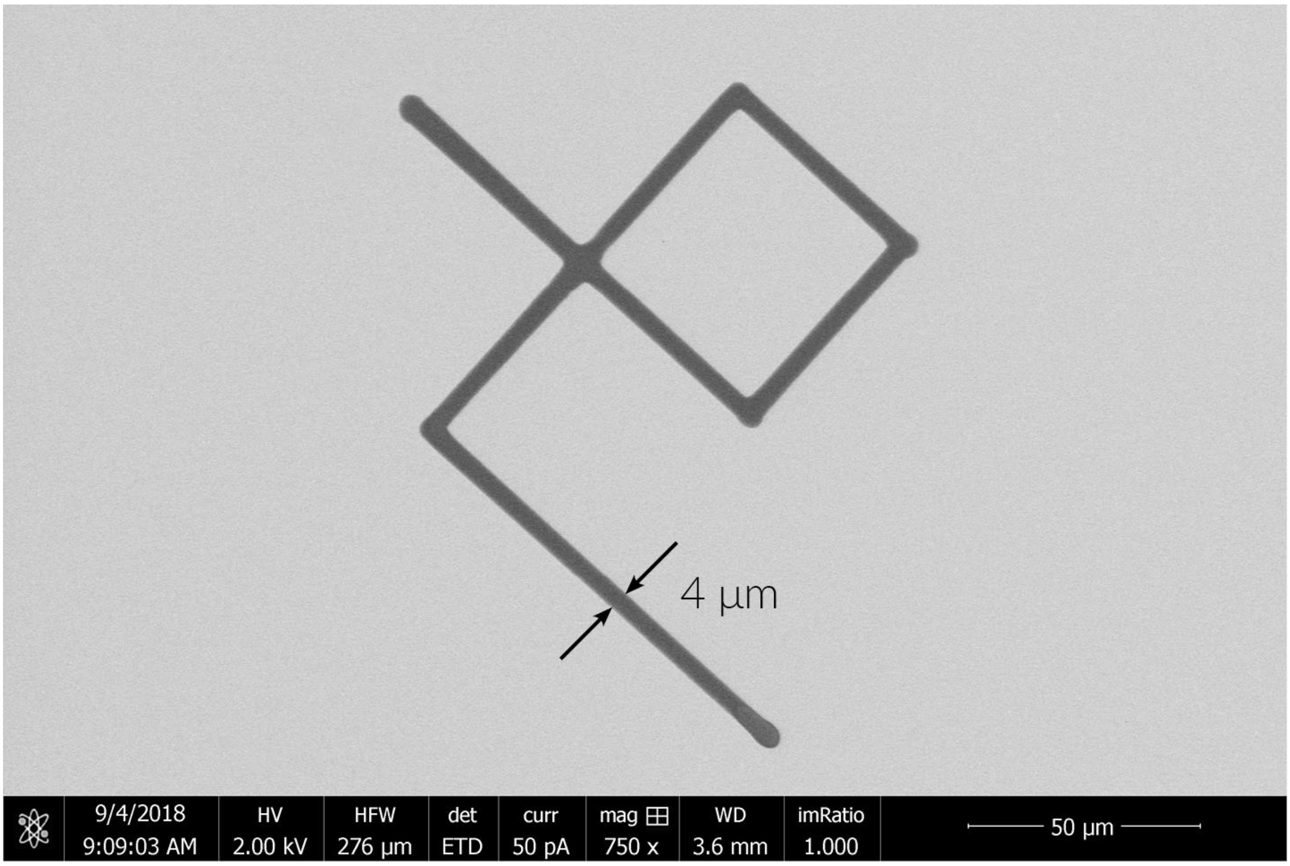
Silicon wafer means a silicon substrate, i.e. a monocrystalline silicon wafer

2 Management Report

2.1 Basic information about activity

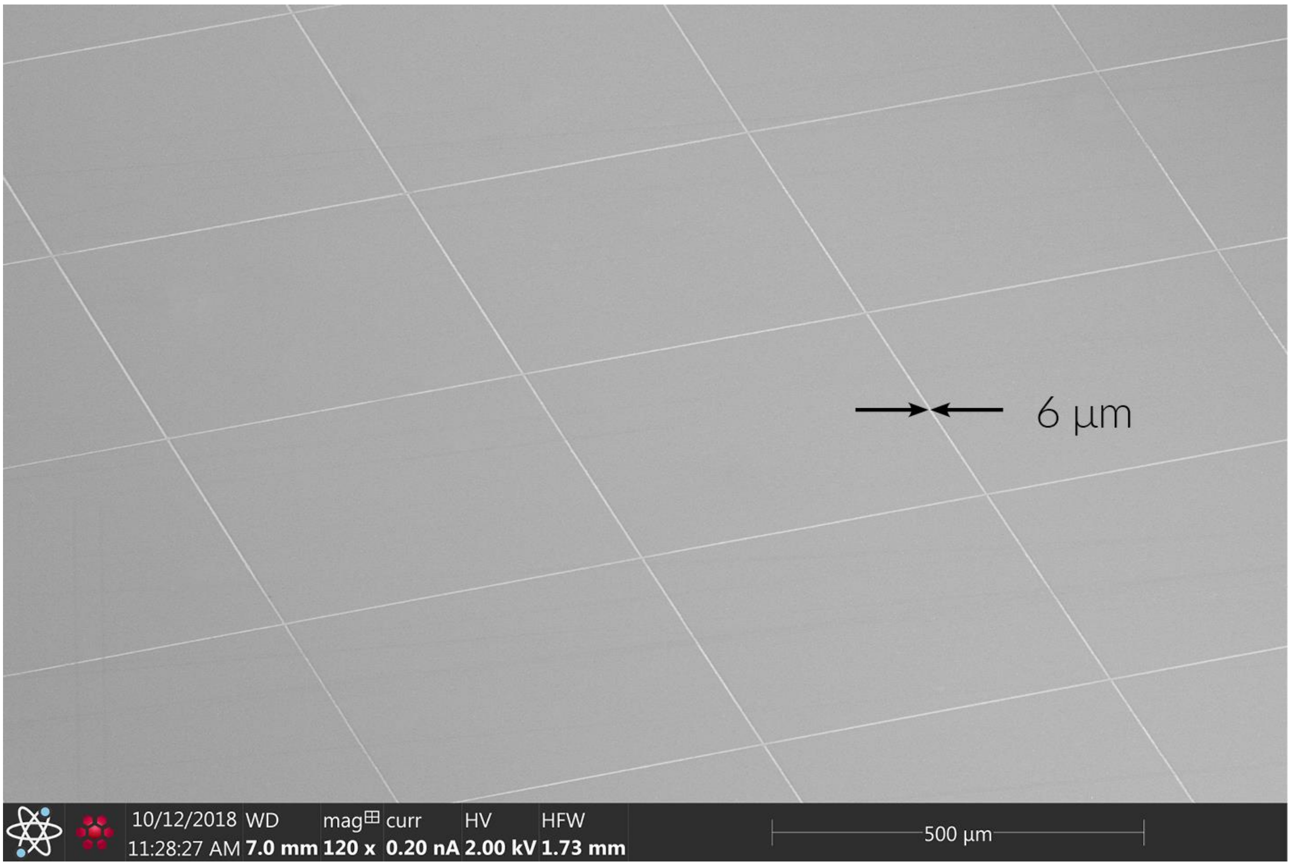
2.1.1 Description of operations and basic products

XTPL operates in the nanotechnology and microelectronics segment. The Company develops and commercializes its globally innovative platform technology of ultra-precise printing of nanomaterials, protected by an international patent application. The breakthrough nature of the XTPL method is based on the unique combination of features such as additive material deposition, deposition accuracy, inks with high concentration of nanoparticles, and no need to use an electric field on the substrate. In addition, the method ensures major time and material savings, and uses the traditional advantages of printing such as scalability, cost effectiveness, simplicity and speed. Thanks to dedicated inks, the XTPL method can be used to make printouts that have been so far unachievable by means of any other methods. Due to its platform character, the Company's solution will find application in the broadly understood printed electronics industry.

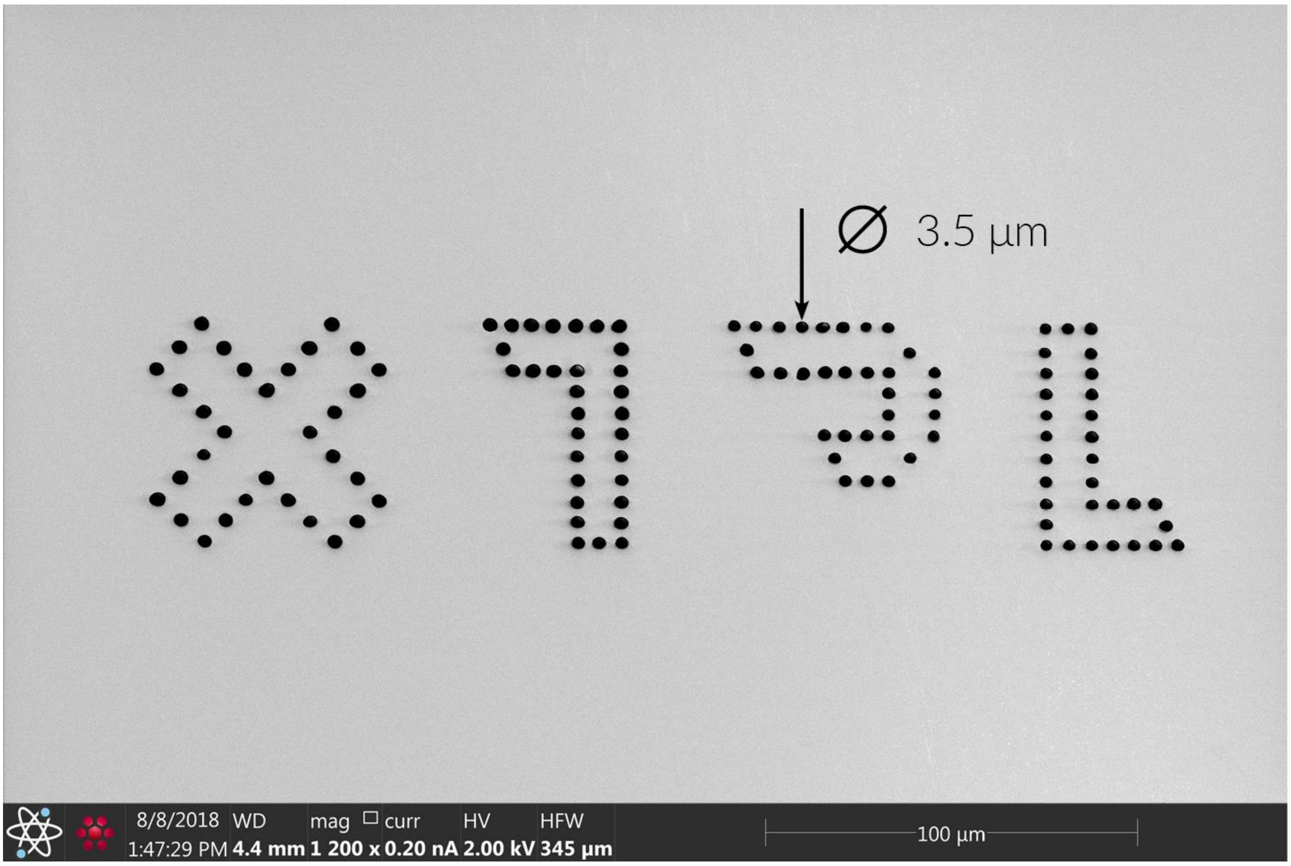


TECHNOLOGY:

One of the biggest achievements of XTPL is the innovative Ultra Precise Deposition (UPD) technology. The XTPL printing head, equipped with a special nozzle, applies ink to the substrate to create designed structures with a width as small as 1 µm. For comparison, most electronic materials printing methods available in the market barely reach 20 µm, and only a very few manufacturers declare they can go down to 10 µm. The Company's solution can be used on most typical substrates materials, including flexible or curved ones. The UPD technology can be used to print both simple lines as well as patterns and microdots. Simplicity, unparalleled precision, speed and versatility are the features that make the Company's solution unique.



The pictures above and below show examples of printouts using the XTPL technology.

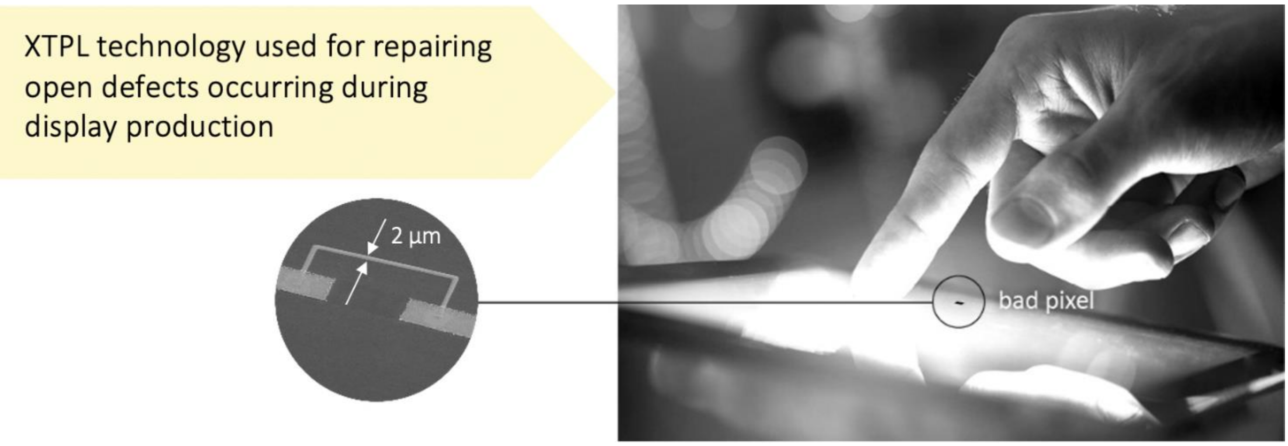


NANOINKS:

Nanoinks with a unique formulation are one of the elements of XTPL's ultra-precise printing method. The materials developed by the in-house R&D department have dedicated physicochemical properties enabling full utilization of the UPD method's potential. In this way, the Company can develop the additive technology comprehensively, with concurrent work on the ink deposition head and constant adaptation of the deposition material. Most of the inks used by XTPL are based on silver nanoparticles. Other elements can also be used, including gold, copper and platinum, as well as quantum dots. Owing to the diversity of materials, XTPL can flexibly respond to the needs of the market and individual clients. The XTPL method can also accommodate many commercially available materials, which may expand the area of its application in the future, giving customers real technological versatility.

APPLICATION:

At present, the Company is focusing on commercialization of its technology in selected application fields. The first field is displays, where XTPL intends to offer open defect repair (ODR) in the first place. As displays are developed, with an increase in their resolution and functionality, the level of their miniaturization and the density of conductive paths increase as well. A side effect of this development is a greater likelihood of critical defects, including broken conductive paths. Given the current lack of a competitive technology for precise connection of very narrow paths, manufacturers face losses on production lines as panels that fail quality tests need to be rejected. The introduction of the XTPL technology will significantly reduce losses without compromising the quality of the repaired display. Next, the Company plans to provide the display industry with solutions that will help achieve a significant increase in the resolution of a new class of displays, also for new, flexible substrate types.



The second potential application field for XTPL is the market of smart glass, i.e. glass changes its transparency when low voltage is applied. One of available types is glass with an electrochromatic layer. This technology has been successfully used for many years in the automotive industry, specifically in mirrors, which are equipped with a microcontroller with a light intensity sensor, and automatically darken or brighten as needed. Importantly the speed and homogeneity of this effect depends on the size of the glass, which in the car mirror is actually irrelevant, but does make a difference in the case of large glass panels on facades of modern buildings. XTPL intends to improve the quality and speed of conversion in such applications by reducing the voltage drop on such large surfaces by adding a layer of thin conductive lines that are invisible to the naked eye. Achieving this goal will allow manufacturers to increase the attractiveness of their products, and end users to reduce the cost of cooling sun-exposed surfaces of the building, in line with the global "green construction" trends.

In the long run, the Company intends to develop its solution for subsequent market segments. The XTPL technology may be implemented in the semiconductor industry also as a sought-after alternative for photolithography or in new types of connecting integrated circuits with PCBs, and, for example, facilitate the fabrication of innovative security printing solutions, functional and effective biosensors and high-performance photovoltaic panels. The technological revolution in which the Company is to play a vital role is about enabling the manufacture of complex and complicated electronic devices using cheap and scalable printing methods.

2.1.2 Business model, strategy and development outlook

<u>BUSINESS MODEL:</u>

XTPL is a supplier of advanced technology for ultra-precise printing of nanomaterials. It develops and commercializes the technology in a way dedicated to a specific application field, and will rely on the selected model:

- <u>LICENSING:</u>
  The Company develops a technological solution dedicated to a particular application field, which is licensed to a partner who on its basis builds devices that allow the technology to be used in industry. In this case, the Company generates revenue from license fees related to the sale of devices equipped with the developed technology.

- <u>STRATEGIC PARTNERSHIP:</u>
  The Company develops a technological solution dedicated to a particular application field; the solution is then commercialized in cooperation with a strategic partner under e.g. a joint venture agreement. In this case, commercialization tasks are divided between the partners in accordance with their competencies and potential. The Company participates in profits achieved through the joint venture.

The choice of the optimal business model depends on the specific customer in the particular application field. Current talks take into account both of the above-mentioned business models, and the appropriate model is selected during the relationship-building process.

The market the Company wants to reach with its technology is growing rapidly. In 2019, the value of the entire printed, flexible and organic electronics market was estimated at more than USD 37.1 billion. Notably, the value of the market is to reach USD 74 billion by 2030 (source: IdTechEx).

XTPL's strategic goal is wide commercialization of its platform technology of ultra-precise printing of materials in the area of advanced electronics. The Company seeks to adopt its technology for various application fields, and then offer the technological solution to industrial partners through various mechanisms: licensing, strategic partnerships or joint ventures. The overarching objective of XTPL's operations is to implement nanoprinting solutions adapted to market needs in selected industry sectors.

DEVELOPMENT DIRECTIONS AND FOCUS AREAS:

An exceptional feature of the XTPL technology is the possibility of its application in many fields of industry. Presented below are applications in the areas that are currently key for the Company:

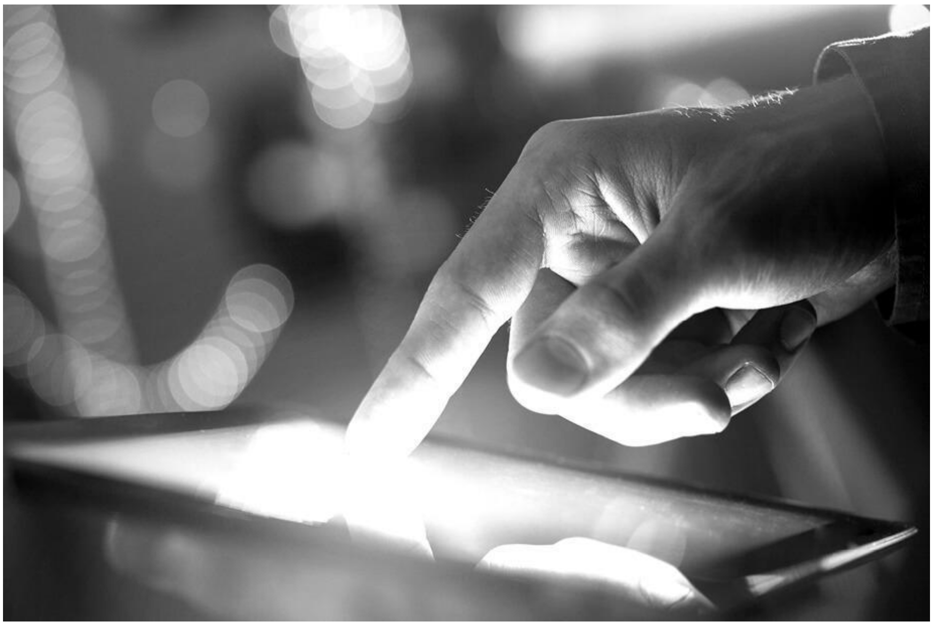
Displays:

Currently, commercialization is carried out in a subsector of this market, namely the open defect repair. XTPL offers a new breakthrough solution that allows defects in conductive paths to be repaired at low cost, with unparalleled precision and speed. The technology developed by the Company will help display manufacturers increase production efficiency and reduce costs associated with material losses.

In this area, the Company is conducting active talks (at various levels of advancement) with market leaders. XTPL has reached further levels of advancement in relations with two entities from this market:

- HPK Inc. – an MoU (Memorandum of Understanding) signed in November 2019. The partner is one of the main suppliers of open defect repair solutions for the LG Display group.

- Suzhou Cowin Laser Technology Co Ltd – the Company started talks and the exchange of technological assumptions; the partner is a supplier for leading players in the FPD sector, such as BOE (leader of the global display market, which is working on an independent proof of concept project with XTPL); CSOT (display manufacturer based in China, producing LCD panels and developing OLED technology) and Tianma (global display manufacturer operating for over three decades, producing modern LCD displays and new display lines using the AMOLED technology). In February 2020, the Company moved to the next level of cooperation and started the proof of concept project based on the Technology Evaluation Agreement (TEA).



Smart glass:

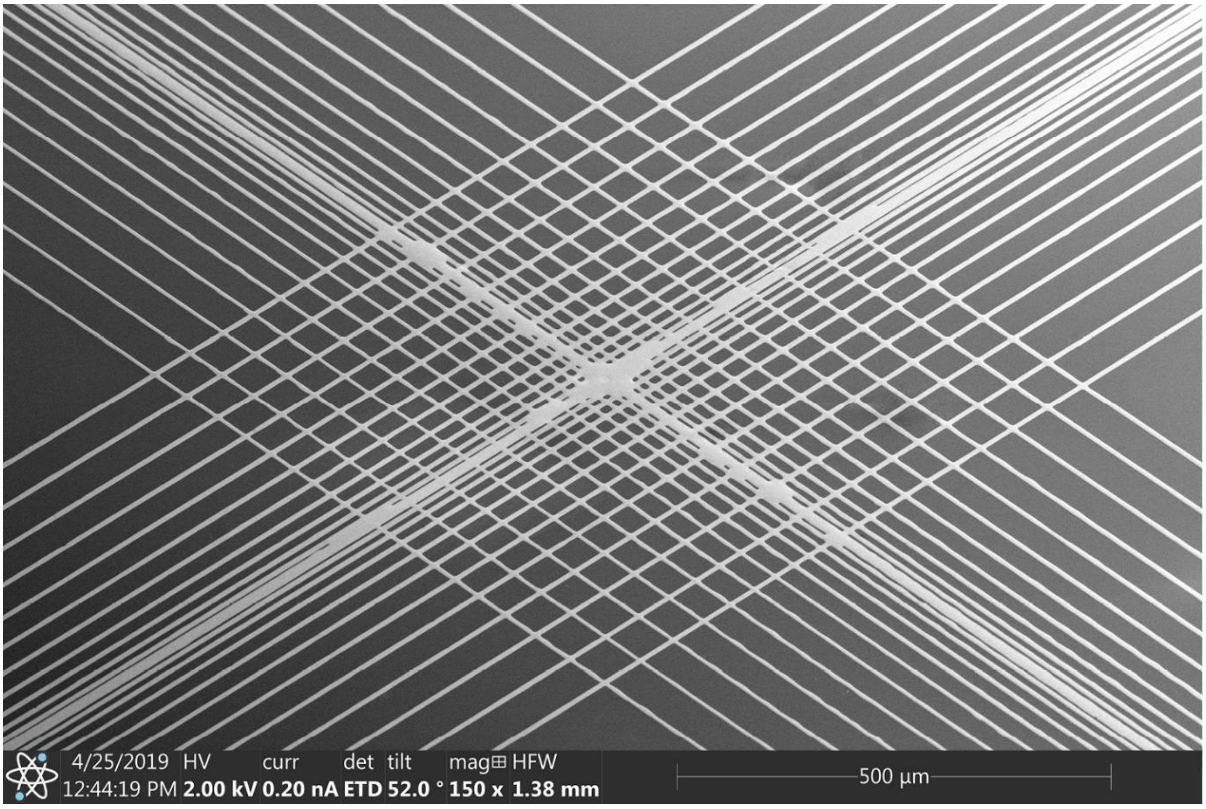
The main benefit expected after potential implementation of the XTPL technology in the production process for this sector is faster conversion of glass (from transparent to darkened and vice versa) and the homogeneity of this process on large glass panels. This will significantly improve the usability of such products.

Currently, the Company is in the third phase of an advanced proof of concept project with an American partner who is one of the leaders of this market. The main purpose of the current testing phase is to check new formulations of XTPL inks, specifically designed to suit the partner’s needs, resistant to, e.g. high temperatures occurring both in the partner's manufacturing process and during operation of the final product. Tests carried out in the Company's laboratories confirmed heat resistance of the structures printed using the new ink. The ink formulation is protected by a patent application filed by the Company. The Issuer provided the partner with samples containing conductive structures printed to its specifications. Structures have been printed on substrates supplied by the partner and sent to its manufacturing plant, where they will undergo advanced post-processing, unique to the partner's technological process. Ultimately, the implementation of the XTPL solution is expected to significantly improve the functional characteristics of the partner's products and help him enter new market segments. For this reason, the success of this project is in the interest of both the Company and the potential client.

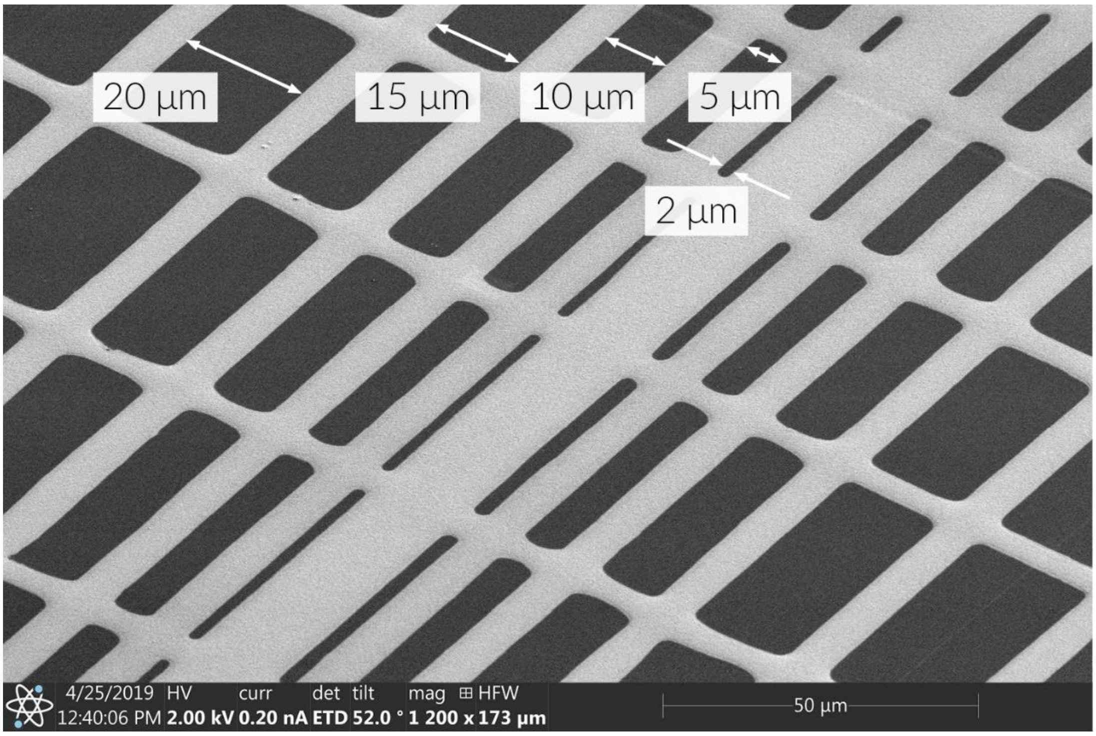
2.1.3 Achievements in research and development, and industrial property

2.1.3.1 Development of a process of printing many structures with a distance of 2 µm between them

The XTPL technology team carried out an internal project to verify and improve print resolution. Thanks to the special ink formulation containing silver nanoparticles and the printing procedure, it was possible to obtain a spacing between printed lines of 2 µm. This result is much sought-after by several market sectors, in particular the display market, where two trends are currently particularly conspicuous: increasing resolution and continuous miniaturization. Printing structures with such an advanced precision fits in both these trends and creates a strong competitive advantage for producers.



Photos above and below: with the optimization of the ink and printing technology, XTPL has obtained high print resolution.



2.1.3.2 New series of high-concentration inks based on metallic nanoparticles

In 2019, the XTPL chemical team developed a series of conductive inks based on highly concentrated metallic nanoparticles. The ink modification solves at least two significant problems noted by potential XTPL clients.

First, the possibility of obtaining better electrical properties, and therefore lower resistance of printed structures. The modification involved, e.g. increasing the concentration of metallic nanoparticles. In conjunction with the optimally selected sintering/ curing process, the conductivity values achieved were similar to those of pure silver (in the case of ink containing silver nanoparticles).

Secondly, in many applications of printed electronics an additional difficulty is posed by the height to width ratio of the line after printing. In the printing methods available in the market of deposition technologies, to obtain the appropriate the height to width ratio, the print is made several times in the same place, increasing the path height with each step. Unfortunately, the efficiency of such a process is low, and the printing time is prolonged several times. The problem was also solved by developing ink with a high concentration of metallic nanoparticles. The material deposited with XTPL technology is highly concentrated. As a result, it does not "spill" after deposition, but maintains its coherent form. The final value of the height-to-width ratio after printing will also significantly depend on the properties of the substrate and its interaction with the ink. The photo on the right shows the XTPL ink cartridge.

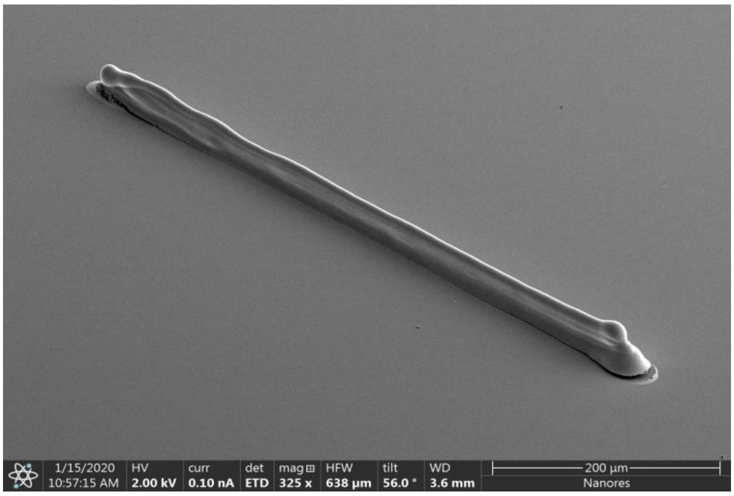
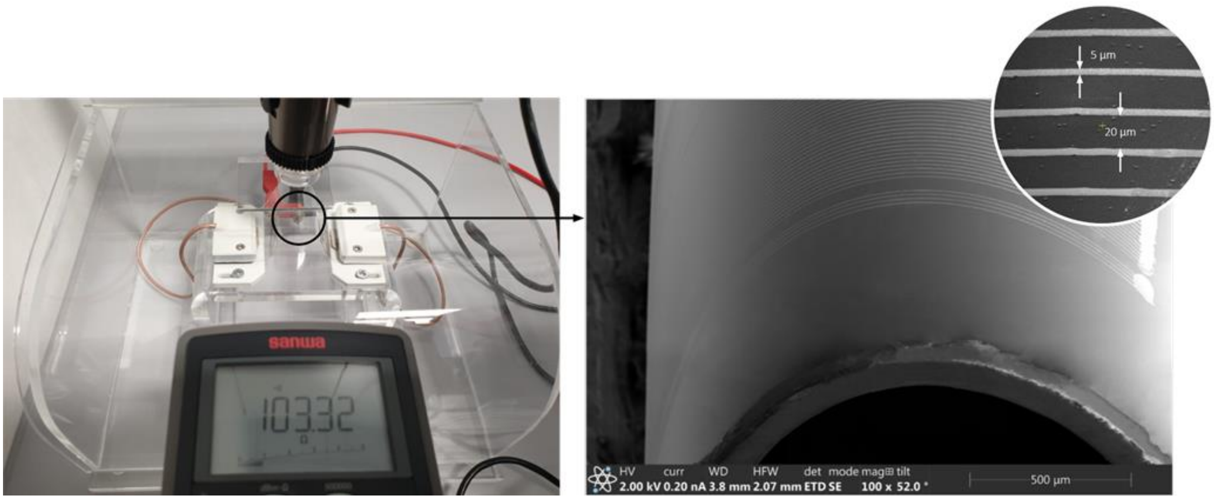


Fig. Image taken with an SEM microscope showing printed and dried ink lines with a high concentration of silver nanoparticles.

2.1.3.3 Development of technology of printing conductive structures on films for use in strain gauges

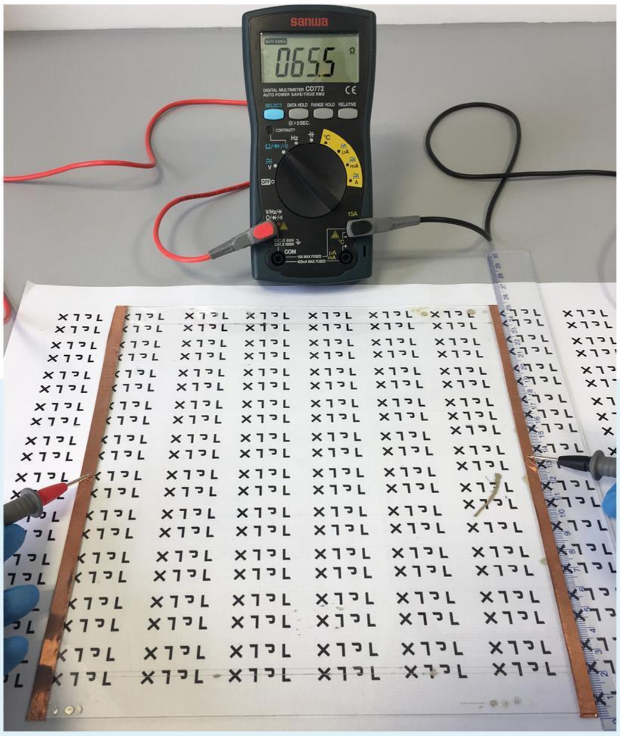
The XTPL technology team has developed protocols for printing silver paths on flexible substrates, such as PEN (polyethylene naphthalate films), PET (polyethylene terephthalate films) and PC (polycarbonate films). Depending on the expected specification of the printed structure, an appropriate printing protocol is used, consisting of the parameters of the printing process, suitable for the selected ink substrate and the parameters of the photonic or convection sintering process. Films with printed paths were tested for mechanical stability. These films were bent and then tested for resistance and adhesion to the substrate. The tests carried out in this way positively verified the XTPL printing technology for use in strain gauges.

The photo below on the left shows a bent film with printed lines with a structure resistance of 103 Ω. Next to it, on the right, there is an image from the SEM electron microscope showing bent film – the width of the printed paths is 5 µm, the distance between lines is 20 µm.

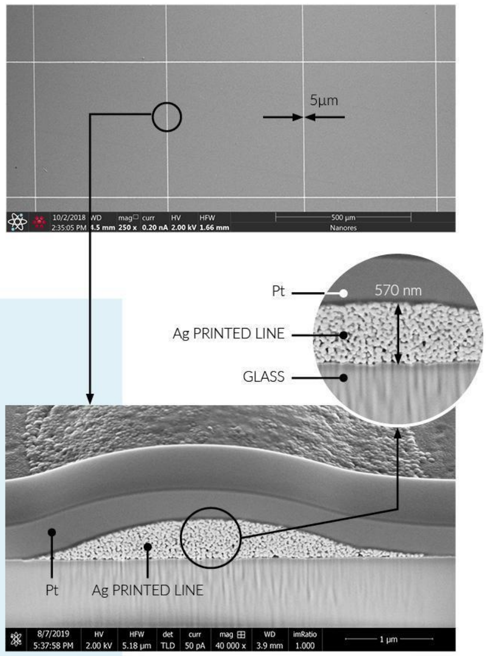


2.1.3.4 Metallic mesh printing on glass – TCF layers of Rs <75 Ω/□, T> 95% on a surface of 25 cm x 25 cm

In September 2019, XTPL successfully completed the Fast Track project acquired from the National Center for Research and Development (NCBiR). As part of this project, the Company developed a printing platform and technology for printing conductive meshes as a transparent conductive layer. According to the specified milestones, printed structures could only represent 5% of the entire glass surface. The printed structures were about 25 cm long. The obtained layers had a surface resistance of approx. 65 Ω/ □ and T (transmittance) of approx. 98%. To achieve these parameters, the technology team developed a specific ink formulation and prepared a layer printing protocol.



SEM image showing example of ultra-fine metal mesh segment directly printed on the glass substrate using XTPL printing method and XTPL silver nanoink.



