“We Care, We Cure”

FINANCIAL REPORT

2013

ANNUAL FINANCIAL REPORT 2013

This Annual Financial Report is the first report prepared by the Company since it went public in July 2013. It contains all required information as per the Belgian Company Code.

LANGUAGE OF THE ANNUAL FINANCIAL REPORT 2013

Cardio3 BioSciences publishes its Annual Report in French, according to Belgian law. The Company also provides an English Translation. In case of differences in interpretation, the French version will prevail.

AVAILABILITY OF THE ANNUAL FINANCIAL REPORT 2013

This document is available free of charge for the public and upon request to:

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http://www.c3bs.com/en/financial-reports

FORWARD LOOKING STATEMENTS

This Annual Report may contain statements, including, without limitation statements containing the words 'believe', 'anticipate', 'expect', 'intend', 'plan', 'strive', 'estimate', 'could', 'will' and 'continue' and similar expressions. Such forward-looking statements are based on various assumptions and assessments of known and unknown risks, uncertainties and other factors which were deemed to be reasonable when they were made, but which may or may not prove to be correct. Actual events are difficult to predict and can depend on factors outside the Company's control. Consequently, it is possible that the financial condition, the state of the overall sector, will diverge substantially from any future performances or achievements expressed or implied by such statements. Given these uncertainties, absolutely no statement is made with regard to the correctness or reasonableness of such forward-looking statements. Moreover, they apply only on the date of this Annual Report. The Company expressly disclaims any obligation to update any of the forward-looking statements in this Annual Report to reflect any change in the expectations of the Company in that respect, or any change in the facts, conditions or circumstances on which such statements are based, unless required by law or regulation.

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1 REPORT OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2013

Dear Shareholders,

We are glad to present you our report relating to Cardio3 BioSciences consolidated financial statements as of 31 December 2013 prepared in accordance with International Financing Reporting Standards (IFRS) endorsed by the European Union. The companies included in the consolidated financial statements are Cardio3 BioSciences SA and Cardio3 Inc.

1.1 *Highlights of 2013*

The year 2013 was a transformational year for the Company. On a financing side, we manage, thanks to the strong support of our existing shareholders and the addition of new large investors, to provide the Company the means to finance its ambition. We have indeed successfully raised the funds needed to take the CHART-1 trial through to completion and this places us in a very strong position. On an operational side, we have initiated our CHART-1 phase III trial which should confirm all the hopes and the efforts we have placed in this breakthrough technology. Finally, we closed 2013 with a strong cash position of €22.1 million (including short term investments), sufficient to finance the Company's existing clinical development program until read-out of the primary endpoint.

Today, Cardio3 BioSciences stands resolutely among the leading biotechnology companies active in regenerative therapies.

Here are the highlights identified by the Board;

Operational highlights

- Initiation of CHART-1, the world's first Phase III clinical trial in regenerative medicine for the treatment of heart failure
- Publication in the Journal of the American College of Cardiology (JACC) of the results of the C-Cure® Phase II study
- Publication in Circulation Cardiovascular Interventions of the C-Cath® study results
- Executive management team strengthened with the addition of Gaetane Metz as Chief Operating Officer of the Company
- Partner and exploitation manager of two FP7 research grants

Financial highlights

- Completion of a private placement of €19.0 million in May 2013
- Completion of an IPO on NYSE Euronext Brussels and NYSE Euronext Paris raising €26.5 million in July 2013
- Additional non dilutive funding of €4.0 million obtained in December from the Walloon Region resulting in a reduction of the Company's burn rate over 2014 and 2015 of a similar amount
- Strong cash position with €22.1 million in cash and short-term investments as of 31 December 2013, sufficient to finance the Company's existing clinical development program

1.2 *Operating review*

Cardio3 BioSciences is developing its most advanced therapy, C-Cure®, for the treatment of heart failure, one of the world's greatest unmet medical needs. Over the course of 2013, Cardio3 received approval from six additional European competent authorities for the initiation of the **CHART-1** (Congestive Heart failure Cardiopoietic Regenerative Therapy). These additions take the total to eight countries. CHART-1 is the world's first Phase III clinical trial of a regenerative medicine for the treatment of heart failure.

As of 31 December 2013, the Company was on target for its patient enrolment with the goal to complete enrolment in CHART-1 by the end of 2014. At the date of this report we have 25 centers active or ready to enroll.

The Company continues to exercise tight cash management and ended the period to 31 December 2013 with €22.1 million in cash (including short term investment). Management confirms that it anticipates the CHART-1 trial to be fully financed until the availability of the read-out of the primary endpoint which is expected at the end of 2015.

Approval of CHART-2 by the FDA

At the very end of 2013, the Company received IND clearance from the FDA for its CHART-2 phase III trial with C-Cure. This positive news came 6 months ahead of planning. The Company is currently envisaging different opportunities to finance its US clinical development and anticipate a start of CHART-2 in the last quarter of 2014.

R&D pipeline

Cardio3 BioSciences continued the development of its R&D pipeline beyond C-Cure®, which consists of two non-cellular therapeutic programs for the treatment of acute myocardial infarction (AMI) or "heart attack". GQR-1 is a protein-based product candidate for myocardial regeneration comprising a group of proteins. Despite encouraging preliminary preclinical studies, the complexity of the toxicology studies led us to put aside this program and focus on GQR-4. GQR-4 is an early stage preclinical protein based product candidate for the prevention of warm reperfusion injury. GQR-4 will soon be tested *in-vivo* in an ischemia reperfusion injury animal model. Additional GLP preclinical studies will be initiated aiming at preparing GQR-1 for a first in man trial by mid 2015.

Publication of C-Cure Phase II data in JACC

In April 2013, the Phase II data of the C-Cure trial completed in January 2012 were published in the Journal of American College of Cardiology (JACC). The publication reported statistically significant improvement in cardiac function and exercise capacity of the treated patients.

Publication of C-Cath$_{ez}$ study results in CCI

In December 2013, the study results of C-Cath®, our proprietary intra-myocardial percutaneous injection catheter, published in the peer-reviewed journal Circulation Cardiovascular Interventions.

Additions to the management team

On 4 October 2013, Dr. Gaëtane Metz joined the Company as Chief Operating Officer in view of accelerating the industrialization process and preparing the commercialization of its lead product C-Cure®.

1.3 *Financial review of the year ending 31 December 2013*

1.3.1 Analysis of the consolidated statement of the comprehensive income

The following table includes information relating to the Company's statement of comprehensive income for the years ended 31 December 2013 and 2012.