A photo of the printed TCF layer on glass and its surface conductivity (left). On the right, a SEM image of a conductive mesh printed in both ways. The width of the printed paths is 5 μm, their height is 570 nm, and the distance between lines is 500 μm.

2.1.3.5 Technology evaluation for business partners

During the Reporting Period, the Issuer carried out technology evaluation as part of proof of concept and design in projects for business partners, including HPK and BOE. The details of the processes are confidential, protected by NDAs.

2.1.3.6 Intellectual and industrial property

On 10 May 2019, the European Union Intellectual Property Office registered two XTPL trademarks, while on 24 May 2019 and 3 June 2019, the Patent Office of the Republic of Poland issued decisions on registration of the above trademarks. In addition, an application for the registration of trademarks was submitted in China. As at the Report Date, the Company registered 13 patent applications. As at the Report Date, the Company has one patent granted.

In the period from January to March 2019, three new international patent applications were registered, covering further layers of intellectual property obtained in the area of precise printing. This is the outcome of a research project, completed in December 2018, in relation to the ultra-precise deposition and the ink used in the process.

In Q2 2019, XTPL R&D team ended work on one new patent application, covering subsequent layers of the IP obtained in the area of precise printing. The application concerned a method of precise control of the printing head position, and control of the distance between the printing head and the substrate.

In Q3 2019, the Company filed another three patent applications. The first application concerned the Ultra Precise Deposition (UPD) method. The next two applications were related to new types of inks used in the ultraprecise deposition process.

At the same time, XTPL started an additional cycle of R&D work designed to develop the technology in the OLED production segment to confirm fulfillment of the initial requirements of new generation displays to be put in production in the coming years. A potential success of this project is expected to contribute to a growth in revenues from licenses, as an increase in XTPL's technological readiness XTPL increases the solution's value for the potential partner and at the same time extends by several years the expected economic life of the licences for the licensees.

In total, seven international patent applications were registered in 2019. All the seven applications were submitted in cooperation with K&L Gates, an experienced US-based law firm. The patent applications ensure security for the Company and its disruptive technology, and are expected to become one of the pillars of XTPL value. In the opinion of the Company's Management Board, industrial property may also have a positive impact on the ongoing and future commercialization talks.

Early in September 2019, the Company announced its plans for a significant increase in the patent cloud. The Management Board has declared that by the end of 2020 it intends to prepare and submit 26 new patent applications. For companies like the Issuer, intellectual and industrial property is a product and a competitive advantage, while the size of the patent cloud has a major impact on their value.

2.2 Issuer and group

2.2.1 Key information about the Issuer

Business name:	XTPL Spółka Akcyjna
Registered Office:	Wrocław
Address:	Stabłowicka 147, 54-066 Wrocław
KRS:	0000619674
NIP:	9512394886
REGON:	361898062
Registry Court:	District Court for Wrocław-Fabryczna, VI Commercial Division of the KRS
Share capital:	PLN 190,422.20, fully paid up
Phone number:	+48 71 707 22 04
Website:	www.xtpl.com
Email:	investors@xtpl.com

The Company has the status of a public (listed) company. Since 20 February 2019, its shares have been listed on the regulated (parallel) market operated by the Warsaw Stock Exchange.

As regards financial reporting, the Company and the Group apply IASs/ IFRSs.

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

Management Board:

As at the Balance Sheet Date:	As at the Report Date:
Filip Granek – Management Board President	Filip Granek – Management Board President
Maciej Adamczyk – Management Board Member*	

*until 27 February 2020

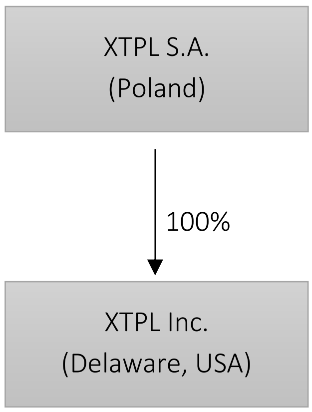
<u>Supervisory Board:</u>

As at the Balance Sheet Date:	As at the Report Date:
Wiesław Rozłucki – Chairman of the Supervisory Board, an independent SB member	Wiesław Rozłucki – Chairman of the Supervisory Board, an independent SB member
Bartosz Wojciechowski – Deputy Chairman of the Supervisory Board	Bartosz Wojciechowski – Deputy Chairman of the Supervisory Board
Konrad Pankiewicz	Konrad Pankiewicz
Piotr Lembas – an independent SB member	Piotr Lembas – an independent SB member
Sebastian Młodziński*	Herbert Wirth **– an independent SB member

* until 9 January 2020
** from 10 January 2020.

2.2.2 Group structure

The structure of the XTPL Group as at the Balance Sheet Date and the Report Date:



The XTPL Group was established on 31 January 2019.

On 31 January 2019, XTPL S.A. acquired all shares in XTPL Inc., a newly formed entity based in the state of Delaware, United States. The share capital of XTPL Inc. is USD 5,000.

XTPL S.A. acquired 100% of the stock at the nominal price. XTPL INC. is fully consolidated based on a line-by-line basis.

No changes occurred in the organization of the Group since the previous financial report.

Neither the Parent Company nor its Subsidiary have any branches.

Employment as at the Balance Sheet Date – 32 people.

2.2.3 Organizational and capital connections

In addition to its affiliation with the subsidiary XTPL Inc. described in point 2.2.2 (link) XTPL has an organizational connection with TPL sp. z o.o., a limited liability company with headquarters in Wrocław.

TPL sp. z o.o. is a special purpose vehicle administering the Issuer's incentive scheme. TPL sp. z o.o. holds the Issuer's series L and P shares issued for the purpose of the incentive scheme for the Company's employees and collaborators, as described in point 2.3.2.9 (link). The shareholders of TPL sp. z o.o. are Filip Granek, the Issuer's CEO (34% of shares), Sebastian Młodziński, former member of the Issuer's Supervisory Board and a significant shareholder (33%) and Adriana Pankiewicz, wife of Konrad Pankiewicz, member of the Issuer's Supervisory Board (33%).

2.3 Business description

2.3.1 Team, benefits

Our Team:
The development of XTPL ultra-precise printing technology is a success of the Company's entire team, which, using its interdisciplinary knowledge and experience, keeps achieving further technological and business goals. Technological progress is the result of intensive cooperation of engineers and specialists who pool competences of many areas of technology, business and operations.

The team structure reflects the specific nature of the labor market, which is why the Company is open to various forms of cooperation. As at the Balance Sheet Date, the Company employed a total of 32 employees.

62.5% of the staff is a technology team focused on laboratory work in the Application Laboratory, Nanoinks and Nanomaterials Laboratory, Mechatronic Laboratory, Material Characterization and Pre-Post Treatment Laboratory, and Numerical Simulations Laboratory. What distinguishes the XTPL technology team is its interdisciplinary knowledge in many fields, such as physics, optics, photovoltaics, chemistry, mechanics, electronics and programming.

The technology team is backed up by an operations team, which provides support in the areas of finance, law, HR, procurement, IT and project management. At the same time, the Marketing Department is responsible for marketing and PR/IR activities. Making inroads into new markets, including development of customer relations, is the role of the Business Development Department.

Women constituted 37.5% of the XTPL team. In the Technology Team, women made up 35% of the worforce.

Team training and development:
Hard and soft skill training courses are implemented in consultation with the team leaders and the Company's management board. Most trainings are organized on the employees' initiative. The development of the XTPL team is promoted by regular participation in domestic and foreign conferences.

Benefits:
XTPL offers its employees a benefits package in the form of a non-wage benefits program. XTPL offers: private medical care, health & life insurance, sports program, program of awards for patent applications, the possibility of telecommuting and access to the XTPL corporate library.

2.3.2 Material achievements or failures

2.3.2.1 Commercialization activities in the Flat Panel Display sector (ODR)

In the first quarter of 2019, the business development team established business contacts with other entities interested in implementing the ultra-precise printing in the open defect repair process. The potential clients include, among others, an Asian manufacturer of displays, interested in using the technology developed by the Issuer to repair defects in its new display production line. The high level of advancement of the XTPL technology achieved over recent months in the context of open defect repair and a high degree of preparedness for industrial implementation gave a strong momentum to the talks.

On the basis of in-depth analyzes and market reports drawn up by independent institutions researching the display market. the Company has identified several entities which are noted as leaders in this sector. During 2019, XTPL conducted or started talks on the commercialization of its technology with most of those entities.

Most of the firms that the Company is in business talks regarding implementation of its open defect repair technology in the FPD sector have approached XTPL on their own initiative. To implement subsequent phases as part of the commercialization process, the Company has chosen partners with a strong position in the FPD market. In addition, the Issuer has identified partners for whom the potential additional benefits (arising from implementation of the XTPL technology) could be the most significant. The increased share in selected market sectors achieved by these partners by using the XTPL technology will also affect the value of royalties for the Company. Therefore, such a selection of partners not only ensures the highest probability of sales being finalized, but also promises optimum financial parameters for a future cooperation.

Most of the Company's potential clients prefer the licensing model of cooperation: they are interested in a fee-based license to use the technology developed by XTPL and deploying it for use in the devices they manufacture for the FPD sector. The licensing model has also been assessed as optimal from the Issuer's point of view due to:

- more favorable relationship between the expected cost to the potential effects in the form of scalable revenues;
- shorter time needed to introduce the open defect repair technology in the display production sector;

The licensing model will allow the licensee's (client's) potential to be used for testing the solution efficiently in several or more than ten cycles under near-production or production conditions. In this model, the licensee is responsible for development of a logistics chain, significant development of distribution channels and establishing and financing an area directly responsible for customer service (including a function dealing with individual implementations and after-sales support). For this reason, on 21 August 2019, the Management Board decided to accept technology licensing as a commercialization model in the application area of displays for use in open defect repair.

The licensing model is characterized by two types of payments to the licensor:

- initial license fee – this is a one-off payment made after signing the agreement. It is usually divided into tranches (an initial payment and payments related to the achievement of milestones and transfer of knowledge related to the licensed technology); the payment is usually effected within 6-9 months of signing the license agreement;
- royalties – these are regular payments depending on the volume of sales of devices based on the licensed technology (they are usually calculated on the basis of a percentage of the licensee's income from the sale of solutions based on the licensed technology or a specified amount for each device sold). Usually, royalties start to be charged within 12–18 months from the date of the license agreement (this is the time needed for the licensee to implement the technology in its product development process) and their value will be linked to the sales growth achieved by the licensee.

2.3.2.2 Commercialization activities in the area of smart glass

In Q4 2019, the Issuer started the third phase of the proof-of-concept project for a leading US manufacturer from the smart glass industry. The Company's potential partner offers glass with an electrochromatic (EC) coating. The partner's technology was designed to let natural light into buildings, while reflecting visible light and infrared radiation when dimmed. The main benefit expected to be achieved from potential implementation of the XTPL technology in the partner's production process is faster smart glass conversion from light to dark and vice versa. In the partner's opinion, this will significantly improve the usability of its products, and may usher it to new, previously not supported market segments. The main purpose of the said testing phase was to check new formulations of XTPL inks resistant to, e.g. high temperatures occurring both in the partner's manufacturing process and during operation of the final product. Preliminary tests carried out in the Company's laboratories confirmed heat resistance of the structures printed using the new ink. Structures based on the new ink were printed on special substrates supplied by the partner and sent to its manufacturing plant, where they underwent advanced post-processing, unique to the partner's technological process. If further assumptions are met and if the ongoing tests confirm effectiveness of XTPL technology, the two firms might jointly develop production solutions based on the know-how and intellectual property of XTPL under, e.g. a Joint Development Agreement (JDA), whereby the work carried out by XTPL will be financed by the partner. Two models are considered as the final form of commercialization: licensing the use of the Company's technology in the partner's products and a strategic partnership.

2.3.2.3 Establishment of a subsidiary undertaking XTPL Inc. in the United States

On 31 January 2019, the Issuer acquired a 100% stake in its newly formed subsidiary: XTPL Inc., headquartered in the United States. The board of directors the new company, includes, in addition to Filip Granek: Harold Hughes (former CFO of Intel and CEO of Rambus) and Amir Nayyerhabibi (partner at Benhamou Global Ventures). In May, it was also joined by Hiroshi Menjo (who was instrumental to the success of many Japanese and U.S. technology firms). The international team of XTPL Inc. backs up the processes of securing the key IP and delivery of implementations in cooperation with industry giants. Operating directly in Silicon

Valley, the entity also increases the possibility of attracting local talent in nanotechnology and business development.

2.3.2.4 Debut on the Warsaw Stock Exchange:

On 20 February 2019, the first listing of XTPL's shares took place on the Main Market of the Warsaw Stock Exchange. This is just over seventeen months since the Company's debut on the New Connect market (14 September 2017). XTPL's market potential has attracted significant investors to the company already ahead of changing the listing market. The Company's shareholding structure now has a wider presence of two German investment funds – Acatis Investment and Heidelberger Beteiligungsholding, jointly controlling already more than 17% of XTPL shares. The February debut was preceded by intensive business activities. The Issuer built strong operational structures both in Poland and the United States and built up the patent cloud, which is an essential part of the Company's value. The Company's management believes that the change of the listing market helps it attract a wider base of institutional investors, both international and domestic ones, who invest in globally groundbreaking innovations. The presence on the WSE Main List also strengthens the Issuer's credibility among current and future business partners.

2.3.2.5 Recommendation of BGC, a German analytical company

In March 2019, German analytical company GBC has published a report on the commercial potential of XTPL, including a recommendation for the price of the Company's stock. Using the discounted cash flow (DCF) approach, the team of German analysts estimated the Company's stock at PLN 230.80 and consequently issued a "buy" recommendation.

2.3.2.6 Presentation of the XTPL technology at the Display Week conference in San Jose

On 14–16 May 2019, at the San Jone Display Week, the world's most important conference dedicated to display manufacturers, XTPL showcased its groundbreaking additive manufacturing technology for printing extremely thin conductive and non-conductive structures. The benefits of the company's solution for the display sector have been verified and constitute a serious competitive advantage. During the event, XTPL representatives held dozens of specific and promising meetings, including with technological giants from this sector. The busy three-day event in California attracted more than 7,000 key professionals operating in the displays market: decision makers, engineers, suppliers, as well as end-users and event technology investors. The high profile of the event is confirmed by such leading brands as LG Display and BOE, but also BENQ, CSOT, JDI (Japan Display Inc.), CORNING, TIANMA and VISIONOX, which present themselves at the conference every year.

2.3.2.7 Hiroshi Menjo joins the board of XTPL Inc.

On 30 May 2019, the Company announced that Hiroshi Menjo, the man who was instrumental to the successes of Japanese and US technology companies, joined the board of directors of XTPL Inc. Hiroshi Menjo has been developing technology companies in Japan and Silicon Valley for more than 30 years.

He supported the largest Japanese players from the consumer electronics market, IT and media markets. He also has an impressive number of projects to his name, involving the transfer of technologies from the research and development phase to the industrial implementation phase. For example, he cooperated with Regis McKenna, who laid foundations for technology marketing for Silicon Valley. The new manager at XTPL also developed the Japanese operations of The McKenna Group. Previously, as part of Boston Consulting Group in Tokyo, he worked side by side with consultants supporting U.S., European and Japanese technology companies in implementing their business strategies. For several years now, Hiroshi Menjo has been supporting the development of technology startups as a managing partner with the American-Japanese Wolf Capital Ventures fund from Menlo Park, California. At XTPL, his role is to e.g. support commercialization of the Company's solutions in East Asia.

2.3.2.8 XTPL took the podium of the Innovation and Entrepreneurship competition in Shenzhen

In April 2019, the Company took a place on the podium of the China Innovation & Entrepreneurship competition in the advanced manufacturing category. The competition attracted participants and high-quality projects from around the world, and was aimed at facilitating their development in the Chinese market. It consisted of several stages in which participants presented their companies. The competition started in Berlin, while the finals were held in Chinese Shenzhen.

2.3.2.9 Approval of an new employee incentive scheme:

On 24 April 2019, the Company's EGM voted in favour of a package of resolutions forming a new employee incentive scheme. It covered the key personnel of XTPL S.A. and XTPL Inc., and will remain in force until 2021. It is based on warrants (stock options), entitling its holders to subscribe for no more than 182,622 series R shares. The price for taking up shares by the beneficiaries of the program will be set at the market value of the XTPL stock at the time of adoption of the scheme, i.e. PLN 165.84. The warrants' underlying stock will be issued gradually in the years 2020–2029. In accordance with the conditions of the Incentive Scheme, vesting will take place annually. The scheme will also use shares from the previous incentive scheme and – to a small extent (approx. 2% of the share capital) – the issue of series P shares (to supplement the stock pool due to the increase in the number of program participants). As a result, the scheme will bring maximum benefits in terms of building the value of XTPL, while not causing any noticeable equity dilution for the existing shareholders.

Together with the approval of the new incentive scheme, the General Meeting of Shareholders decided to repeal the previous scheme adopted in 2017, authorizing the Management Board and the Supervisory Board to make settlement for the period until 31 December 2018, and to sign lock-up agreements with persons covered by the previous scheme to restrict the transferability of shares. Offers for the purchase of shares under the above settlement were submitted to participants in June 2019.

The Company consistently implements plans related to the introduction and execution of the incentive scheme based on the standards used in technology companies operating in the Silicon Valley. Such incentive schemes will allow the Company to acquire and maintain the most talented specialists not only in Poland, but also in the United States. In the Company's opinion, the system in which key personnel participate in potential financial success is one of the most important factors that might contribute to rapid growth and market expansion and, quite importantly, without increasing current cash expenses.

2.3.2.10 Starting cooperation with BOE and launch of work on opening of another application field

On 12 November 2019, the Company signed a Technology Evaluation Agreement with Hefei BOE Joint Technology Co. Ltd, a China-based subsidiary of the Chinese company BOE, one of the world's largest display makers. The purpose of the agreement is to confirm parameters of the technology developed and commercialized by the Issuer and to assess the possibility of implementing the technology in the partner's production processes. This is a potentially new application field (next to open defect repair in the display sector) for the Company's technology. Each party will be responsible for their respective costs, i.e. the Issuer – for the cost of printing on the partner's substrates, while the partner – for the cost of preparing and sending the substrates, the cost of advanced analyses of the prints and evaluation of technological tests, as well as the cost of reference visits to the Issuer's headquarters.

Once all BOE technology specification requirements have been met, the next stage of the commercialization process will commence. The purpose of the next phase will be to adapt the technology to the specific requirements of the partner's production process. At the same time, BOE has declared that if the project is successful, the next step will be to start negotiations on the main business assumptions of a commercial cooperation.

2.3.2.11 Issue of S series shares

In July 2019, the Company completed subscription of its series S shares. The share issue generated proceeds of PLN 10.14 million for the Issuer, and provided for a specified range of shares to be taken up through a private placement. Investors acquired more than 78,000 new shares, i.e. the maximum pool from the range of 68–78 thousand shares included in this share capital increase within the authorized capital. The issue price of one series S share was PLN 130 per share. The final range of the shares issued was wider than the Company originally expected. The newly issued shares constitute less than 5% of the increased share capital of the Company. XTPL used the proceeds to promote its further development and activities, especially in terms of commercialization in the Southeast Asian market, and to consistently strengthen its patent cloud. Amendments to the Articles of Association of XTPL S.A. with respect to the share capital in connection with the issue of series S shares were registered on 29 August 2019. The shares were introduced to training on 16 October 2019.

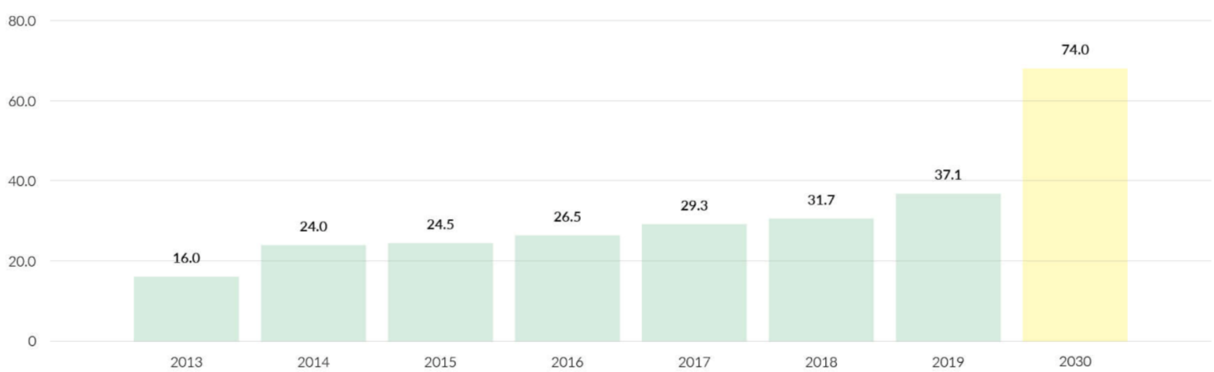
2.3.2.12 Signing the Memorandum of Understanding with HPK

On 22 November 2019, the Issuer signed a Memorandum of Understanding with HPK Inc. based in South Korea, one of the main suppliers of devices for repairing open defects in displays for the Korean company LG. The MoU sets out the main business goals of the parties related to a potential commercial contract. In addition, the parties' intention expressed in the document is to start cooperation, with the engagement of both parties, to sign a licence agreement on the solution for repairing open defects in displays. The document signed with the Korean partner is the result of the Company's consistent activities as it progresses through the multi-stage commercialization process. The MoU marks the beginning of the design-in stage which aims to adapt the technology to the specific requirements of the partner's production process, and to start the process of negotiating business terms of a future contract.

2.3.3 Distribution markets

XTPL commercializes its technology in many segments of the broadly understood printed electronics market. According to IDTechEx, the value of the global market of printed, flexible and organic electronics was USD 37.1 billion in 2019. In 2030, the market is forecast to grow to USD 74 billion, with a CAGR at 6.5% in 2019–2030 (Source: IDTechEx).

Source: IDTechEx



The Company has chosen the first application fields for commercialization at the current stage of development, and focuses its efforts around these fields:

DISPLAY SECTOR:

(repairing broken metallic connections in thin-film electronic circuits – open defect repair)

Defects in conductive structures (broken metallic connections) are a serious challenge for manufacturers from many industries. The defects are one of the reasons for dead pixels occurring in display matrices. The technologies for repairing these structure available in the market today have serious limitations, are complicated, costly and no sufficiently accurate for high-resolution displays. The XTPL nanoprinting technology will enable open defect repair already at the production stage, reducing costs, ensuring precision and speed that none of the existing methods can offer.

SMART GLASS SECTOR:

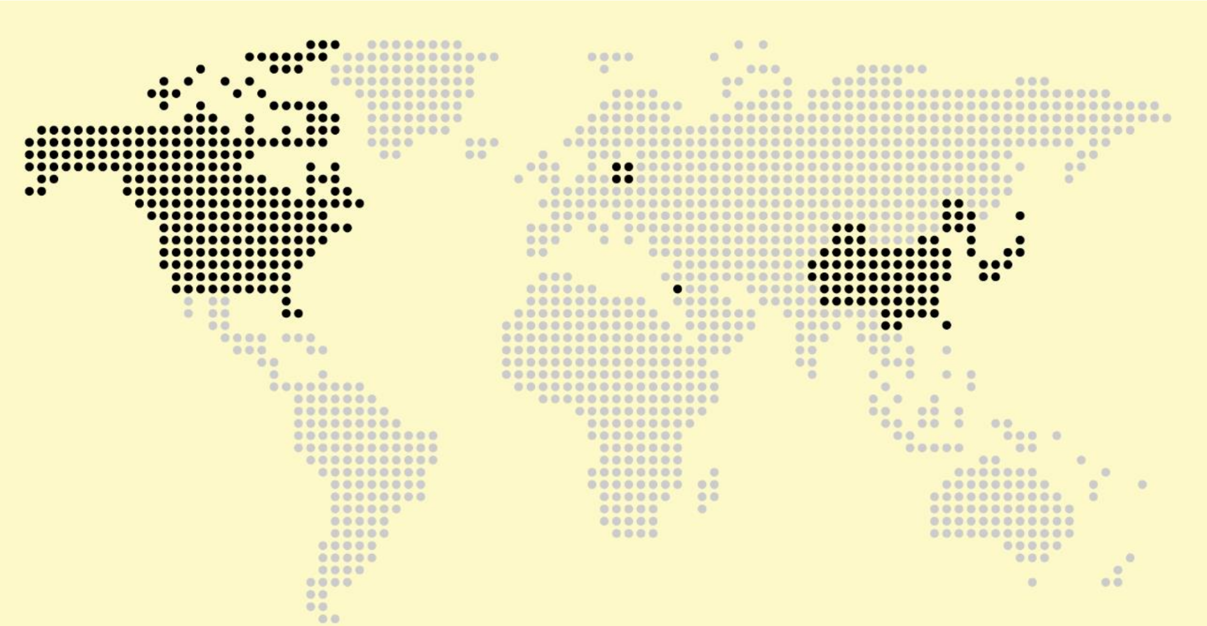
Smart glass is designed in such a way as to change transparency in response to electrical voltage. The technology developed by the XTPL allows ultra-thin, invisible structures with excellent conductivity parameters to be precisely printed on glass. The main benefit expected after potential implementation of XTPL technology in the production process for this sector is faster conversion of glass from light to dark and vice versa, which will significantly improve the usability of this type of products, and will also open new, unsupported market segments (e.g. automotive) to producers in this industry.

OTHER SECTORS:

An important element that fosters development of the electronics market is the growing number of new applications of printed, flexible and organic electronics in various fields. Ultimately, the Company will seek to ensure that its technology can be used in many existing areas of the printed electronics industry or – thanks to the unprecedented precision and the use of ink with special properties, whose deposition is possible only by means of the XTPL method – that it can introduce printed electronics to new areas of life. The essence of the technological revolution resulting from the use of XTPL solutions is that it is to enable production of complex and complicated devices using cheap and scalable methods. Subsequent, already identified and pre-verified application areas include:

- display market (in addition to the above-mentioned use for open defect repair, the next step is to provide the industry with solutions that will significantly increase the resolution of a new class of displays and enable production of displays on flexible substrates)
- semiconductor market, as a new method of “packing" integrated circuits
- PCB (printed circuit boards) market
- security printing market
- biosensors market
- photovoltaic cells market.

All the Company’s R&D work takes place in Poland. Commercialization will be primarily focused on markets of North America (mainly the United States) and Asia (China, Korea, Taiwan, Japan and Israel).



2.3.4 Sources of supply

The Company conducts R&D in the area of nanoprinting technology. Due to the advancement of the technologies developed by the Company, it makes use of a wide range of products and services available in the market, the key ones being measurement, research, formulation development and patent protection services as well as services related to rental of specialist equipment and laboratories. The great diversity and variability of the Company's R&D work is reflected in the number of sources of supply it uses. As a result, in 2019, the Company reached the 10.7% threshold of purchases from a supplier – provider of research services and lessor of laboratories and office space. In the Reporting Period, Company did not face the risk of dependence on any single supplier or a group of suppliers.

2.3.5 Internal and external factors important for the development of the Issuer's business

2.3.5.1 External factors:

<u>Macroeconomic factors:</u>

In accordance with the adopted strategy, XTPL carries on its business in international markets, particularly in the United States, Southeast Asia and Western Europe. Accordingly, the macroeconomic situation in these areas will have an impact on the Company's results and the degree of achievement of its development strategy.

Trends in printed electronics:

The market of electronics, the production of which could potentially be completely replaced by additive printing techniques, reached USD 31.6 billion in 2018. According to information from IDTechEx, the display market, worth USD 26 billion in 2018, had the biggest share in this market. Currently, the most pronounced year-on-year growth is noted for OLED panels. Even though organic material can be used in printers, it is subtractive methods that continue to be used most often. This is for the following reasons: first, the technology of electronics printing is relatively new. Manufacturers of devices for the production of e.g. displays, promote known subtractive methods. They are quite well optimized and ensure a very high speed of production of modules. The limitations of the previously available printing technologies seriously affected their efficiency. The second factor is that the optimum structures that can be obtained using inkjet printers available in the market have a minimum diameter of approx. 30 µm, except that the precision of drops is +/- 15 µm, and +/- 5 µm in the XY axis (i.e. in the plane on which the dot is printed). For this reason, due to *inter alia* the insufficient control of the deposited amount of material, modern electronics is still waiting for a technology that will successfully replace the existing subtractive methods and offer at least comparable production parameters. The XTPL technology may provide such an alternative.

Trends related to the miniaturization of consumer electronics:

Miniaturization has been the prevailing trend in electronics for several decades. As devices are reduced in size, the packing density of discrete components increases, resulting in a significant increase in performance of the devices. Understandably, the trend in miniaturization is visible in most electronic devices. At the same time, it enables production of completely new, previously unattainable products. Thanks to miniaturization, new medical instruments are devised which make treatment less invasive and allow the patient to recover faster. The biosensors sector is developing rapidly, where the key challenge is to find a solution with the highest efficiency, both in terms of precise and simple detection, and a unique size-reduction capability, while allowing production using inexpensive and scalable methods. The telecommunications market generates less costs due to light, small and at the same time very efficient satellites. Precise deposition of ultra-thin conductive lines and new active materials, such as light-emitting organic compounds or quantum dots, is the only way of cost-effective and easily scalable implementation of such projects. And this creates a potentially attractive application field for XTPL, which can offer here a groundbreaking solution, much awaited by the market.

Trends related to flexible electronics:

The introduction of flexible electronics is now of key importance for the manufacturers who want to meet customer expectations and offer them new generation devices. These devices are intended to be ready for bending, folding or wearing, e.g. on clothes or directly on the skin. Although it is still a growing market, the consumer market has already seen an influx of new devices based on flexible materials (e.g. phones with foldable screens). Experts note that as the cost of these products decreases and their durability improves, the size of this market can reach a very high value in a short time. The XTPL technology has every potential to play a very important role in this trend.

Trends in the smart glass sector:

In modern large-size buildings, particularly office buildings, where access to sunlight is required for all people working in it, a lot of energy is consumed by air-conditioning systems. This is not compatible with the trend of designing and using buildings in an environmentally friendly way. This problem may be solved by special types of glass, which actively responds to changes in the intensity of external light, whereby transparency of the glass may be modified. In this way, by minimizing the sunlight-induced heat energy coming into the room, the amount of electricity needed by the air conditioning system to maintain the room temperature can be significantly reduced. This is in line with the LEED certificate developed by U.S. Green Building Council (USGBC) (sources: https://www.environmentalleader.com/2015/09/leed-certification-increases-property-value/ and https://www.usgbc.org/resources/country-market-brief). Holders of this certificate can obtain higher subsidies to their construction projects and tax reliefs. The certificate also makes the office space more attractive to commercial tenants in addition to preserving high value of the property. Despite its many advantages, smart glass, as a young market segment, still faces technological limitations which slow down the production process and which reduce the speed and efficiency of action (changes from light to dark glass and vice versa). As in modern office buildings individual glass panes have a very large surface area, the use of subtractive production methods is becoming difficult and economically unfeasible. This problem can be addressed by the additive printing technology which can embed low-resistance conductive lines the size of which makes them invisible to the human eye. The XTPL technology may provide such advantages. Here analysts forecast a very high CAGR for this market, even as much as 40%. In 2026, the smart glass market is forecast to grow to USD 4.25 billion (source: https://www.glassonweb.com/news/smart-windows-materials-markets-2017-2026 and the Company's internal calculations).

Trends in the displays sector:

Although very much mature, the display market continues to see technological innovation, not only that resulting from miniaturization trends, but also in the area of higher efficiency of light emission. This in practice means thin, very bright, high-contrast displays. Currently, the most intensive technological changes relate to the type of substrate on which the display is to be created. IDTechEx expects that as early as at the end of 2019, 40% of AMOLED displays will be plastic-based, with this proportion growing to nearly 60% in 2026, at the expense of glass substrates. This trend opens up development opportunities for another type of displays – flexible ones. Judging by the great interest attracted by this technology and the first products from this segment, in the coming years the technology will undoubtedly stand out in terms of its visible development and popularity. However, this will require a solution to the problems that can already be seen in the production processes. These include, for example, the fact that OLED screens are fabricated using an organic material deposited by FMM (fine metal mask) methods. Two main approaches are used here. The first one is intended for small displays such as telephones or watches – it consists in separate deposition of red, green and blue pixels. The process uses three different FMMs, and any material not deposited in the pixel is wasted. As well as being suboptimal, the process has technological limitations – it does not allow pixels to be deposited on large substrates. Due to the amount and weight of the organic material, the distance between the FMM and the substrate must be increased, which produces a "shadow" effect. Another approach, which is used for e.g. fabricating large displays, is to embed WOLED (White Organic Light Emitting Diode) on the whole substrate in the first place. Next, a color filter is applied, the deposition of which is much easier. Unfortunately, only 20% of the light passes through the color filter, so much more electric power is required to maintain appropriate screen brightness, which in turn significantly reduces the life of such a screen. The problem can be addressed by the introduction of additive technology into the fabrication process as the technology enables precise deposition of the material with no restrictions as to the substrate. An additional advantage for the methods of printing in electronics is the potentially wide spectrum of materials that can be deposited. This makes it possible to fabricate completely new types of screens such as QLED – displays whose emission material is quantum dots, which ensure a very bright image with high contrast. Most of QLED-labelled displays that are currently on sale are in fact WOLEDs with the addition of quantum dots in a color filter. Admittedly, quantum dots, stimulated with blue light, emit the appropriate color of light and reduce the loss of light through a color filter by 80%, but it is only the introduction of a suitable additive method with a precise deposition will allow the potential of this material to be exploited in full. The main technological requirements for the fabrication of such screens include high repeatability of pixel sizes as well as precision in the XY axis. Bearing in mind the trend of continuous increase in resolution and hence pixel density, the XTPL technology has every potential to respond positively to market needs. The possibility multiplication of printing heads will effectively increase printing efficiency following implementation of XTPL ultra-precise deposition on a production scale, and the wide range of materials that can be deposited using the Issuer’s technology will help market new generation displays that are more efficient and consistent with the current consumer trends.

<u>Trends in additive manufacturing:</u>

In addition to the above developments, additive production is a quite discernible trend in modern electronics. Due to the extremely reduced size of structures, unattainable by any other method, the subtractive technology has become the main or in some areas even the only method of producing electronics. Continuous development of the printed electronics market increasingly often replaces previous methods with their excessive deposition of material. At present, there are printing devices available in the market that are successfully deployed in key positions on production lines. Unfortunately, their capabilities are limited by the range of sizes that can be obtained, and their deposition precision is not sufficient in relation to the size and accuracy of arrangement of individual discrete components in electronic circuits. Taking into account these rigorous parameters and the huge market demand, the technology developed by XTPL may constitute a breakthrough in the context of printed electronics production. The sheer number of possible application areas within this sector where the XTPL technology might be used bears witness to its versatility and huge potential.

<u>Possibility of co-financing R&D from subsidies:</u>

In addition to using own funds acquired through the share issue, the Company’s R&D activities are also funded by the EU. This source makes it possible to reduce the cost of in-house R&D and research in new application fields, also at the early stages of technological readiness.

2.3.5.2 Internal factors:

Ability to protect and safeguard intellectual and industrial property:

Effective protection of the intellectual and industrial property developed by XTPL is an essential part of its business. The ongoing patent applications ensure security for the Company and its disruptive technology. At the same time, they are one of the pillars of XTPL value. The intellectual value obtained may also have a positive impact on the ongoing and future commercialization talks.

In the process of protecting and safeguarding intellectual property, the Company is supported by renowned entities: law firms from the UK and the USA. The London-based law firm Gill Jennings & Every is a team of more than 100 lawyers, which received multiple awards in the prestigious Legal 500 ranking. They provide services to both enterprises from the SME sector and to global corporations. The K&L Gates law firm supports patent protection of companies specializing in advanced technologies, particularly those from Silicon Valley.

Ability to acquire and maintain appropriate staff

The Company's business profile – building solutions for the high-tech sector – requires the use of high-class specialists from various fields: chemistry, physics, electronics, mechanics, material engineering and numerical simulations.

Staff sourcing is a two-pronged process: The Issuer conducts a number of activities in the area of employer branding, and strives to be present at national conferences on nanotechnology, constantly extending its network of contacts.

Further, the incentive scheme, as described in point2.3.2.9 (link) will be an essential factor that will allow appropriate personnel to be acquired and maintained.

First industrial implementations:

The Company will strive to implement its breakthrough technology in selected application areas fast and effectively. The first implementations pave the road to efficient and effective negotiations with subsequent clients. This is the best way of validating the XTPL technology in terms of needs and requirements of a particular industry. The Issuer plans to sign the first agreements in the form of LEAs (License Evaluation Agreements), license agreements or JDAs (Joint Development Agreements)/ JVAs (Joint Venture Agreements) – which are to be the basis for cooperation in technology development in the first application fields.

2.3.6 History

XTPL was founded in 2015 as a limited liability company (sp. z o.o). The founders sought to commercialize the groundbreaking technology of manufacturing ultra-thin conductive metallic lines.

During the initial period of the Company's activity, a laboratory with a unique infrastructure was set up. There, within five months of intensive research and development, the Company's team achieved the ability to control the process of printing ultra-thin conductive lines which were several dozen times narrower than those available in the market at that time. This technological breakthrough allowed the Company to submit its first patent application in March 2016 for the XTPL printing method and the nanoink formulation.

On 25 April 2016, the General Meeting adopted a resolution to transform the firm into a joint-stock company (S.A.). The transformation was recorded by the registry court on 1 June 2016.

As its scale of operations expanded, on 1 September 2016 the Company transferred its research infrastructure to modern laboratories in the Wroclaw Research Centre EIT+ (currently the Łukasiewicz Research Network – PORT: Polish Center for Technology Development). The team increased, and so the number and quality of the devices necessary to conduct research.

On 21 February 2017, the Extraordinary General Meeting of XTPL adopted resolution No. 02/02.2017 to split the Company's shares without decreasing its share capital, by converting the nominal value of a share to PLN 0.10.

In the first quarter of 2017, another technological barrier was broken. The Issuer's R&D team obtained the width of printed lines below 100 nanometers. Next, in the second quarter of 2017, the Company completed the prototype of the unique XTPL printer, which earned it the Technical Development Manufacturing Award at the IDTechEX Show in Berlin.

In July 2017, XTPL carried out a public issue of shares, which included 155,000 series M ordinary bearer shares. The shares were allocated to 16 (natural and legal) persons in the Institutional Investors Tranche and to 349 (natural and legal) persons in the Retail Tranche. The Company raised PLN 10,230,000 gross from the issue. One of the investors taking up the shares was Acatis, a German investment fund acting through Universal-Investment GmbH.

On 14 September 2017, the Company's shares debuted on the NewConnect market in the Alternative Trading System. After the debut, another large investment fund from Germany, Heidelberger Beteiligungsholding AG, announced that it had exceeded the threshold of 5% of the total number of votes at the Company's General Meeting.

In subsequent periods, the Issuer consistently developed its unique technology. In the fourth quarter of 2017, the Company started testing new (except silver) nanoparticles – quantum dots and semiconductors and new substrates – silicon wafers.

In the first quarter of 2018, business development activities accelerated strongly as a proof-of-concept (PoC) project was elaborated for the security printing sector and for quantum dots printing. In addition, an advanced PoC project was put together for the open defect repair and semiconductors sector.

On 16 April 2018, the Company's Extraordinary General Meeting appointed Mr Wiesław Rozłucki, the former CEO and co-founder of the Warsaw Stock Exchange, as the Chairman of the XTPL Supervisory Board. Now he actively supports XTPL in its activities related to capital markets and broadly understood corporate governance.

On 23 May 2018, XTPL was awarded for one of the most promising technologies among participants of the I-Zone (the innovation zone) as part of the Display Week in Los Angeles, one of the world's most important conferences of display manufacturers. Other firms awarded during the event were such giants as Apple, LG Display or Sharp.

In subsequent periods, the Issuer registered further patent applications for the XTPL printing method. One of the registered applications concerned the method of increasing the maximum current flowing through a conductive line and improving mechanical capability of conductive lines, while the other registered application focused on the printing substrate, specifically on the dedicated adaptation of this substrate to facilitate the printing of long lines with arbitrary shapes.

In June 2018, XTPL set up an international Advisory Board, whose role is to support the Company in its global expansion, including in the United States and Asia. The first Member of the Advisory Board was Harold Hughes, a former CFO of Intel and CEO of Rambus, a veteran of the semiconductor industry and adviser to many technology companies from Silicon Valley.

Next, the Advisory Board was joined by Amir Nayyerhabibi, who has been developing hi-tech projects in Silicon Valley, especially in the area of IT and semiconductors, for more than 30 years. Currently, he is a partner with Benhamou Global Ventures from Silicon Valley, a fund investing in dozens of companies from the digital economy sector.

In the third quarter of 2018, the Issuer carries on its technological development by implementing new printing substrates – smart glass and advanced optical surfaces, and by using new nanoparticles for printing.

In August 2018, the German fund ACATIS decides to re-invest in the Company's shares. The EUR 1 million raised in this way financed the Company's business development in the United States, especially in Silicon Valley.

In September 2018, Heidelberger Beteiligungsholding AG (daughter company of Deutsche Balaton AG Group) also decided to re-invest in XTPL. The fund took up the Company's shares in a private placement. The capital raised (EUR 1.05 million) was used for further strategic strengthening of the process of commercialization of the Company's solutions in the United States and development of its patent cloud.

In the fourth quarter of 2018, the first phase of an advanced PoC for a leading US manufacturer from the smart glass industry was completed. Achievement of the technical specification received means fulfillment of the pre-condition for arranging and conducting integration tests with the technology used by the potential client.

On 22 November, the CEO of XTPL Filip Granek wan the most prestigious award for entrepreneur in Poland – EY Entrepreneur of 2018. He was awarded for his work on the disruptive technology that has a serious chance to change the world for the better.

On 21 December 2018, XTPL was announced the best investment in the capital market in Poland in 2018. The Company brought investors a net return of almost 110%.

2.4 Finance

2.4.1 Grants

In the reporting year, the Company implemented three projects co-financed from public funds:

“Developing an innovative technological process for the production of a new generation of TCF layers for use in displays and thin film photovoltaic cells”, a project carried out under co-financing agreement No. POIR.01.01.01-00- 1690/15 of 01.12.2016 with the National Center for Research and Development.
Project duration: 01.04.2016 - 31.08.2019
Project value: PLN 12,906,248.52
Eligible costs: PLN 12,906,248.52
Funding: PLN 9,270,570.39
The purpose of the project was to develop a technology for the fabrication of transparent conducting films (TCFs).
The project was completed.

“Filing a PCT patent application for a method of manufacturing ultra-fine conductive metallic lines” – a project carried out under agreement No. POIR.02.03.04-02- 0001/16 of 15.11.2016 with the Polish Agency for Enterprise Development.
Project duration: 18.01.2018 - 31.03.2020
Project value: PLN 638,264.00
Eligible costs: PLN 631,364.00
Funding: PLN 315,682.00
The purpose of the project is to obtain industrial property protection for the globally innovative method of manufacturing ultra-thin conductive metallic lines.

“Developing a product innovation in the field of ultra-precise printing of nanomaterials" – a project carried out under grant agreement No. DAWG-RPO-4 / 1.2.2/009/19 of 10.06.2019 with Dolnośląska Agencja Wsparcia Gospodarczej Sp. z o.o.
Project duration: 03.06.2019 - 31.10.2019
Project value: PLN 121,770.00
Eligible costs: PLN 99,000.00
Funding: PLN 84,150.00
The aim of the project was to develop a nanoink deposition nozzle with better performance parameters.
The project was completed.

2.4.2 Loans incurred

On 17 May 2019, the Company signed an agreement with a natural person for a short-term credit line of up to PLN 1,500 thousand, with a fixed interest rate of 10% p.a. and the maturity date of 31 July 2019.

The loan was to ensure bridging financing in the event of delays in the payment of funds from grants and the series S share issue. As at the balance sheet date, the loan balance was nil.

2.4.3 Loans granted

As at the Balance Sheet Date, the Company had following loans granted:

On 19 January 2018, in accordance with the agreement of 16 January 2018, XTPL S.A. granted a loan to TPL Sp. z o.o.
Loans amount: PLN 200 thousand
Maturity date: 30 June 2021
Annual interest rate: 10%
Security: blank promissory note.
TPL Sp. z o.o. is a related party and at the same time the administrator of the shares issued for the purpose of an incentive scheme addressed to the Issuer's employees and collaborators.
On 13 February 2020, TPL Sp. z o.o. paid back PLN 50,000 in principal of the loan.

On 1 February 2019, the Company entered into a framework agreement with XTPL INC, a newly formed entity based in the state of Delaware, United States, in which the Company acquired shares on 31 January 2019, providing for the issue of loans.
Loan amount: maximum limit of USD 625 thousand;
Maturity date: 31 December 2025;
Annual interest rate: 9%;
As at the Balance Sheet Date, the debt of XTPL INC. in respect of the loan was USD 517 thousand.
As at the Report Date, the debt of XTPL INC. on account of the loan was USD 587 thousand.

2.4.4 Issue of securities

During the Reporting Period, the Company issued the following securities:

– Series P shares (intended for the incentive scheme implemented in the Company);
– Series S (next financial round);
– Series A subscription warrants (intended for the incentive scheme implemented in the Company).

<u>Series P shares</u>

42,602 series P shares were issued on the basis of a resolution of the Extraordinary General Meeting of 24 April 2019, issued for the purpose of the incentive scheme for the Issuer's personnel. All the series P shares were acquired at the issue price equal to the nominal value of shares by TPL sp. z o.o., which administers the incentive scheme. The proceeds from the issue were PLN 4,206.20 and was allocated to the costs associated with the administration of the incentive scheme.

Series S shares:

78,000 series S shares were issued on the basis of a resolution of the Management Board of 26 June 2019 concerning an increase in the share capital of XTPL S.A. within the authorized capital. The issue price of one series S share was PLN 130, and the shares were acquired by domestic and foreign investors. The proceeds from the issue amounted to PLN 10,140,000 (ten million one hundred and forty thousand zlotys) and were allocated to the financing of the work related to the development and commercialization of the technology developed by the Company and further development of the patent cloud.

Series A subscription warrants:

The decision to issue 182,622 series A subscription warrants was taken by the Extraordinary General Meeting held on 24 April 2019. The warrants are to be issued in order to implement the incentive scheme for the employees and collaborators of the Issuer. One warrant will entitle its holder acquire one series R share at PLN 165.84. As at the Report Date, the participants of the incentive scheme were assigned the right to take up 21,530 subscription warrants, while in the formal sense, no series A subscription warrants were issued or handed over as at the Report Date.

2.4.5 Current and anticipated financial position

The Management Board evaluates the current situation of the Company as stable. At present, the Company finances its activity from two sources:
a) funds obtained as part of financing activities
b) grants.

Throughout 2019, and until the Report Date, the Company performed all its obligations in a timely manner.
In addition, after the Balance Sheet Date, in March 2020, the Company completed the first four commercial transactions for a total amount of PLN 40,000.

The future financial position will depend primarily on two factors:
a) expected cash flows related to the commercialization of the technology developed.
In 2019, the Company significantly intensified its business development activities. The target business model focuses primarily on licensing the nanoprinting technology. The Company plans to use licensing in a mixed model, combining a fixed fee paid at the beginning of the contract (upfront, ex ante fee), and periodic fees, depending on the adopted ratio (the amount of revenue from the sale of the product based on the commercialized technology). The fixed fee amount will be calculated based on transaction costs related to the preparation of the technology for implementation.

Complementary products for the license agreements will include compatible nanoinks, dedicated to specific applications as well as printing heads and printers. The Company strategy also provides for joint development of the technology and its optimization to a selected application field or specific conditions of a particular client. JDAs usually provide for a significant level of cost co-financing by the partner and a division of work into phases (with a budget assigned to each phase – financing is activated only after a specified milestone has been reached; an advance payment is often made before a particular phase is commenced).

b) expected cash flows related to the issue of shares

Due to the relatively early stage of market commercialization of the developed technology, in the Reporting Period the Company did not commercialize its operations yet. In 2019, the Company raised capital from the issue of shares and from grants under EU programs. To finance its business in 2020, the Company will also need cash flows from financing activities. The Management Board believes that in the current economic situation (COVID-19 pandemic), a significant share issue in the first half of 2020, addressed to a wide group of investors, might not be the most effective way of raising finance. Hence, the Company focuses on acquiring financing which will enable it to conduct research and development activities and business development at least until the beginning of 2021, and will consider a share issue addressed to a wide group of investors once the market situation stabilizes.

Since the process of monetizing the technological solutions developed and proposed by the Company will be spread over time, the Management Board estimates that raising finance will be key to the activity and development of XTPL S.A. in the next financial year as well.

2.4.6 Financial resources management

Parent Company:

As at the Balance Sheet Date, the ratio of current assets to current liabilities (current liquidity ratio) was 2.70. The Company's current assets amounted to PLN 5,134 thousand, while current liabilities stood at PLN 1,900 thousand. With such a structure, in 2019, the Company faced no material risks with regard to liquidity and timely payment of its obligations.

In order to finance its operations, in the Reporting Period, the Company acquired PLN 9,607 thousand by issuing shares taken up by new investors (private placement). In addition, in 2019, the Company obtained PLN 2,063 thousand in the form of reimbursement of expenses under grant programs.

Moreover, in the Reporting Period, the Company signed a PLN 300 thousand overdraft agreement and a short-term credit line agreement for PLN 1,500 thousand.

Group:

As at the Balance Sheet Date, the ratio of current assets to current liabilities (current liquidity ratio) was 2.69. The Group's current assets amounted to PLN 5,199 thousand, while current liabilities stood at PLN 1,931 thousand. With such a structure, in 2019, the Group faced no material risks with regard to liquidity and timely payment of its obligations.

In order to finance its operations, in the Reporting Period, the Group acquired PLN 9,607 thousand by issuing shares taken up by new investors (private placement). In addition, in 2019, the Company obtained PLN 2,063 thousand in the form of reimbursement of expenses under grant programs.

Moreover, in the financial year, XTPL S.A. signed a PLN 300 thousand overdraft agreement and a short-term credit line agreement for PLN 1,500 thousand.

2.4.7 Investment plans

According to the strategy of further development of the Company adopted by the Management Board, in the coming years significant investment expenditures will be incurred primarily for the continuation of R&D in the nanoprinting technology area related to the opening of subsequent application fields. The Company expects that the development strategy will be primarily funded with proceeds from debt and share issues, cash flows from technology commercialization in the first two application fields, and, to a lesser extent, EU and national grants. In addition, the Company does not exclude the possibility of seeking further co-financing of capital expenditure from other available forms of public aid and, if a commercial contract is signed – co-financing of capital expenditure by the counterparty (under JDAs). Where its technology is contracted and commercialized, the Company will also consider debt financing for its projects. When assessing the risk attached to the above model of financing of the investment plans, the Management Board is guided by the potential of securing financial resources.

2.4.8 Factors which may affect the results in the subsequent quarters

Factors which may affect the Group's operations and results in the following quarters:

- Signing the first commercial contracts for paid evaluation, licensing or joint-development contracts in relation to the technology developed by the Issuer;
- Ability to protect and safeguard intellectual and industrial property, including the number and scope of submitted patent applications;
- Progress of work related to the opening of new application fields;
- Favourable trends in the electronics industry;
- Acquiring additional financing in the form of grants and subsidies supporting the Issuer's research and development activities;
- Situation in financial markets and development of the coronavirus pandemic.

2.4.9 Extraordinary factors and events having a significant impact on the operations and financial statements

In the Reporting Period, in the statement of comprehensive income the Company and the Group recognized the cost of the incentive scheme for employees and collaborators based on the Parent Company's shares. The date of recognition of costs was the moment when the persons covered by the scheme were offered the purchase of the shares and the conditional award to rights to the purchase of shares and warrants. The cost of the scheme (fair value of the shares issued) was estimated at PLN 11,587 thousand included in the stand-alone statement of comprehensive income of the Company and PLN 13,206 thousand in the consolidated statement of comprehensive income of the Group, and was fully recognized in the profit or loss of the current period.

Recognition of the scheme's costs has no impact on the Company's or the Group's assets or financial position, or its ability to service its obligations. The scheme's costs are non-cash in nature, and reflect the value of shares transferred (net of their purchase price paid by scheme participants). This transaction did not cause any changes in the measurement of assets, the level of equity or the Company's ability to generate revenues in the future. The shares transferred also did not cause additional dilution of the existing stock as they had been issued in the first half of 2017 (and were intended for the incentive scheme).

Below is the statement of comprehensive income of the XTPL Group excluding and including the scheme costs.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	EXCLUDING THE INCENTIVE SCHEME PLN`000	INCLUDING THE INCENTIVE SCHEME PLN`000
Continued operations		
Sales	**2,063**	**2,063**
Revenue from research and development services	-	-
Revenue from the sale of products	-	-
Revenue from grants	2,063	2,063
Cost of sales	**5,048**	**7,316**
Research and development expenses	5,048	7,316
Cost of finished goods sold		
Gross profit (loss)	**-2,985**	**-5,253**
General and administrative expenses	6 637	18 834
Other operating income	5	5
Other operating costs	10	10
Operating profit (loss)	**-9,626**	**-24,091**
Financial revenues	70	70
Financial expenses	1,543	1,543
Profit/ loss before tax	**-11,099**	**-24,125**
Income tax	73	73
Net profit (loss) on continued operations	**-11,172**	**-24,198**

Discontinued operations	**-**	**-**
Net profit (loss) on discontinued operations	-	-
Net profit (loss) on continued and discontinued operations	**-11,172**	**-22,198**
Profit (loss) of non-controlling interests	-401	-401
Profit (loss) attributable to shareholders of the parent	-10,771	-23,787
Other comprehensive income	**10**	**10**
Items that can be transferred to profit or loss in subsequent reporting periods	**10**	**10**
FX differences arising on conversion of foreign affiliates	10	10
Items that will not be transferred to profit or loss in subsequent periods	**-**	**-**
Total comprehensive income	**-11,162**	**-24,188**
Total comprehensive income attributable to non-controlling shareholders	-401	-401
Total comprehensive income attributable to the parent company	-10,761	-23,787

2.4.10 Other financial information

Parent Company:

Non-current assets as at the balance sheet day accounted for 41.6% of the Company's balance sheet total. Their key item was intangible assets, representing 74.3% of non-current assets.

As at the Balance Sheet Date, current assets constituted 58.4% of the Company's balance sheet total. Their key item was cash, constituting 80.9% of current assets.

As at the Balance Sheet Date, the Company's equity constituted 78.4% of the balance sheet total, and Current liabilities 21.6%, their most important component being trade (53.6% of Current liabilities).

On 31 January 2019, XTPL S.A. acquired shares in XTPL Inc,, a newly formed entity based in the state of Delaware, United States. The share capital of XTPL Inc. is USD 5,000. XTPL S.A. acquired 100% of the stock at the nominal price. The purchase of shares was covered with a cash contribution. XTPL Inc. is fully consolidated on a line-by-line basis. The purpose of acquisition of the shares was to step up development of structures and operations in the United States.

Group:

Non-current assets as at the balance sheet day accounted for 41.2% of the Group's balance sheet total. Their key item was intangible assets, representing 74.8% of non-current assets.

As at the Balance Sheet Date, current assets constituted 58.8% of the Group's balance sheet total. Their key item was cash, constituting 80.9% of current assets.

The Group's equity as at the balance sheet date accounted for 78.2% of the balance sheet total, and Current liabilities 21.8%, of which the most important item was trade payables (54.3% of Current liabilities).

On 31 January 2019, XTPL S.A. acquired shares in XTPL Inc., a newly formed entity based in the state of Delaware, United States. The share capital of XTPL Inc. is USD 5,000. XTPL S.A. acquired 100% of the stock at the nominal price. The purchase of shares was covered with a cash contribution. XTPL Inc. is fully consolidated on a line-by-line basis. The purpose of acquisition of the shares was to step up development of structures and operations in the United States.

2.5 Salaries

2.5.1 Remuneration, bonuses or benefits for members of the Company's bodies

Management Board:

Name	Role	2019	2018
Filip Granek	CEO	360.0	512.5
Maciej Adamczyk	Management Board Member	360.0	224.8

Detailed information on the conditions and amount of remuneration of the Management Board:

Filip Granek – Management Board President

Receives remuneration based on an employment contract at PLN 30,000 gross monthly. He did not receive any bonus or reward for the Reporting Period. As part of the settlement of the Company's previous incentive scheme (pursuant to Resolution No. 03/04/2019 of the Extraordinary General Meeting of 24 April 2019), he received 7,304 shares of the Issuer, and under the new incentive scheme (for 2019), he received the right to acquire 1,000 shares of the Issuer.

Maciej Adamczyk – Management Board Member (until February 27, 2020):

He received remuneration on the basis of an employment contract at PLN 20,000 gross monthly and appointment-based of PLN 10,000 gross monthly. He did not receive any bonus or reward for the Reporting Period. As part of the settlement of the Company's previous incentive scheme (pursuant to Resolution No. 03/04/2019 of the Extraordinary General Meeting of 24 April 2019), he received 6,283 shares of the Issuer. In connection with the termination of his role as a Member of the Management Board and termination of his employment, which took place after the Balance Sheet Date, Maciej Adamczyk received payment in lieu of unused vacation.

Supervisory Board:

Name	Role	2019	2018
Wiesław Rozłucki	Chairman of the Supervisory Board	96.0	62.5
Bartosz Wojciechowski	Deputy Chairman of the Supervisory Board	12.0	8.5
Piotr Lembas	Supervisory Board Member	12.0	7.1
Sebastian Młodziński	Supervisory Board Member	12.0	8.5
Konrad Pankiewicz	Supervisory Board Member	12.0	14.0
Piotr Janczewski	Supervisory Board Member	0	0.0
Agnieszka Młodzinska-Granek	Supervisory Board Member	0	1.4

Members of the Supervisory Board receive a fixed monthly remuneration of PLN 1,000 (except for the Chairman, whose monthly remuneration is PLN 8,000).

Audit Committee:

Name	Role	2019	2018
Wiesław Rozłucki	Chairman of the Audit Committee	8.0	0
Piotr Lembas	Member of the Audit Committee	8.0	0
Sebastian Młodziński	Member of the Audit Committee	8.0	0

Members of the Audit Committee receive a fixed monthly remuneration of 1,000 PLN.

2.5.2 Agreements between the Issuer and its executive directors providing for payment of compensation

Not applicable. No agreements were made between the Issuer and its executive directors that would provide for payment of compensation in the event of their resignation or removal without a valid reason or if their removal is due to acquisition of the Issuer by another entity.

Where a member of the Management Board is removed, the provisions of the Labor Code may apply, specifically Article 10(1) of the Act of 13 March 2003 on special rules for terminating employment relationships with employees for reasons not attributable to employees.

2.5.3 Obligations arising from pensions and similar benefits

Not applicable. The Issuer has no obligations resulting from pensions or similar benefits towards former management personnel members and has no liabilities incurred in connection with any such pensions.

2.5.4 Remuneration policy

Overview of the remuneration system adopted by the Company

The Issuer adopted its remuneration policy in January 2019. The policy has not been changed since its adoption.

Members of the Management Board are entitled to a fixed monthly remuneration determined by the Supervisory Board. Decisions on granting a bonus to the Management Board members are taken by the Supervisory Board.

Key managers (i.e. persons in a director or an equivalent or senior position within the meaning of the remuneration policy) receive remuneration determined by the Management Board. Decisions on granting a bonus to key managers are taken by the Management Board.

Detailed information on the conditions and amount of remuneration:

Detailed information can be found in point 2.5.1 (link).

Non-financial components of remuneration:

Members of the Management Board (based on a resolution of the Supervisory Board) and key managers (based on a resolution of the Management Board) may be granted the Issuer's shares or subscription warrants as part of the incentive scheme. The decision to grant them is discretionary. Details are described in point 2.6.3 (link) and 2.5.1 (link).

Assessment of the remuneration policy

The overarching goal of the fixed and variable remuneration system is to ensure the incentive nature of remuneration paid to Members of the Management Board and key managers and to create a basis for their development. The implementation of the objectives is assessed by the Company's body indicated in the policy. Where the objectives are achieved, the body may decide on granting the bonus.
The Company's remuneration policy supports the implementation of the Company's objectives, in particular the long-term increase in shareholder value and the stability of the business. An important feature ensuring

an incentive nature of the remuneration of Management Board Members and key managers is the incentive scheme adopted in the Company based on shares and subscription warrants.

Other information:

On 30 November 2019, an amendment to the Act on Public Offering entered into force, providing for e.g. an obligation for the General Meeting to adopt a remuneration policy for members of the management board and supervisory board. Unlike principle VI.Z.4. of the Best Practice for GPW Listed Companies 2016, the regulations do not provide for the remuneration policy to cover key managers other than management board members. The Issuer is in the process of developing a remuneration policy in accordance with the new provisions of the Act on Public Offering. A draft of the new remuneration policy will be presented to the shareholders in the notice of the annual general meeting.

2.6 Other information

2.6.1 Events occurring after the balance sheet date

2.6.1.1 Professor Herbert Wirth appointed to the Supervisory Board:

On 9 January 2020, XTPL shareholders appointed Prof. Herbert Wirth, the former CEO of KGHM Polska Miedź S.A., to the company’s Supervisory Board. He has considerable experience in business development in global markets and unique competences and a network of contacts which will strategically strengthen the Company's business activities, notably in the Chinese market.

2.6.1.2 Signing a technology evaluation agreement with OSRAM:

On 21 January 2020, the Issuer announced the signing of a technology evaluation agreement with OSRAM Opto Semiconductors Gmbh, a subsidiary of OSRAM – the global lighting group based in Munich in Germany. The purpose of the agreement is to confirm parameters of the technology developed and commercialized by XTPL and to assess the possibility of implementing it in the process of manufacturing the Partner’s new generation products, specifically in respect of creating precise conductive structures for semi-conductors present in lighting devices.

2.6.1.3 Recommendation of MainFirst Bank AG:

In February 2020, the German MainFirst Bank AG from the Stifel Group issued a "BUY" recommendation for XTPL shares and set the target price at PLN 215. MainFirst is an institution founded in 2001. In 2019, the Stifel Group was again number 1 in terms of research relating to German companies according to the most important Thomson Reuters Extel ranking. MainFirst operates globally with branches in Frankfurt, Geneva, London, Milan, Munich, New York, Paris and Zurich. The Stifel Group is particularly strong when it comes to cooperating with technology investors from many countries, including the United States. In Europe, MainFirst covers about 700 companies. XTPL is the first company from Poland and Central and Eastern Europe for which the broker published an analysis.

2.6.1.4 Signing a technology evaluation agreement with Suzhou Cowin Laser Technology Co Ltd:

On 28 February 2020, XTPL S.A. and Suzhou Cowin Laser Technology Co Ltd based in China signed a Technology Evaluation Agreement (TEA). The goal of this proof of concept stage is to confirm the parameters of the technology commercialized by XTPL and to assess the possibility of implementing it in the Chinese partner's production processes. Cowin is a supplier of devices for the production of displays for leading Chinese players in this sector, such as BOE (leader of the global display market, which is working on an independent proof of concept project with XTPL); CSOT (display manufacturer based in China, producing LCD panels and developing OLED technology) and Tianma (global display manufacturer operating for over three decades, producing modern LCD displays and new display lines using the AMOLED technology).

2.6.1.5 New patent applications:

In Q1 2020, the Company filed three new patent applications. The first two relate to methods supporting the design and optimization of printing heads. The third patent application is a crucial invention from the point of view of applying XTPL technology in the smart glass sector. The applications were submitted in cooperation with the American law firm K&L Gates.

2.6.1.6 The first nanoinks sales:

In March 2020, XTPL finalized its first sales transactions for its nanoink based on sliver nanoparticles. Nanoink is one of the key elements of the XTPL technology, protected by international patent applications. The first delivery took place for one of the partners operating in the display sector, the first application field commercialized by XTPL. A week after the implementation of the first commercial order, the Company carried out another ink sales transaction with a group operating in the display sector and several other advanced electronics sectors. The sale of the nanoink confirmed the partner's significant interest in the Company's technology and unlocked further commercial opportunities. At the end of March 2020, the Issuer informed about the next (third) sale of ink to another counterparty.

2.6.1.7 Impact of the SARS-CoV-2 pandemic on the Company’s and the Group’s operations:

Due to the early stage of the Company's and the Group’s development (the beginning of commercialization), the current situation related to the coronavirus threat fundamentally does not affect the Issuer’s operational

activity. Business continuity is maintained. Office workers perform their duties remotely (they are provided with a company phone with Internet access and a laptop). Technology staff work in compliance with all the standards announced by state authorities. Some technology staff are involved in the development of new grant applications, and therefore also partly work from home. As a rule, all meetings take place using teleconferencing. The planned activities (e.g. shipment of the nanoink to counterparties) run smoothly.
The current epidemic may have an indirect impact on the financing for the Company. The Management Board believes that in the current economic situation (COVID-19 pandemic), a significant share issue in the first half of 2020, addressed to a wide group of investors, might not be the most effective way of raising finance. Hence, the Company focuses on acquiring financing which will enable it to conduct research and development activities and business development at least until the beginning of 2021, and will consider a share issue addressed to a wide group of investors once the market situation stabilizes.

2.6.1.8 Settlement of the incentive scheme

On 31 March 2020, the Company's Management Board and the Supervisory Board, pursuant to the resolution of the EGM of 24 April 2019, granted the employees and collaborators of the Company the right to acquire 36,900 shares and 21,530 subscription warrants.

Out of the above pool, 9,600 shares and 21,530 warrants were attributable to collaborators of XTPL Inc. Due to the conditional granting of rights to purchase shares and warrants to the collaborators of XTPL Inc. in 2019, this part of the incentive scheme was valued at PLN 1,439 thousand and was reflected in the financial data for 2019.

The remaining part of financial instruments granted in 2020, whose estimated valuation under the scheme is PLN 2,000 thousand, will be reflected in the financial data for 2020.

2.6.1.9 Further loan tranches for XTPL Inc.

From 1 January 2020 to the date of the report, the Company disbursed three subsequent loan tranches for XTPL Inc. totalling 70 thousand USD.

2.6.2 Agreements that in the future might affect the proportion of shareholdings

In April 2019, the Company adopted an incentive scheme for key employees and collaborators of the Group. The incentive scheme is based on existing series L and P shares and subscription warrants. The scheme might bring about changes in the proportions of shares held by shareholders. As at the Report Date, the scheme participants were granted rights to subscribe for 21,530 subscription warrants, as a result of which they could potentially take up 21,530 shares of the Company. The maximum pool of subscription warrants that can be granted under the scheme is 182,622, which will entitle their holders to take up 182,622 shares of the Issuer.

2.6.3 Employee Share Program

On 24 April 2019, the Company's EGM voted in favour of a package of resolutions introducing a new employee incentive scheme at the Company. The scheme covered the key personnel of XTPL S.A. and XTPL Inc., and will continue until 2021. It is based on warrants (stock options), entitling its holders to subscribe for no more than 182,622 series R shares. The price for taking up shares by the beneficiaries of the program was set at the market value of XTPL at the time of adoption of the scheme, i.e. PLN 165.84. The warrants' underlying stock will be issued gradually in the years 2020–2029. In accordance with the conditions of the incentive scheme, vesting will take place annually. The scheme will also use shares from the previous incentive scheme and – to a small extent (approx. 2% of the share capital) – the issue of series P shares (to supplement the stock pool due to the increase in the number of program participants). As a result, the scheme will bring maximum benefits in terms of building the value of XTPL, while not causing any noticeable equity dilution for the existing shareholders. The decision to grant shares or warrants is discretionary in nature, and is made by the Supervisory Board (for Members of the Management Board) or the Management Board (for other eligible persons).

Together with the approval of the new incentive scheme, the General Meeting of Shareholders decided to repeal the previous program adopted in 2017, authorizing the Management Board and the Supervisory Board to make settlement for the period until 31 December 2018, and to sign lock-up agreements with persons covered by the previous scheme to restrict the transferability of shares. Offers for the purchase of shares under the above settlement were submitted to participants in June 2019.

The Company consistently implements plans related to the introduction and execution of the incentive scheme based on the standards used in technology companies operating in the Silicon Valley. Such incentive schemes will allow the Company to acquire and maintain the most talented specialists not only in Poland, but also in the United States. In the Company's opinion, the system in which key personnel participate in potential financial success is one of the most important factors that might contribute to rapid growth and market expansion and, quite importantly, without increasing current cash expenses.

To limit any adverse impact associated with the sale of shares by participants of the incentive scheme, including to limit the potential effect of periodic increase in the supply of shares in the market, the rules of the incentive scheme stipulate that the Company's Management Board, and in the case of the participants who are members of the Management Board – the Supervisory Board, may make the subscription or acquisition of shares conditional on prior conclusion of a lock up agreement with the Company on the terms specified by the Company's Management Board or Supervisory Board, respectively.

2.6.4 Information about the auditor

On 9 August 2019, the Issuer concluded an agreement on audit of the stand-alone and consolidated financial statements with **4AUDYT sp. z o.o.** with its registered office in Poznań (60-846) at ul. Kochanowskiego 24/1, with share capital of PLN 100,000.00, NIP 7811817052, entered under KRS number 0000304558 in the National Court Register, Register of Entrepreneurs kept by the District Court for Poznań Nowe Miasto i Wilda in Poznań.

The agreement provides for:

1. audit of the stand-alone financial statements of XTPL S.A. prepared in accordance with the International Financial Reporting Standards, International Accounting Standards and related interpretations published in the form of European Commission Regulations (IFRSs/ IASs) for the period from **1 January 2019 to 31 December 2019**.
2. audit of the consolidated financial statements of the XTPL Group prepared in accordance with IFRSs/IASs for the period from **1 January 2019 to 31 December 2019**.
3. review of the semi-annual stand-alone financial statements of **XTPL S.A.** prepared in accordance with IFRSs/IASs for the period from **1 January 2019 to 30 June 2019**.
4. review of the semi-annual consolidated financial statements of the **XTPL Group** prepared in accordance with IFRSs/IASs for the period from **1 January 2019 to 30 June 2019**.
5. audit of the stand-alone financial statements of the **XTPL S.A.** prepared in accordance with IFRSs/IASs for the period from **1 January 2020 to 31 December 2020**.
6. audit of the consolidated financial statements of the **XTPL Group** prepared in accordance with IFRSs/IASs for the period from **1 January 2020 to 31 December 2020**.
7. review of the semi-annual stand-alone financial statements of **XTPL S.A.** prepared in accordance with IFRSs/IASs for the period from **1 January 2020 to 30 June 2020**.
8. review of the semi-annual consolidated financial statements of the **XTPL Group** prepared in accordance with IFRSs/IASs for the period from **1 January 2020 to 30 June 2020**.

The remuneration for the above services is:

a. item 1 – net remuneration of **PLN 35,000.00** + VAT

b. item 2 – net remuneration of **PLN 20,000.00** + VAT

c. item 3 – net remuneration of **PLN 18,000.00** + VAT

d. item 4 – net remuneration of **PLN 10,000.00** + VAT

e. item 5 – net remuneration of **PLN 35,000.00** + VAT

f. item 6 – net remuneration of **PLN 20,000.00** + VAT

g. item 7 – net remuneration of **PLN 18,000.00** + VAT

h. item 8 – net remuneration of **PLN 10,000.00** + VAT

4AUDYT sp. z o.o. is an audit firm in accordance with Article 46 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, and in accordance with Article 57 of this Act is entered on the list of audit firms kept by the Polish Audit Oversight Agency under number 3363.

The auditor was selected by the Supervisory Board by resolution No. 01/07/2019 of the Supervisory Board of XTPL S.A. of 16 July 2019 regarding the selection of an audit firm that will carry out statutory audits and interim reviews of XTPL's financial statements for two years.

In the previous financial year, the Issuer's stand-alone financial statements were also audited by 4AUDYT sp. z o.o. under the agreement of 9 January 2018. The remuneration for the service amounted to **PLN 11,000.00** + VAT.

The Issuer did not use any services of the audit firm other than the above audit/review services.

2.6.5 Significant agreements

Apart from the loan agreements described in point 2.4.2 (link) and 2.4.3 (link), no other significant agreements were signed during the Reporting Period.

2.6.6 Changes in managing the Issuer's and the Group's business

Not applicable. None in the Reporting Period.

2.6.7 Explanation of seasonality or business cycles

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

2.6.8 Non-arms length transactions with related entities

Not applicable. As part of the group, no transaction was made with any related party on non-commercial terms.

2.6.9 Proceedings before courts and other bodies

No significant judicial, arbitration or administrative proceedings are pending in relation to liabilities or receivables of the Issuer.

2.6.10 Acquisition of own shares

Not applicable. None in the Reporting Period.

2.6.11 Achievement of financial forecasts

Not applicable. The Issuer has not decided to publish financial forecasts.

2.6.12 Financial instruments

Not applicable. Neither the Parent Company nor its Subsidiary use financial instruments in relation to the price risk, credit risk, risk of material disruption of cash flows or financial liquidity risk.

2.6.13 Guarantees given and received

Not applicable. Neither the Issuer nor its Subsidiary provided or received any guarantees in the reporting period.

2.6.14 Key financial and non-financial performance indicators

Given the Company's and the Group's market development stage (no significant revenue from the sale of products and services, with activity financed from equity and grants), the ability to continue operations depends to a large extent on the ability to raise further financing, primarily through the issue of shares to finance subsequent stages of commercialization of the technology developed by the Company and the Group. The Management Board of XTPL S.A. estimates that to carry out the planned activities over the next 12 months, it will need PLN 5 million.

2.7 Risk factors and threats related to the Company's and the Group's business environment

2.7.1 Macroeconomic risk

The Company's and the Group's activity depends on the macroeconomic situation in the markets in which the Company plans to start the sale of its products and services, primarily in the United States, Asia and Western Europe. Profitability of the Company's operations will depend, inter alia, on the economic growth, consumption and investment level (particularly in the electronics sector), fiscal and monetary policy, inflation, and especially the level of expenditures on consumer electronics in those countries. All these factors may have an impact on the Company's and the Group's financial results, and thus may also affect

implementation
of the Company's development strategy.