(€'000)	For the 12 months period ended 31 December	
	2013 (audited)	**2012** (audited)
Revenue	**-**	**54.00**
Manufacturing expenses	(2,415.21)	(2,185.90)
Clinical, Quality & Regulatory expenses	(4,472.70)	(3,605.14)
Research and Development expenses	(2,158.07)	(3,400.82)
General administrative expenses	(2,987.55)	(1,881.60)
Other operating income	1,084.30	2,092.28
Other operating expenses	(1,020.00)	(3,974.56)
Operating profit (Loss) - EBIT	**(11,969.23)**	**(12,901.74)**
Financial income	59.85	19.17
Financial expenses	(436.84)	(641.68)
Profit (Loss) before taxes	**(12,346.22)**	**(13,524.25)**
Income taxes	-	-
Profit (Loss) for the period	**(12,346.22)**	**(13,524.25)**
Net result per share (in €)	**(3.01)**	**(11.17)**

The Manufacturing expenses and the Clinical, Quality and Regulatory expenses increased respectively by €0.23 million and €0.87 million in 2013. These increases are linked with the initiation of the CHART-1 trial in Europe and Israël.

The decrease in the Research and Development expenses of €1.24 million resulted from the capitalisation of the C-Cath development expenses since May 2012, the absence of lump sum payment to the Mayo Clinic in 2013 and the decrease of the pre-clinical expenses related to the C-Cure program.

For the twelve month period ending 31 December 2013, total operating expenses of the Company amounted to €12.0 million compared to €11.1 million for the same period in 2012.

The other operating income are related to the payments received from the Walloon Region and associated to cash advances or subsidies. In 2013, the Company decided to further develop a program funded by the Region (Agreement n°6633). As a consequence, the Company recorded a liability of €1.02 million against an "Other Operating Expenses".

At year end 2013, the loss from operations before financial results and taxes (EBIT) was €12.0 million versus €12.9 million in 2012. The net loss for period was €12.3 million versus a net loss of €13.5 million for same period in 2012.

1.3.2 **Analysis of the consolidated statement of financial position**

The table below sets forth the balance sheet as of 31 December 2013 and 31 December 2012.

(€'000)	As of 31 December	
	2013 (audited)	**2012** (audited)
NON-CURRENT ASSETS	**9,783.44**	**10,148.41**
Intangible assets	9,400.11	9,614.76
Property, Plant and Equipment	243.21	383.12
Other non-current assets	140.12	150.53
CURRENT ASSETS	**22,602.47**	**2,336.62**
Trade and Other Receivables	421.28	442.84
Other current assets	122.93	248.75
Short term investment	3,000.00	-
Cash and cash equivalents	19,058.26	1,645.03
TOTAL ASSETS	**32,385.91**	**12,485.03**
EQUITY	**16,898.01**	**(2,259.89)**
Share Capital	22,138.01	9,974.51
Share premium	33,326.30	-
Cost of capital	(2,853.10)	-
Convertible loan	-	11,406.35
Share-based payments	675.24	1,006.11
Retained loss	(36,388.44)	(24,646.86)
NON-CURRENT LIABILITIES	**12,099.12**	**11,265.92**
Finance leases	27.12	108.89
Advances repayable	12,072.00	11,157.03
CURRENT LIABILITIES	**3,388.78**	**3,479.00**
Finance leases	79.25	160.49
Advances repayable	428.45	684.66
Trade payables	2,169.36	1,770.31
Other current liabilities	608.79	807.23
Current tax liabilities	102.93	56.31
TOTAL EQUITY AND LIABILITIES	**32,385.91**	**12,485.03**

In 2013, the Company completed two capital increases, increasing the share capital and the share premium by respectively €12.2 million and €33.3 million:

- At the end of May 2013, Cardio3 successfully completed a €19.0 million capital increase through a contribution in kind of shareholders debt for €12.0 million and new cash for €7.0 million.

- On 5 July 2013, the Company completed an Initial Public Offering on NYSE Euronext Brussels and NYSE Euronext Paris. After the full exercise of the over-allotment option on 15 July 2013, a total of 1,588,725 new shares were on the market at the IPO price of €16.65, amounting to total gross proceeds of €26.5 million. The proceeds of the IPO are intended to secure operations of the Company until the readout of the primary endpoint of the CHART-1 clinical trial.

As of 31 December 2013 Cardio3 had €22.1 million in treasury compared to €1.6 million at 31 December 2012.

1.4 *Personnel*

At the end of 2013, the total number of employees working for the Company amounted to 51.

1.5 *Environment*

All entities of the Group continue to hold the required permits by their activities and are in compliance with all applicable environmental rules.

1.6 *Risks and uncertainties*

Reference is made to the section 2.8 "Description of the principal risks associated to the activities of the Company".

1.7 *Going concern*

The Company is pursuing a strategy to develop certain products and obtain approval from the authorities to commercialise those products. The Company initiated end of 2012 the International Phase III clinical trial for its C-Cure product candidate. Management has prepared detailed budgets and cash flow forecasts for the following years. These forecasts reflect the strategy of the Company and include significant expenses and cash outflows in relation to the development and (pre-)clinical trials of selected research programs and products candidates.

The Company successfully completed an Initial Public Offering and listing on NYSE Euronext Brussels and NYSE Euronext Paris in July 2013 gathering in total €26.5 million. The proceeds will be used to advance its C-Cure product candidate into the International Phase III Trials, and continue pre-clinical development and potentially start clinical development of selected product candidates. Based on the cash position of the Company at year end 2013, the Company has enough means to cover all the costs of its operations until end of 2015.

After due consideration of the above, the Board of Directors determines that management has an appropriate basis to conclude on the continuity over the next 12 months of the Company's business and hence it is appropriate to prepare the financial statements on a going concern basis.

1.8 *Event occurred after the end of the financial year*

During the month of January 2014, some members of the Executive Management Team and some former employees of the Company exercised in total of 126,299 warrants resulting in the issuance of 126,299 new shares. The capital increase of the Company was therefore increased by an amount of €683,749.56, corresponding to the exercise price of the 126,299 warrants.

1.9 *Events and circumstances that could have a significant impact on the future*

We have not identified significant events and circumstances that could have a significant impact on the future in addition to the potential impact of risks described in section 2.8.

1.10 *Other*

Issuance of personnel warrants

In January and May 2013, the Extraordinary Shareholders meeting of the Company issued a total of 406,241 warrants, out of which 369,700 warrants are outstanding on 31 December 2013.

The warrants issued in January 2013 were attributed to members of the Executive Management Team only. There are all vested at year end 2013 and can be exercised as of 1st January 2014.

The warrants issued in May 2013 were attributed to all employees of the Company. They will be vested in equal tranches over a period of three years. Once vested, the warrants can only be exercised as of 1st January 2017.

2 CORPORATE GOVERNANCE

2.1 *General*

This section summarises the rules and principles on the basis of which the corporate governance of the Company has been organised pursuant to Belgian Company law, the Company's articles of association and the Company's corporate governance charter approved by the Board of Directors of 17 June 2013.

The Company's corporate governance charter has been adopted in accordance with the Belgian Corporate Governance Code ('CGC'). The charter is available on the Company's website (www.c3bs.com) under Investors/Corporate Governance tab. We will present in this section an abstract of the charter.

The Board of Directors intends to comply with the provisions of the CGC, but believes that the size of the Company justifies certain deviations. These deviations are further detailed here after.

The Company's CGC includes the following specific chapters:

- Structure and organization
- Shareholder structure
- The Board, terms of reference
- Board committees
- Executive Management Team
- Rules preventing market abuse – Dealing Code

2.2 *Board of Directors*

2.2.1 Composition of the Board of Directors

As provided by Article 521 of the Belgian Company Code, the Company is managed by a Board of Directors acting as a collegiate body. The Board of Directors' role is to pursue the long-term success of the Company by providing entrepreneurial leadership and enabling risks to be assessed and managed. The Board of Directors should decide on the Company's values and strategy, its risk preference and key policies. The Board of Directors should ensure that the necessary leadership, financial and human resources are in place for the Company to meet its objectives.

The Company has opted for a one-tier governance structure. As provided by Article 522 of the Belgian Company Code, the Board of Directors is the ultimate decision-making body in the Company, except with respect to those areas that are reserved by law or by the Company's articles of association to the Shareholders Meeting.

The Company's articles of association state that the number of directors of the Company, who may be natural persons or legal entities and who need not be shareholders, must be at least 5. The Board of Directors currently believes that the optimum number of directors is between 5 and 10. At least half of the members of the Board of Directors must be non-executive directors and at least three of them must be independent directors.

A meeting of the Board of Directors is validly constituted if at least half of its members are present in person or represented at the meeting. If this quorum is not met, a new board meeting may be convened by any director to deliberate and decide on the matters on the agenda of the board meeting for which a quorum was not met, provided that at least two members are present. Meetings of the Board of Directors are convened by the Chairman of the Board or by at least two directors, whenever the interest of the Company so requires. In principle, the Board of Directors will meet at least four times per year.

The Chairman of the Board of Directors shall have a casting vote on matters submitted to the Board of Directors in the event of a tied vote, save if the Board of Directors is composed of two members.

At the date of this Report, the Board of Directors consists of 9 members, one of which is an executive director (as a member of the Executive Management Team) and 8 of which are non-executive directors, including three independent directors. In accordance with Art 96, §2 6° of the Belgian Company Code (hereafter "BCC"), it is the willingness of the Company to aim for, in a reasonable timeframe, that a third of the Board member are of different sex.

Name	Position	Term [1]	Business Address	Board Committee Membership
Michel Lussier	Chairman	2016	3661 Valley Centre Dr. San Diego CA 92130, USA	Member of the Nomination and Remuneration Committee
Christian Homsy	Executive director	2016	Rue Edouard Belin 12, 1435 Mont-Saint-Guibert	
William Wijns	Non-executive director	2016	Moorselbaan 219, 9300 Aalst	
Serge Goblet	Non-executive director	2016	Chaussée de Waterloo 1589D, 1180 Brussels	
Sparaxis SA, represented by its permanent representative Jean Sequaris	Non-executive director	2017	Avenue Maurice Destenay 13, 4000 Liège	
Chris De Jonghe	Non-executive director	2017	Jan Davidlaan 50, 2630 Aartselaar	
Pienter-Jan BVBA, represented by its permanent representative Chris Buyse]	Independent director	2016	Baillet Latourlei 119A, 2930 Brasschaat	Member of the Nomination and Remuneration Committee
Rudy Dekeyser	Independent director	2016	Rijvisschestraat 120, 9052 Ghent	Member of the Nomination and Remuneration Committee
Jean-Marc Heynderickx	Independent director	2019	Chemin de la Chapelle Robert 21, 1380 Lasne	

[1] The term of the mandate of the director will expire immediately after the Annual Shareholders Meeting held in the year set forth next to the director's name.

The following paragraphs contain brief biographies of each of the directors, or in case of legal entities being director, their permanent representatives, with an indication of other relevant mandates as member of administrative, management or supervisory bodies in other companies during the previous five years.

Michel Lussier, Chairman - Michel Lussier, obtained a degree of Bachelor of Sciences in Electrical Engineering and a degree of Master in Sciences in Biomedical Engineering at the University of Montreal. He also holds an MBA from INSEAD (European Institute of Business Administration), France. Michel is co-founder of Cardio3 BioSciences and has served as Chairman of the Board of Directors since Cardio3 BioSciences' incorporation in July 2007. He was also the co-founder and Chairman of the Board of Directors of the Company's predecessor entity, Cardio3 SA, from its incorporation in 2003 until its liquidation in 2008. From September 1994 until its acquisition by Guidant in 1998, Michel led, as Vice-President and General Manager of European Operations, the European subsidiary of InControl Corp. From October 1998 to March 2002, Michel served as Vice President, General Manager Europe of Novoste Corp., a medical technology company. From July 2002 to 2007, he assumed the position of Volcano Vice President, General Manager of Europe, Africa and Middle East for Volcano Corporation, Headquartered in San Diego, California. From 2007 until October 2012, Michel served as Volcano Group President, Advanced Imaging Systems, Global Clinical & Scientific Affairs and General Management of

Europe, Africa and Middle East. Since October 2012, Michel serves as President, Clinical and Scientific Affairs for Volcano. In February 2002, he founded Medpole SA, a European distribution incubator for medical device start-up companies located in Belgium. Michel brings 15 years of operational experience with Medtronic Inc, where he led the company's core business in Europe as Business Director Cardiac Pacing. Additionally, Michel Lussier is CEO of Medpole SA and has been Chairman of a number of committees within Eucomed. He also served on several start-up boards for medical devices.

Christian Homsy, Executive director – Christian Homsy obtained his Medical Doctorate at the University of Louvain and holds an MBA from the IMD in Lausanne (Switzerland). He has been Chief Executive Officer (CEO) of Cardio3 BioSciences since its foundation. Christian gained his business experience in senior research and development, marketing, business development and sales positions at Guidant Corporation, a leading medical device company active in the treatment of cardiovascular disease. He was also founder of Guidant Institute for Therapy Development, a landmark facility for physician and health care professionals' education that gained international recognition and praise. Christian excelled in building businesses with well-respected teams, setting standards inside and outside the organisation. Before joining Cardio3 BioSciences, Christian Homsy was General Manager of Medpole, a European incubator dedicated to initiating the European operations for start-up companies in the medical device or biotechnology fields. He also holds a director mandate in Medpole SA.