2.7.2 Currency risk

Due to the fact that the Company's and the Group's clients will be international entities, most of the Company's revenues related to the commercialization of technology will be settled in foreign currencies (mainly the euro and the US dollar). At the same time, as the Company is based in Poland, most of its ongoing expenses will be settled in the Polish zloty. As a result, in the future the Company may be exposed to a significant FX risk. Volatility of exchange rates may primarily cause changes in the value of the Company's revenues and receivables after their conversion into PLN.

It will be necessary to identify the risk of appreciation of the Polish currency as this will cause a fall in the Company's and the Group's revenues expressed in the base currency (PLN), pushing profit margins down. An increase in currency risk in the Company's and the Group's operations may have a material adverse effect on their trading performance and financial position.

As at the Reporting Date, the Company and the Group sees currency risk as a significant threat to the expected level of its operating profitability. As and when required, the Company and the Group will resort to FX risk management instruments available in the banking market.

2.7.3 New technology development risk

The market in which the Company and the Group operate is characterized by rapid development of technologies. For this reason, the development of the Company's and the Group's operations entails constant tracking and analysis of new market trends and identification of emerging potential competitors and technological solutions they implement.

There is a risk that if the current market trends change, the Company will be forced to look for new applications for its technology outside of what it previously saw at its core business or to incur expenditures to make its existing solutions more competitive. Likewise, the Company cannot rule out that in the future a new technology will be developed which will make the solutions offered by the Company unattractive for potential clients.

Materialization of this risk will mean additional costs, which will adversely affect profitability of the Company's operations. Moreover, the need to perform additional work may delay the moment of commercialization of the Company's and the Group's product.

2.7.4 Competitive risk

The Company and Group's operate in a very attractive market of modern technologies characterized by a steadily growing demand. In this market, there is a number of players whose experience and capital resources are higher than those of the Company. As the market is changing fast, there is a risk of a new entity emerging whose offer will be more innovative than the Company's and the Group's offer. A competitive edge may be obtained by implementing innovative, unique solutions that are attractive for prospective clients in utility and economic terms.

At present, the Company is not aware of any solutions that would technically offer better parameters for the ultra-precise printing of nanomaterials. However, it cannot be ruled out that a new entity or a solution will emerge that will surpass the Company's technology in some or all key parameters. There is also a risk that the Company and the Capital Group will be unable to respond quickly or effectively to the changing market environment, and consequently the solutions offered by the Company and the Group will be considered less competitive. Materialization of this risk may have a negative impact on the sale of the Company's and the Group's products and services and, in consequence, on their trading performance.

2.7.5 Risk related to the development of the SARS-CoV-2 pandemic

Due to the early stage of the Company's development (the beginning of commercialization), the current situation related to the coronavirus threat fundamentally does not affect the Issuer's operational activity. Office workers perform their duties remotely (they are provided with a company phone with Internet access and a laptop). Technology staff work in compliance with all the standards announced by state authorities. Some technology staff are involved in the development of new grant applications, and therefore also partly work from home. As a rule, all meetings take place using video- or teleconferencing. The previously planned activities (e.g. shipment of the nanoink to counterparties) run smoothly.

The current epidemic may have an indirect impact on the financing for the Company. The Management Board believes that in the current economic situation (COVID-19 pandemic) and the situation in the capital market, a significant issue of shares addressed to a wide group of investors might not be the most effective way of raising finance. Therefore, the Company focuses on acquiring financing primarily from its existing shareholders so it can conduct research and development activities and business development at least until the beginning of 2021, and will consider issuing shares addressed to a wide group of investors when the market situation becomes stable.

2.8 Risk factors related to the Company's and the Group's operations

2.8.1 Risk associated with the process of implementing technology in the commercialization phase

The Company's and the Group's business model provides for a gradual introduction of the technology of printing ultra-thin conductive lines for various applications in printed electronics into the commercialization phase. Commercialization will cover printing devices and nanoinks. The target business model is that the Company will commercialize its technological solutions through licensing or will manage the whole value chain, i.e. manufacture, product marketing, distribution and provision of specialized services tailored to the client's needs. The choice of the commercialization model will depend on the specific nature of the particular application field and the Issuer's assessment regarding effectiveness of each of the possible commercialization methods in that field.

The Company has analyzed its potential market, relying both on market reports from independent consulting companies and on consultations with industry experts. The conclusions from this analysis confirms a demand for such solutions, especially in the context of the increasing miniaturization of electronic devices and consumer expectations regarding new functional features (e.g. flexible personal electronics).

The potential profitability of various market segments was estimated based on the cost calculations carried out by the Issuer (both the unit cost of a product, achievable revenue from licensing and the expected commercialization cost) and comparing them with the prices of the solutions which are the market standard today. As a result, the Issuer's Management Board has assessed that the application fields selected for commercialization in the first place, are justified both in terms of their relevant market potential and achievable profit margins, leading to an expected return on the investment into the project. Based on these analyzes, the Management Board believes that the projects implemented and the Company's and the Group's development plan will ensure profitability of its operations.

However, there is a risk that introduction of devices into individual markets will not be in line with the current expectations due to, for example, a lack of or insufficient demand in target countries, misidentification of potential clients' needs, misidentification of legal conditions, incomplete adaptation of the Company's products to the requirements of foreign markets, an ineffective promotional campaign or an unexpected emergence of a competitor. Occurrence of the above events may stifle the Company's and the Group's growth dynamics, adversely impacting its operations and financial position.

2.8.2 Risk of failure to achieve of revenues

The Company's and the Group's business model provides for a gradual introduction of the technology of printing ultra-thin conductive lines for various applications in printed electronics into the commercialization phase. The Company's and the Group's future revenues, sufficient to cover their operating expenses, are thus dependent on the degree of success of the commercialization, which in turn is influenced by many factors, including those beyond the Company's control. Similarly, failure to obtain financing from shareholders may result in the Company being unable to complete its product or the commercialization phase to the extent that would allow revenues to be generated. As a result, both the Company and its shareholders might not achieve the expected profits and returns, and the Company's investors might not be able to recover their funds invested into the Company's stock.

2.8.3 Risk of low product quality

The Company and the Group business model providing for a gradual introduction of the technology of printing ultra-thin conductive lines for various applications in printed electronics into the commercialization phase gives rise to a risk of defects, insufficient product quality or unsatisfactory performance of the technology at the initial phase of its commercialization. It is possible that during the first stage of commercialization, unforeseen defects and problems will emerge. Such situations may result in a negative first reception of the Company's and the Group's products and, consequently might dampen interest in and demand for the product. As a result, at the initial commercialization phase the Company and the Group might not receive revenues in the expected amount.

2.8.4 Risk related to the business development model and the failure deliver the Company's and the Group's strategy

The ultimate goal of the business model is commercialization of the Company's ultra-precise technology of printing a wide range of nanomaterials. Due to the early stage of its development, the Company does not operate a replicable business model yet. Nevertheless, the Company has created a development strategy based on which it intends to put on the market licenses or products it has manufactured and use them to commercialize its technology.

Due to the geographic and economic conditions in the market, the Company will develop its business presence mainly in the United States, Asia and Western Europe. The Company intends to build its market position through organic growth, primarily based on further development of its technology.

Due to a number of factors, the Company is unable to guarantee in full that its business development model will work. The Company's future in the broadly understood printed electronics market depends on its ability to create and implement a successful long-term development strategy and to continue to develop its technology. The risk of making bad decisions resulting from improper assessment of the situation or the Company's inability to adapt to changing market conditions, incorrect strategic assumptions, including in relation to the developed technology and the adopted commercialization plan and the degree of demand from potential clients, may mean that the business development model will not be effective and the future financial results might be lower than currently expected.

2.8.5 Risk related to the difficulty with acquiring experienced and specialized employees

The high level of technological advancement of the Company's research leads to a constant increase in the requirements regarding skills and experience of employees. Next to technology, the engineering and scientific staff is the Company's most valuable asset. The pace and quality of the Company's R&D is directly related to the skills of specialists who form the R&D team. The Company employs engineers from the fields of chemistry, physics, electronics, mechanics, material engineering, programming and numerical simulations. Nearly in all these fields, the number of specialists available for hiring is not high. As regards acquisition of the best specialists, the Company competes with both local and foreign companies.

As the Company expands the size of its operations, this factor may be of particular importance in the future as it might limit the development potential. Difficulties in sourcing employees may delay work or force the Company to abandon certain projects.

2.8.6 Risk of losing key team members

The Company's activity is based on a narrow team of people with relevant know-how who pool competencies in engineering and technical, financial management and strategic management. For this reason, losing key people may adversely affect the Company's further business, its financial, property and economic condition as well as its development prospects as it may impair the Company's potential to sell its products, develop its technology, win new contracts and properly manage already existing contracts.

Most of the Company's personnel are people employed in operational roles. They do tasks which require expertise, skill and education. The Company is exposed to the risk of losing some of its operational staff, which might weaken the organizational foundations of the Company's business. These situations might result in the Company's stability being undermined and force it to raise remuneration levels in order to retain employees. As a result, it may affect the Company's operating costs.

2.8.7 Risk of dependence on future counterparties

Due to the stage of development of the Company (ahead of commercialization of its main product), as of the report date the Company has not identified any dependence on counterparties. However, there is a risk that the Company might become dependent on a singly counterparty after it has put its product on the market, especially in the early commercialization phase, when the Company will have to use the services of a limited number of counterparties. Similarly, given the specific nature of the Company's offer, this creates the risk of dependence on a single client, especially during the first phase of sales.

2.8.8 Risk of potential disclosure of confidential information on technology

Implementation of the Company's strategy depends, inter alia, on the fact that the holders of confidential information, particularly that concerning development and technological processes related to the ultra-precise printing technology. There is a risk that sensitive information will be divulged by persons connected with the Company, which may result in the information being used by competitors, despite the intellectual property protection measures used by the Company.

The indicated risk factor may have a negative impact on the Company's business, financial position, development prospects, results and share price.

2.8.9 Risk of intellectual property infringement

The Company operates in an area where regulations concerning industrial and intellectual property rights and their protection are of significant importance. At present, there are no proceedings under way regarding infringement of any industrial or intellectual property rights in which the Company would be involved.

The Company intends to conduct its business in such a way as not to infringe any third party rights in this respect. However, it cannot be ruled out that third parties would bring claims against the Company regarding infringement of industrial and intellectual property rights by the Company. Even if unwarranted, such claims might adversely affect the schedule of the Company's strategy implementation, and the defense against such claims may involve significant costs, which may adversely impact the Company's financial results. In addition, during work on its own patent applications, the Company carefully reviews the available literature and patents known at present. However, there is a risk of infringement of intellectual property rights related to patents that have been submitted but not published yet.

Cooperation with external partners gives rise to similar risks. Formally unauthorized entities might attempt to use the intellectual property of XTPL by either violating or attempting to circumvent the patent application. The circumstances described above may have a material adverse effect on the Company's development prospects, results and financial position.

2.8.10 Risk of technology scaling

Due to the fact that the technology underlying the printing process developed by XTPL is based on highly innovative solutions, there is a risk that an increase in its use from laboratory to industrial scale might end up unsuccessfully.

This risk may materialize due to difficulties with obtaining technology parameters in industrial production that would be equally stable as those obtained in the laboratory. In addition, there is a risk that the technology developed may not be sufficiently effective for certain production processes in industry (e.g. due to a failure to achieve satisfactory production process efficiency).

2.8.11 Risk of a failure to reach the target clients and achieve sales plans

XTPL clients will include, in particular, large manufacturers of devices for the fabrication of electronics. They have long communication and decision-making channels. There is a risk that a proposition from XTPL, as a company with a short market history, will be assessed as not reliable enough. This may delay delivery of the Company's sales targets or indeed lead to a failure to acquire a targeted client.

2.8.12 Risk of emergence of a competitive technological solution

New technological solutions that are in competition against XTPL are constantly being developed in the global technology market. A comparison of the parameters of the currently available solutions with the parameters achieved in the XTPL technology shows, in the Company's opinion, that competitive technologies offer solutions with weaker parameters and oftentimes higher production costs compared with what is expected to be achieved by the industrial XTPL solution. The Company has undertaken measures designed to cover its technology with extensive patent protection.

As at the report date, the Company's competitive risk can be described as low, as the developed solutions are less effective than those on which the Company is working at present. However, it is not possible to rule out the possibility that a more technologically advanced or more cost-effective solution might emerge in the market. There is also a risk that competitors might significantly increase their expenditures to promote available solutions. These risks may materially affect the Company's development outlook.

2.8.13 Risk of loss of financial liquidity and access to financing

As at the Report Date, the Company and the Group do not generate sales revenues, sufficient to cover their operating expenses, which results from their early stage of development. Sales revenues are expected to be generated as the technology being developed is commercialized. Implementation of the Company's business model and commencement of commercialization will be a gradual process and will entail costs. Accordingly, on the one hand the ability to generate recurring sales revenues by the Company and the Group is deferred at this stage of its development, and on the other hand, the preparations for commercialization of the technology entails operating costs. As a result, at the present stage of its development the Company needs to resort to external financing.

There is a risk that the funds available to the Company and the Group will not be sufficient to fully carry out activities aimed at preparing products for sales and commencing their commercialization. A lack of funds for business development may cause delays in development work and thus have an adverse impact on the Company's performance. As at the date of the report, the Company uses financing in the form of proceeds from the issue of shares as well as grants and subsidies.

2.8.14 Risk of not receiving grants and subsidies

The financing of the research phase is secured thanks to the grants obtained (including from the National Center for Research and Development, NCBR) and the Company's equity (obtained in previous financing rounds). Under the agreement concluded with the NCBR, the payment of the grant is conditional on submission of a correctly completed payment application together with a statement of expenses incurred. Furthermore, the NCBR is authorized to terminate the financing in the cases enumerated in the agreement, including when (i) the Issuer refuses to undergo or hinders inspections; (ii) the Issuer has made legal and organizational changes that jeopardize the performance of the agreement or fails to inform the NCBR of its intention to make such changes; (iii) the NCBR identifies gaps in the submitted documentation on the environmental impact of the project, and such gaps are not eliminated by a stated deadline; (iv) the beneficiary fails to comply with disclosure obligations during implementation and durability period of the project; (v) irregularities, listed directly in the agreement, occur in delivery of the project.

2.8.15 Risk of implementation of in-house technologies by the Company's potential clients

The ultimate goal of the business model is commercialization of the Company's ultra-precise technology of printing a wide range of nanomaterials. This process will take place by means of granting licenses for the use of the technology or through sale of the products developed by Company: the printing head and nanoink.

An important group of potential buyers of the technology developed by the Companies are global producers of electronic components (e.g. displays). There is a risk that these entities, which have significant technical and organizational resources, may develop their in-hose nanoprinting solutions, and consequently will not be interested in the product offered by the Company.

2.8.16 Risk of unforeseen events

The Company is exposed to the risk of extraordinary events, such as technical failures (e.g. of electrical networks, either internal or external), natural disasters, acts of war, etc. These events might impair the effectiveness of or disrupt the Company's operations. In such circumstances, the Company may be exposed to unforeseen costs.

2.8.17 Human factor risk

In its production activity, the Company works with people employed under employment contracts and other civil law contracts. Actions performed by these persons as part of their work may lead to errors caused by improper performance of their duties. Such actions may be intentional or unintentional and may lead to disruptions and delays in the commercialization process.

2.8.18 Risk of failure of the equipment used in the Company's and the Group's operations

In its operations, the Company relies on properly working specialist equipment. There is a risk that in the event of a serious equipment failure which cannot be addressed immediately, the Company may be forced to temporarily suspend some or all of its activities until the failure is removed. Equipment failures may also lead to a loss of the data used for developing the Company's product. An interruption in business or loss of key data for a particular project may result in the Company being unable to perform its obligations under existing contracts or cause a loss of these contracts, which may adversely affect the Company's financial performance.

2.8.19 Risk of insufficient insurance coverage

The Company enters into insurance contracts in the course of its activity. However, it cannot be ruled out that insurance risks will materialize in the Company's activity that will go beyond the scope of insurance coverage, or unforeseen events occur that are out of scope of the existing insurance policies. Such events may have an adverse impact on the Company's trading performance.

2.8.20 Risk of court and administrative proceedings

According to the available information, no court or administrative proceedings are pending against the Company that would have a significant impact on its operations. However, the Company's future sales activity will give rise to potential risks associated with possible customer claims in relation to the products sold. The Company also enters into commercial contracts with external entities whereby both parties are required to provide specified service/ consideration. This in turn gives rise to a risk of disputes and claims arising from such contracts. These disputes or claims may adversely affect the Company's reputation and, consequently, its financial results.

2.8.21 Risk of related-party transactions

The Company enters into transactions with its related parties. Where competent tax authorities question the methods of how the Company has determined market conditions for related-party transactions, this may have negative tax implications for the Company, potentially causing a material adverse effect on its business, financial position and results.

2.8.22 Risk of intellectual property rights and application patents

The Company's technology may be the basis for other entities to develop derivative or related technologies. There is a risk that such entities will decide to submit application patents based on the Company's technology. As a result, the Company, as the holder of the underlying patent, will have to cooperate with a third party, as the application patent holder, to ensure commercial implementation of a particular technology. In terms of intellectual property rights, the Company uses works created by persons employed under employment contracts.

2.8.23 Risk related to commercialization agreements

Due to the specific nature of its operations, the Company may use various types of commercialization agreements (license agreements, JDAs, product sale agreements, joint venture agreements). However, it is not possible to rule out the market risk related to a failure to find a partner interested in purchase of the Company's products or commercialization. Market risk is also affected by changes in potential clients' strategies, changes resulting from movements in market trends and inability to reach decision makers. In addition, account should be taken of the risk of default by a contractual partner or the risk of the Issuer's failure to abide by the terms of the contract due to materialization of any of the risks described above. Should any of these circumstances occur, this may adversely affect the Issuer's operations, financial results and/or development prospects.

Shareholding structure

3 Shareholding structure

3.1 Significant packets of shares

The shareholding structure as at the Balance Sheet Date was as follows (shareholders holding at least 5% of the total number of votes at the General Meeting):

Ref.	Shareholder	Number of shares held	% of all shares	Number of votes	% of all votes
1.	Filip Granek	303,288	15.93%	303,288	15.93%
2.	Sebastian Młodziński	299,852	15.75%	299,852	15.75%
3.	Leonarto VC spółka z ograniczoną odpowiedzialnością sp.k. (formerly Leonarto sp. z o.o.)*	229,015	12.03%	229,015	12.03%
4.	Heidelberger Beteiligungsholding AG	192,371	10.10%	192,371	10.10%
5.	TPL sp. z o.o.**	137,593	7.23%	137,593	7.23%
6.	ACATIS Investment Kapitalverwaltungsgesellschaft mbH on behalf of ACATIS Datini Valueflex Fonds	127,000	6.67%	127,000	6.67%
7.	Leonarto Funds SCSp*	69,000	3.62%	69,000	3.62%
8.	Konrad Pankiewicz*	2,943	0.15%	2,943	0.15%
9.	Others	543,160	28.52%	543,160	28.52%
	TOTAL	**1,904,222**	**100.00%**	**1,904,222**	**100.00%**

* Konrad Pankiewicz, Member of the Supervisory Board of XTPL S.A. is the only shareholder of the general partner Leonarto VC spółka z ograniczoną odpowiedzialnością sp.k. and an entity controlled by Leonarto Funds SCSp (through Leonarto Management S.a.r.l). Together with the entities controlled by him, Konrad Pankiewicz holds 300,958 shares of XTPL S.A. constituting 15.80% of the share capital of XTPL S.A.

** TPL sp. z o.o. holds series L and P shares issued for the purpose of an employee share scheme. The shareholders of TPL sp. z o.o. are Filip Granek, the Issuer's CEO (34% of shares), Sebastian Młodziński, former member of the Issuer’s Supervisory Board and a significant shareholder (33%) and Adriana Pankiewicz, wife of Konrad Pankiewicz, member of the Issuer's Supervisory Board (33%).

The shareholding structure as at the Report Date is as follows (shareholders holding at least 5% of the total number of votes at the General Meeting):

Ref.	Shareholder	Number of shares held	% of all shares	Number of votes	% of all votes
1.	Filip Granek	310,592	16.31%	310,592	16.31%
2.	Sebastian Młodziński	299,852	15.75%	299,852	15.75%
3.	Leonarto VC spółka z ograniczoną odpowiedzialnością sp.k. (formerly Leonarto sp. z o.o.)*	229,015	12.03%	229,015	12.03%
4.	Heidelberger Beteiligungsholding AG	192,371	10.10%	192,371	10.10%
5.	TPL sp. z o.o.**	137,593	7.23%	137,593	7.23%
6.	ACATIS Investment Kapitalverwaltungsgesellschaft mbH on behalf of ACATIS Datini Valueflex Fonds	127,000	6.67%	127,000	6.67%
7.	Leonarto Funds SCSp*	69,000	3.62%	69,000	3.62%
8.	Konrad Pankiewicz*	2,943	0.15%	2,943	0.15%
9.	Others	535,856	28.52%	535,856	28.52%
	TOTAL	**1,904,222**	**100.00%**	**1,904,222**	**100.00%**

* Konrad Pankiewicz, Member of the Supervisory Board of XTPL S.A. is the only shareholder of the general partner Leonarto VC spółka z ograniczoną odpowiedzialnością sp.k. and an entity controlled by Leonarto Funds SCSp (through Leonarto Management S.a.r.l). Together with the entities controlled by him, Konrad Pankiewicz holds 300,958 shares of XTPL S.A. constituting 15.80% of the share capital of XTPL S.A.

** TPL sp. z o.o. holds series L and P shares issued for the purpose of an employee share scheme. The shareholders of TPL sp. z o.o. are Filip Granek, the Issuer's CEO (34% of shares), Sebastian Młodziński, former member of the Issuer's Supervisory Board and a significant shareholder (33%) and Adriana Pankiewicz, wife of Konrad Pankiewicz, member of the Issuer's Supervisory Board (33%).

3.2 Shares held by members of management and supervisory bodies

Ref.	Name	Job position	Status as at 31 December 2019	Status as at the report date
1.	Filip Granek	CEO	303,288	310 592
2.	Maciej Adamczyk*	Management Board Member	6,283	
3.	Wiesław Rozłucki	Chairman of the Supervisory Board	0	0
4.	Sebastian Młodziński**	Supervisory Board Member	299,852	
5.	Bartosz Wojciechowski	Deputy Chairman of the Supervisory Board	250	440
6.	Herbert Wirth***	Supervisory Board Member		0
7.	Konrad Pankiewicz****	Supervisory Board Member	2,943	2,943
8.	Piotr Lembas	Supervisory Board Member	0	0

* Member of the Management Board until 27 February 2020, therefore the shareholding status is recognized only as at the Balance Sheet Date

** Member of the Supervisory Board until 9 January 2020, therefore the shareholding status is recognized only as at the Balance Sheet Date

*** Member of the Supervisory Board from 10 January 2020, therefore the shareholding status is recognized only as at the Report Date

**** Konrad Pankiewicz, Member of the Supervisory Board of XTPL S.A. is the only shareholder of the general partner Leonarto VC spółka z ograniczoną odpowiedzialnością sp.k. and an entity controlled by Leonarto Funds SCSp (through Leonarto Management S.a.r.l). Together with the entities controlled by him, Konrad Pankiewicz holds 300,958 shares of XTPL S.A. constituting 15.80% of the share capital of XTPL S.A.

Corporate Governance

4 Corporate Governance

4.1 General information

In the Reporting Period, until 19 February 2019, the Issuer was a company listed in the NewConnect alternative trading system and was subject to the corporate governance principles specified in the Annex to Resolution No. 293/2010 of the Management Board of the Warsaw Stock Exchange of 31 March 2010, which is the consolidated text of the document "Best Practice of NewConnect-Listed Companies" available at https://newconnect.pl/dobre-praktyki

Since 20 February 2019, the Issuer's shares are listed on the regulated (parallel) market operated by the Warsaw Stock Exchange (GPW), so the Issuer has been subject to the corporate governance principles set out in the annex to Resolution No. 26/1413/2015 of the Council of the Warsaw Stock Exchange of 13 October 2015 – "Best Practice for GPW Listed Companies 2016". The set of corporate governance principles is publicly available on the website of the Warsaw Stock Exchange at https://www.gpw.pl/dobre-praktyki

4.2 Exemptions from application of the corporate governance principles applicable to the NewConnect market

Within respect to the "Best Practice of NewConnect Listed Companies", in the financial year 2019 – until 19 February 2019, the Issuer adhered to the principles set out in this document, except the following ones:

Principle 1 – the company should operate a transparent and effective information policy, both using traditional methods and modern technologies that ensure speed, security and wide access to information. While using these methods to the fullest extent, the Company should ensure adequate communication with investors and analysts, enable the online broadcasting of general meetings, record the course of the meeting and publish it on its website.
Issuer's comment: All the necessary information was available on the Issuer's website. The Issuer decided that due to technical reasons it is not possible to ensure broadcasting or registration of proceedings of the general meeting;

Principle 5 – the company should operate an information policy with a particular focus on the needs of individual investors. To this end, the Company, in addition to its corporate website, should use the investor relations section, dedicated to the Company, at www.GPWInfoStrefa.pl. – The Company has a full investor relations section as part of its own website.
Issuer's comment: The Issuer had a full investor relations section as part of its own website.

4.3 Exemptions from application of the corporate governance principles applicable to the regulated market

Within respect to the "Best Practice of GPW Listed Companies 2016", in The Reporting Period, the Issuer adhered to the principles set out in this document, except the following ones:

I.R.2. Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.
The principle does not apply to the Company.
Company's comment: At the moment, the Company does not pursue any sponsorship, charity or other similar activities.

I.Z.1.10. financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation;
The principle does not apply to the Company.
Company's comment: At the moment, the Company has not decided to publish financial projections.

I.Z.1.15. Information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drawn up and implemented a diversity policy, it should publish the explanation of its decision on its website;
The principle is not followed.
Company's comment: The Company does not have a formalized diversity policy. The Company employs people with appropriate qualifications and professional experience, without differentiating them by age or gender. When selecting candidates for members of the supervisory and management bodies, the Company's competent bodies follow the best interest of the Company and its shareholders, taking into account the candidates' qualifications, skills and performance. Decisions regarding appointment to the Management Board or the Supervisory Board are not motivated by gender. Therefore, the Issuer cannot ensure a balanced participation of men and women in management and supervisory positions.

I.Z.1.16. Information about the planned broadcast of a general meeting, not later than 7 days before the date of the general meeting;
The principle is not followed.
Company's comment: The principle is not followed by the Company due to the high cost of ensuring appropriate equipment and the technical resources needed to meet the obligations implied by this principle – such cost would be out of proportion to the potential benefits that might flow to shareholders. In this regard, the Company compiles with the applicable provisions of its Articles of Association and law, and operates an appropriate information policy.

I.Z.1.20. An audio or video recording of a general meeting;

The principle is not followed.

Company's comment: The Issuer does not publish any audio or video recording of its general meetings. In the opinion of the Issuer, proper performance of information obligations related to general meetings, i.e. in particular the publication of current reports via the ESPI system and providing relevant information on the Company's website, provides shareholders with full access to information on general meetings. The decision not to follow the above rule is a cost avoidance measure. However, the Issuer declares that it will abide by this corporate governance principle in that it will publish on its website an audio record of its general meetings provided that the Company's shareholders, including minority shareholders, (stock investors) so desire.

II.R.2. Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.

The principle is not followed.

Company's comment: The Company does not have a formalized diversity policy. The Company employs people with appropriate qualifications and professional experience, without differentiating them by age or gender. At present, only the men are members of the Issuer's bodies, but historically women also had functions on the Supervisory Board. When selecting candidates for members of the supervisory and management bodies, the Company's competent bodies follow the best interest of the Company and its shareholders, taking into account the candidates' qualifications, skills and performance. Decisions regarding appointment to the Management Board or the Supervisory Board are not motivated by gender. Therefore, the Issuer cannot ensure a balanced participation of men and women in management and supervisory positions.

II.Z.2. A company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board.

The principle is not followed.

Company's comment: The Articles of Association and the Company's internal documents do not impose information obligations on Management Board members in this regard. Nevertheless, pursuant to Article 18 of the Issuer's Articles of Association, the Supervisory Board may remove or suspend a Management Board member only for important reasons. An important reason is, *inter alia*, engaging – without the Supervisory Board's prior consent – in a business that is in competition against the Company, in particular by holding or purchasing shares in or joining a competitor as a partner or a member of its executive or non-executive bodies, or representing a competitor as its attorney (excluding subsidiaries as defined in the Code of Commercial Companies);

III.R.1. The company's structure should include separate units responsible for the performance of tasks in individual systems or functions, unless the separation of such units is not justified by the size or type of the company's activity.

The principle is not followed.

Company's comment: The Company's structure does not include a separate unit that would be responsible for risk management, internal audit and compliance. All tasks resulting related to those areas are performed directly by the Management Board. The existing structure ensures proper control in this respect. However, in the future the Company might consider setting up relevant separate organisational units, if it is justified by the size or type of business carried on by the Company.

III.Z.3. The independence rules defined in generally accepted international standards of the professional internal audit practice apply to the person heading the internal audit function and other persons responsible for such tasks.
The principle is not followed.
Company's comment: There is no person at the Company to manage the internal audit function as the Company has no formal unit responsible for internal audit.

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:
1) real-life broadcast of the general meeting;
2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
3) exercise of the right to vote during a general meeting either in person or through a proxy.
The principle is not followed.
Company's comment: Application of the above recommendation may involve organisational, technical and legal risks that might lead to an attempt to challenge validity of the general meetings held. In addition, adoption of this principle would expose the Company to additional costs connected with ensuring technical conditions for participation in the general meeting. The rules for convening and holding general meetings that arise from law and the Terms of Reference of the general meeting create sufficient possibilities for shareholders to participate in the general meeting in person and use their rights in this respect, and the Company calls general meetings by setting such days and times as to allow broad participation by shareholders. At the same time, shareholders may participate in the general meeting by a proxy.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.
The principle is not followed.
Company's comment: The current ownership structure of the Company does not justify the need to ensure publicly available real-time broadcasts of general meetings. The principle is not followed by the Company also due to the high cost of ensuring appropriate equipment and the technical resources needed to meet the obligations implied by this principle – such cost would be out of proportion to the potential benefits that might flow to shareholders. In this regard, the Company compiles with the applicable provisions of its Articles of Association and law, and operates an appropriate information policy. This ensures proper and effective exercise of rights from shares, and sufficiently safeguards the interests of all shareholders, including minority shareholders.

IV.Z.3. Presence of representatives of the media should be allowed at general meetings.
<u>The principle is not followed.</u>
Company's comment: The Company might allow presence of media representatives at general meetings subject to prior authorisation. Irrespective of the above, in the case of any questions regarding general meetings addressed to the Company by media representatives, the Company immediately provides relevant answers. The Company fulfils the information obligations imposed on listed companies in accordance with the applicable laws, comprehensively and reliably, and operates an intensive communication policy;.

IV.Z.12. The management board should present to participants of an ordinary general meeting the financial results of the company and other relevant information contained in the financial statements to be approved by the general meeting.
<u>The principle is not followed.</u>
Company's comment: Due to the fact that the Company's financial results and other key details contained in the financial statements, subject to approval by the general meeting, are available on the Issuer's website from the day of their publication through the ESPI system, the Management Board will not present those data in detail during general meetings. Instead, the Management Board will answer shareholders' questions;

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

<u>The principle is not followed.</u>
Company's comment: In the Company's situation, achieving long-term business, economic and financial objectives of the Company by implementing incentive schemes based on options or other financial instruments linked to the Company's shares does not require the Company prior introduction of a fixed period between the allocation of such instruments and their exercisability. Accordingly, in the case of the incentive scheme introduced at the Company, the above principle will not be followed.

4.4 <u>Internal control and risk management</u>

Due to its size, the Company does not have a separate internal audit unit. Internal audit tasks have been divided and allocated to the bodies and functions indicated below. Effective functioning of the system of internal control over financial reporting is the direct responsibility of the Company's Management Board. In 2019, the Company had a financial department and a legal department whose respective roles was to support the internal control process, among other things. In addition, some internal control tasks (testing the Company's operations for compliance with law) are performed by the Head of the Project Management Office. Keeping the books of account was entrusted to a third party which has appropriate qualifications, knowledge and experience. Responsibility for performance of duties relating to accounting rests on members of the Management Board of the Company (they are also responsible for exercising oversight over delegation of the account-keeping to a third party). In addition, members of the Management Board and members of the Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act. Members of the Management Board and members of the Supervisory Board are jointly and severally liable to the Company for any damage caused by their acts and omissions in relation to the above responsibilities.

The Company's internal control system mainly includes the following areas:

– controlling and management accounting

– accounting, including financial reporting

– forecasting and financial analyses.

As part of the internal control and risk management system there are organizational solutions and corporate standards/ procedures in place that support effectiveness of the control over financial reporting and identification/ elimination of risk factors in this area. The following measures should be noted:

– harmonized accounting policies, financial reporting and accounting procedures;

– application of a standardized financial reporting model for external and internal purposes – operational management;

– division of roles and responsibilities of individual departments (including the external accounting function), and the middle and upper management;

– regular and formalized process of reviewing and updating the budget assumptions and financial projections;

– having the financial accounts reviewed and audited by an independent auditor.

The Company keeps abreast of the legal developments relating to the stock exchange reporting and makes sure it is prepared for their implementation comfortably in advance.

Vertical functional control is performed daily by the managers of individual departments in relation to the employees and processes within their areas of responsibility.All the Company's cost-related documents are confirmed by the person responsible for the purchase (expert approval) and verified by the Financial Manager (horizontal check, including the check for compliance of the expenditure with the budget). If the costs are related to a public grant to a project, the documents are additionally verified by the Head of the Project Management Office. Once verified, the documents are subject to final approval by the Management Board. Any documents not approved according to the above procedure cannot be booked or sent for payment. The final (additional) stage of the ongoing verification is the formal check of accounting documents carried out by third party responsible for account-keeping. This is carried out using Standard ERP IT system, which guarantees high efficiency of the process both in terms of internal control and work organization. This system prevents, for example, the posting and payment of documents not approved in the above procedure.

Each month, upon closing on the books of account, a management report is put together with details on the key financials. The Management Board and unit managers analyse and discuss the Company's performance on an ongoing basis.

Each quarter, interim financial reports are drawn up in cooperation with the third party responsible for account-keeping. Next, the reports are verified by the financial manager of the Company (at the first stage) and by the Management Board. Furthermore, each quarter, the Company's Management Board verifies the reliability and currency of the annual budgets and short-term projections. Where appropriate, the Management Board liaises with the management of individual departments to review and update the budget assumptions.

4.5 Shareholders

Major shareholders are indicated in item 3.1. (link).

The list of shares held by members of the Management Board and Supervisory Board is presented in item 3.2 (link).

4.6 Special control rights

Not applicable. The Issuer has not any issued securities that would give special control rights.

4.7 Restrictions of voting rights

The Issuer's Articles of Association do not provide for any restrictions on the exercise of voting rights attached to shares.

4.8 Restrictions as to the transfer of debt securities

The Issuer's Articles of Association do not provide for any restrictions as to the transfer of ownership of the rights attached to shares or other securities of the Issuer.

In relation to the shares that will be handed over to eligible persons under the incentive scheme (for 2019), lock-up agreements will be signed to limit the possibility of selling these shares.

4.9 Appointment of members of management bodies

The Management Board members are appointed and removed by the Supervisory Board (§ 20 of the Articles of Association).

The Management Board runs the Issuer’s affairs and represents the Issuer.

The powers the Management Board result from applicable law (including the Polish Commercial Companies Code) and the Issuer's Articles of Association. The powers of the Management Board include all matters not reserved for the General Meeting or the Supervisory Board (§ 21(1) of the Articles of Association).

4.10 Amendments to the Articles of Association

Any amendments to the Issuer's Articles of Association require a resolution by the General Meeting adopted by a majority of three quarters of votes, and need to be recorded in the register of entrepreneurs of the National Court Register – in accordance with Article 430 § 1 and Article 415 § 1 of the Commercial Companies Code.

According to Article 446 § 1 of the Commercial Companies Code, until 19 April 2020, the Management Board could decide to issue new shares and amend the Articles of Association in connection with an increase in the Issuer's share capital, within the authorized capital specified in the Company's Articles of Association. Another authorization for the Management Board to issue new shares within the authorized capital requires the prior amendment of the Articles of Association.

In the Reporting Period, two amendments to the Issuer's Articles of Association were made. The amendments were registered as follows:

– on 10 July 2019 – in connection with the issue of series P shares, conditional issue of series R shares and subscription warrants, and other housekeeping amendments to the Articles of Association;

– on 29 August 2019 – in connection with the issue and hand-over of series S shares within the authorized capital.