William Wijns, Non-executive director – William Wijns is co-founder of Cardio3 BioSciences and is permanent representative of the Cardiovascular Center Aalst CVBA. Doctor William Wijns graduated in 1976 from the University of Louvain in Belgium where he trained as a cardiologist until 1981. He subsequently joined the Thorax Center in Rotterdam where he was actively involved with the first applications of nuclear cardiology, thrombolysis and coronary dilatation. After spending two years as a Visiting Associate Professor of Radiological Sciences at UCLA, Dr Wijns returned to the University of Louvain in Brussels where he directed the cardiac PET programme and became Clinical Professor of Cardiology. His research focused on the regulation of coronary blood flow and cardiac metabolism in ischemic heart disease. Since 1994, Dr Wijns is the co-Director of the Cardiovascular Center Aalst and merely active as an interventional cardiologist. More recently, he has been involved with the clinical applications of non-invasive coronary angiography with the use of multislice computed tomography. He has authored over 300 publications in peer-reviewed journals and holds several positions in national and international professional and scientific organisations. In the past five years, he held board memberships in the European Society of Cardiology (Chairperson European Relations Committee 2008-2010) and the World Heart Federation. He is currently Chairman of EuroPCR, the official congress of the European Association of Percutaneous Cardiovascular Interventions (EAPCI).

Serge Goblet, Non-executive director – Serge Goblet holds a Master Degree in Business and Consular Sciences ("licence en sciences commerciales et consulaires") from ICHEC, Belgium and has many years of international experience as director in Belgian and foreign companies. He is the managing director of TOLEFI SA, a Belgian holding company and holds director mandates in subsidiaries of Tolefi.

Chris De Jonghe, Non-executive director - Chris De Jonghe holds a PhD in Science and a Bachelor in Laws from University of Antwerpen (Belgium). Chris De Jonghe works at PMV in Brussels as Group Manager Venture Capital since 2013. His function consists in to take the final responsibility for venture capital investments through different funds managed by PMV. Before joining PMV, Chris worked at the Vlaamse Institute for Biotechnology (VIB) as licensing and business development manager. She currently holds non-executive director positions in AgroSavfe NV, eSaturnus NV, Amakem NV, Formac NV and Vesalius Biocapital SICAR.

Jean Sequaris (permanent representative of Sparaxis SA), Non-executive director - Jean Sequaris is a civil engineer in physics by training. Over the period 1980 and 2009, Jean has been chief of cabinet of multiple federal and regional ministers in charge of economy, employment, labor, research and education. Since 1985 he is Vice-president at the S.R.I.W. During his mandate at the SRIW, he hold non-executive director positions in various companies including such as Cockerill Sambre, Alcatel-ACCS, Herstal Group and SNI.

Chris Buyse (permanent representative of Pienter-Jan BVBA), Independent director – Chris Buyse holds a master degree in applied economic sciences from the University of Antwerp and an MBA from

Vlerick School of Management in Gent. He brings to Cardio3 BioSciences more than 20 years of international financial expertise and experience in introducing best financial management practices. Since August 2006 Chris is CFO and director of ThromboGenics NV, a leading biotech company that is listed on NYSE Euronext Brussels. Before joining ThromboGenics, he was CFO of the Belgian biotech company CropDesign, where he coordinated the acquisition by BASF in July 2006. Prior to joining CropDesign he was financial manager of WorldCom/MCI Belux, a European subsidiary of one of the world's largest telecommunication companies and he was also CFO and interim CEO of Keyware Technologies. In addition Chris also held several financial positions as financial controller and internal auditor at Spector Photo Group, Suez Lyonnaise des Eaux and Unilever. He currently serves, in his own name or as permanent representative of a management company, as member of the board of directors of the following privately held companies:, Bone Therapeutics SA, Iteos SA, Q-Biologicals NV, Immo David NV, Pinnacle Investments SA, CreaBuild NV and Pienter-Jan BVBA, ThromboGenics NV, Life Sciences Research Partners VZW (a shareholder of the Company) and Keyware Technologies NV.

Rudy Dekeyser, Independent director – Rudy Dekeyser obtained a Ph.D. in molecular biology at the University Ghent. Since 2012 Rudy is managing partner of the LSP Health Economics Fund, a private equity fund investing in late stage European and North American health care companies. Prior to joining LSP, Rudy has been managing director of VIB (Flanders Institute for Biotechnology), managing for more than 16 years. He holds non-executive director position Remynd NV, and held non-executive director positions until recently in Devgen NV, CropDesign NV, Ablynx NV, Actogenix NV, Pronota NV, Flandersbio VZW, Bioincubator Leuven NV, Biolign NV and Multiplicom NV. He is a co-founder of ASTP (the European associations of technology transfer managers) and Chairman of EMBLEM and of the valorisation board of NGI (the Dutch genome initiative). Rudy has been advisor toto several seed and venture capital funds and to multiple regional and international committees on innovation.

Jean-Marc Heynderickx, Independent director – With a degree in Marketing from Charleroi University (Belgium). Jean-Marc Heynderickx spent his career in the Louis Delhaize Group and was CEO from 1995 to 2010. As such, he was also chairman of sub holding companies in France, Luxemburg and in The Netherlands. From 2000 to 2005, he was board member of Comeos (Fedis) national retail organisation and Charleroi Chamber of Commerce. In 2005, Jean-Marc Heynderickx completed the Solvay executive program in Real Estate. Jean-Marc is now Ceo of Nextgen group, a private venture capital holding managing 18 companies active in Belgium, France, Hungary and Romania. He is currently also Board Member of FRI (First Retail International) a Belgian Investment funds specialized in Retail Warehousing. In 2006 Jean-Marc was co-founder of the Budapest Food Bank.

2.2.2 Committees within the Board of Directors

2.2.3 General

Without prejudice to the role, responsibilities and functioning of the Executive Management Team as set out below under section 2.3 "Executive Management Team", the Board of Directors may set up specialised committees to analyse specific issues and advise the Board of Directors on those issues. Such committees are advisory bodies only and the decision-making remains the collegiate responsibility of the Board of Directors. The Board of Directors determines the terms of reference of each committee with respect to the organisation, procedures, policies and activities of the committee.

2.2.4 Audit Committee

"Large" listed companies (as defined in Article 526bis, § 3 of the Belgian Company Code) are legally obliged to establish an audit committee within their board of directors. The Company does not currently qualify as a "large" company, and has decided not to establish a separate Audit Committee. In accordance with Article 526bis of the Belgian Company Code, the audit function is therefore carried out by the entire Board of Directors. For purposes of these tasks, Chris Buyse (permanent representative of Pienter-Jan BVBA) has been identified as the director having the necessary expertise in accounting and audit matters.