4.11 Brief of the General Meeting

The brief of the General Meeting of Shareholders and the basic rights and obligations of shareholders in terms of participation in the General Meeting are set out in the Commercial Companies Code, the Articles of Association and the Terms of Reference of the General Meeting available at: https://ir.xtpl.com/pl/materialy/korporacyjne/

Detailed powers of the General Meeting are indicated in Chapter III of the Articles of Association in the part relating to the General Meeting (§12–§16) and in Article 393 et seq. of the Commercial Companies Code.

4.12 Supervisory Board and committees

The Supervisory Board consists of 5 to 7 members. Members of the Supervisory Board are appointed and removed by the General Meeting. Members of the Supervisory Board shall be appointed for a joint, three-year term of office.

The Supervisory Board of the current term of office was appointed by resolution of the Annual General Meeting of Shareholders of XTPL S.A. of 30 June 2017.

Composition of the Supervisory Board:

As at the Balance Sheet Date:	As at the Report Date:
Wiesław Rozłucki – Chairman of the Supervisory Board, an independent SB member	Wiesław Rozłucki – Chairman of the Supervisory Board, an independent SB member
Bartosz Wojciechowski – Deputy Chairman of the Supervisory Board	Bartosz Wojciechowski – Deputy Chairman of the Supervisory Board
Konrad Pankiewicz	Konrad Pankiewicz
Piotr Lembas – an independent SB member	Piotr Lembas – an independent SB member
Sebastian Młodziński*	Herbert Wirth **– an independent SB member

* until 9 January 2020
** from 10 January 2020.

In the Reporting Period there were no changes in the Supervisory Board.

On 9 January 2020, Sebastian Młodziński resigned from the Supervisory Board, and by the General Meeting's decision was replaced by Herbert Wirth as of 10 January 2020.

The brief of the Supervisory Board is determined by Polish Commercial Companies Code, the Articles of Association and the Terms of Reference of the Supervisory Board available at the Issuer's website at: https://ir.xtpl.com/pl/materialy/korporacyjne/

Detailed powers of the Supervisory Board are indicated in Chapter III of the Articles of Association in the part relating to the Supervisory Board and in Article 381 et seq. of the Commercial Companies Code.

In addition to the audit committee described in point 4.14 (link), no committees have been set up within the Issuer's Supervisory Board.

4.13 Management Board

The Management Board consists of 1 to 5 members. Members of the Management Board are appointed and dismissed by the Supervisory Board. Members of the Management Board are appointed for a joint, three-year term of office.

The Management Board of the current term of office was appointed by a resolution of the Supervisory Board of 24 April 2017.

Composition of the Management Board:

As at the Balance Sheet Date:	As at the Report Date:
Filip Granek – Management Board President	Filip Granek – Management Board President
Maciej Adamczyk – Management Board Member*	

In the Reporting Period there were no changes in the Management Board.

On 27 February 2020, Maciej Adamczyk resigned from the Management Board.

The brief of the Management Board is determined by Polish Commercial Companies Code and the Articles of Association available at the Issuer's website at: https://ir.xtpl.com/pl/materialy/korporacyjne/

Detailed powers of the Management Board are indicated in Chapter III of the Articles of Association in the part relating to the Management Board (§20–22) and in Article 368 et seq. of the Commercial Companies Code.

4.14 Audit Committee

General information and composition of the Audit Committee:

By resolution of 5 June 2018, pursuant to Article 128(1) of the Act on statutory auditors, audit firms and public oversight of 11 May 2017 ("Statutory Auditors Act"), the Supervisory Board set up an Audit Committee at the Company.

The brief of the Audit Committee is set out in the "Terms of Reference of the Audit Committee of XTPL S.A." adopted by the Supervisory Board by Resolution of 5 June 2018.

The powers and duties of the Audit Committee provided for by law are performed by the Issuer's Audit Committee as of 20 February 2019 – i.e. from the date when the Issuer's shares were admitted to trading on the regulated market and when the Issuer obtained the status of a public interest entity.

The Audit Committee consists of three members.
Composition of the Audit Committee:

As at the Balance Sheet Date:	As at the Report Date:
Wiesław Rozłucki – Chairman of the Audit Committee – independent AC member	Wiesław Rozłucki – Chairman of the Audit Committee – independent AC member
Piotr Lembas – independent AC member	Piotr Lembas – independent AC member
Sebastian Młodziński	Herbert Wirth – independent AC member

Independent members of the Audit Committee:

As at the Report Date, all Members of the Audit Committee (Wiesław Rozłucki, Piotr Lembas and Herbert Wirth) meet the independence criteria indicated in Article 129(3) of the Act on Statutory Auditors and have made appropriate statements in this respect.

Knowledge and skills of the Audit Committee members:

Piotr Lembas has knowledge and skills of accounting. His background is described below.

He has a degree in Finance and Accounting, the Faculty of Management, Computer Science and Finance of the University of Economics in Wrocław.

Then he earned a degree in Master Studies in Finance, a CFA affiliate programme. He holds the Chartered Financial Analyst (CFA) certificate (no. 200403).

Earlier, in 2013-2015, Piotr Lembas worked with EY Corporate Finance as a senior consultant. For nearly two years (2015–2017), he worked in the financial department of the Adiuvo Investments S.A. Group, where he supported the financial director in the preparation of financial statements for the purpose of fulfilment of the obligations of WSE listed entities.

Prof. Herbert Wirth, BEng, PhD, DSc, has knowledge and skills relating to the industry in which the Issuer operates. His background is described below.

XTPL S.A. operates in the materials technology industry. Research and development is the key field of its operations. The buyers of the Company's products and services are large international corporations operating outside the country (international trade).

Professor Herbert Wirth has knowledge of the materials technology industry (Master of Science, PhD, AGH University of Science and Technology in Kraków and current professor at the Wrocław University of Technology) and in the business administration industry (completed postgraduate studies in project management at George Washington University, School of Business and Public Management).

Professor Herbert Wirth also has skills in the field of material technologies as well as international trade management of global corporations (e.g. acquired while serving as the CEO of KGHM). In addition, he has experience in research and development – he held managerial functions at Cuprum sp. z o.o. (R&D Center) and served as Head of Development and Project Management at KGHM).

In addition, Herbert Wirth has a number of certificates and qualifications related to quality management, including quality auditor No. 2 5 / DA/PC01-BLXV-6/2000, issued by the Polish Center for Testing

and Certification (PCBC) and EOQ Quality Auditor certificate No. PCBC01A-313, issued by European Organization for Quality.
He is the author and co-author of a number of scientific articles, publications and books in the area of resource management and business economics, among other things.

<u>Provision of authorised non-audit services by the auditor:</u>

In the Reporting Period, the auditor of the Issuer's financial statements did not provide any permitted non-audit services to it.

<u>Auditor selection:</u>

The Issuer's Supervisory Board selected an auditor to audit the Company's financial statements and carry out a review of the interim financial statements for the years 2019–2020 by resolution of 16 July 2019. The selected auditor is 4AUDYT sp. z o.o. having its registered office in Poznań.

The selection was preceded by a tender procedure (in accordance with the policy and procedure on selection of an audit firm). Invited to submit their bids were also audit firms which obtained less than 15% of their total audit fees from public interest entities in Poland in the previous calendar year. The bid evaluation procedure contained transparent and non-discriminatory selection criteria. The recommendation regarding the selection of the audit firm to conduct the audit complied with the binding conditions and was made under a selection procedure arranged by the Issuer in accordance with the applicable criteria.

<u>Policy and procedure on selection of an audit firm:</u>

The Audit Committee adopted the policy and procedure on selection of an audit firm to audit stand-alone and consolidated financial statements, which is available on the Issuer's website at: https://ir.xtpl.com/pl/materialy/korporacyjne/

The purpose of the auditor selection policy and procedure is to define transparent and non-discriminatory rules rules for the process leading to submission by the Audit Committee, free from any influence by third parties, recommendations regarding the audit firm, and the selection by the Supervisory Board of an independent and competent audit firm to conduct the audit.

The Company may invite any audit firms to submit their proposals for a statutory audit provided that this is not in breach of Article 17(3) of Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation No 537/2014), which applies to the maximum duration of an audit engagement with a particular audit firm; organisation of the tender procedure does not preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from public interest entities in the Member State concerned in the previous calendar year, as specified in the list of audit firms referred to in Article 91 of the Statutory Auditors Act; this is not in breach of the provisions which are the basis for provision of non-audit services by the audit firm, including Article 5 of Regulation No 537/2014 and Article 136 of the Statutory Auditors Act, which relate to prohibited services.

When selecting an audit firm, the Supervisory Board acts on the basis of the below criteria and recommendations from the Audit Committee. In the case of selection of an audit firm to conduct a statutory audit for the Issuer, except in the situation when the audit engagement is extended, the Audit Committee presents a recommendation to the Supervisory Board containing in particular:
– at least two possible choices for the audit engagement and a duly justified preference for one of them indicated to the Audit Committee;
– a statement that the recommendation is free from any undue influence by third parties;
– a statement that the Company has not entered into any agreements containing clauses referred to in Article 66(5a) of the Accounting Act.

The recommendation of the Audit Committee is made following a tender procedure, using the procedure described in detail in the said policy.

The Supervisory Board, when selecting an audit firm, and the Audit Committee, when drawing up the recommendation, may take into account the following criteria in particular (details shall be determined in the tender documentation): the audit firm's prior experience in conducting audits of financial statements and consolidated financial statements of companies, including public companies; the audit firm's capacity, including in terms of HR and organisation, to ensure full range of services specified by the Company in the request for proposal, taking into account the professional nature of this activity; the price proposed by the audit firm; a possibility to conduct the audit within the time limit specified by the Company in the request for proposal; the audit firm's impartiality and independence in relation to the Company and the Group, within the meaning of the Act, in particular Article 69–73 of the Statutory Auditors Act; having the rights and authority to carry out the audit in accordance with the Statutory Auditors Act; satisfying the conditions to be able to issue an unbiased opinion in accordance with the Statutory Auditors Act; compliance with the conditions for the rotation of the audit firm and the key statutory auditor in accordance with the Statutory Auditors Act and Regulation No 537/2014; compliance by the audit firm with the standards pertaining to the audit of financial statements; other justified criteria, indicated at the discretion of the Audit Committee and the Supervisory Board.

When selecting an audit firm, the Supervisory Board uses the following rules: the rule of rotating the audit firm, based on which the maximum duration of uninterrupted statutory audit engagements with the same audit firm or an audit firm connected with such audit firm or any member of its network in the EU to which these audit firms belong, may not exceed 10 years; the rule of a cooling off period, based on which after the maximum period of uninterrupted duration of the audit engagement the current audit firm shall not carry out any statutory audit for the Company over the following 4 years; the rule of rotating the key statutory auditor, based on which the key statutory auditor may not carry out statutory audits at the Company for a period longer than 5 years. The key statutory auditor may carry out a statutory audit of the Company again after at least 3 years following the end of the last statutory audit. The rule is to select an audit firm for a minimum period of two years.

<u>Permitted non-audit services policy</u>

The Audit Committee adopted the policy on provision by the audit firm which conducts an audit, by its affiliates and by members of its network, of permitted non-audit services. The policy is available on the Issuer's website at https://ir.xtpl.com/pl/materialy/korporacyjne/
https://ir.xtpl.com/pl/materialy/korporacyjne/

The policy reflects the provisions of Regulation No 537/2014 and the Statutory Auditors Act.

The policy on provision by the audit firm which conducts an audit, by its affiliates and by members of its network, of permitted non-audit services provides that the Audit Committee issues a decision with consent to the provision of non-audit services after assessing whether the service is permitted, whether the service is not prohibited and whether there are any threats to the independence of the audit firm. The Audit Committee communicates its decision immediately to the Supervisory Board and the Management Board of the Company. Permissible services may be provided to the extent not related to the tax policy of the Company and after the Audit Committee has carried out an assessment of risks and independence safeguards.

The statutory auditor or audit firm carrying out the statutory audit of the Company and members of their networks, or entities connected with the statutory auditor or audit firm, may not provide the Company, its parent company or entities controlled by it with any prohibited services other than financial audit in the following periods: from the beginning of the audited period to the issuance of an audit report and in the financial year immediately preceding the above period, with respect to services related to development and implementation of internal control procedures and risk management procedures connected with preparation or control of financial information or development and implementation of technological systems related to financial information.

<u>Audit Committee meetings:</u>

During the Reporting Period, the Audit Committee held 7 meetings, including using means of direct remote communication.

During the meetings, the Audit Committee, *inter alia*:

– adopted the annual Audit Committee's work plan
– reviewed the accounting and financial reporting process
– discussed the monitoring of risk management processes
– assessed the effectiveness of risk management in the Company and made related recommendations
– discussed the financial performance for Q1, Q2 and Q3
– adopted a resolution on adoption of the report on the activities of the XTPL Audit Committee for the period from 05/06/2018 to 31/12/2018

- considered the financial statements of XTPL S.A. for the financial year of 2018
- discussed the Management Board on the activities of XTPL S.A. and discussed the work of the Management Board of XTPL S.A. in the financial year 2018;
- discussed the additional report presented to the Audit Committee
- adopted a resolution on the "Information for the Supervisory Board of XTPL S.A. about audit results, and explaining how the audit has contributed to the reliability of financial reporting, and what role the Audit Committee has played in the audit process"
- adopted a resolution on presentation to the Supervisory Board of XTPL S.A. of a recommendation regarding assessment of the financial statements of XTPL S.A. for the financial year 2018
- adopted a resolution on presentation to the Supervisory Board of XTPL S.A. of a recommendation regarding assessment of the Management Board's report on the activities of XTPL S.A. for 2019
- discussed the issue of internal audit in the Company
- discussed the description of management risks other than financial reporting and assessed the monitoring of those risks
- assessed the correctness of communication to shareholders
- discussed the tender procedure
- discussed the auditor selection procedure;
- discussed the submitted bids and results of the tender procedure;
- discussed the recommendation to the Supervisory Board regarding selection of the audit firm which the Audit Committee plans to entrust with the statutory audit/ limited reviews of financial statements
- adopted a resolution on the "Recommendation made to the Supervisory Board regarding selection of the audit firm which the Audit Committee plans to entrust with the statutory audit/ limited reviews of financial statements".

In addition, discussions were held with the auditor regarding the issue of the auditor's independence, the strategy performing financial statements audit and the objectives and scope of the audit. The level of materiality of the audit and how it was determined were also discussed with the auditor.

A detailed description of the activities of the Audit Committee during the Reporting Period will be presented in the report on the activities of the Audit Committee, which will be a part of the report on the activities of the Supervisory Board (it will be made available in the materials relating to the convocation of the Annual General Meeting).

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Annual stand-alone financial statements

5 Annual stand-alone financial statements

5.1 Period covered by the financial statements

These financial statements cover the period of 12 months ended 31 December 2019 and the data as of that date.

5.2 Comparable data

The statement of comprehensive income, the statement of cash flows and the statement of changes in equity cover the data for the 12 months ended 31 December 2019 as well as comparative data for the period of 12 months ended 31 December 2018. The statement of financial position covers the data presented as at 31 December 2019, and comparative data as at 31 December 2018.

5.3 Identification of consolidated financial statements

These are stand-alone financial statements. As at 31 December 2019, the entity had a subsidiary and prepares consolidated financial statements, which are presented in a separate chapter.

5.4 Notes

Notes are an integral part of these financial statements.

5.5 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.

5.5.1 FX rates

The following exchange rates were adopted for the purpose of preparing the financial statements:

	2019 January–December		2018 January–December	
exchange rates used in the financial statements	EUR	USD	EUR	USD
for the balance sheet items	4.2585	3.7977	4.3000	3.7597
for profit or loss and cash flow items	4.3018	3.8440	4.2669	3,6227

5.6 Basis of preparation

These financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the EU. Taking into account the ongoing IFRS implementation process in the EU, as regards the Company's operations there is no difference between the already implemented IFRS and the IFRS approved by the EU for the financial year ended 31 December 2018. IAS and IFRS include the standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee (IFRIC).

5.6.1 New and amended IFRSs

Presented below are new or amended provisions of IFRSs / IASs and IFRIC interpretations that were adopted in the EU and applied by the Company since 1 January 2019:

- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures (published on 12 October 2017).

The amendments clarify that IFRS 9 "Financial Instruments" applies to long-term interests in associates and joint ventures. Long-term interests are interests which in their economic substance are a part of a new investment rather than being accounted for using the equity method.

- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (published on 7 February 2018)

These amendments to IAS 19 require the entity to apply the updated assumptions used for the purpose of measurement to determine current service costs and the net interest on the net liability (asset) in respect of certain benefits for the remainder of the reporting period after the plan change.

- Improvements to IFRSs 2015-2017 Cycle (published on 12 December 2017)

The improvements clarify that a previously held interest in a joint operation is not remeasured; the income tax consequences of dividends are recommended to be recognized in profit or loss, other comprehensive income or equity. In addition, as at the date of obtaining control, the acquiring entity should remeasure its previously held share in a joint operation at fair value.

- IFRIC 23 Uncertainty over Income Tax Treatments (published on 7 June 2017)

It clarifies the recognition and measurement requirements contained in IAS 12 Income Tax where there is uncertainty over the income tax treatment.

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

Its scope includes the classification and valuation of financial instruments, impairment of financial assets and other credit risk exposures, such as, for example, lease receivables or contract assets and hedge accounting.

- IFRS 16 Leases (published on 13 January 2016).

The new requirements eliminate the concept of operating lease, and thus the off-balance sheet recognition of assets held under operating lease contracts. The standard introduces a single lease concept. All assets and related obligations to pay rentals will have to be recognized in the balance sheet. This will change the basis for calculating commonly used financial ratios, including the debt ratio and EBITDA.

The adoption of the above amendments in standards did not cause any changes in the Company's accounting policy or in the presentation of data in the financial statements, except for the application of IFRS 16 Leases as of 1 January 2019.

<u>Presented below are new or amended provisions of IFRSs / IASs and IFRIC interpretations that were adopted in the EU and applied by the Company since 1 January 2020:</u>

- Amendments to References to the Conceptual Framework in IFRS/IASs (29 March 2018) – effective for reporting periods commencing on or after 1 January 2020.

- Amendments to IAS 1 and IAS 8 – definition of “material” (of 31 October 2018) – effective for reporting periods commencing on or after 1 January 2020.

- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest Rate Benchmark Reform* (of 26 September 2019) – applicable to reporting periods commencing on or after 1 January 2020.

<u>The following standards and interpretations have been issued by the International Accounting Standards Board, but have not been approved by the EU yet:</u>

• IFRS 17 Insurance Contracts (published on 18 May 2017) – applicable to reporting periods commencing on or after 1 January 2021.

• Amendments to IFRS 3 Business Combinations (published on 22 October 2018) – applicable to reporting periods commencing on or after 1 January 2020 (the required period for verification by the European Parliament will end in mid-March 2020).

• Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current or non-current (published on 23 January 2020)

The effective dates are the dates arising from the standards published by the International Financial Reporting Board. The effective dates of the standards in the European Union may differ from the effective dates arising from the standards and are announced upon the adoption of the standards by the European Union.

Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leases (IFRS 16), which replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosures.

IFRS 16 introduces a single model of the lessee's accounting and requires the lessee to recognize assets and liabilities arising from each lease whose period exceeds 12 months, unless the underlying asset is of low value. At the lease commencement date the lessee recognizes a right-of-use asset and a lease liability which reflects its obligation to make lease payments.

The lessee separately recognizes depreciation of the right-of-use asset and interest on the lease liability. The lessee updates the valuation of the lease liability following certain events (e.g. changes in lease period, changes in future lease payments resulting from the change in the index or the rate used to determine these charges). In principle, the lessee separately recognizes update of the lease valuation liability as an adjustment to the value of the right-of-use asset.

5.6.2 The effect of applying IFRS 16

Selected accounting policies

IFRS 16 “Leases" published on 13 January 2016, was adopted by the European Union on 31 October 2017.
As of 1 January 2019, the Company applied the requirements of the new Standard relating to the recognition, measurement and presentation of lease contracts. The new Standard was applied in accordance with the transitional provisions contained in IFRS 16.
The Company implemented IFRS 16 using a modified retrospective approach, therefore, comparative data for 2018 were not restated.
As at the date of the report, the Company identified a lease contract for office and laboratory space, and a lease contract for specialized equipment. Due to the commercial terms applicable to these agreements

and the practical expedient provided for by the Standard, the Company excluded them from disclosure and continues to measure them as before through profit or loss.
The Company assumes that for contracts concluded for an indefinite period, with a notice period of less than 12 months but not meeting the definition of a lease, the practical expedient under IFRS 16 can be used.

Company as a lessee

Identification of lease

The Company applied the new guidelines for the identification of leases only in relation to the contracts it signed (or amended) on the day of its first application, i.e. on or after 1 January 2019. Thus, in relation to all the leases concluded before 1 January 2019, the Company applied the practical expedient provided for in IFRS 16, according to which the entity is not obliged to reassess whether a contract is or contains a lease at the date of initial application. As at 1 January 2019, the Company applied IFRS 16 to the contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.
At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:
a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
b) the right to direct the use of the identified asset.
If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.
Rights arising from a lease, rental or similar contracts which meet the definition of a lease in accordance with the requirements of IFRS 16 are recognized as right-of-use assets relating to underlying assets as part of fixed assets, and on the other side as lease liabilities.

Initial recognition and measurement

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability.
At the commencement date, the Company measures the right-of-use asset at cost.
The cost of the right-of-use asset comprises:
a) the amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the lessee; and
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.
The lease payments included in the measurement of the lease liability comprise the following payments:
– fixed payments;
– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable by the lessee under residual value guarantees;
– the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
– payments of penalties for terminating the lease, unless the Company is reasonably certain not to exercise that option.

Variable lease payments that depend on an index are not reflected in the lease liability. These payments are recognized in profit or loss in the period of the event that causes them to be payable.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date, discounted using the lessee's incremental borrowing rate.

The Company does not discount lease liabilities using lease interest rates because for the purpose of determining this rate it would need to have information on unguaranteed residual value of the leased asset and any direct costs incurred by the lessor, i.e. information that can only be known to the lessor.

Determining the lessee's incremental borrowing rate

Incremental borrowing rates were determined as the sum of:

a) risk free rate, determined on the basis of the IRS (Interest Rate Swap) in accordance with the maturity of the discount rate and the appropriate base rate for the particular currency; and

b) the Company's credit risk premium based on the credit margin calculated taking into account the credit risk segmentation of all companies in which leasing contracts have been identified.

Subsequent measurement

After the commencement date, the lessee measures the right-of-use asset applying a cost model.

To apply a cost model, the lessee measures the right-of-use asset at cost:

a) less accumulated depreciation and accumulated impairment losses; and

b) adjusted for any remeasurement of the lease liability not resulting in the need to recognize a separate lease component.

After the commencement date, the lessee measures the lease liability by:

a) increasing the carrying amount to reflect interest on the lease liability;

b) reducing the carrying amount to reflect lease payments made; and

c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to take into account substantially fixed lease payments.

The Company remeasures the lease liability to reflect a reassessment when a change occurs in future lease payments resulting from a change in the index or the rate used to determine the payments (e.g. a changes is made to the fee in the right of perpetual usufruct), when the amount changes that the Company expects to receive under the guaranteed residual value or if the Company changes the assessment of the likelihood of using the option of purchase, extension or termination of the lease.

The remeasurement of the lease liability also results in adjustment of the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognizes any remaining amount of the remeasurement in profit or loss.

Depreciation

Right-of-use assets are depreciated on a straight line basis over the shorter of the two periods: lease period or the period of use of the underlying asset, unless the Company is reasonably certain that it will acquire ownership of the asset before expiry of the lease, in which case the right-of-use asset is depreciated from commencement of the lease to the end of the asset's period of use. The estimated period of use of right-of-use assets is determined in the same way as for property, plant and equipment.

Impairment

The Company applies IAS 36 Impairment to determine whether a right-of-use asset is impaired, and to recognize any identified impairment loss.

Simplifications and practical expedients in the application of IFRS 16

Short-term lease

The Company applies a practical expedient in relation to short-term lease contracts which are characterized by the maximum possible lease duration, including renewal options, of up to 12 months.

Simplifications related to these contracts consist in the accounting for lease payments as costs:

– on a straight-line basis, for the duration of the lease term; or

– another systematic basis, if that basis is more representative of the pattern of the lessee's benefit.

Lease of low-value assets

The Company does not apply the general principles for recognition, measurement and presentation contained in IFRS 16 to low-value lease contracts.

Low value assets are assets which, when new, have a value not higher than PLN 18,799, converted at the exchange rate from the date of first use, i.e. 1 January 2019 (equivalent to USD 5,000) or the equivalent in another currency at the average closing rate of the country's central bank at the time of the initial recognition of the contract.

Simplifications related to these contracts consist in the accounting for lease payments as costs:

– on a straight-line basis, for the duration of the lease term; or

– another systematic basis, if that basis is more representative of the pattern of the lessee's benefit.

The subject of the lease cannot be classified as a low value asset if the nature of the asset is such that, when new (unused), the asset is typically not of low value.

An underlying asset can be of low value only if:

a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

b) the underlying asset is not highly dependent on, or highly interrelated with, other assets.

Determining the leasing term: contracts for an indefinite period

When determining the leasing terms for contracts for an indefinite period, the Company uses professional judgment, considering:

– expenditure incurred in connection with the contract; or

– potential costs related to the termination of the lease, including the costs of acquiring a new lease contract, such as negotiation costs, relocation costs, the costs of identifying another underlying asset that meets the needs of the lessee, the costs of integrating the new asset with the lessee's activities and penalties for termination and similar costs, including costs related to the return of the underlying asset in the condition specified in the contract or to the place indicated in the contract.

If the costs related to the termination of the lease are material, the lease term is assumed to be equal to the adopted depreciation period for a similar fixed asset with parameters similar to those of the subject of the lease.

Insofar as the costs related to the termination of the lease can be reliably determined, a lease period is set for which termination of the contract will not be justified.

If the expenditure incurred in connection with a given contract is material, the lease term is taken to be equal to the expected period of obtaining economic benefits from the use of the expenditure incurred.

The value of the expenditure is an asset distinct from the right-of-use asset.
In the absence of expenditures incurred in connection with a given lease or the lack of costs associated with termination of the lease, or in the event that they are of insignificant value, the period of termination of the lease contract is taken to be the lease term.

5.7 Going concern

These financial statements have been prepared on the assumption that the Company will continue in operation for at least 12 months after the balance sheet date. Given the Company's market development stage (no significant revenue from the sale of products and services, with activity financed from equity and grants), the ability to continue operations depends to a large extent on the ability to raise further financing, primarily through the issue of shares to finance subsequent stages of commercialization of the technology developed by the Company. The Management Board of XTPL S.A. estimates that to carry out the planned activities over the next 12 months, it will need PLN 5 million.

The Management Board believes that in the current economic situation (COVID-19 pandemic), a significant share issue in the first half of 2020, addressed to a wide group of investors, might not be the most effective way of raising finance. Hence, the Company focuses on acquiring financing which will enable it to conduct research and development activities and business development at least until the beginning of 2021, and will consider a share issue addressed to a wide group of investors once the market situation stabilizes.

5.8 Approval of the financial statements

This financial report for the period from 1 January 2019 to 31 December 2019 was approved for publication by the XTPL Management Board on 23 April 2020.

5.9 Annual stand-alone statement of financial position

ASSETS	NOTE	31.12.2019	31.12.2018
Non-current assets		**3,658**	**3,931**
Property, plant and equipment	4,5,6,7,8,9	646	757
Intangible fixed assets	1,2,3	2,721	2872
Deferred tax assets	16	-	69
Non-current receivables	13	291	233
Current assets		**5,134**	**6,038**
Trade receivables	18	1	8
Other receivables	19	935	478
Cash and cash equivalents	20	4,153	5,537
Other assets		46	15
Total assets		**8,792**	**9,969**

EQUITY AND LIABILITIES	NOTE	31.12.2019	31.12.2018
Total equity		**6,892**	**8,937**
Share capital	22	190	178
Supplementary capital		18,726	16,340
Reserve capital		13,026	-
Retained profit (loss carried forward)		-372	-372
Profit (loss) after tax		-24,678	-7,209
Non-current liabilities		**-**	**1**
Non-current financial liabilities		-	1
Current liabilities		**1,900**	**1,031**
Trade liabilities	25	1,018	366
Current financial liabilities	29	1	25
Other liabilities	26	881	640
Total equity and liabilities		**8,792**	**9,969**

5.10 Annual stand-alone statement of comprehensive income

STATEMENT OF COMPREHENSIVE INCOME	NOTE	1.01.2019 - 12.12.2019	1.01.2018 - 31.12.2018
Continued operations			
Sales	39	**2,063**	**2,267**
Revenue from research and development services			
Revenue from the sale of products			
Revenue from grants	39	2,063	2,267
Cost of sales	42	**7,316**	**3,076**
Research and development expenses		7,316	3,076
Cost of finished goods sold			
Gross profit (loss)		**-5,253**	**-809**
General and administrative expenses	42	15,914	6,435
Other operating income	46	5	7
Other operating costs	47	10	6
Operating profit (loss)		**-21,171**	**-7,243**
Financial revenues	48	197	54
Financial expenses	49	3,635	54
Profit/ loss before tax		**-24,609**	**-7,243**
Income tax	16.28	69	-34
Net profit (loss) on continued operations		**-24,678**	**-7,209**
Discontinued operations		-	-
Net profit (loss) on discontinued operations			
Net profit (loss) on continued and discontinued operations		**-24,678**	**-7,209**
Other comprehensive income		-	-
Total comprehensive income		-24,678	-7,209
Net profit (loss) per share (in PLN)			
On continued operations			
Ordinary		-12.96	-4.04
Diluted		-12.96	-4.04
On continued and discontinued operations			
Ordinary		-12.96	-4.04
Diluted		-12.96	-4.04
number of shares		1,904,222	1,783,620

5.11 Annual stand-alone statement of changes in equity

STATEMENT OF CHANGES IN EQUITY	Share capital	Supplementary capital	Reserve capital	Retained profit (loss carried forward)	Total
As at 1 January 2019	**178**	**16,340**	**-**	**-7,581**	**8,937**
Comprehensive income:	**-**	**-**	**-**	**-24,678**	**-24,678**
Profit (loss) after tax	-	-	-	-24,678	-24,678
Other comprehensive income	-	-		-	-
Transactions with owners:	**12**	**2,386**	**13,026**	**7,209**	**22,633**
Issue of shares	12	9,595	-	-	9,607
Incentive scheme	-	-	13,026	-	13,026
Distribution of profit	-	-7,209	-	7,209	-
As at the Balance Sheet Date	**190**	**18,726**	**13,026**	**-25,050**	**6,892**
As at 1 January 2018	**170**	**11,381**	**-**	**-4,334**	**7,217**
Comprehensive income:	-	-	-	**-7,209**	**-7,209**
Profit (loss) after tax	-	-	-	-7,209	-7,209
Other comprehensive income	-	-	-	-	-
Transactions with owners:	**8**	**4,959**	**-**	**3,962**	**8,929**
Issue of shares	8	8,921	-	-	8,929
Distribution of profit	-	-3,962	-	3,962	-
As at 31 December 2018	**178**	**16,340**	**-**	**-7,581**	**8,937**

5.12 Annual stand-alone statement of cash flows

STATEMENT OF CASH FLOWS	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Cash flows from operating activities		
Profit (loss) before tax	**-24,609**	**-7,243**
Total adjustments:	**15,944**	**446**
Depreciation/amortization	590	531
FX gains (losses)	21	-
Interest and profit distributions (dividends)	-178	-49
Profit (loss) on investing activities	2,092	-3
Change in the balance of provisions	10	295
Change in the balance of inventories	-	-
Change in the balance of receivables	-468	-205
Change in Current liabilities, except bank and other loans	882	-106
Change in prepayments/accruals	-31	-17
Income tax paid	-	-
Other adjustments	11,587	-
Total cash flows from operating activities	**-8,665**	**-6,797**
Cash flows from investing activities		
Inflows	**52**	**57**
Disposal of tangible and intangible assets	-	3
Interest on financial assets	52	54
Outflows	**2,332**	**2,815**
Acquisition of tangible and intangible fixed assets	328	2,615
Acquisition of financial assets	19	-
Non-current loans granted	1,985	200
Other investment outflows	-	-
Total cash flows from investing activities	**-2,280**	**-2,758**
Cash flows from financing activities		
Inflows	**11,107**	**8,931**
Contributions to capital	9,607	8,931
Bank and other loans	1,500	
Other financial inflows		
Outflows	**1,543**	**29**
Acquisition of own shares	-	-
Payment of dividend	-	-
Repayment of bank and other loans	1,500	-
Finance lease payments	25	25
Interest	18	4
Total cash flows from financing activities	**9,564**	**8,902**
Total cash flows from investing activities	**-1,381**	**-653**
Change in cash and cash equivalents:	**-1,384**	**-673**
– change in cash due to FX differences	-3	-
Cash and cash equivalents at the beginning of the period	**5,536**	**6,189**
Cash and cash equivalents at the end of the period, including:	**4,154**	**5,536**
– restricted cash	-	-

5.13 Notes

Note 1 Intangible fixed assets

OTHER INTANGIBLE ASSETS	31.12.2019	31.12.2018
Acquired concessions, patents, licenses and similar rights	23	2
Intellectual property rights	108	334
In-process development expenditure	2,590	2,536
Total	**2,721**	**2,872**

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 the Balance Sheet Date, the Company did not have any agreements whereby it would be required to purchase any intangible assets.

	31.12.2019	31.12.2018
In-process development expenditure, including:		
cost of employee benefits	1 187	1 187
external services	731	731
raw materials and consumables	589	589
other	83	28
Impairment allowance for intangible assets	-	-
Total	2 591	2 536

In-process development are described in Note 15 of this report.

Note 2. Change in other intangible assets by type

As at 31.12.2019

CHANGE IN OTHER INTANGIBLE ASSETS BY TYPE (except intangible assets under development)	Acquired concessions, patents, licenses and similar rights	Intellectual property rights	Total other intangible assets
Gross value of intangible assets at the beginning of the period	46	1,095	1,141
Increases	30	-	30
Acquisition	30	-	30
Decreases	-	-	-
Gross value of intangible assets at the end of the period	76	1,095	1,171
Accumulated amortization at the beginning of the period	44	761	805
amortization for the period	10	226	236
Increases	-	-	-
decreases	-	-	-
Cumulated amortization at the end of the period	54	987	1,040
impairment allowances at the beginning of the period	-	-	-

impairment allowances at the end of the period	-	-	-
Net value of other intangible assets at the end of the period	23	108	131

As at 31.12.2018

CHANGE IN OTHER INTANGIBLE ASSETS BY TYPE (except intangible assets under development)	Acquired concessions, patents, licenses and similar rights	Intellectual property rights	Total other intangible assets
Gross value of intangible assets at the beginning of the period	41	1,070	1,111
Increases	5	25	30
Acquisition	5	25	30
Decreases	-	-	-
Gross value of intangible assets at the end of the period	46	1,095	1,141
Accumulated amortization at the beginning of the period	33	535	568
amortization for the period	11	226	237
Increases	-	-	-
decreases	-	-	-
Cumulated amortization at the end of the period	44	761	805
impairment allowances at the beginning of the period	-	-	-
impairment allowances at the end of the period	-	-	-
Net value of other intangible assets at the end of the period	2	334	336

Note 3. Amortisation of intangible assets

Amortization of intangible assets is included in the following items as part of the statement of comprehensive income.

ITEM IN THE STATEMENT OF COMPREHENSIVE INCOME	Year ended 31.12.2019	Year ended 31.12.2018
Research and development expenses	37	166
Cost of finished goods sold	–	–
General and administrative expenses	199	71
Total	**236**	**237**

Note 4. Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	31.12.2019	31.12.2018
Tangible assets, including:	646	534
land	-	-
buildings and structures	-	-

technical equipment and machines	387	415
vehicles	1	25
other fixed assets	258	94
Fixed assets under construction	-	223
Property, plant and equipment	**646**	**757**

Note 5. Fixed assets on balance sheet- ownership structure

FIXED ASSETS ON BALANCE SHEET (OWNERSHIP STRUCTURE)	31.12.2019	31.12.2018
Own	645	509
used based on any rental, lease or a similar contract, including:	1	25
finance lease	1	25
Total fixed assets on the balance sheet	**646**	**534**

Note 6. Changes in fixed assets by type

As at 31.12.2019

CHANGES IN FIXED ASSETS BY TYPE (except for fixed assets under construction)	technical equipment and machines	vehicles	other fixed assets	Total fixed assets
Gross value of at the beginning of the period	**828**	**91**	**247**	**1,166**
Increases	**251**	**-**	**269**	**520**
acquisition	251	-	269	520
Decreases	**-**	**-**	**-**	**-**
Gross value at the end of the period	**1,080**	**91**	**516**	**1,687**
Accumulated depreciation at the beginning of the period	**414**	**65**	**152**	**632**
Increases	**279**	**25**	**106**	**409**
amortization for the current period	279	25	106	409
decreases	**-**	**-**	**-**	**-**
Accumulated depreciation at the end of the period	**692**	**90**	**258**	**1,041**
impairment allowances at the beginning of the period	**-**	**-**	**-**	**-**
impairment allowances at the end of the period	**-**	**-**	**-**	**-**
Net value of fixed assets at the end of the period	**387**	**1**	**258**	**646**

As at 31.12.2018

CHANGES IN FIXED ASSETS BY TYPE (except for fixed assets under construction)	technical equipment and machines	vehicles	other fixed assets	Total fixed assets
Gross value of at the beginning of the period	**561**	**91**	**234**	**885**
Increases	**268**	**-**	**13**	**281**
acquisition	268	–	13	281
Decreases	**-**	**-**	**-**	**-**
Gross value at the end of the period	**828**	**91**	**247**	**1,166**

Accumulated depreciation at the beginning of the period	**183**	**41**	**90**	**314**
Increases	**231**	**25**	**63**	**318**
amortization for the current period	231	25	63	318
decreases	**-**	**-**	**-**	**-**
Accumulated depreciation at the end of the period	**414**	**65**	**152**	**632**
impairment allowances at the beginning of the period	**-**	**-**	**-**	**-**
impairment allowances at the end of the period	**-**	**-**	**-**	**-**
Net value of fixed assets at the end of the period	**415**	**26**	**94**	**535**

Note 7. Depreciation of tangible assets

Depreciation of fixed assets is reported in the following items of the statement of comprehensive income.

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME	Year ended 31.12.2019	Year ended 31.12.2018
Research and development expenses	297	149
Cost of finished goods sold	–	–
General and administrative expenses	57	170
Total	**354**	**319**

Note 8. Significant acquisitions of tangible assets

SIGNIFICANT ACQUISITIONS OF TANGIBLE ASSETS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
XTPL printers	273	169
Computer sets	26	69
Server with software	-	30
Pressure control system and other	17	10
Anti-vibration system and laminar chamber	140	-
Office equipment	64	3
Total significant acquisitions	**520**	**281**

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. As at the Balance Sheet Date, the Company did not have any agreements whereby it would be required to purchase any fixed assets.

Note 10. Investment properties

As at the Balance Sheet Date, no investment properties were included in the Company's statement of financial position.

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. Non-current receivables

Non-current receivables	31.12.2019	31.12.2018
Loans granted	239	219
Security deposits	33	14
Shares in the subsidiary	19	-
Total Non-current receivables	**291**	**233**

Note 14. Capital expenditure

CAPITAL EXPENDITURE INCURRED	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
– including on environmental protection		
Expenditures on fixed assets under construction	55	341
Tangible assets purchased	520	220
Intangible assets purchased	30	28
Investments in properties	–	–
Total investments in non-financial fixed assets	**605**	**589**
Loans granted	1,985	200
Acquisition of treasury bills	–	–
Acquisition of shares	19	-
Total investments in financial fixed assets	**2,004**	**200**
Total capital expenditure	**2,609**	**789**

Note 15. Impairment allowance for financial assets, tangible assets, intangible assets or other assets and reversal of the impairment allowance

Intangible fixed assets – development.
As required by IAS 36, the Company's Management Board carried out an impairment test for the Company's assets: in-process development expenditure, by comparing their carrying amount with recoverable amount. As part of the procedure, the management tested all the previous assumptions underlying the decisions to recognize the development expenditure as an asset. The management verified the likelihood and value of future economic benefits, the ability to complete the intangible assets to be available for use or sale, the availability of appropriate technical, financial and other means to be used to complete the development and use or sell the intangible asset as well as the size and possibility of a reliable estimation of the development expenditure incurred during the development project where such expenditure can be allocated to relevant intangible assets. The test was based on a 5-year forecast, with discount rate of 18.3%. The discount rate includes a risk-free rate based on 10Y treasury bonds, a market risk premium based on A. Damodaran's calculations, 1Y WIBOR + commercial banks' margin, and a beta calculated on the basis of the Company's quotations.
The discount rate also takes into account the specific risk of the Company and the premium for the type of assets. The Company did not include the residual value in the test model.
When calculating sales forecasts, account was taken of the fact that the main application field for commercialization based on completed development was the display market (the ODR segment). Two revenue streams were identified: the sale of demonstration printers, supporting the possibility of signing a license agreement, and license fees.
The test results showed that the recoverable amount of intangible assets exceeds their carrying amount, so there is no need to post any impairment allowances for those assets.
The table below presents the sensitivity of the model to the change in the discount rate.

change in WACC						
16,80%	**17,30%**	**17,80%**	**18,30%**	**18,80%**	**19,30%**	**19,80%**
3 521	3 439	3 359	**3 280**	3 204	3 129	3 056

Loan granted to the subsidiary.
Due to the results of the subsidiary XTPL Inc. as the Balance Sheet Date, the Management Board of XTPL S.A. assessed the value of the loans granted to the subsidiary in terms of impairment of assets. The Management Board is of the opinion that the probability of XTPL Inc. obtaining revenues as a result of a license agreement signed by the subsidiary in 2020 is low, and for this reason decided to create a full impairment allowance for the loan value, i.e. PLN 2,092 thousand.

Shares in the subsidiary.
Value of shares in XTPL Inc. increased as a result of the valuation of the incentive scheme. On 31 March 2020, the Company's Management Board and the Supervisory Board, pursuant to the resolution of the EGM of 24 April 2019, granted the employees and collaborators of the Company the right to acquire 36,900 shares

and 21,530 warrants. Out of the above pool, 9,600 shares and 21,530 warrants were allocated to the collaborators of XTPL Inc. As the entitlement to acquire the shares of warrants granted to the collaborators of XTPL Inc. in 2019 is conditional in nature, this part of the incentive scheme was valued at PLN 1,439 thousand and taken to the profit and loss of XTPL Inc. for 2019, while increasing the value of shares in the subsidiary and the reserve capital in the stand-alone financial statements of XTPL S.A. Due to the current stage of operations of XTPL Inc., the Management Board of XTPL S.A. made a decision to create a corresponding asset impairment allowance of PLN 1,439 thousand.

Note 16. Deferred tax assets

Deferred income tax assets due to negative temporary differences	Statement of financial position as at		Impact on the statement of comprehensive income
	31.12.2019	31.12.2018	01.01.2019 - 31.12.2019
Due to differences between the carrying amount and the tax value:			
Provisions for payroll and similar costs	14	17	-3
Accruals for unused annual leaves	10	34	-24
Provision for the cost external services	-	22	-22
Total deferred tax assets	**24**	**73**	**-49**
Set-off with a deferred tax liability	24	4	-20
Net deferred tax assets	**-**	**69**	**-69**

Negative temporary differences and tax losses for which no deferred tax asset was recognized in the statement of financial position:	Basis for the asset at the end of 31.12.2019	Basis for the asset at the end of 31.12.2018	Date of expiry of negative temporary differences and tax losses
In respect of:			
Accruals for unused annual leaves	84	-	-
Provision for the cost external services	520	-	-
Tax losses	20,972	12,316	2021/ 2024
Total:	**21,576**	**12,316**	**-**

No deferred tax assets were created under the above heading due to uncertainty as to the possibility of using this asset in future periods.

Note 17. 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 18. Trade receivables

TRADE RECEIVABLES	31.12.2019	31.12.2018
Trade receivables, including:	1	8
Up-to-date	1	8
Overdue	-	-
- up to 180 days	-	-
- up to a year	-	-
- over a year	-	–
including claimed in court	–	-
Total gross trade receivables	1	8
Impairment allowances for receivables	–	-
Total net trade receivables	1	8
– from related parties	-	-

Note 19. Other receivables

OTHER RECEIVABLES	31.12.2019	31.12.2018
Other receivables, including:		
Statutory receivables (except income tax)	238	343
Other receivables (including security deposits, advances for fixed assets, inventories, deliveries)	696	135
including claimed in court	–	-
Total gross other receivables	**934**	**478**
Impairment allowances for receivables	–	–
Total net other receivables	934	478
– from related parties	-	-

Note 20. Cash and cash equivalents

CASH AND CASH EQUIVALENTS	31.12.2019	31.12.2018
Cash, including:	4,153	4,235
– cash on hand	–	–
– cash in bank	4,153	4,235
Other cash (short term deposits)	-	1,302
Other cash assets	–	–
Total cash and other cash assets	**4,153**	**5,537**

Note 21. Cash in VAT account

As at the Balance Sheet Date, the Company did not have any cash in its VAT account.

Note 22. Assets held for sale

In the current and comparable periods, the Company did not recognize any held-for-sale assets or assets related to discontinued operations.

Note 23. Share capital

CHANGE IN SHARE CAPITAL	1.12.2019-31.12.2019	1.12.2018-31.12.2018
Balance at the beginning of the period	**178**	**170**
Increases	12	8
Decreases	-	–
Balance at the end of the period	**190**	**178**

On 24 April 2019, the Company's Extraordinary General Meeting adopted a resolution to increase the Company's share capital by issuing 42,602 series P shares with a nominal value of PLN 0.10 each and a total nominal value of PLN 4,206,20 to be used for the incentive scheme for the Company's employees and collaborators.

On 26 June 2019, based on the resolution of the Company's Management Board, the Company's share capital was increased by issuing 78,000 series S shares with a nominal value of PLN 0.10 and a total nominal value of PLN 7,800.00.

Note 24. Change in the balance of provisions

CHANGE IN THE BALANCE OF PROVISIONS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	**292**	**110**
increased/ created	956	714
utilisation	374	205
release	572	327
Balance at the end of the period	**302**	**292**

The change in provisions presented in the table above relates to provisions created for unused annual leaves by the Company's employees and provisions for business travel expenses. The above provisions are presented in the statement of financial position under other liabilities.

Note 25. Trade liabilities

CURRENT TRADE LIABILITIES	31.12.2019	31.12.2018
due to related parties	–	–
due to other entities	1,018	366
Total current trade liabilities	**1,018**	**366**

Note 26. Other Current liabilities

OTHER CURRENT LIABILITIES	31.12.2019	31.12.2018
Current liabilities:		
statutory obligations, except income tax	307	129
employee benefits	387	367
purchase of non-financial (investment) fixed assets	22	2
in respect of business travel costs	165	107
Other	-	35
Total other Current liabilities, excluding provisions	**882**	**640**

Note 27. Obligations in respect of staff benefits

OBLIGATIONS IN RESPECT OF EMPLOYEE BENEFITS	31.12.2019	31.12.2018
Current liabilities:		
remuneration	250	190
payments for unused annual leave	137	177
Other	-	–
Total:	**387**	**367**

Note 28. Deferred tax liability

Deferred tax liability caused by positive temporary differences	Statement of financial position as at		Impact on the statement of comprehensive income
	31.12.2019	31.12.2018	01.01.2019 - 31.12.2019
In respect of:			
Interest on loans and deposits	24	4	-20
Total deferred tax liability	24	4	-20
Set-off with deferred tax assets	-24	-4	20
Net deferred tax liability	-	–	-

Note 29. Finance lease obligations

FINANCE LEASE OBLIGATIONS (for the lessee)	Minimum lease payments		Current value of minimum lease payments	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Finance lease obligations, payable:				
Up to one year	1	27	1	26
up to 1 month	1	2	1	2
1 to 3 months	-	5	-	4
3 to 6 months	-	7	-	6
6 to 12 months	-	13	-	14
1 to 5 years inclusive	-	–	–	-
Above 5 years	–	–	–	–
Total:	**1**	**27**	**1**	**26**
Less: costs to be incurred in subsequent periods	-	1	-	–
Current value of minimum lease payments	**1**	**26**	**1**	**26**
Non-current lease obligations (payable over more than 12 months)	–	–	–	1
Current lease obligations (payable up to 12 months)	–	–	1	25

Note 29.1 Short-term financing

On 17 May 2019, the Company signed an agreement with a natural person for a short-term credit line of up to PLN 1,500 thousand, with a fixed interest rate of 10% p.a. and the maturity date of 31 July 2019. The loan was to ensure bridge financing in the event of delays in the payment of funds from grants and the series S share issue. As at the Balance Sheet Date, the loan balance was nil.

Note 30. 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

None in the Reporting Period.

Note 31. Information on issue, redemption and repayment of debt and equity securities

In the Reporting Period, no events took place in connection with redemption or repayment of debt or equity securities. Securities issues during the Reporting Period were described in item 2.4.4 of the Management Report.

Note 32. 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 33. Fair value of the individual classes financial assets and liabilities

	Category as per IFRS 9	Book value		Fair value	
		31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets					
Loans granted	WwgZK	239	-	239	-
Trade receivables	WwgZK	1	8	1	8
Other receivables	WwgZK	935	478	935	478
Cash and cash equivalents	WwWGpWF	4,153	5,537	4,153	5,537
Total		**5,328**	**6,023**	**5,328**	**6,023**
Financial liabilities					
Interest bearing bank and other loans	PZFwgZK	–	–	–	–
Finance lease liabilities	PZFwgZK	1	26	1	26
Trade liabilities	PZFwgZK	1,018	366	1,018	366
Other liabilities	PZFwgZK	881	639	881	639
Total		**1,900**	**1,031**	**1,900**	**1,031**

Abbreviations used:

WwgZK – Measured at amortized cost

PZFwgZK – Other liabilities measured at amortised cost

WwWGpWF – Financial assets/liabilities measured at fair value through profit or loss

Fair value of financial instruments that the Company held as at the Balance Sheet Date and 31 December 2018 was not materially different from the values presented in the financial statements. This is because:

– with regard to short-term instruments, the potential effect of the discount is not material;

– the instruments relate to the transactions concluded on market terms.

At the Balance Sheet Date, the Company did not have any financial instruments measured at fair value.

Note 34. Capital management

The key goal of the Company's capital management is to maintain safe capital ratios to facilitate the Group's operations and increase its value.

CAPITAL MANAGEMENT	31.12.2019	31.12.2018
Interest bearing borrowings	–	–
Trade and other liabilities	1,900	1,010
Less cash and cash equivalents	-4,153	-5,537
Net debt	-2,253	-4,527
Equity	6,892	8,937
Equity and net debt	4,639	4,410
Leverage	-49%	-103%

Note 35. Description of the post-employment benefit plan

The Company does not operate any post-employment benefit plan within the meaning of IAS 19.

Note 36. Proposed profit distributions (loss cover) for the financial year

The Company's Management Board proposes to cover the reporting period's loss of PLN 24,678 thousand from the supplementary capital. The remaining uncovered portion of the loss for the financial year exceeding the value of supplementary capital will be covered by future years' profits.

Note 37. Explanations to the statement of cash flows

figures in PLN thousand	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
PBT presented in the statement of comprehensive income	-24,609	-7,243
PBT presented in the statement of cash flows	-24,609	-7,209

INTEREST AND DIVIDENDS IN THE STATEMENT OF CASH FLOWS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Realized interest on financing activities	18	4
Realized interest on investing activities	-52	-54
Unrealized interest on financing activities	-145	1
Total interest and dividends:	**-179**	**-49**

CHANGE IN THE BALANCE OF RECEIVABLES	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Change in the balance of trade receivables	7	1
Other receivables	-475	-206
Total change in the balance of receivables	**-468**	**-205**

CHANGE IN THE BALANCE OF LIABILITIES	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Change in the balance of trade liabilities	652	-131
Other liabilities	231	25
Total change in the balance of liabilities:	**883**	**-106**

Cash and cash equivalents at the end of the period	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Statement of cash flows	4,154	5,536
Statement of financial position	4,153	5,537

The amount of PLN 11,587 thousand presented in the 2019 statement of cash flows as "other adjustments" refers to the cost of remuneration included in the statement of comprehensive income in respect of the valuation of the incentive scheme.

Note 38. Related party transactions

4 QUARTERS OF 2019	figures in PLN thousand	to subsidiaries	to joint ventures	to key management personnel*	other related entities **
Purchase of services		–	–	-	24
Loans granted		1,985	-	–	-
Financial expenses – interest on loans		127	-	-	20

4 QUARTERS OF 2018	figures in PLN thousand	to associates	to joint ventures	to key management personnel*	other related entities **
Purchase of services		–	-	86	68
Loans granted		-	–	–	200
Financial expenses – interest on loans		-	–	–	19

** the item includes persons who have the authority and responsibility for planning, managing and controlling the company's activities*

*** the item includes entities linked through key management*

Terms of related party transactions

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. At the end of the Reporting Period i.e. on 31 December 2019, the Company created an impairment allowance for a related party loan, covering the principal amount and interest. In each financial year, an assessment is carried out which involves examining the financial position of the related party and the market in which it operates.

Note 39. Net revenue from sales

NET REVENUE FROM SALES	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Revenue from research and development services	–	–
Revenue from the sale of products	–	–
Revenue from grants	2,063	2,267
Total net revenue from sales	**2,063**	**2,267**

Note 40. Information about seasonality of business and cycles

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

Note 41. Operating segments

In the Reporting Period, 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. From the date of its formation to the date of the report, the Company did not generate any operating revenues, and its only revenues were grant payments. For this reason, the Company does not specify separate operating segments.
XTPL is a technology company which is only entering the stage of commercialization of the outcome of its research and development activity designed to develop the groundbreaking manufacturing technology of ultra-precise printing of a wide range of nanomaterials.

Note 42. Operating costs

OPERATING COSTS	figures in PLN thousand	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Depreciation/ amortization, including		645	559
– depreciation of tangible assets		409	347
– amortization of intangible assets		236	212
Use of raw materials and consumables		1,011	1,439
External services		3,915	4,283
Cost of employee benefits		17,023	4,500
Taxes and charges		149	80
Other costs by type		542	761
Value of goods and materials sold		–	–
Total costs by type, including:		**23,285**	**11,622**
Items reported as research and development costs		7,316	3,076
Items reported as cost of finished goods sold			
Items reported as general and administrative expenses		15,914	6,435
Change in finished goods			5
Cost of producing services for internal needs of the entity		55	2,106

Recognition of costs related to the valuation of the incentive scheme in the total amount of PLN 11,587 thousand (PLN 2,268 thousand recognized in the cost of research & development, and PLN 9,319 thousand in general and administrative expenses) has no impact on the Company's assets or financial position, or its ability to service its obligations. The scheme's costs are non-cash in nature, and reflect the value of shares transferred (net of their purchase price paid by scheme participants). This transaction did not cause any changes in the measurement of assets, the level of equity or the company's ability to generate revenues in the future. The shares transferred also did not cause additional dilution of the existing stock as they had been issued in the first half of 2017 (and were intended for the incentive scheme).

Note 43. Employment

As at the Balance Sheet Date: 32 people

At the end of 2018: 40 people

Note 44. Cost of employee benefits

COST OF EMPLOYEE BENEFITS	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Salaries under employment contracts	3,941	2,758
Salaries under civil law contracts/ contracts for specific work	617	1,158
Social security and other benefits	878	585
Costs of the incentive scheme	11,587	-
Total	**17,023**	**4,500**

Note 45. Incentive scheme

In the Reporting Period, in the statement of comprehensive income the Company recognized the cost the incentive scheme for employees and collaborators based on the Company's shares, in the portion relating to the period ended 31 December 2018. The date of recognition of costs was the moment when the persons covered by the scheme were offered the purchase of the shares. The cost of the scheme (fair value of the shares issued) was estimated at PLN 11,587 thousand and was fully taken to the profit or loss of the current period.
Recognition of the scheme's costs of PLN 11,587 thousand has no impact on the Company's assets or financial position, or its ability to service its obligations. The scheme's costs are non-cash in nature, and reflect the value of shares transferred (net of their purchase price paid by scheme participants). This transaction did not cause any changes in the measurement of assets, the level of equity or the company's ability to generate revenues in the future. The shares transferred also did not cause additional dilution of the existing stock as they had been issued in the first half of 2017 (and were intended for the incentive scheme).

On 31 March 2020, the Company's Management Board and the Supervisory Board, pursuant to the resolution of the EGM of 24 April 2019, granted the employees and collaborators of the Company the right to acquire 36,900 shares and 21,530 warrants. Out of the above pool, 9,600 shares and 21,530 warrants were allocated to the collaborators of XTPL Inc. Due to conditionally granting the rights to acquire the shares or warrants to the collaborators of XTPL Inc. in 2019, this part of the incentive scheme was valued at PLN 1,439 thousand and taken to the profit and loss of XTPL Inc. for 2019, while increasing the value of shares in the subsidiary and the reserve capital in the stand-alone financial statements of XTPL S.A.

Note 46. Other operating income

OTHER OPERATING INCOME	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Gain on disposal of non-financial fixed assets	-	3
Provision released	-	-
Reversal of impairment allowances on assets	-	-
Other income:	5	4
damages and penalties received	-	-
reimbursement of court costs	-	-
Other	5	4
Total other operating income	**5**	**7**

Note 47. Other operating costs

OTHER OPERATING COSTS	1.01.2019–31.12.2019	1.01.2018–31.12.2018
Loss on disposal of non-financial fixed assets	–	-
Provision released	5	-
Creation of impairment allowances on assets	-	-
Other costs:	5	6
penalties, fines, damages	-	-
donations	-	-
Other	5	6
Total other operating costs	**10**	**6**

Note 48. Financial revenues

FINANCIAL REVENUES	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Interest on bank accounts	52	35
Interest on bank accounts	145	19
including from related parties	127	-
Total net financial revenues	**197**	**54**

Note 49. Financial expenses

FINANCIAL EXPENSES	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Financial expenses in respect of finance leases	2	5
Interest on other receivables	2	-

Interest expense in respect of a loan received	16	-
FX losses	83	49
Creation of impairment allowances on assets	3,531	-
Total financial expenses	3,635	54

Note 50. Reconciliation of the effective tax rate

RECONCILIATION OF THE EFFECTIVE TAX RATE	1.01.2019–31.12.2019	1.01.2018–31.12.2018
Gross profit/(loss) before tax on continued operations	-24,609	-7,243
Profit/(loss) before tax on discontinued operations	–	–
Profit/(loss) before tax	**-24,609**	**-7,243**
Tax at the Polish statutory rate of 19%	-4,676	-1,376
Unrecognized deferred tax assets in respect of tax loss	1,792	1,204
Non-tax deductible costs	3,487	569
Increase in tax costs	–	–
Non-taxable revenues	-534	-431
Tax at the effective tax rate	69	-34
Income tax (charge) recognized in the statement of comprehensive income	69	-34
Income tax attributable to discontinued operations	–	-

Note 51. Discontinued operations

No discontinued operations occurred either in the current or in the previous reporting period.

Note 52. Types and amounts of changes in estimates presented in prior periods of the present financial year or changes to estimates presented in prior financial years

In the Reporting Period, no changes to estimates were made.

Note 53. Correction of errors from previous periods

In the Reporting Period, no corrections were made on account of errors from previous periods.

Note 54. Tax settlements

Tax payment and other regulated areas of business (including customs or currency-related activities) may be subject to inspection by administrative bodies, which have the right to impose high fines and sanctions. In the absence of well-established legislation, Polish regulations tend to be unclear and inconsistent. There are frequent differences in interpretation of tax regulations both within State administration bodies and between such bodies and corporations, which gives rise to uncertainties and conflicts. As a result, the tax risk in Poland is substantially higher than in the countries with a more mature tax system. Tax payments may be inspected for five years after the year when the tax was paid. As a result of inspections, additional tax may be assessed for the Company in addition to the tax paid before. In the Company's opinion, as at the Balance Sheet Date, appropriate provisions existed for the identified and quantifiable tax risk.

Note 55. Hedge accounting

The Company does not use hedge accounting.

Note 56. Objectives and rules of financial risk management

The Company is exposed to risk in each area of its operations. With understanding of the threats that originate through the Company's exposure to risk and the rules for managing these threats the Company can run its operations more effectively. Financial risk management includes the processes of identification, assessment, measurement and management of this risk. The main financial risks to which the Company is exposed include:
Market risks:

- The risk of changes in market prices (price risk)
- The risk of changes in foreign exchange rates (currency risk)
- The risk of changes in interest rates (interest rate risk)
- Liquidity risk
- Credit risk.

The risk management process is supported by appropriate policies, organisational structure and procedures.

MARKET RISK

The company actively manages the market risk to which it is exposed. The objectives of the market risk management process are to:

- limit the volatility of pre-tax profit/loss
- increase the probability of achievement of the budget plan
- maintain the Company in good financial condition
- support the strategic decision-making process in the area of investment activity taking into account the sources of investment financing

All market risk management objectives should be considered jointly, and their primarily dependent on the Company's internal situation and market conditions.

PRICE RISK
In the Reporting Period, the Company did not invest in any debt instruments and, therefore, is not exposed to any price risk.

CURRENCY RISK
The Company is exposed to currency risk in respect of the transactions it concludes. Such risk arises when the Company makes purchases in currencies other than the valuation currency.

INTEREST RATE RISK
Deposit transactions are made with institutions with a strong and stable market position. The instruments used – short-term, fixed-rate transactions – ensure full security.

LIQUIDITY RISK
The company monitors the risk of a lack of funds using the periodic liquidity planning tool. This tool takes into account the maturity dates of both investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operating activities.
The Company seeks to maintain a balance between continuity and flexibility of financing by using different sources of financing, such as finance leases.
The Company is exposed to financing risk due to the possibility that it in the future it will not receive sufficient cash to fund commercialisation of its research and development projects.

CREDIT RISK

In order to mitigate the credit risk related to cash and cash equivalents deposited in banks, loans granted, deposits paid in respect of rental contracts and performance security as well as trade credit, the Company:
• cooperates with banks and financial institutions with a known financial position and established reputation
• analyzes the financial position of its counterparties based on publicly available data as well as through business intelligence agencies

Note 57. 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 Reporting Period no material settlements were made on account of court cases.

Note 58. Information about changes in the economic position and operating conditions which might have a material impact on the fair value of the Company's financial assets and liabilities, whether those assets and liabilities are recognized at fair value or at adjusted purchase price (amortized cost)

In the Reporting Period, 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 59. Information about changes in contingent liabilities and contingent assets and non-disclosed liabilities arising from contracts in relation to the last reporting period

Contingent liabilities granted by the Company were in the form of promissory notes together with promissory note declarations to secure the contracts for co-financing projects financed by the EU as well as a bank loan agreement. All the Company's contingent liabilities originated before 31 December 2018. The change in the value of contingent liabilities in relation 31 December 2018 amounts to PLN 2,063 thousand. It is caused by the payment of the next two tranches of subsidies totalling PLN 2,063 thousand. At the Balance Sheet Date and until the date of approval of the financial statements for publication, no events occurred that could result in materialisation of the above contingent liabilities. As at the date of approval of the financial statements there were no undisclosed liabilities resulting from any agreements of material value.

CONTINGENT LIABILITIES	31.12.2019	31.12.2018
Promissory notes	6,157	4,094
Total contingent liabilities	6,157	4,094

Note 60. Extraordinary factors which occurred in the Reporting Period with an indication of their impact on the financial statements

In the Reporting Period, no extraordinary events occurred that would affect the financial statements.

Note 61. Information about the influence of changes in the composition of the Company during the financial year, any business combinations, acquisition or loss of control over subsidiaries, long-term investments, restructures or discontinued businesses.

On 31 January 2019, XTPL S.A. acquired shares in XTPL INC., a newly formed entity based in the state of Delaware, United States. The share capital of XTPL Inc. is USD 5,000. XTPL S.A. acquired 100% of the stock at the nominal price. XTPL INC. is fully consolidated on a line-by-line basis.

Note 62. Remuneration, bonuses or benefits for members of the Company's bodies

<u>Management Board:</u>

Name	Role	2019	2018
Filip Granek	CEO	360.0	512.5
Maciej Adamczyk	Management Board Member	360.0	224.8

Detailed information on the conditions and amount of remuneration of the Management Board:

Filip Granek – Management Board President

Receives remuneration based on an employment contract at PLN 30,000 gross monthly. He did not receive any bonus or reward for the Reporting Period. As part of the settlement of the Company's previous incentive scheme (pursuant to Resolution No. 03/04/2019 of the Extraordinary General Meeting of 3 April 2019), he received 7,304 shares of the Issuer, and under the new incentive scheme (for 2019), he received the right to acquire 1,000 shares of the Issuer.

Maciej Adamczyk – Management Board Member (until February 27, 2020):

He received remuneration on the basis of an employment contract at PLN 20,000 gross monthly and appointment-based of PLN 10,000 gross monthly. He did not receive any bonus or reward for the Reporting Period. As part of the settlement of the Company's previous incentive scheme (pursuant to Resolution No. 03/04/2019 of the Extraordinary General Meeting of 24 April 2019), he received 6,283 shares of the Issuer. In connection with the termination of his role as a Member of the Management Board and termination of his employment, which took place after the Balance Sheet Date, Maciej Adamczyk received payment in lieu of unused vacation.

Supervisory Board:

Name	Role	2019	2018
Wiesław Rozłucki	Chairman of the Supervisory Board	96.0	62.5
Bartosz Wojciechowski	Deputy Chairman of the Supervisory Board	12.0	8.5
Piotr Lembas	Supervisory Board Member	12.0	7.1
Sebastian Młodziński	Supervisory Board Member	12.0	8.5
Konrad Pankiewicz	Supervisory Board Member	12.0	14.0
Piotr Janczewski	Supervisory Board Member	0	0.0
Agnieszka Młodzinska-Granek	Supervisory Board Member	0	1.4

Members of the Supervisory Board receive a fixed monthly remuneration of PLN 1,000 (except for the Chairman, whose monthly remuneration is PLN 8,000).

Audit Committee:

Name	Role	2019	2018
Wiesław Rozłucki	Chairman of the Audit Committee	8.0	0
Piotr Lembas	Member of the Audit Committee	8.0	0
Sebastian Młodziński	Member of the Audit Committee	8.0	0

Members of the Audit Committee receive a fixed monthly remuneration of 1,000 PLN.

Note 63. Transactions with key management personnel

On 9 August 2019, the Issuer concluded an agreement on audit of the stand-alone and consolidated financial statements with 4AUDYT sp. z o.o. with its registered office in Poznań (60-846) at ul. Kochanowskiego 24/1, with share capital of PLN 100,000.00, NIP 7811817052, entered under KRS number 0000304558 in the National Court Register, Register of Entrepreneurs kept by the District Court for Poznań Nowe Miasto i Wilda in Poznań.

4AUDYT sp. z o.o. is an audit firm in accordance with Article 46 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, and in accordance with Article 57 of this Act is entered on the list of audit firms kept by the Polish Audit Oversight Agency under number 3363.

The auditor was selected by the Supervisory Board by resolution No. 01/07/2019 of the Supervisory Board of XTPL S.A. of 16 July 2019 regarding the selection of an audit firm that will carry out statutory audits and interim reviews of XTPL's financial statements for two years.

The auditor's fee for auditing the Company's stand-alone financial statements for 2019 was PLN 35,000. In the previous financial year, the Issuer's stand-alone financial statements were also audited by 4AUDYT sp. z o.o. under the agreement of 9 January 2018. The remuneration for the service amounted to PLN 11,000.00 + VAT. During the financial year, 4AUDYT sp. z o.o. reviewed the interim condensed stand-alone financial statements of the Company for the period from 1 January 2019 to 30 June 2019. The remuneration of the audit firm in this respect was PLN 18,000.

During the financial year, the Issuer did not use any services of the audit firm other than the above audit/ limited review services.

Note 64. Events after the balance sheet date that have not been reflected in the financial statements

The first nanoink sale:

In March 2020, XTPL finalized its first sales transactions for its nanoink based on sliver nanoparticles. Nanoink is one of the key elements of the XTPL technology, protected by international patent applications. The first delivery took place for one of the partners operating in the display sector, the first application field commercialized by XTPL. A week after the implementation of the first commercial order, the Company carried out another ink sales transaction with a group operating in the display sector and several other advanced electronics sectors. The transaction confirmed the partner's significant interest in the Company's technology and unlocked further commercial opportunities. At the end of March 2020, the Issuer informed about the next (third) sale of ink to another counterparty.

In addition, the Issuer also sold samples printed on the client's material in accordance with the clients' requirements.

The total value of the sales was about PLN 40 thousand.

Impact of the SARS-CoV-2 pandemic on the Issuer's operations:
Due to the early stage of the Company's development (the beginning of commercialization), the current situation related to the coronavirus threat fundamentally does not affect the Issuer's operational activity. Office workers perform their duties remotely (they are provided with a company phone with Internet access and a laptop). Technology staff work in compliance with all the standards announced by state authorities. Some technology staff are involved in the development of new grant applications, and therefore also partly work from home. As a rule, all meetings take place using teleconferencing. The planned activities (e.g. shipment of the nanoink to counterparties) run smoothly.

The current epidemic may have an indirect impact on the financing for the Company. The Management Board believes that in the current economic situation (COVID-19 pandemic) and the situation in the capital market, a significant share issue in the first half of 2020, addressed to a wide group of investors, might not be the most effective way of raising finance. Hence, the Company focuses on acquiring financing which will enable it to conduct research and development activities and business development at least until the beginning of 2021, and will consider a share issue addressed to a wide group of investors once the market situation stabilizes.

Settlement of the incentive scheme
On 31 March 2020, the Company's Management Board and the Supervisory Board, pursuant to the resolution of the EGM of 24 April 2019, granted the employees and collaborators of the Company the right to acquire 36,900 shares and 21,530 warrants.
Out of the above pool, 9,600 shares and 21,530 warrants were allocated to the collaborators of XTPL Inc. Due to conditionally granting the rights acquire the shares or warrants to the collaborators of XTPL Inc. in 2019, this part of the incentive scheme was valued at PLN 1,439 thousand and reflected in the 2019 financial data. The other portion of the financial instruments allocated in 2020, whose estimated valuation is PLN 2,000 thousand, will be reflected in the 2020 financial data.

Further loan tranches for XTPL Inc.
From 1 January 2020 to the date of the report, the Company disbursed three subsequent loan tranches for XTPL Inc. totalling 70 thousand USD.

A detailed description of events after the balance sheet date has been presented in point 2.6.1 (link).

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shaping global nanofuture

Annual consolidated financial statements

6 Annual consolidated financial statements

6.1 Period covered by the financial statements

These financial statements cover the period of 12 months ended 31 December 2019 and the data as of that date.

6.2 Comparable data

Due to the fact that the Group has been operating since 31 January 2019, the comparative data are the data of the parent company from the stand-alone financial statements for 2018. The statement of comprehensive income, the statement of cash flows and the statement of changes in equity cover consolidated data for the 12 months ended 31 December 2019 as well as comparative data for the period of 12 months ended 31 December 2018. The statement of financial position covers the consolidated data presented as at 31 December 2019, and comparative data as at 31 December 2018.

6.3 Identification of consolidated financial statements

These are consolidated financial statements. As at 31 December 2019, XTPL S.A. had a subsidiary and thus prepares consolidated financial statements.

6.4 Notes

Notes are an integral part of these consolidated financial statements.

6.5 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.

6.5.1 FX rates

The following exchange rates were adopted for the purpose of preparing the financial statements:

	2019 January–December		2018 January–December	
exchange rates used in the financial statements	EUR	USD	EUR	USD
for the balance sheet items	4.2585	3.7977	4.3000	3.7597
for profit or loss and cash flow items	4.3018	3.8440	4.2669	3.6227

6.6 Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") approved by the EU. Taking into account the ongoing IFRS implementation process in the EU, as regards the Group's operations there is no difference between the already implemented IFRS and the IFRS approved by the EU for the financial year ended 31 December 2018. IAS and IFRS include the standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee (IFRIC).

6.6.1 New and amended IFRSs

Presented below are new or amended provisions of IFRSs / IASs and IFRIC interpretations that were adopted in the EU and applied by the Group since 1 January 2019:

- Amendments to IAS 28 Long-term interests in Associates and Joint Ventures (published on 12 October 2017).

The amendments clarify that IFRS 9 "Financial Instruments" applies to long-term interests in associates and joint ventures. Long-term interests are interests which in their economic substance are a part of a new investment rather than being accounted for using the equity method.

- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement (published on 7 February 2018)

These amendments to IAS 19 require the entity to apply the updated assumptions used for the purpose measurement to determine current service costs and the net interest on the net liability (asset) in respect of certain benefits for the remainder of the reporting period after the plan change.

- Improvements to IFRSs 2015-2017 Cycle (published on 12 December 2017)

The improvements clarify that a previously held interest in a joint operation is not remeasured; the income tax consequences of dividends are recommended to be recognized in profit or loss, other comprehensive income or equity. In addition, as at the date of obtaining control, the acquiring entity should remeasure its previously held share in a joint operation at fair value.

- IFRIC 23 Uncertainty over Income Tax Treatments (published on 7 June 2017)

It clarifies the recognition and measurement requirements contained in IAS 12 Income Tax where there is uncertainty over the income tax treatment.

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

Its scope includes the classification and valuation of financial instruments, impairment of financial assets and other credit risk exposures, such as, for example, lease receivables or contract assets and hedge accounting.

- IFRS 16 Leases (published on 13 January 2016).

The new requirements eliminate the concept of operating lease, and thus the off-balance sheet recognition of assets held under operating lease contracts. The standard introduces a single lease concept. All assets and related obligations to pay rentals will have to be recognized in the balance sheet. This will change the basis for calculating commonly used financial ratios, including the debt ratio and EBITDA.