2.2.5 Nomination and Remuneration Committee

"Large" listed companies (as defined in Article 526quater, § 4 of the Belgian Company Code) are legally obliged to establish a remuneration committee within their board of directors. Although the Company, does not currently qualify as a "large" company, the Board of Directors has voluntarily set up a remuneration committee. As the remuneration committee also performs the task of a nomination committee, it is called the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee will consist of not less than three directors, or such greater number as determined by the Board of Directors at any time. All members must be non-executive directors and at least a majority of its members must be independent in accordance with Article 526ter of the Belgian Company Code.

The Nomination and Remuneration Committee must have the necessary expertise as regards the remuneration policy, and this condition is fulfilled if at least one member has had a higher education and has had at least three years of experience in personnel management or in the field of remunerating directors and managers.

The CEO has the right to attend the meetings of the Nomination and Remuneration Committee in an advisory and non-voting capacity on matters other than those concerning himself. The Nomination and Remuneration Committee will elect a chairman from amongst its members.

The role of the Nomination and Remuneration Committee is to assist the Board of Directors in all matters:

- relating to the selection and recommendation of qualified candidates for membership of the Board of Directors;
- relating to the nomination of the CEO;
- relating to the nomination of the members of the Executive Management Team, other than the CEO, upon proposal by the CEO;
- relating to the remuneration of independent directors;
- relating to the remuneration of the CEO;
- relating to the remuneration of the members of the Executive Management Team, other than the CEO, upon proposal by the CEO; and
- on which the Board of Directors or the Chairman of the Board of Directors requests the Nomination and Remuneration Committee's advice.

Additionally, with regard to matters relating to remuneration, except for those areas that are reserved by law to the Board of Directors, the Nomination and Remuneration Committee will at least have the following tasks:

- preparing the remuneration report (which is to be included in the Board of Director’s corporate governance statement); and
- explaining its remuneration report at the Annual General Shareholders Meeting.

It will report to the Board of Directors on the performance of these tasks on a regular basis. These tasks are further described in the terms of reference of the Nomination and Remuneration Committee as set out in the Company's corporate governance charter. The Nomination and Remuneration Committee will meet at least twice per year, and whenever it deems it necessary to carry out its duties.

The following directors are currently member of the Nomination and Remuneration Committee: Michel Lussier (Chairman), Pienter-Jan BVBA (represented by its permanent representative, Chris Buyse) and Rudy Dekeyser.

2.2.6 Meetings of the Board and the committees

In 2013, the Board held 4 regular meetings and 4 meetings by telephone conference to discuss and decide on specific matters, and 2 meetings in the presence of a notary.

Board and committee – Dates and Attendance

Board of Directors	16 Jan	22 Mar	19 Apr	17 May	27 May	11 Jun	17 Jun	4 Jul	26 Aug	13 Dec
M. Lussier	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present
Ch. Homsy	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present
S. Goblet	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present
W. Wijns	Present	Present	Present	Present	Present	Excused	Present	Present	Present	Excused
J-M Heynderickx	N/A	Present	Present	Excused	Present	Present	Present	Present	Present	Present
Pienter-Jan BVBA	Excused	Present	Present	Present	Present	Present	Present	Present	Present	Present
R. Dekeyser	Excused	Present	Present	Present	Excused	Present	Present	Present	Present	Present
J. Andersson [1]	Excused	Absent	Present	Excused	Excused	Present	N/A	N/A	N/A	N/A
Ch. De Jonghe	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Observer	Present
Sparaxis SA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Observer	Present

[1] Jan Andersson resigned on 11 June 2013

Remuneration Committee

	5 Aug	21 Oct	25 Oct
M. Lussier	Present	Present	Present
Pienter-Jan BVBA	Present	Present	Present
R. Dekeyser	Present	Present	Present
Ch Homsy	N/A	N/A	Invited

2.3 *Executive Management Team*

The Executive Management Team consists of the "Chief Executive Officer" (CEO, who is the chairman of the Executive Management team), the "Chief Financial Officer" (CFO), the "Chief Operating Officer" (COO) and the "Vice President Research and Development".

The Executive Management Team discusses and consults with the Board of Directors and advises the Board of Directors on the day-to-day management of the Company in accordance with the Company's values, strategy, general policy and budget, as determined by the Board of Directors.

Each member of the Executive Management Team has been made individually responsible for certain aspects of the day-to-day management of the Company and its business (in the case of the CEO, by way of delegation by the Board of Directors; in the case of the CFO, by way of delegation by the CEO). The further tasks for which the Executive Management Team is responsible are described in greater detail in the terms of reference of the Executive Management Team as set out in the Company's corporate governance charter.

The members of the Executive Management Team are appointed and may be dismissed by the Board of Directors at any time. The Board of Directors appoints them on the basis of the recommendations of the Nomination and Remuneration Committee, which shall also assist the Board of Directors on the remuneration policy of the members of the Executive Management Team, and their individual remunerations.

The remuneration, duration and conditions of dismissal of Executive Management Team members will be governed by the agreement entered into between the Company and each member of the Executive Management Team in respect of their function within the Company.

In accordance with provision 7.17 of the CGC, all agreements with members of the Executive Management Team entered into on or after 1 July 2009 must refer to the criteria to be taken into account when determining variable remuneration and will contain specific provisions relating to early termination. In principle, the Executive Management Team meets every month. Additional meetings may be convened at any time by the Chairman of the Executive Management Team or at the request of two of its members. The Executive Management Team will constitute a quorum when all members have been invited and the majority of the members are present or represented at the meeting. Absent members may grant a power of attorney to another member of the Executive Management Team. Members may attend the meeting physically or by telephone or video conference. The absent members must be notified of the discussions in their absence by the Chairman (or the Company Secretary, if the Executive Management Team has appointed a Company Secretary from among its members).

The members of the Executive Management Team will provide the Board of Directors with information in a timely manner, if possible in writing, on all facts and developments concerning the Company which the Board of Directors may need in order to function as required and to properly carry out its duties. The CEO (or, in the event that the CEO is not able to attend the Board of Directors' meeting, the CFO or, in the event that the CFO is not able to attend the Board of Directors' meeting, another representative of the Executive Management Team) will report at every ordinary meeting of the Board of Directors on the material deliberations of the previous meeting(s) of the Executive Management Team.

The current members of the Executive Management Team are listed in the table below.

Name	Function	Year of birth
Christian Homsy	Chief Executive Officer	1958
Patrick Jeanmart SPRL, represented by its permanent representative, Patrick Jeanmart	Chief Financial Officer	1972
Mont Faron SPRL, represented by its permanent representative Gaetane Metz	Chief Operating Officer	1968
Advanced Therapies Consulting Ltd., represented by its permanent representative, Peter de Waele	Vice President Research & Development	1957

The following paragraphs contain brief biographies of each of the members of the Executive Management Team or in case of legal entities being a member of the Executive Management Team or key manager, their permanent representatives.