The adoption of the above amendments in standards did not cause any changes in the Group's accounting policy or in the presentation of data in the financial statements, except for the application of IFRS 16 Leases as of 1 January 2019.

<u>Presented below are new or amended provisions of IFRSs / IASs and IFRIC interpretations that were adopted in the EU and applied by the Group since 1 January 2020:</u>

- Amendments to References to the Conceptual Framework in IFRS/IASs (29 March 2018) – effective for reporting periods commencing on or after 1 January 2020.

- Amendments to IAS 1 and IAS 8 – definition of “material” (of 31 October 2018) – effective for reporting periods commencing on or after 1 January 2020.

- Amendments to IFRS 9, IAS 39 and IFRS 7 – *Interest Rate Benchmark Reform* (of 26 September 2019) – applicable to reporting periods commencing on or after 1 January 2020.

<u>The following standards and interpretations have been issued by the International Accounting Standards Board, but have not been approved by the EU yet:</u>

- IFRS 17 Insurance Contracts (published on 18 May 2017) – applicable to reporting periods commencing on or after 1 January 2021.
- Amendments to IFRS 3 Business Combinations (published on 22 October 2018) – applicable to reporting periods commencing on or after 1 January 2020 (the required period for verification by the European Parliament will end in mid-March 2020).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as short-term or long-term (published on 23 January 2020)

The effective dates are the dates arising from the standards published by the International Financial Reporting Board. The effective dates of the standards in the European Union may differ from the effective dates arising from the standards and are announced upon the adoption of the standards by the European Union.

Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued International Financial Reporting Standard 16 Leases (IFRS 16), which replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the accounting principles for leases in terms of measurement, presentation and disclosures.

IFRS 16 introduces a single model of the lessee's accounting and requires the lessee to recognize assets and liabilities arising from each lease whose period exceeds 12 months, unless the underlying asset is of low value. At the lease commencement date the lessee recognizes a right-of-use asset and a lease liability which reflects its obligation to make lease payments.

The lessee separately recognizes depreciation of the right-of-use asset and interest on the lease liability. The lessee updates the valuation of the lease liability following certain events (e.g. changes in lease period, changes in future lease payments resulting from the change in the index or the rate used to determine these charges). In principle, the lessee separately recognizes update of the lease valuation liability as an adjustment to the value of the right-of-use asset.

6.6.2 The effect of applying IFRS 16

<u>**Selected accounting policies**</u>

IFRS 16 “Leases" published on 13 January 2016, was adopted by the European Union on 31 October 2017.
As of 1 January 2019, the Group applied the requirements of the new Standard relating to the recognition, measurement and presentation of lease contracts. The new Standard was applied in accordance with the transitional provisions contained in IFRS 16.

The Group implemented IFRS 16 using a modified retrospective approach, therefore, comparative data for 2018 were not restated.
As at the date of the consolidated financial statements, a lease contract for office and laboratory space, and a lease agreement for specialized equipment were identified in the Group's companies. Due to the commercial terms applicable to these contracts and the practical expedient provided for by the Standard, the Group excluded them from disclosure and continues to measure them as before through profit or loss.
The Group assumes that for contracts concluded for an indefinite period, with a notice period of less than 12 months but not meeting the definition of a lease, the practical expedient under IFRS 16 can be used.

Company as a lessee

Identification of lease

The Company applied the new guidelines for the identification of leases only in relation to the contracts it signed (or amended) on the day of its first application, i.e. on or after 1 January 2019. Thus, in relation to all the leases concluded before 1 January 2019, the Company applied the practical expedient provided for in IFRS 16, according to which the entity is not obliged to reassess whether a contract is or contains a lease at the date of initial application. As at 1 January 2019, the Company applied IFRS 16 to the contracts that were previously identified as leases in accordance with IAS 17 and IFRIC 4.
At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:
a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
b) the right to direct the use of the identified asset.
If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.
Rights arising from a lease, rental or similar contracts which meet the definition of a lease in accordance with the requirements of IFRS 16 are recognized as right-of-use assets relating to underlying assets as part of fixed assets, and on the other side as lease liabilities.

Initial recognition and measurement

At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability.
At the commencement date, the Company measures the right-of-use asset at cost.
The cost of the right-of-use asset comprises:
a) the amount of the initial measurement of the lease liability;
b) any lease payments made at or before the commencement date, less any lease incentives received;
c) any initial direct costs incurred by the lessee; and
d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.
The lease payments included in the measurement of the lease liability comprise the following payments:
– fixed payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
– amounts expected to be payable by the lessee under residual value guarantees;
– the exercise price of a purchase option if the Company is reasonably certain to exercise that option;
– payments of penalties for terminating the lease, unless the Company is reasonably certain not to exercise that option.

Variable lease payments that depend on an index are not reflected in the lease liability. These payments are recognized in profit or loss in the period of the event that causes them to be payable.

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date, discounted using the lessee's incremental borrowing rate.

The Company does not discount lease liabilities using lease interest rates because for the purpose of determining this rate it would need to have information on unguaranteed residual value of the leased asset and any direct costs incurred by the lessor, i.e. information that can only be known to the lessor.

Determining the lessee's incremental borrowing rate

Incremental borrowing rates were determined as the sum of:

a) risk free rate, determined on the basis of the IRS (Interest Rate Swap) in accordance with the maturity of the discount rate and the appropriate base rate for the particular currency; and

b) the Company's credit risk premium based on the credit margin calculated taking into account the credit risk segmentation of all companies in which leasing contracts have been identified.

Subsequent measurement

After the commencement date, the lessee measures the right-of-use asset applying a cost model.

To apply a cost model, the lessee measures the right-of-use asset at cost:

a) less accumulated depreciation and accumulated impairment losses; and

b) adjusted for any remeasurement of the lease liability not resulting in the need to recognize a separate lease component.

After the commencement date, the lessee measures the lease liability by:

a) increasing the carrying amount to reflect interest on the lease liability;

b) reducing the carrying amount to reflect lease payments made; and

c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to take into account substantially fixed lease payments.

The company updates the valuation of the lease liability due to reassessment when a change occurs the Company remeasures the lease liability to reflect a reassessment when a change occurs in future lease payments resulting from a change in the index or the rate used to determine the payments (e.g. a changes is made to the fee in the right of perpetual usufruct), when the amount changes that the Company expects to receive under the guaranteed residual value or if the Company changes the assessment of the likelihood of using the option of purchase, extension or termination of the lease.

The remeasurement of the lease liability also results in adjustment of the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Company recognises any remaining amount of the remeasurement in profit or loss.

Depreciation

Right-of-use assets are depreciated on a straight line basis over the shorter of the two periods: lease period or the period of use of the underlying asset, unless the Company is reasonably certain that it will acquire ownership of the asset before expiry of the lease, in which case the right-of-use asset is depreciated from commencement of the lease to the end of the asset's period of use. The estimated period of use of right-of-use assets is determined in the same way as for property, plant and equipment.

Impairment

The Company applies IAS 36 Impairment to determine whether a right-of-use asset is impaired, and to recognize any identified impairment loss.

Simplifications and practical expedients in the application of IFRS 16

Short-term lease

The Company applies a practical expedient in relation to short-term lease contracts which are characterized by the maximum possible lease duration, including renewal options, of up to 12 months.

Simplifications related to these contracts consist in the accounting for lease payments as costs:

– on a straight-line basis, for the duration of the lease term; or

– another systematic basis, if that basis is more representative of the pattern of the lessee's benefit.

Lease of low-value assets

The Company does not apply the general principles for recognition, measurement and presentation contained in IFRS 16 to low-value lease contracts.

Low value assets are assets which, when new, have a value not higher than PLN 18,799, converted at the exchange rate from the date of first use, i.e. 1 January 2019 (equivalent to USD 5,000) or the equivalent in another currency at the average closing rate of the country's central bank at the time of the initial recognition of the contract.

Simplifications related to these contracts consist in the accounting for lease payments as costs:

– on a straight-line basis, for the duration of the lease term; or

– another systematic basis, if that basis is more representative of the pattern of the lessee's benefit.

The subject of the lease cannot be classified as a low value asset if the nature of the asset is such that, when new (unused), the asset is typically not of low value.

An underlying asset can be of low value only if:

a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

b) the underlying asset is not highly dependent on, or highly interrelated with, other assets.

Determining the leasing term: contracts of for an indefinite period

When determining the leasing terms for contracts for an indefinite period, the Company uses professional judgment, considering:

– expenditure incurred in connection with the contract; or

– potential costs related to the termination of the lease, including the costs of acquiring a new lease contract, such as negotiation costs, relocation costs, the costs of identifying another underlying asset that meets the needs of the lessee, the costs of integrating the new asset with the lessee's activities and penalties for termination and similar costs, including costs related to the return of the underlying asset in the condition specified in the contract or to the place indicated in the contract.

If the costs related to the termination of the lease are material, the lease term is assumed to be equal to the adopted depreciation period for a similar fixed asset with parameters similar to those of the subject of the lease.

Insofar as the costs related to the termination of the lease can be reliably determined, a lease period is set for which termination of the contract will not be justified.
If the expenditure incurred in connection with a given contract is material, the lease term is taken to be equal to the expected period of obtaining economic benefits from the use of the expenditure incurred.
The value of the expenditure is an asset distinct from the right-of-use asset.
In the absence of expenditures incurred in connection with a given lease or the lack of costs associated with termination of the lease, or in the event that they are of insignificant value, the period of termination of the lease contract is taken to be the lease term.

6.7 Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue in operation for at least 12 months after the balance sheet date. Given the Group's market development stage (no revenue from the sale of products and services, with activity financed from equity and grants), the ability to continue operations depends to a large extent on the ability to raise further financing, primarily through the issue of shares by the Parent Company to finance subsequent stages of commercialization of the technology developed by the Group. The Management Board of XTPL S.A. estimates that to carry out the planned activities over the next 12 months, it will need PLN 5 million.

The Management Board believes that in the current economic situation (COVID-19 pandemic), a significant share issue in the first half of 2020, addressed to a wide group of investors, might not be the most effective way of raising finance. Hence, the Company focuses on acquiring financing which will enable it to conduct research and development activities and business development at least until the beginning of 2021, and will consider a share issue addressed to a wide group of investors once the market situation stabilizes.

6.8 Approval of the financial statements

This financial report for the period from 1 January 2019 to 31 December 2019 was approved for publication by the XTPL Management Board on 23 April 2020.

6.9 Annual consolidated statement of financial position

ASSETS	NOTE	31.12.2019	31.12.2018
Non-current assets		**3,639**	**3,931**
Property, plant and equipment	4,5,6,7,8,9	646	757
Intangible fixed assets	1,2,3	2,721	2872
Deferred tax assets	16	-	69
Non-current receivables	13	272	233
Current assets		**5,199**	**6,038**
Trade receivables	18	-	8
Other receivables	19	935	478
Cash and cash equivalents	20	4,206	5,537
Other assets		58	15
Total assets		**8,838**	**9,969**

EQUITY AND LIABILITIES	NOTE	31.12.2019	31.12.2018
Total equity		**6,907**	**8,937**
Share capital	22	190	178
Supplementary capital		18,726	16,340
Reserve capital		12,150	-
FX differences arising on translation		10	-
Retained profit (loss carried forward)		-372	-372
Profit (loss) after tax		-23,797	-7,209
Non-controlling interests		-	-
Non-current liabilities		**-**	**1**
Non-current financial liabilities	29	-	1
Current liabilities		**1,931**	**1,031**
Trade liabilities	25	1,048	366
Current financial liabilities	29	1	25
Other liabilities	26	882	640
Total equity and liabilities		**8,838**	**9,969**

6.10 Annual consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	NOTE	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Continued operations			
Sales	38	**2,063**	**2,267**
Revenue from research and development services			
Revenue from the sale of products			
Revenue from grants	38	2,063	2,267
Cost of sales	42	**7,316**	**3,076**
Research and development expenses		7,316	3,076
Cost of finished goods sold			
Gross profit (loss)		**-5,253**	**-809**
General and administrative expenses	42	18,834	6,435
Other operating income	46	5	7
Other operating costs	47	10	6
Operating profit (loss)		**-24,091**	**-7,243**
Financial revenues	48	70	54
Financial expenses	49	104	54
Profit/ loss before tax		**-24,125**	**-7,243**
Income tax	16.28	73	-34
Net profit (loss) on continued operations		**-24,198**	**-7,209**
Discontinued operations		**-**	**-**
Net profit (loss) on discontinued operations			
Net profit (loss) on continued and discontinued operations		**-24,198**	**-7,209**
Profit (loss) of non-controlling interests		- 401	-
Profit (loss) attributable to shareholders of the parent		-23,797	-7,209
Other comprehensive income		**10**	**-**
Items that can be transferred to profit or loss in subsequent reporting periods		**10**	**-**
FX differences arising on conversion of foreign affiliates		10	-
Items that will not be transferred to profit or loss in subsequent periods		**-**	**-**
Total comprehensive income		**-24,188**	**-7,209**
Total comprehensive income attributable to non-controlling shareholders		-401	-
Total comprehensive income attributable to the parent company		-23,787	-7,209
Net profit (loss) per share (in PLN)			
On continued operations			
Ordinary		-12.49	-4.04
Diluted		-12.49	-4.04
On continued and discontinued operations			
Ordinary		-12.49	-4.04
Diluted		-12.49	-4.04
number of shares		1,904,222	1,783,620

6.11 Annual consolidated statement of changes in equity

STATEMENT OF CHANGES IN EQUITY	Share capital	Supplementary capital	Reserve capital	FX differences arising on translation	Retained profit (loss carried forward)	Non-controlling interests	Total
As at 1 January 2019	**178**	**16,340**	**-**	**-**	**-7,581**	**-**	**8,937**
Comprehensive income:	**-**	**-**	**-**	**10**	**-23,797**	**-401**	**-24,188**
Profit (loss) after tax	-	-	-	-	-23,797	-401	-24,198
Other comprehensive income	-	-	-	10	-	-	10
Transactions with owners:	**12**	**2,386**	**12,150**	**-**	**7,209**	**401**	**22,158**
Issue of shares	12	9,595	-	-	-	-	9,607
Incentive scheme	-	-	13,026	-	-	-	13,026
Non-controlling interests arising after taking control of XTPL Inc.	-	-	-	-	-	-475	-475
Acquisition of shares of XTPL Inc. without changing the level of control	-	-	-876	-	-	876	-
Distribution of profit	-	-7,209	-	-	7,209	-	-
As at the Balance Sheet Date	**190**	**18,726**	**12,150**	**10**	**-24,169**	**-**	**6,907**
As at 1 January 2018	**170**	**11,381**	**-**	**-**	**-4,334**	**-**	**7,217**
Comprehensive income:	-	-	-	-	**-7,209**	-	**-7,209**
Profit (loss) after tax	-	-	-	-	-7,209	-	-7,209
Other comprehensive income	-	-	-	-	-	-	-
Transactions with owners:	**8**	**4,959**	**-**	**-**	**3,962**	**-**	**8,929**
Issue of shares	8	8,921	-	-	-	-	8,929
Distribution of profit	-	-3,962	-	-	3,962	-	-
As at 31 December 2018	**178**	**16,340**	**-**	**-**	**-7,581**	**-**	**8,937**

6.12 Annual consolidated statement of cash flows

STATEMENT OF CASH FLOWS	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Cash flows from operating activities		
Profit (loss) before tax	**-24,125**	**-7,243**
Total adjustments:	**13,507**	**446**
Depreciation/amortization	590	531
FX gains (losses)	10	-

Interest and profit distributions (dividends)	-52	-49
Profit (loss) on investing activities	-	-3
Change in the balance of provisions	10	295
Change in the balance of inventories	-	-
Change in the balance of receivables	-468	-205
Change in Current liabilities, except bank and other loans	914	-106
Change in prepayments/accruals	-47	-17
Income tax paid		-
Other adjustments	12,550	-
Total cash flows from operating activities	**-10,617**	**-6,797**
Cash flows from investing activities		
Inflows	**52**	**57**
Disposal of tangible and intangible assets	-	3
Interest on financial assets	52	54
Outflows	**328**	**2,815**
Acquisition of tangible and intangible fixed assets	328	2,615
Acquisition of financial assets	-	-
Non-current loans granted	-	200
Other investment outflows	-	-
Total cash flows from investing activities	**-276**	**-2,758**
Cash flows from financing activities		
Inflows	**11,107**	**8,931**
Contributions to capital	9,607	8,931
Bank and other loans	1,500	-
Other financial inflows		
Outflows	**1,543**	**29**
Acquisition of own shares	-	-
Payment of dividend	-	-
Repayment of bank and other loans	1,500	-
Finance lease payments	25	25
Interest	18	4
Total cash flows from financing activities	**9,564**	**8,902**
Total cash flows from investing activities	**-1,329**	**-653**
Change in cash and cash equivalents:	**-1,331**	**-673**
– change in cash due to FX differences	-2	-
Cash and cash equivalents at the beginning of the period	**5,536**	**6,189**
Cash and cash equivalents at the end of the period, including:	**4,207**	**5,536**
– restricted cash	-	-

6.13 Notes

Note 1 Intangible fixed assets

OTHER INTANGIBLE ASSETS	31.12.2019	31.12.2018
Acquired concessions, patents, licenses and similar rights	23	2
Intellectual property rights	108	334
In-process development expenditure	2,591	2,536
Total	**2,722**	**2,872**

All intangible assets are the property of the Group; none of these assets are used based on any rental, lease or a similar contract. The intangible assets are not used as collateral by the Group. As at the Balance Sheet Date, the Group did not have any agreements whereby it would be required to purchase any intangible assets.

	31.12.2019	31.12.2018
In-process development expenditure, including:		
cost of employee benefits	1 187	1 187
external services	731	731
raw materials and consumables	589	589
other	83	28
Impairment allowance for intangible assets	-	-
Total	2 591	2 536

In-process development are described in Note 15 of this report.

Note 2. Change in other intangible assets by type

As at 31.12.2019

CHANGE IN OTHER INTANGIBLE ASSETS BY TYPE (except intangible assets under development)	Acquired concessions, patents, licenses and similar rights	Intellectual property rights	Total other intangible assets
Gross value of intangible assets at the beginning of the period	46	1,095	1,141
increases	30	-	30
acquisition	30	-	30
decreases	-	-	-
Gross value of intangible assets at the end of the period	76	1,095	1,171
Accumulated amortization at the beginning of the period	44	761	805
amortization for the period	10	226	236
increases	-	-	-
decreases	-	-	-
Cumulated amortization at the end of the period	54	987	1,040
impairment allowances at the beginning of the period	-	-	-
impairment allowances at the end of the period	-	-	-
Net value of other intangible assets at the end of the period	23	108	131

As at 31.12.2018

CHANGE IN OTHER INTANGIBLE ASSETS BY TYPE (except intangible assets under development)	Acquired concessions, patents, licenses and similar rights	Intellectual property rights	Total other intangible assets
Gross value of intangible assets at the beginning of the period	41	1,070	1,111
increases	5	25	30
acquisition	5	25	30
decreases	-	-	-
Gross value of intangible assets at the end of the period	46	1,095	1,141
Accumulated amortization at the beginning of the period	33	535	568
amortization for the period	11	226	237
increases	-	-	-
decreases	-	-	-
Cumulated amortization at the end of the period	44	761	805
impairment allowances at the beginning of the period	-	-	-
impairment allowances at the end of the period	-	-	-
Net value of other intangible assets at the end of the period	2	334	336

Note 3. Amortisation of intangible assets

Amortization of intangible assets is included in the following items as part of the statement of comprehensive income.

ITEM IN THE STATEMENT OF COMPREHENSIVE INCOME	Year ended 31.12.2019	Year ended 31.12.2018
Research and development expenses	37	166
Cost of finished goods sold	-	-
General and administrative expenses	199	71
Total	**236**	**237**

Note 4. Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	31.12.2019	31.12.2018
Tangible assets, including:	646	534
land	-	-
buildings and structures	-	-
technical equipment and machines	387	415
vehicles	1	25
other fixed assets	258	94
Fixed assets under construction	-	223
Property, plant and equipment	**646**	**757**

Note 5. Fixed assets on balance sheet- ownership structure

FIXED ASSETS ON BALANCE SHEET (OWNERSHIP STRUCTURE)	31.12.2019	31.12.2018
own	645	509
used based on any rental, lease or a similar contract, including:	1	25
finance lease	1	25
Total fixed assets on the balance sheet	**646**	**534**

Note 6. Changes in fixed assets by type

As at 31.12.2019

CHANGES IN FIXED ASSETS BY TYPE (except for fixed assets under construction)	technical equipment and machines	vehicles	other fixed assets	Total fixed assets
Gross value of at the beginning of the period	**828**	**91**	**247**	**1,166**
Increases	**251**	**-**	**269**	**520**
acquisition	251	-	269	520
Decreases	**-**	**-**	**-**	**-**
Gross value at the end of the period	**1,080**	**91**	**516**	**1,687**
Accumulated depreciation at the beginning of the period	**414**	**65**	**152**	**632**
Increases	**279**	**25**	**106**	**409**
amortization for the current period	279	25	106	409
decreases	**-**	**-**	**-**	**-**
Accumulated depreciation at the end of the period	**692**	**90**	**258**	**1,041**
impairment allowances at the beginning of the period	**-**	**-**	**-**	**-**
impairment allowances at the end of the period	**-**	**-**	**-**	**-**
Net value of fixed assets at the end of the period	**387**	**1**	**258**	**646**

As at 31.12.2018

CHANGES IN FIXED ASSETS BY TYPE (except for fixed assets under construction)	technical equipment and machines	vehicles	other fixed assets	Total fixed assets
Gross value of at the beginning of the period	**561**	**91**	**234**	**885**
Increases	**268**	**-**	**13**	**281**
acquisition	268	-	13	281
Decreases	**-**	**-**	**-**	**-**
Gross value at the end of the period	**828**	**91**	**247**	**1,166**
Accumulated depreciation at the beginning of the period	**183**	**41**	**90**	**314**
Increases	**231**	**25**	**63**	**318**
amortization for the current period	231	25	63	318
decreases	**-**	**-**	**-**	**-**
Accumulated depreciation at the end of the period	**414**	**65**	**152**	**632**
impairment allowances at the beginning of the period	**-**	**-**	**-**	**-**

impairment allowances at the end of the period	**-**	**-**	**-**	**-**
Net value of fixed assets at the end of the period	**415**	**26**	**94**	**535**

Note 7. Depreciation of tangible assets

Depreciation of fixed assets is reported in the following items of the statement of comprehensive income.

ITEMS OF THE STATEMENT OF COMPREHENSIVE INCOME	Year ended 31.12.2019	Year ended 31.12.2018
Research and development expenses	297	149
Cost of finished goods sold	-	-
General and administrative expenses	57	170
Total	**354**	**319**

Note 8. Significant acquisitions of tangible assets

SIGNIFICANT ACQUISITIONS OF TANGIBLE ASSETS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
XTPL printers	273	57
Computer sets	26	69
Server with software	-	30
Pressure control system and other	17	10
Anti-vibration system and laminar chamber	140	-
Office equipment	64	3
Total significant acquisitions	**520**	**281**

Note 9. Significant liabilities on account of purchase of tangible assets

In the Reporting Period, the Group did not incur any significant liabilities on account of purchase of tangible assets. As at the Balance Sheet Date, the Group did not have any agreements whereby it would be required to purchase any fixed assets.

Note 10. Investment properties

As at the Balance Sheet Date, no investment properties were included in the Company's statement of financial position.

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. Non-current receivables

Non-current receivables	31.12.2019	31.12.2018
Loans granted	239	219
Security deposits	33	14
Total Non-current receivables	**272**	**233**

Note 14. Capital expenditure

CAPITAL EXPENDITURE INCURRED	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
– including on environmental protection		
Expenditures on fixed assets under construction	55	341
Tangible assets purchased	520	220
Intangible assets purchased	30	28
Investments in properties	-	-
Total investments in non-financial fixed assets	**605**	**589**
Loans granted	-	200
Acquisition of treasury bills	-	-
Acquisition of shares	-	-
Total investments in financial fixed assets	**-**	**200**
Total capital expenditure	**605**	**789**

Note 15. Impairment allowance for financial assets, tangible assets, intangible assets or other assets and reversal of the impairment allowance

Intangible fixed assets – development.
As required by IAS 36, the Parent Company's Management Board carried out an impairment test for the Company's assets: in-process development expenditure, by comparing their carrying amount recoverable amount. As part of the procedure, the management tested all the previous assumptions underlying the decisions to recognize the development expenditure as an asset. The management verified the likelihood and value of future economic benefits, the ability to complete the intangible assets

to be available for use or sale, the availability of appropriate technical, financial and other means to be used to complete the development and use or sell the intangible asset as well as the size and possibility of a reliable estimation of the development expenditure incurred during the development project where such expenditure can be allocated to relevant intangible assets. The test was based on a 5-year forecast, with discount rate of 18.3%. The discount rate includes a risk-free rate based on 10Y treasury bonds, a market risk premium based on A. Damodaran's calculations, 1Y WIBOR + commercial banks' margin, and a beta calculated on the basis of the Company's quotations. The discount rate also takes into account the specific risk of the Company and the premium for the type of assets. The Company did not include the residual value in the test model.
When calculating sales forecasts, account was taken of the fact that the main application field for commercialization based on completed development was the display market (the ODR segment). Two revenue streams were identified: the sale of demonstration printers, supporting the possibility of signing a license agreement, and license fees.
The test results showed that the recoverable amount of intangible assets exceeds their carrying amount, so there is no need to post any impairment allowances for those assets.
The table below presents the sensitivity of the model to the change in the discount rate.

change in WACC						
16,80%	**17,30%**	**17,80%**	**18,30%**	**18,80%**	**19,30%**	**19,80%**
3 521	3 439	3 359	**3 280**	3 204	3 129	3 056

Note 16. Deferred tax assets

Deferred income tax assets due to negative temporary differences	Statement of financial position as at		Impact on the statement of comprehensive income
	31.12.2019	31.12.2018	01.01.2019 - 31.12.2019
Due to differences between the carrying amount and the tax value:			
Provisions for payroll and similar costs	14	17	-3
Accruals for unused annual leaves	10	34	-24
Provision for the cost external services	-	22	-22
Total deferred tax assets	**24**	**73**	**-49**
Set-off with a deferred tax liability	24	4	-20
Net deferred tax assets	**-**	**69**	**-69**

Negative temporary differences and tax losses for which no deferred tax asset was recognized in the statement of financial position:	Basis for the asset at the end of 31.12.2019	Basis for the asset at the end of 31.12.2018	Date of expiry of negative temporary differences and tax losses
In respect of:			

Accruals for unused annual leaves	84	-	-
Provision for the cost external services	520	-	-
Tax losses	20,972	12,316	2021/2023
Total:	**21,576**	**12,316**	**-**

No deferred tax assets were created under the above heading due to uncertainty as to the possibility of using this asset in future periods.

Note 17. 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 18. Trade receivables

TRADE RECEIVABLES	31.12.2019	31.12.2018
Trade receivables, including:	-	8
	-	8
including claimed in court	-	-
Total gross trade receivables	-	8
Impairment allowances for receivables	-	-
Total net trade receivables	-	8

Note 19. Other receivables

OTHER RECEIVABLES	31.12.2019	31.12.2018
Other receivables, including:		
Statutory receivables (except income tax)	238	343
Other receivables (including security deposits, advances for fixed assets, inventories, deliveries)	696	135
including claimed in court	-	-
Total gross other receivables	**934**	**478**
Impairment allowances for receivables	-	-
Total net other receivables	934	478
– from related parties	-	-

Note 20. Cash and cash equivalents

CASH AND CASH EQUIVALENTS	31.12.2019	31.12.2018
Cash, including:	4,206	4,235
– cash on hand	-	-
– cash in bank	4,206	4,235
Other cash (short term deposits)	-	1,302

Other cash assets	-	-
Total cash and other cash assets	4,206	5,537

Note 21. Cash in VAT account

As at the Balance Sheet Date, the Company did not have any cash in its VAT account.

Note 22. Assets held for sale

In the current and comparable periods, the Company did not recognize any held-for-sale assets or assets related to discontinued operations.

Note 23. Share capital

CHANGE IN SHARE CAPITAL	1.12.2019-31.12.2019	1.12.2018-31.12.2018
Balance at the beginning of the period	**178**	**170**
Increases	12	8
Decreases	-	-
Balance at the end of the period	**190**	**178**

On 24 April 2019, the Company's Extraordinary General Meeting adopted a resolution to increase the Company's share capital by issuing 42,602 series P shares with a nominal value of PLN 0.10 each and a total nominal value of PLN 4,206,20 to be used for the incentive scheme for the Company's employees and collaborators.

On 26 June 2019, based on the resolution of the Management Board of XTPL S.A. the Company's share capital was increased by issuing 78,000 series S shares with a nominal value of PLN 0.10 and a total nominal value of PLN 7,800.00.

Note 24. Change in the balance of provisions

CHANGE IN THE BALANCE OF PROVISIONS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Balance at the beginning of the period	**292**	**110**
increased/ created	956	714
utilisation	374	205
release	572	327
Balance at the end of the period	**302**	**292**

Note 25. Trade liabilities

SHORT-TERM TRADE LIABILITIES	31.12.2019	31.12.2018
due to related parties	-	-
due to other entities	1,048	366
Total current trade liabilities	**1,048**	**366**

Note 26. Other Current liabilities

OTHER CURRENT LIABILITIES	31.12.2019	31.12.2018
Current liabilities:		
Statutory obligations, except income tax	307	129
employee benefits	387	367
purchase of non-financial (investment) fixed assets	22	2
business travels	165	107
other	-	35
Total other Current liabilities, excluding provisions	**882**	**640**

Note 27. Obligations in respect of staff benefits

OBLIGATIONS IN RESPECT OF EMPLOYEE BENEFITS	31.12.2019	31.12.2018
Current liabilities:		
remuneration	250	190
payments for unused annual leave	137	177
other	-	-
Total:	**387**	**367**

Note 28. Deferred tax liability

Deferred tax liability caused by positive temporary differences	Statement of financial position as at		Impact on the statement of comprehensive income
	31.12.2019	31.12.2018	01.01.2019 - 31.12.2019
In respect of:			
Interest on loans and deposits	24	4	-20
Total deferred tax liability	24	4	-20
Set-off with deferred tax assets	-24	-4	20
Net deferred tax liability	-	–	-

Note 29. Finance lease obligations

FINANCE LEASE OBLIGATIONS (for the lessee)	Minimum lease payments		Current value of minimum lease payments	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Finance lease obligations, payable:				
Up to one year	1	27	1	26
up to 1 month	1	2	1	2
1 to 3 months	-	5	-	4
3 to 6 months	-	7	-	6
6 to 12 months	-	13	-	14
1 to 5 years inclusive	-	–	–	-
Above 5 years	–	–	–	–
Total:	**1**	**27**	**1**	**26**
Less: costs to be incurred in subsequent periods	-	1	-	–
Current value of minimum lease payments	**1**	**26**	**1**	**26**
Non-current lease obligations (payable over more than 12 months)	–	–	–	1
Current lease obligations (payable up to 12 months)	–	–	1	25

Note 29.1 Short-term financing

On 17 May 2019, XTPL S.A. signed an agreement with a natural person for a short-term credit line of up to PLN 1,500 thousand, with a fixed interest rate of 10% p.a. and the maturity date of 31 July 2019. The loan was to ensure bridging financing in the event of delays in the payment of funds from grants and the series S share issue. As at the Balance Sheet Date, the loan balance was nil.

Note 30. 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

None in the Reporting Period.

Note 31. Information on issue, redemption and repayment of debt and equity securities

In the Reporting Period, no events took place in connection with redemption or repayment of debt or equity securities. Securities issues during the Reporting Period were described in item 2.4.4 of the Management Report.

Note 32. Dividend paid or declared, in total and per share, with a division into ordinary and preference shares

In the Reporting Period, the Group did not pay or declare any dividends.

Note 33. Fair value of the individual classes financial assets and liabilities

	Book value	Fair value

	Category as per IFRS 9	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets					
Loans granted	WwgZK	239	-	239	-
Trade receivables	WwgZK	-	8	-	8
Other receivables	WwgZK	935	478	935	478
Cash and cash equivalents	WwWGpWF	4,206	5,537	4,206	5,537
Total		**5,380**	**6,023**	**5,380**	**6,023**
Financial liabilities					
Interest bearing bank and other loans	PZFwgZK	-	-	-	-
Finance lease liabilities	PZFwgZK	1	26	1	26
Trade liabilities	PZFwgZK	1,049	366	1,049	366
Other liabilities	PZFwgZK	881	639	881	639
Total		**1,931**	**1,031**	**1,931**	**1,031**

Abbreviations used:

WwgZK – Measured at amortized cost

PZFwgZK – Other liabilities measured at amortised cost

WwWGpWF – Financial assets/ liabilities measured at fair value through profit or loss

Fair value of financial instruments that the Group held as at the Balance Sheet Date and 31 December 2018 was not materially different from the values presented in the financial statements. This is because:

– with regard to short-term instruments, the potential effect of the discount is not material;

– the instruments relate to the transactions concluded on market terms.

At the Balance Sheet Date, the Group did not have any financial instruments measured at fair value.

Note 34. Capital management

The key goal of the Company's capital management is to maintain safe capital ratios to facilitate the Group's operations and increase its value.

CAPITAL MANAGEMENT	31.12.2019	31.12.2018
Interest bearing borrowings	-	-
Trade and other liabilities	1,931	1,010
Less cash and cash equivalents	-4,206	-5,537
Net debt	-2,275	-4,527
Equity	6,907	8,937
Equity and net debt	4,632	4,410
Leverage	-49%	-103%

Note 35. Description of the post-employment benefit plan

The Group does not operate any post-employment benefit plans within the meaning of IAS 19.

Note 36. Proposed profit distributions (loss cover) for the financial year

The Management Board of XTPL S.A. proposes to cover the current period's loss of PLN 24,678 thousand from the supplementary capital. The remaining uncovered portion of the loss for the financial year exceeding the value of supplementary capital will be covered by future years' profits.

Note 37. Explanations to the statement of cash flows

	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
PBT presented in the statement of comprehensive income	-24,125	-7,243
PBT presented in the statement of cash flows	-24,125	-7,243

INTEREST AND DIVIDENDS IN THE STATEMENT OF CASH FLOWS	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Realized interest on financing activities	18	4
Realized interest on investing activities	-52	-54
Unrealized interest on financing activities	-18	1
Total interest and dividends:	**-52**	**-49**

CHANGE IN THE BALANCE OF RECEIVABLES	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Change in the balance of trade receivables	7	1
Other receivables	-475	-206
Total change in the balance of receivables	**-468**	**-205**

CHANGE IN THE BALANCE OF LIABILITIES	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Change in the balance of trade liabilities	682	56
Other liabilities	232	-162
Total change in the balance of liabilities:	**914**	**-106**

Cash and cash equivalents at the end of the period	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Statement of cash flows	4,207	5,536
Statement of financial position	4,206	5,537

The amount of PLN 12,550 thousand presented in the 2019 consolidated statement of cash flows as "other adjustments" refers to the cost of remuneration included in the consolidated statement of comprehensive income in respect of the valuation of the incentive scheme and the settlement of acquisition of the subsidiary XTPL Inc.

Note 38. Related party transactions

4 QUARTERS OF 2019	to associates	to joint ventures	to key management personnel*	to other related entities **
Purchase of services	-	-	-	24
Loans granted	-	-	-	-
Financial expenses – interest on loans	-	-	-	20

4 QUARTERS OF 2018	to associates	to joint ventures	to key management personnel*	to other related entities **
Purchase of services	-	-	86	68
Loans received	-	-	-	200
Financial expenses – interest on loans	-	-	-	19

** the item includes persons who have the authority and responsibility for planning, managing and controlling the company's activities*

*** the item includes entities linked through key management*

Terms of related party transactions

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. At the end of the Reporting Period, i.e. on 31 December 2019, the Company did not create any allowances for doubtful receivables from related parties. In each financial year, an assessment is carried out which involves examining the financial position of the related party and the market in which it operates.

Note 39. Net revenue from sales

NET REVENUE FROM SALES	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Revenue from research and development services	-	-
Revenue from the sale of products	-	-
Revenue from grants	2,063	2,267
Total net revenue from sales	**2,063**	**2,267**

Note 40. Information about seasonality of business and cycles

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

Note 41. Operating segments

In the Reporting Period, no operating segments have been identified in accordance with IFRS 8. The Group'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. From the date of its formation to the date of the report, the Group did not generate any operating revenues, and its only revenues were grant payments. For this reason, the Group does not specify separate operating segments.
XTPL is a technology company which is only entering the stage of commercialization of the outcome of its research and development activity designed to develop the groundbreaking manufacturing technology of ultra-precise printing of a wide range of nanomaterials.