Christian Homsy, CEO – reference is made to section 2.2.1 “Composition of the Board of Directors”.

Patrick Jeanmart (permanent representative of Patrick Jeanmart SPRL), CFO – Mr Jeanmart obtained a Master in Economics from the University of Namur, Belgium. He has served as CFO since September 2007. Prior to joining Cardio3 BioSciences, Patrick worked for IBA (Ion Beam Applications, Belgium) during 6 years where he held a number of senior financial management positions within several IBA subsidiaries located in Belgium, Italy, UK and the US. Between January 2004 and 2007, Patrick acted as Vice President of Finance of IBA Molecular. He also holds the position of CFO at Medpole SA and at Biological Manufacturing Services SA.

Gaetane Metz (permanent representative of Mont Faron SPRL), COO – Mrs Metz obtained a doctor degree in biomedical bioengineering from the Free University of Brussels (ULB). Prior to joining C3BS, Dr. Metz held the position of Managing Director of the Life Sciences, Energy and Industry Division at Altran Europe. Dr. Metz has also held senior and management positions at CVO CyberConseil, and GlaxoSmithKline Biologicals (GSK) where she worked for 11 years. Her work included all aspects and

stages of project management, driving the various departments to collaborate and integrate with one another in order to speed up processes and increase efficiency.

Peter de Waele (permanent representative of Advanced Therapies Consulting Ltd), VP Research & Development – Mr de Waele obtained his Master of Science in Biochemistry and Physiology at Ghent University, Belgium. He holds a doctoral degree in Molecular Biology at the department of Molecular Biology headed by Professor Walter Fiers at the same university, where he was assistant professor until 1986. Dr. De Waele is the author and co-author of several peer reviewed scientific publications, and the inventor of several patents and patent applications. He has been serving as Vice President Research & Development since November 2010. Dr. De Waele not only brings his clinical expertise to Cardio3 BioSciences, he has also years of business experience. He has been a consultant to the pharmaceutical and biotech industry since 2006, with a particular focus on adult stem cell product development for different therapeutic indications. Up to 2006, Dr. De Waele worked as Chief Operating Officer at XCELLentis NV, a biotech company developing stem cell based therapies and medical devices for wound healing. Before founding XCELLentis in 2001, he held several senior management positions at Innogenetics NV As Chief Therapeutics Officer of Innogenetics and as COO of XCELLentis he was responsible for several multicenter international clinical trials with recombinant vaccines and cell derived advanced medical products. Moreover, Dr. De Waele also assumes the function of Managing Director in Advanced Therapies Consulting Limited. He is also consultant for regulatory affairs, quality assurance and quality control and research & development at Cryo-Save AG in Switzerland as well as acting as Responsible Person for the Dutch tissue bank Stichting Cryo-Save.

2.4 *Conflict of Interest of directors and members of the executive team and transactions with affiliated companies*

2.4.1 General

Each director and member of the Executive Management Team is encouraged to arrange his or her personal and business affairs so as to avoid direct and indirect conflicts of interest with the Company. The Company's corporate governance charter contains specific procedures to deal with potential conflicts.

2.4.2 Conflicts of interest of directors

Article 523 of the Belgian Company Code provides for a special procedure within the Board of Directors in the event of a possible personal financial conflict of interest of one or more directors with one or more decisions or transactions to be adopted by the Board of Directors. In the event of a conflict of interest, the director concerned must inform his or her fellow directors of his or her conflict of interest before the Board of Directors deliberates and takes a decision in the matter concerned. Furthermore, the conflicted director may not participate in the deliberation and voting by the Board of Directors on the matter that gives rise to the potential conflict of interest. The minutes of the meeting of the Board of Directors must contain the relevant statements made by the conflicted director, as well as a description by the Board of Directors of the conflicting interests and the nature of the relevant decision or transaction to be adopted. The minutes must also contain a justification by the Board of Directors for the decision or transaction adopted, and a description of the financial consequences thereof for the company. The relevant minutes must be included in the (statutory) annual report of the Board of Directors.

The conflicted director must notify the Statutory Auditor of the conflict. The Statutory Auditor must describe in its statutory annual audit report the financial consequences of the decision or transaction that gave rise to the potential conflict.

This procedure does not apply to decisions or transactions in the ordinary course of business at customary market conditions.

2.4.3 Existing conflicts of interest of members of the Board of Directors and of the Executive Management Team

Currently, as far as the Company is aware, none of the directors nor the members of the Executive Management Team have a conflict of interest within the meaning of Article 523 of the Belgian Company Code that has not been disclosed to the Board of Directors. Other than potential conflicts arising in respect of compensation-related matters, the Company does not foresee any other potential conflicts of interest in the near future.

2.4.4 Related Party Transactions

On 20 April 2009, certain shareholders of Cardio3 BioSciences participated in the capital increase of Biological Manufacturing Services SA ("BMS") for purposes of the outfitting and servicing out of laboratory spaces (to be GMP certified) to the Company. The lab spaces are located in the building where the Company has its offices. On 1 July 2013, the Company entered into a 4 year agreement with BMS regarding the rent of clean rooms, by BMS to the Company, until 30 September 2017, against a fixed daily consideration.

2.4.5 Transactions with affiliates

Article 524 of the Belgian Company Code provides for a special procedure that applies to intra-group or related party transactions with affiliates. The procedure will apply to decisions or transactions between the Company and affiliates of the Company that are not a subsidiary of the Company. It will also apply to decisions or transactions between any of the Company's subsidiaries and such subsidiaries' affiliates that are not a subsidiary of the Company.

Prior to any such decision or transaction, the Board of Directors of the Company must appoint a special committee consisting of three independent directors, assisted by one or more independent experts. This committee must assess the business advantages and disadvantages of the decision or transaction for the Company. It must quantify the financial consequences thereof and must determine whether or not the decision or transaction causes a disadvantage to the Company that is manifestly illegitimate in view of the Company's policy. If the committee determines that the decision or transaction is not manifestly illegitimate, but is of the opinion that it will prejudice the Company, it must clarify which advantages are taken into account in the decision or transaction to compensate the disadvantages. All these elements must be set out in the committee's advice. The Board of Directors must then take a decision, taking into account the opinion of the committee. Any deviation from the committee's advice must be explained. Directors who have a conflict of interest are not entitled to participate in the deliberation and vote. The committee's advice and the decision of the Board of Directors must be communicated to the Company's Statutory Auditor, who must render a separate opinion. The conclusion of the committee, an excerpt from the minutes of the Board of Directors and the opinion by the Statutory Auditor must be included in the (statutory) annual report of the Board of Directors.

The procedure does not apply to decisions or transactions in the ordinary course of business at customary market conditions, and transactions or decisions with a value of less than 1% of the consolidated net assets of the Company.

2.5 *Market abuse regulations*

On 17 June 2013, the Board of the Company defined specific rules to prevent the illegal use of inside information by board members, shareholders, managers and employees or the appearance of such use.

These prohibitive provisions and the monitoring of compliance with them are primarily intended to protect the market. To ensure that the law is respected and to uphold the reputation of the Company, it is therefore necessary to take a number of preventive measures in the form of a code of conduct.

The Rules apply to all Insiders. An Insider can be given access to inside information within the scope of the normal performance of his or her duties. The insider has the strict obligation to treat this

information confidentially and is not allowed to trade financial instruments of the Company to which this inside information relates.

In accordance with art 25bis §1 of the law of 2 August 2002, the Company has established a list of persons in the Company who, based on an employment or service agreement, have contracted with the Company and have during the course of their duties access to inside information directly or indirectly. This list is updated regularly and remains at the disposal of the FSMA for a period of 5 years.

2.6 *Corporate Governance Charter*

The Company's Board of Directors intends to comply with the CGC, but believes that the following deviations from its provisions is justified in view of the Company's particular situation:

- Provision 7.7 CGC: the non-executive directors receive fixed remuneration in consideration of their membership of the Board of Directors and their attendance at committee meetings of which they are members. In principle, they will not receive any performance related remuneration, nor will any options or warrants be granted to them in their capacity as a director. However, on the advice of the Nomination and Remuneration Committee, the Board of Directors may propose to the Shareholders' Meeting that it deviate from this restriction if, in the Board of Directors' reasonable opinion, the granting of options or warrants is necessary to attract or retain non-executive directors with the most relevant skills, knowledge and expertise.
- Provision 4.6 CGC: Jean-Marc Heynderickx was appointed as a director on 31 January 2013 for a duration of 6 years, which is in excess of the maximum duration of 4 years for a director's mandate provided by the CGC. This appointment was done at a time when the CGC was not applicable to the Company. In the future, the Company will ensure that no director's mandate will exceed the maximum duration of 4 years as provided by the CGC

In accordance with the CGC, the Board of Directors of the Company will review its corporate governance charter from time to time and make such changes as it deems necessary and appropriate. The charter, together with the Company's articles of association, is available on the Company's website (www.c3bs.com) and can be obtained free of charge at the registered office of the Company.

2.7 *Remuneration report*

2.7.1 Remuneration policy

The remuneration of the members of the *Executive Management Team* is determined by the Board of Directors based on recommendations made by the Nomination and Remuneration Committee, further to a recommendation made by the CEO to the Nomination and Remuneration Committee (except where his own remuneration is concerned).

The remuneration of the members of the Executive Management Team is designed to hire, retain and motivate high quality executive managers. The remuneration of the members of the Executive Management Team currently consists of the following elements:

- each member of the Executive Management Team is entitled to a basic fixed compensation designed to fit responsibilities, relevant experience and competences, in line with market rates for equivalent positions;
- the Company pays each member of the Executive Management Team a variable compensation, dependent on specified individual, team and/or Company objectives which, in accordance with Article 520*bis* of the Belgian Company Code, are pre-determined in an explicit decision by the Board of Directors. Such variable compensation is based on the Company's performance and the individual performance of the Manager. The performance criteria are set and approved by the Board at the beginning of each calendar year.

- each member of the Executive Management Team currently participates in, and/or in the future may be offered the possibility to participate in, a stock based incentive scheme, in accordance with the recommendations set by the Nomination and Remuneration Committee, after the recommendation by the CEO to such committee (except in respect of his own remuneration) and after (in respect of future stock based incentive schemes) prior shareholder approval of the scheme itself by way of a resolution at the annual shareholders' meeting;
- each member of the Executive Management Team is entitled to a number of fringe benefits (to the exception, however, of those managers engaged on the basis of service agreements), which may include participating in a defined contribution pension or retirement scheme, disability insurance and life insurance, a company car, and/or a lump-sum expense allowance according to general Company policy.

In accordance with provision 7.18 of the CGC, any contractual arrangement entered into on or after 1 July 2009 regarding the remuneration of the CEO, any other member of the Executive Management Team, should specify that the amount of severance pay awarded in the event of early termination does not exceed 12 months' base and variable remuneration. Any such agreement (entered into on or after 1 July 2009) should also specify that the severance package does not take into account the variable remuneration and be limited to 12 months' base remuneration in the event that the departing CEO or any other member of the Executive Management Team did not meet the performance criteria referred to in the agreement.

The remuneration of the members of the *Board of Directors*. None of the other directors receive any remuneration in consideration for their membership of the Board of Directors.

The Nomination and Remuneration Committee recommends the level of remuneration for non-executive directors, subject to approval by the Board of Directors and, subsequently, by the Shareholders Meeting.

The Nomination and Remuneration Committee benchmarks directors' compensation against peer companies to ensure that it is competitive. Remuneration is linked to the time committed to the Board of Directors and its various committees.

On the advice of the Nomination and Remuneration Committee, the Board of Directors may propose to the Shareholders Meeting to grant options or warrants in order to attract or retain non-executive directors with the most relevant skills, knowledge and expertise. Insofar as this grant of options or warrants comprises variable remuneration under Article 554 of the Belgian Company Code, this remuneration shall be submitted for approval to the next annual general shareholders meeting.

Without prejudice to the powers granted by law to the Shareholders Meeting, the Board of Directors sets and, from time to time, revises the rules and the level of compensation for directors carrying out a special mandate or sitting on one of the committees and the rules for the reimbursement of directors' business-related out-of-pocket expenses. The remuneration of directors will be disclosed to the Company's shareholders in accordance with applicable laws and regulations.

The directors' mandate may be terminated *"ad nutum"* (at any time) without any form of compensation.

Additionally, any agreement, entered into or extended as from 3 May 2010, between the Company and a non-executive director, which would provide for a variable remuneration, is subject to the same approval requirements as the ones applicable to the granting to Leading Persons of a severance package exceeding 12 or, as the case may be, 18 months.

The Company does not envisage to amend the principles driving its remuneration policy in the near future.

2.7.2 **Director's remuneration**

The non-executive directors receive fixed remuneration in consideration for their membership of the Board of Directors and their attendance at the committee meetings of which they are members.

The remuneration package for the non-executive directors approved by the Extraordinary Shareholders Meeting of 11 June 2013 is made up of a fixed annual fee of €8,000. The fee is supplemented with a fixed annual fee of €3,000 for membership of each committee of the Board of Directors, to be increased by €2,000 in case the relevant director chairs the Nomination and Remuneration Committee. Changes to these fees will be submitted to the Shareholders Meeting for approval.