Note 42. Operating costs

OPERATING COSTS	figures in PLN thousand	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
Depreciation/ amortization, including		645	559
– depreciation of tangible assets		409	347
– amortization of intangible assets		236	212
Use of raw materials and consumables		1,011	1,439
External services		5,273	4,283
Cost of employee benefits		18,463	4,500
Taxes and charges		149	80
Other costs by type		664	761
Value of goods and materials sold		-	-
Total costs by type, including:		**26,205**	**11,622**
Items reported as research and development costs		7,316	3,076
Items reported as cost of finished goods sold			
Items reported as general and administrative expenses		18,834	6,435
Change in finished goods			5
Cost of producing services for internal needs of the entity		55	2,106

Recognition of the costs of the incentive scheme for 2016-2018 in the total amount of PLN 11,587 thousand (PLN 2,268 thousand recognized in the cost of research & development, and PLN 9,319 thousand in general and administrative expenses) and part of the costs of the incentive scheme for 2019, as the entitlement to acquire the shares of warrants granted to the collaborators of XTPL Inc., valued at PLN 1,439 thousand, has no impact on the Company's assets or financial position, or its ability to service its obligations. The scheme's costs are a non-cash in nature, and reflect the value of shares transferred (net of their purchase price paid by scheme participants). This transaction did not cause any changes in the measurement of assets, the level of equity or the company's ability to generate revenues in the future. The shares transferred also did not cause additional dilution of the existing stock as they had been issued in the first half of 2017 (and were intended for the incentive scheme).

Note 43. Employment

As at the Balance Sheet Date: 32 people

At the end of 2018: 40 people

Note 44. Cost of employee benefits

COST OF EMPLOYEE BENEFITS	1.01.2019 - 31.12.2019	1.01.2018 - 31.12.2018
Salaries under employment contracts	3,941	2,758
Salaries under civil law contracts/ contracts for specific work	617	266
Social security and other benefits	878	585
Costs of the incentive scheme	13,026	-
Total	**18,463**	**3,608**

Note 45. Incentive scheme

In the Reporting Period, in the statement of comprehensive income the Company recognized the cost the incentive scheme for employees and collaborators based on the Company's shares. The date of recognition of costs was the moment when the persons covered by the scheme were offered the purchase of the shares. The cost of the scheme (fair value of the shares issued) was estimated at PLN 13,026 thousand and was fully taken to the profit or loss of the current period.
Recognition of the scheme's costs of PLN 13,026 thousand has no impact on the Group's assets or financial position, or its ability to service its obligations. The scheme's costs are a non-cash in nature, and reflect the value of shares transferred (net of their purchase price paid by scheme participants). This transaction did not cause any changes in the measurement of assets, the level of equity or the company's ability to generate revenues in the future. The shares transferred also did not cause additional dilution of the existing stock as they had been issued in the first half of 2017 (and were intended for the incentive scheme).

Note 46. Other operating income

OTHER OPERATING INCOME	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Gain on disposal of non-financial fixed assets	-	3
Provision released	-	-
Reversal of impairment allowances on assets	-	-
Other income:	5	4
damages and penalties received	-	-
reimbursement of court costs	-	-
other	5	4
Total other operating income	**5**	**7**

Note 47. Other operating costs

OTHER OPERATING COSTS	1.01.2019–31.12.2019	1.01.2018–31.12.2018

Loss on disposal of non-financial fixed assets	-	-
Provision released	5	-
Creation of impairment allowances on assets	-	-
Other costs:	5	6
penalties, fines, damages	-	-
donations	-	-
other	5	6
Total other operating costs	**10**	**6**

Note 48. Financial revenues

FINANCIAL REVENUES	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Interest on bank accounts	70	54
Interest on bank accounts	-	-
including from related parties	-	-
Total net financial revenues	70	54

Note 49. Financial expenses

FINANCIAL EXPENSES	1.01.2019-31.12.2019	1.01.2018-31.12.2018
Financial expenses in respect of finance leases	2	5
Interest on other receivables	2	-
Interest expense in respect of a loan received	16	-
FX losses	83	49
Total financial expenses	104	54

Note 50. Reconciliation of the effective tax rate

RECONCILIATION OF THE EFFECTIVE TAX RATE	1.01.2019–31.12.2019	1.01.2018–31.12.2018
Gross profit/(loss) before tax on continued operations	-24,125	-7,243
Profit/(loss) before tax on discontinued operations	–	–
Profit/(loss) before tax	**-24,125**	**-7,243**
Tax at the Polish statutory rate of 19%	-4,584	-1,376
Unrecognized deferred tax assets in respect of tax loss	1,792	1,204

Non-tax deductible costs	3,399	569
Increase in tax costs	–	–
Non-taxable revenues	-534	-431
Tax at the effective tax rate	73	-34
Income tax (charge) recognized in the statement of comprehensive income	73	-34
Income tax attributable to discontinued operations	–	-

Note 51. Discontinued operations

No discontinued operations occurred either in the current or in the previous reporting period.

Note 52. Types and amounts of changes in estimates presented in prior periods of the present financial year or changes to estimates presented in prior financial years

In the Reporting Period, no changes to estimates were made.

Note 53. Correction of errors from previous periods

In the Reporting Period, no corrections were made on account of errors from previous periods.

Note 54. Tax settlements

Tax payment and other regulated areas of business (including customs or currency-related activities) may be subject to inspection by administrative bodies, which have the right to impose high fines and sanctions. In the absence of well-established legislation, Polish regulations tend to be unclear and inconsistent. There are frequent differences in interpretation of tax regulations both within State administration bodies and between such bodies and corporations, which gives rise to uncertainties and conflicts. As a result, the tax risk in Poland is substantially higher than in the countries with a more mature tax system. Tax payments may be inspected for five years after the year when the tax was paid. As a result of inspections, additional tax may be assessed for the Company in addition to the tax paid before. In the Company's opinion, as at the Balance Sheet Date, appropriate provisions existed for the identified and quantifiable tax risk.

Note 55. Hedge accounting

The Company does not use hedge accounting.

Note 56. Objectives and rules of financial risk management

The Group is exposed to risk in each area of its operations. With understanding of the threats that originate through the Company's exposure to risk and the rules for managing these threats the Group can run its operations more effectively. Financial risk management includes the processes of identification, assessment, measurement and management of this risk. The main financial risks to which the Group is exposed include:

Market risks:

- The risk of changes in market prices (price risk)
- The risk of changes in foreign exchange rates (currency risk)
- The risk of changes in interest rates (interest rate risk)
- Liquidity risk
- Credit risk.

The risk management process is supported by appropriate policies, organisational structure and procedures.

MARKET RISK

The Group actively manages the market risk to which it is exposed. The objectives of the market risk management process are to:

- limit the volatility of pre-tax profit/loss
- increase the probability of achievement of the budget plan
- maintain the Group in good financial condition
- support the strategic decision-making process in the area of investment activity taking into account the sources of investment financing

All market risk management objectives should be considered jointly, and their achievement is primarily dependent on the Group's internal situation and market conditions.

PRICE RISK

In the Reporting Period, the Group did not invest in any debt instruments and, therefore, is not exposed to any price risk.

CURRENCY RISK

The Group is exposed to currency risk in respect of the transactions it concludes. Such risk arises when the Company makes purchases in currencies other than the valuation currency.

INTEREST RATE RISK

Deposit transactions are made with institutions with a strong and stable market position. The instruments used – short-term, fixed-rate transactions – ensure full security.

LIQUIDITY RISK

The Group monitors the risk of a lack of funds using the periodic liquidity planning tool. This tool takes into account the maturity dates of both investments and financial assets (e.g. accounts receivable, other financial assets) and projected cash flows from operating activities.

The Group seeks to maintain a balance between continuity and flexibility of financing by using different sources of financing, such as finance leases.

The Group is exposed to financing risk due to the possibility that it in the future it will not receive sufficient cash to fund commercialization of its research and development projects.

CREDIT RISK

In order to mitigate the credit risk related to cash and cash equivalents deposited in banks, loans granted, deposits paid in respect of rental contracts and performance security as well as trade credit, the Group:
• cooperates with banks and financial institutions with a known financial position and established reputation
• analyzes the financial position of its counterparties based on publicly available data as well as through business intelligence agencies

Note 57. 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 Reporting Period no material settlements were made on account of court cases.

Note 58. Information about changes in the economic position and operating conditions which might have a material impact on the fair value of the Group's financial assets and liabilities, whether those assets and liabilities are recognized at fair value or at adjusted purchase price (amortized cost)

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

Note 59. Information about changes in contingent liabilities and contingent assets and non-disclosed liabilities arising from contracts in relation to the last reporting period

Contingent liabilities granted by the Parent Company were in the form of promissory notes together with promissory note declarations to secure the contracts for co-financing projects financed by the EU as well as a bank loan agreement. All the Group's contingent liabilities originated before 31 December 2018. The change in the value of contingent liabilities in relation 31 December 2018 amounts to PLN 2,063 thousand. It is caused by the payment of the next two tranches of subsidies totalling PLN 2,063 thousand. At the Balance Sheet Date and until the date of approval of the financial statements for publication, no events occurred that could result in materialisation of the above contingent liabilities. As at the date of approval of the financial statements there were no undisclosed liabilities resulting from any agreements of material value.

CONTINGENT LIABILITIES	31.12.2019	31.12.2018
Promissory notes	6,157	4,094
Total contingent liabilities	6,157	4,094

Note 60. Extraordinary factors which occurred in the Reporting Period with an indication of their impact on the financial statements

In the Reporting Period, no extraordinary events occurred that would affect the financial statements.

Note 61. Information about the influence of changes in the composition of the entity during the financial year, any business combinations, acquisition or loss of control over subsidiaries, long-term investments, restructures or discontinued businesses.

On 31 January 2019, XTPL S.A. acquired shares in XTPL INC., a newly formed entity based in the state of Delaware, United States. The share capital of XTPL Inc. is USD 5,000. XTPL S.A. acquired 100% of the stock at the nominal price. XTPL INC. is fully consolidated on a line-by-line basis.

Note 62. Remuneration, bonuses or benefits for members of the Company's bodies

Management Board:

Name	Role	2019	2018
Filip Granek	CEO	360.0	512.5
Maciej Adamczyk	Management Board Member	360.0	224.8

Detailed information on the conditions and amount of remuneration of the Management Board:

Filip Granek – Management Board President

Receives remuneration based on an employment contract at PLN 30,000 gross monthly. He did not receive any bonus or reward for the Reporting Period. As part of the settlement of the Company's previous incentive scheme (pursuant to Resolution No. 03/04/2019 of the Extraordinary General Meeting of 3 April 2019), he received 7,304 shares of the Issuer, and under the new incentive scheme (for 2019), he received the right to acquire 1,000 shares of the Issuer.

Maciej Adamczyk – Management Board Member (until February 27, 2020):

He received remuneration on the basis of an employment contract at PLN 20,000 gross monthly and appointment-based of PLN 10,000 gross monthly. He did not receive any bonus or reward for the Reporting Period. As part of the settlement of the Company's previous incentive scheme (pursuant to Resolution No. 03/04/2019 of the Extraordinary General Meeting of 24 April 2019), he received 6,283 shares of the Issuer. In connection with the termination of his role as a Member of the Management Board and termination of his employment, which took place after the Balance Sheet Date, Maciej Adamczyk received payment in lieu of unused vacation.

Supervisory Board:

Name	Role	2019	2018
Wiesław Rozłucki	Chairman of the Supervisory Board	96.0	62.5
Bartosz Wojciechowski	Deputy Chairman of the Supervisory Board	12.0	8.5
Piotr Lembas	Supervisory Board Member	12.0	7.1
Sebastian Młodziński	Supervisory Board Member	12.0	8.5
Konrad Pankiewicz	Supervisory Board Member	12.0	14.0
Piotr Janczewski	Supervisory Board Member	0	0.0
Agnieszka Młodzinska-Granek	Supervisory Board Member	0	1.4

Members of the Supervisory Board receive a fixed monthly remuneration of PLN 1,000 (except for the Chairman, whose monthly remuneration is PLN 8,000).

Audit Committee:

Name	Role	2019	2018
Wiesław Rozłucki	Chairman of the Audit Committee	8.0	0
Piotr Lembas	Member of the Audit Committee	8.0	0
Sebastian Młodziński	Member of the Audit Committee	8.0	0

Members of the Audit Committee receive a fixed monthly remuneration of 1,000 PLN.

Note 63. Transactions with the audit firm

On 9 August 2019, the Issuer concluded an agreement on audit of the stand-alone and consolidated financial statements with 4AUDYT sp. z o.o. with its registered office in Poznań (60-846) at ul. Kochanowskiego 24/1, with share capital of PLN 100,000.00, NIP 7811817052, entered under KRS number 0000304558 in the National Court Register, Register of Entrepreneurs kept by the District Court for Poznań Nowe Miasto i Wilda in Poznań.

4AUDYT sp. z o.o. is an audit firm in accordance with Article 46 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, and in accordance with Article 57 of this Act is entered on the list of audit firms kept by the Polish Audit Oversight Agency under number 3363.

The auditor was selected by the Supervisory Board by resolution No. 01/07/2019 of the Supervisory Board of XTPL S.A. of 16 July 2019 regarding the selection of an audit firm that will carry out statutory audits and interim reviews of XTPL's financial statements for two years.

The auditor's fee remuneration for auditing the consolidated financial statements of the Group for 2019 was PLN 20,000. In the previous financial year, the Issuer's stand-alone financial statements were also audited by 4AUDYT sp. z o.o. under the agreement of 9 January 2018. The remuneration for the service amounted to PLN 11,000.00 + VAT. During the financial year, 4AUDYT sp. z o.o. also reviewed the Group's interim condensed consolidated financial statements for the period from 1 January 2019 to 30 June 2019. The remuneration of the audit firm in this respect was PLN 10,000.

During the financial year, the Issuer did not use any services of the audit firm other than the above audit/ limited review services.

Note 64. Events after the balance sheet date that have not been reflected in the financial statements

The first nanoink sale:

In March 2020, XTPL finalized its first sales transaction for its nanoink based on sliver nanoparticles. Nanoink is one of the key elements of the Group's technology, protected by international patent applications. The first delivery took place for one of the partners operating in the display sector, the first application field commercialized by XTPL. A week after the implementation of the first commercial order, the Group carried out another ink sales transaction with a group operating in the display sector and several other advanced electronics sectors. The transaction confirmed the partner's significant interest in the Company's technology and unlocked further commercial opportunities. At the end of March 2020, the Issuer informed about the next (third) sale of ink to another counterparty.
In addition, the Issuer also sold samples printed on the client's material in accordance with the clients' requirements.
The total value of the sales was about PLN 40 thousand.

Impact of the SARS-CoV-2 pandemic on the Group's operations

Due to the early stage of the Parent Company's and the Group's development (the beginning of commercialization), the current situation related to the coronavirus threat fundamentally does not affect the Issuer's or the Group's operational activity. Office workers perform their duties remotely (they are provided with a company phone with Internet access and a laptop). Technology staff work in compliance with all the standards announced by state authorities. Some technology staff are involved in the development of new grant applications, and therefore also partly work from home. As a rule, all meetings take place using teleconferencing. The planned activities (e.g. shipment of the nanoink to counterparties) run smoothly.

The current epidemic may have an indirect impact on the financing for the Group. The Management Board of the Parent Company believes that in the current economic situation (COVID-19 pandemic) and the situation in the capital market, a significant share issue in the first half of 2020, addressed to a wide group of investors, might not be the most effective way of raising finance. Hence, the Company focuses on acquiring financing which will enable it to conduct research and development activities and business development at least until the beginning of 2021, and will consider a share issue addressed to a wide group of investors once the market situation stabilizes.

Settlement of the incentive scheme

On 31 March 2020, the Company's Management Board and the Supervisory Board, pursuant to the resolution of the EGM of 24 April 2019, granted the employees and collaborators of the Company the right to acquire 36,900 shares and 21,530 warrants.

Out of the above pool, 9,600 shares and 21,530 warrants were allocated to the collaborators of XTPL Inc. Due to conditionally granting the rights to acquire the shares or warrants to the collaborators of XTPL Inc. in 2019, this part of the incentive scheme was valued at PLN 1,439 thousand and reflected in the 2019 financial data. The other portion of the financial instruments allocated in 2020, whose estimated valuation is PLN 2,000 thousand, will be reflected in the 2020 financial data.

Note 65. Settlement of the purchase of XTPL INC.

On 31 January 2019, XTPL S.A. acquired shares in XTPL INC., a newly formed entity based in the state of Delaware, United States. The share capital of XTPL Inc. is USD 5,000. XTPL S.A. acquired 100% of the stock at the nominal price. The purchase of shares was covered with a cash contribution. XTPL INC. is fully consolidated on a line-by-line basis.
The purpose of acquisition of the shares was to step up development of the Company's structures and operations in the United States.

The Company acquired the shares of XTPL Inc. on 31 January 2019, however, in the Issuer's opinion, control was acquired on 1 January 2019 in connection with the company formation process which lasted until the share acquisition date.
For this reason, the subsidiary's data have been consolidated since 1 January.
As at the date of acquisition of control, the net assets of XTPL INC. were fully assigned to non-controlling shareholders. As at the date of acquisition of shares of XTPL INC. by XTPL S.A., the Company settled the acquisition in correspondence with the Group's equity due to the lack of changes in the level of control over XTPL INC.

As at the date of acquisition of control, the subsidiary's financial data were as presented in the table below:

ASSETS Book value	01.01.2019	ASSETS Fair value	01.01.2019
-	–	–	-
TOTAL ASSETS	-	TOTAL ASSETS	-
EQUITY AND LIABILITIES book value	01.01.2019	EQUITY AND LIABILITIES fair value	01.01.2019
Trade liabilities	475	Trade liabilities	475
TOTAL EQUITY AND LIABILITIES	-	TOTAL EQUITY AND LIABILITIES	-

Prezes Zarządu
Filip Granek

Identification of the consolidated financial statements
Katarzyna Kulik

Additional information

7 Additional information

7.1 General information and basis of preparation

The financial statements of XTPL Group (stand-alone and consolidated financial statements) cover the period of nine months ended 31 December 2019, and the comparative data for the period of 12 months ended 31 December 2018. They were prepared using the historical cost convention.

The financial statements have been prepared on the assumption that the Company will continue in operation for at least a year from the Balance Sheet Date.

Given the Company's market development stage (the Company yet does not yet generate significant revenues from the sale of products and services, and its activity is financed from equity and subsidies), the ability to continue operations depends to a large extent on the ability to raise further financing, primarily through the issue of shares to finance subsequent stages of commercialization of the technology developed by the Company.

At the date of approval of these financial statements, the Management Board has not identified any circumstances would point to a risk to continuity of operations in the above period.

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) approved by the EU.

7.2 Currency of the financial statements

The functional currency and reporting currency of these financial statements is the Polish zloty (PLN), and the data contained in the financial statements are presented in thousands of Polish zlotys.

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.

7.3 Exchange rates used in the financial statements

	2019 January–December		2018 January–December	
exchange rates used in the financial statements	EUR	USD	EUR	USD
for the balance sheet items	4.2585	3.7977	4.3000	3.7597
for profit or loss and cash flow items	4.3018	3.8440	4.2669	3.6227

7.4 Report on non-financial information for 2019

Not applicable. XTPL S.A. does not meet the criteria set out in Article 49b(1) of the Accounting Act.

8 Uniform description of significant accounting principles

8.1 Intangible fixed assets

Intangible assets are recognized if:

a. the intangible asset is identifiable
b. the intangible asset is is controllable
c. it is possible to identify the way of achieving future economic benefits generated by the intangible asset.

The identification criteria is met if:

a. the asset is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

b. arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits.

The future economic benefits flowing from an intangible include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.

The spending on intangible assets in the Group is divided into three stages:
1. spending related to the innovative and planned search for solutions, undertaken with the intention of acquiring and absorbing new scientific and technical knowledge; such spending in treated as research costs and are recognized in the profit or loss of the period;
2. The expenses related to the use of research results in business activities that meet the definition of IAS 38, until receipt of the first revenue from the sale or rental of a fixed asset or other benefits resulting from the use of an asset by the Company, are reported under the heading “intangible assets – in-process development expenditure”;
3. The expenses related to the use of research results in business activities that meet the definition of IAS 38, until receipt of the first revenue from the sale or rental of a fixed asset or other benefits resulting from the use of an asset by the Company, are transferred to “intangible assets – costs of completed development” and are amortized.

An intangible asset is recognized if, and only if:
a. it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
b. the cost of the asset can be measured reliably.

Before starting the second stage of work on intangible assets, the Company's Management Board assesses the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset, both on the income and cost side, including by estimating availability of the means needed to complete, use and generate benefits from the asset.

The Group uses judgement to assess the degree of certainty attached to the flow of future economic benefits that are attributable to the use of the asset on the basis of the evidence available at the time of initial recognition, giving greater weight to external evidence.
All research completed in the financial year is analysed on an ongoing basis in terms of commercialization potential. If the result of the assessment is positive, i.e. there are indications the intangible assets will help the Company obtain future economic benefits that can be assigned to the given assets component, while meeting the remaining conditions indicated below, the Management Board decides to start development.
An intangible asset arising from development (or from the development phase of an internal project) shall be recognized if, and only if, the Company can demonstrate all of the following:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b. its intention to complete the intangible asset and use or sell it;
c. its ability to use or sell the intangible asset;
d. how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
f. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Where there is no certainty as to fulfillment of the above conditions, development costs are recognized in the statement of comprehensive income in the period in which they were incurred (under costs of ordinary activities).

The in-process development expenditure is an item of intangible fixed assets that is not yet available for use. According to paragraph 97 of IAS 38, development expenditure is not amortized as amortization begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Intangible assets are amortized on a straight-line basis over the anticipated period of their economic life. Amortization of intangible assets is recognized in the income statement under the "Amortisation" heading.

Intangible assets used by the Company with their useful lives:

Licenses for computer programs	2 to 5 years
Intellectual property rights (know-how)	5 years

The Company has no intangible assets with an indefinite useful life.

8.2 Tangible assets

Tangible assets are measured at purchase cost increased by all costs directly related to the purchase and adaptation of the asset for use or at generation cost less any depreciation and impairment allowances.

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 recognized 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 fixed assets: 2 to 4 years

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.

8.3 Fixed 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.

8.4 Financial instruments

The Company has classified financial assets into the following valuation categories:

- measured at amortized cost
- measured at fair value through other comprehensive income
- measured at fair value through profit or loss.

The Company allocates financial assets to the appropriate category depending on the business model adopted for managing financial assets and considering the characteristics of contractual cash flows for a particular financial asset.

Financial assets measured at amortized cost are debt instruments held to collect contractual cash flows which include only payments of principal and interest.
To this category the Company classifies trade receivables, loans granted, other financial receivables and cash and cash equivalents.

Financial assets are measured at amortized cost using the effective interest rate. After initial recognition, trade receivables are measured at amortized cost using the effective interest rate method, including impairment allowances. Any trade receivables maturing within less than 12 months from the date of origination (i.e. without a financing element) and not transferred to factoring, are not discounted and are measured at nominal value.

Financial assets measured at fair value through other comprehensive income are:

- debt instruments whose flows contain only payments of principal and interest, and which are held to collect contractual flows and for sale;
- investments in equity instruments.

Changes in the carrying amount are measured through other comprehensive income, except for impairment losses (gains), interest income and foreign exchange differences and dividends, which are reflected in profit or loss. Assets measured at fair value through other comprehensive income include shares in other entities at the time of initial recognition.

Financial assets measured at fair value through profit or loss are financial instruments which do not meet the criteria for measurement at amortized cost or fair value through other comprehensive income. In the category of assets measured at fair value through profit or loss the Group classifies derivatives, factored trade receivables where the terms of the factoring agreement result in the respective amounts to be no longer treated as receivables, as well as loans which have not passed the SPPI test and dividends.

8.5 Impairment of financial assets

Interest carried at amortized cost
IFRS 9 has introduced a change in the approach to estimating the impairment of financial assets with a shift from the incurred loss model to the expected loss model. At each balance sheet date, the Group assesses the expected credit losses whether or not there are any indications of impairment.

8.6 Loans granted and receivables from related parties

The Group performs an individual analysis of all exposures, assigning them to one of three stages:

Stage 1 – where credit risk has not increased significantly since initial recognition and where 12-month expected credit loss (ECL) is recognized.
Stage 2 – where credit risk has increased significantly since initial recognition and where lifetime ECL is recognized.
Exposures classified to stage 1 have impairment allowances determined based on an individually set rating, repayment profile and assessment of recovery from collateral.
For exposures classified to stage 2, the amount of impairment allowance is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows (excluding future losses on account of uncollected receivables), discounted using the effective interest rate.
Impairment allowances are reversed when the present value of the estimated future cash flows is higher than the net assets employed, and a positive balance of payments with the entity concerned is expected to be achieved within the next 12 months.

8.7 Trade receivables

The Group performs a collective analysis of exposures (except for those which are subject to individual analysis as non-performing receivables) and uses a simplified matrix of allowances for individual age ranges based on expected credit losses over the entire life of the receivables (based on default ratios determined using historical data). The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days in arrears.

8.8 Cash

The Group estimates allowances based on the likelihood of default determined using external bank ratings.
The most important item of financial assets in the Company's financial statements is cash, held on accounts with banks from Santander Group and ING. Banks which are members of Santander Group and ING have a stable short-term and long-term rating, so the Group decided not to post any allowances.

8.9 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 recognized 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 recognized 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.

As of 1 January 2019, the Group applied the requirements of the new standard relating to the recognition, measurement and presentation of lease contracts. The new standard was applied in accordance with the transitional provisions contained in IFRS 16.
The Group implemented IFRS 16 using a modified retrospective approach, therefore, comparative data for 2018 were not restated.
As at the date of the report, the Group identified a lease contract for office and laboratory space, and a lease agreement for specialized equipment. Due to the commercial terms applicable to these agreements and the practical expedient provided for by the Standard, the Group excluded them from disclosure and continues to measure them as before through profit or loss.
The Group assumes that for contracts concluded for an indefinite period, with a notice period of less than 12 months but not meeting the definition of a lease, the practical expedient under IFRS 16 can be used.

A description of the initial application of IFRS 16 and the detailed accounting principles is presented in point 5.6.2 The effect of applying IFRS 16.

8.10 Foreign currency transactions

The items included in the financial statements are presented in the Polish zloty, which is the functional currency of the Group.`
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 other than derivatives expressed in foreign currencies;
are recognized in profit or loss.

8.11 Prepayments and accruals

The entity recognizes prepayments and accruals to comply with the accrual principle and the matching principle. This applies to the revenues and expenses which relate to future periods and meet the recognition criteria as items of assets or liabilities, in accordance with the conceptual framework of IFRSs.

Prepayments are measured at cost at the time of initial measurement, while on the balance sheet date the cost is adjusted by the portion of the written off cost or income attributable to the previous period.

The Group recognizes unearned revenues if they relate to future reporting periods.

Unearned revenues are measured at nominal value.

8.12 Equity

The Group's equity is divided into:

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

In connection with the issue of shares completed during the financial year, the Group incurred issue costs of PLN 537 thousand. Issue costs were presented in the financial statements as a decrease in the supplementary capital.

8.13 Provisions

Provisions are recognized 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.

8.14 Bank loans and other loans received

At initial recognition, bank loans are recognized 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 (amortized cost), using the effective interest rate.

8.15 Borrowing costs

Borrowing costs are recognized 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 to finance 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.

8.16 Current and deferred tax

Income tax recognized 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 realized 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 recognized 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 recognized in the full amount. The liability is not discounted.
A deferred tax asset is recognized 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 recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference or tax loss can be utilized.
Deferred tax assets and liabilities are recognized regardless of when they are to be utilized.
Deferred tax assets and deferred tax liabilities are not recognized 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 recognized for temporary differences resulting from the initial recognition of goodwill.

Deferred tax is recognized in profit or loss for a given period, unless the deferred tax:
– arises from transactions or events which are directly recognized in other comprehensive income – in which case the deferred tax is also recognized 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 on the same taxpayer.

8.17 Revenue recognition

The Group applies IFRS 15 “Revenue from Contracts with Customers” as of 1 January 2018, using the modified retrospective approach, without adjusting the comparative data.

The Group applies the principles of IFRS 15 taking into account the 5-step revenue recognition model. The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. Revenue is recognized as an amount corresponding to the transaction price allocated to that performance obligation.

In order to determine the transaction price, the Group takes into account the terms of the contract and the customary business practices. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example certain sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. If the consideration promised in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the promised goods or services to a customer.

As at the Balance Sheet Date, the Group did not have any signed commercial contracts that could be the basis for detailed disclosures in accordance with IFRS 15.

8.17.1 Revenues from the sale of services (products)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized 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 recognized only to the extent of the expenses incurred that are recoverable.

8.17.2 Revenue from the sale of goods and materials

The Company recognized 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 recognized at the fair value of the consideration received or receivable.

8.17.3 Interest

Interest income is recognized pro-rata to the passage of time, using an effective interest rate. When a receivable is impaired, the Group 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 recognized at the original effective interest rate.

8.18 Grants

Non-cash grants are recognized 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 under “Revenue from grants”.
A government grant is not recognized 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 recognized in profit or loss on a systematic basis over the periods in which the entity recognizes 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 recognized as income of the period in which it becomes receivable as the above fact has been disclosed.
Grants related to income are presented as revenue, separately from the related costs which the grants are intended to compensate. The grants are recognized as income regardless of whether they were received in the form of cash or as a decrease of liabilities.
Inflows and expenses related to received grants are presented in the statement of cash flows (under cash flows from operating activities).
The benefit of a government loan at a below-market rate of interest is treated as a government grant, which is recognized and measured in accordance with IFRS 9 “Financial Instruments”, i.e. at the amount of the difference between the initial carrying amount of the loan determined in accordance with IFRS 9 and the inflows received. The grant is accounted for in accordance with IAS 20 “Accounting for government grants and disclosure of government assistance”.
In the presented reporting periods, the Group received no grants to assets.

8.19 Contingent liabilities

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 recognized 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.

8.20 Incentive scheme

On 24 April 2019, the Parent Company's Extraordinary General Meeting of Shareholders adopted resolutions revoking the previous incentive scheme (adopted in 2017) and on creating a new incentive scheme (based on shares and subscription warrants, and consequently the issuance of new series P shares, conditional capital increase and the issuance of new series R shares and the issuance of series A subscription warrants).
The purpose of the incentive scheme is to:
create mechanisms that will motivate the Management Board and personnel of the Company and the Group to undertake activities that will lead to a rapid increase in the Company's and the Group's revenues and profits and ensure the Company's and the Group's long-term development, consequently increasing the value of the Parent Company's shares;
ensure a stable composition of the Management Board and personnel of the Company and the Group;
maintain a high level of motivation of the Management Board and personnel of the Company and the Group.
IFRS 2 requires that the Group should recognize the related costs and equity increase for such transactions when the employee benefits are received. On the date when the individual tranches under the scheme vest in the eligible persons, the Company will estimate the remuneration costs based on the fair value of the awarded options. The cost determined in this way will be recognized in the statement of comprehensive income for a given period in correspondence with the equity position presented in the statement of financial position throughout the vesting period.
During the financial year, shares were allocated as part of the incentive scheme in force in the Group. A detailed description is provided in Note 45 to the financial statements.

8.21 Management Board's estimates

The preparation of financial statements requires the Management Board of the Parent Company 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/ amortization rates.

8.21.1 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.

8.21.2 Useful lives of tangible assets

Each year, the Company's Management Board verifies the residual value, depreciation method and useful lives of the fixed assets which are subject to depreciation. As at 31 December 2019, 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.

8.21.3 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.

8.21.4 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. At the time of a decision to start a new development project, the Company assesses the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset, both on the income and cost side, including by estimating availability of the means needed to complete, use and generate benefits from the asset. Where there is no certainty as to the possibility of obtaining future economic benefits, technical capability or an intention to complete the development or availability of funds to complete the development or a possibility of a reliable estimate of the expenditure incurred, then development costs are recognized in the statement of comprehensive income in the period in which they were incurred (under costs of ordinary activities). At the end of each reporting period, the Company tests all previous assumptions regarding in-process development. Where there are any indications of impairment, the Company will assess the recoverable amount of the assets affected and will post 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.

At each balance sheet date, the Company assesses whether there are any indications that any of its may be impaired. If this is the case, the Company estimates the recoverable amount of the asset.

Whether or not there are any indications of impairment, each year the Company performs annual impairment tests for its intangible assets with an indefinite useful life or an intangible asset which is not yet available for use, by comparing its carrying amount with its recoverable amount. This test may be carried out at any time during the year, provided that each year it takes place at the same date. Different intangible assets may be tested for impairment at various dates. If an intangible asset was initially recognized during the current year, the asset is tested for impairment before the year-end.

At the end of the reporting periods presented, in the opinion of the Parent Company's Management Board there were no indications of impairment of tangible or intangible assets. As at the Balance Sheet Date, in accordance with the International Accounting Standard 36 "Impairment of Assets", the Company performed an impairment test for the intangible assets which are not yet available for use. The test results showed that the recoverable amount of intangible assets exceeds their carrying amount, so there is no need to post any impairment allowances for those assets.

Signatures of Management Board members:

Prezes Zarządu
Filip Granek

Person responsible for maintaining books of account

Chief Accountant
Katarzyna Kulik

Wrocław, 23 April 2020

Other

9 Other

9.1 Management Board's statement

The Management Board of XTPL S.A. declares that to the best of its knowledge the annual consolidated and stand-alone financial statements for 2019 and the comparable data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear view of the assets, financial position and profit or loss of the Issuer.

The Management Board of XTPL S.A. declares that the Management Board's report on the activities of the Issuer and the Group gives a true view of development, achievements and the situation of the Issuer and the Group (including a description of key threats and risks) in the Reporting Period.

Signatures of Management Board members:

Prezes Zarządu
Filip Granek

Wrocław, 23 April 2020

9.2 Information from the Management Board regarding auditor selection

On the basis of the Supervisory Board's statement and the Supervisory Board's resolution on auditor selection for audit of the Company's annual financial statements of 16 July 2019, the Management Board of XTPL S.A. advises that the auditor for the 2019 annual consolidated and stand-alone financial statements was selected in accordance with the applicable law, including the legal provisions governing the selection of an audit firm.

In addition, the Management Board advises that:

a) the audit firm and members of the auditing team responsible for audit of the 2019 annual consolidated and stand-alone financial statements met the conditions for preparing an impartial and independent audit report on the annual financial statements in accordance with applicable laws, professional standards and professional ethics;

b) the applicable laws related to the rotation of the audit firm and the key statutory auditor and the mandatory cooling off period are complied with by the Company;

c) the Company has an auditor selection policy in place as well as a policy on the provision for the Issuer of non-audit services by the audit firm.

Signatures of Management Board members:

Prezes Zarządu
Filip Granek

Wrocław, 23 April 2020

9.3 Statement of the Supervisory Board

Pursuant to § 70(1)(8) and § 71(1)(8) of the Regulation on current and financial information provided by issuers of securities, the Supervisory Board of XTPL S.A. declares that XTPL S.A.:

a) complies with the legal provisions regarding appointment, composition and functioning of the Audit Committee, including those relating to fulfillment by its members of the independence criteria and the requirements re knowledge and skills in the industry in which the Issuer; and in the area of accounting or auditing;

b) The Audit Committee of XTPL S.A. performed its tasks of the Audit Committee provided for in the applicable regulations.

Wiesław Rozłucki – Supervisory Board Chairman

Bartosz Wojciechowski – Deputy Chairman of the Supervisory Board

Konrad Pankiewicz – Supervisory Board Member

Herbert Wirth – Supervisory Board Member

Piotr Lembas – Supervisory Board Member.

9.4 Management Board's opinion

The audit firm's opinion about the consolidated and stand-alone financial statements of XTPL S.A. for the financial year 2019 was neither qualified nor negative.

Signatures of Management Board members:

Prezes Zarządu
Filip Granek

Wrocław, 23 April 2020

9.5 Assessment by the Supervisory Board

The Supervisory Board of XTPL S.A. declares that it has assessed the Management Board's report on the Issuer's and the Issuer's Group's activities in the Reporting Period and has assessed the stand-alone and consolidated financial statements for the financial year 2019 in terms of their compliance with the books of account, evidence and the facts, and as a result of the assessment it confirms that these documents have been prepared in accordance with the Company's books of account, evidence and the facts.

The Supervisory Board made a positive assessment of the Management Board's report on activities of the XTPL Group and the consolidated financial statements for the year ended 31 December 2019 based on the analysis of:

1) content of the report on the Issuer's and the XTPL Group's activities the consolidated financial statements of XTPL S.A. for the financial year ended 31 December 2019 submitted by the Issuer's Management Board;

2) report on the audit of the stand-alone and consolidated financial statements of XTPL S.A. prepared by 4Audyt sp. z o.o .;

3) information from the Audit Committee on the course and results of the audit and on reliability of the financial reporting.

Wiesław Rozłucki – Supervisory Board Chairman

Bartosz Wojciechowski – Deputy Chairman of the Supervisory Board

Konrad Pankiewicz – Supervisory Board Member

Herbert Wirth – Supervisory Board Member

Piotr Lembas – Supervisory Board Member.

9.6 Approval for publication

The annual report for the financial year 2019 was approved for publication by the Management Board of XTPL S.A. on 23 April 2020.

Signatures of Management Board members:

Prezes Zarządu
Filip Granek

Wrocław, 23 April 2020