Apart from the above remuneration for non-executive directors, all directors will be entitled to a reimbursement of out-of-pocket expenses actually incurred as a result of participation in meetings of the Board of Directors.

As of 31 December 2013, there are no loans outstanding from the Company to any member of the Board of Directors.

There are no employment or service agreements that provide for notice periods or indemnities between the Company and members of the Board of Directors who are not a member of the Executive Management Team.

On an individual basis, the following amounts have been paid over the course of 2013:

- Mr Rudy Dekeyser; 11k€
- Pienter-Jan BVBA; 11k€

2.7.3 Remuneration of the CEO

In accordance with Article 96, §3 of the Belgian Company Code, this remuneration report includes the amount of the remuneration of, and any other benefits granted to, the Company's CEO, on a broken-down basis. In the financial year 2013, Cardio3 BioSciences paid 315k€ of remuneration in respect of the CEO, Mr Christian Homsy. This includes:

- A fixed remuneration of 242k€
- A variable component of 73k€.

The CEO participates in different warrant plans set in place by the Company and approved by its shareholders:

- Under Warrant plan of May 2010: 200 warrants at an exercise price of 22.44€ per share vested over a period of 3 years
- Under Warrant plan of Jan 2013: 80,000 warrants at an exercise price of 4.52€ per share vested over a period of 1 year
- Under Warrant plan of May 2013: 112,000 warrants at an exercise price of 2.64€ per share vested over a period of 3 years

Since 2007, the Company paid a lump sum of 26k€ into an insurance scheme for the CEO.

As of 31 December 2013, the CEO holds 63,174 shares.

2.7.4 Remuneration of the Executive Management Team

In addition to the CEO, the composition of the Executive Management Team as of 31 December 2013 is:

- Patrick Jeanmart SPRL, represented by Patrick Jeanmart, CFO
- Mont-Faron SPRL, represented by Gaetane Metz, COO
- Advanced Therapies Consulting Ltd, represented by Peter de Waele, VP R&D

Currently, all members of the Executive Management Team are engaged on the basis of a service agreement, all of which can be terminated at any time, subject to certain pre-agreed notice periods, which may, at the discretion of the Company, be replaced by a corresponding compensatory payment.

The total fees paid to the members of the Executive Management Team (excl the CEO) was €0.50 million in 2013 (full company costs but excluding VAT and stock based compensation) as further detailed in sections of the notes to the financial statements.

This includes:

- A fixed remuneration of 390k€
- A variable component of 74k€

As of 31 December 2013, the EMT holds 11,070 shares and 102,525 warrants. The exercise prices vary from 2.64€ to 22.44€. Vesting schemes are over 1 and 3 years.

2.8 *Description of the principal risks associated to the activities of the Company*

2.8.1 Risk Management

Risk management is embedded in our strategy and is of crucial importance for achieving the objectives set by the Board of Directors. The Board is responsible for the assessing the risks associated with the activities of the company and for the evaluation of the internal audit systems. The Board relies partially on the Executive Management Team (EMT) to perform this assessment.

The internal audit systems play a central role in managing the risks and the activities of the Company. To safeguard the proper implementation and execution of the strategies defined by the Board, the Company set-up internal risk management and control systems. The internal audit system is based on the following pillars:

- The Company's organization and values and the legal environment surrounding the activities of the Company;
- Risk analysis;
- Audit activities performed by Quality Assurance and Finance departments;
- Controls, supervision and corrective actions and measures.

The purpose of these systems is to manage in an effective and efficient manner the significant risks to which the Company is exposed. There are designed to ensure:

- The careful monitoring of the effectiveness of our short term and long term strategy
- The Company's sustainability by a constant evaluation of the Company performance (operations and cash)

2.8.2 Organization and values

The Company's organization and values as well as the legal environment surrounding the activities of the Company constitute the basis of all the internal audit components. It is determined by a composition of formal and informal rules on which the functioning of the Company relies.

The organization encompasses the following elements:

- Company's value: "We Care, We Cure" is our creed, not only for our patients, but also for our employees. Passion, pro-activity, open-minded, commitment, trust and integrity are the essential traits of character of our all employees.
- Employees and consultants: All our employees and consultants are required to manage the Company means with due diligence, integrity and to act with the necessary common sense.
- Board of Directors, including the Remuneration and Nomination Committee. See section 2.2 for further information on the functioning of the Board and its Committee
- Independent non-executive directors: Cardio3 BioSciences is supported by several independent directors. Their expertise and experience contribute to the Company's effective management.
- Chief Executive Officer, in charge of the day-to-day management, supported by the other member of the Executive Management Team.
- The team: so far, the Company has been able to attract and retain motivated and dedicated qualified employees.
- Internal set of procedures: the Company set up a SOP manual which regulate all regulated activities within the Company.

- External environment: the Company operates in a highly regulated environment (GMP, GCP, etc). Compliance with all these external rules and guidelines is of critical importance to the Company.

The evaluation of the Company's organization, values and compliance with legal environment is made regularly for the supervising bodies.

2.8.3 Risks analysis

The Board of Directors decides on the Company's strategy, risk appetite and its main policy lines. It is the task of the Board of Directors to strive for long-term success by procuring proper risk assessment and management. The Executive Management Team is responsible for the development of systems that identify, evaluate and monitor risks.

Cardio3 BioSciences divides its objectives into four categories:

- strategic;
- operational;
- financing;
- compliance with the rules and legislations and internal instructions.

Once the objectives are set by the Board, these are transferred to all departments, services and staff member within the Company. Regular assessments within the different services and department are made along the year to ensure that these objectives are followed. At year end, the EMT perform an overall performance appraisal and initiate a performance review amongst the different departments and services of the Company.

Risk identification consists of examining the factors that could influence the objectives put forward in each category. Internal or external factors may influence the realization of these objectives.

- Internal factors: they are closely related to the internal organization and could have several causes (change in the group structure, staff, ERP system).
- External factors: they can be the result of changes in the economic climate, regulations or competition.

Besides the common risks associated to all industrial companies, the EMT has identified the following specific risk factors which are described here after.

Cardio3 BioSciences has a history of operating losses and an accumulated deficit and may never become profitable.

The Company has incurred significant operating losses since it was founded in 2007. These losses have resulted principally from costs incurred in research and development, pre-clinical testing, clinical development of research programmes and product candidates and from general and administrative costs associated with the Company's operations. In the future, the Company intends to continue to conduct research and development, pre-clinical testing, clinical trials, regulatory compliance activities and start sales and marketing activities that, together with anticipated general and administrative expenses, will likely result in the Company incurring further significant losses for the next several years.

There can be no assurance that the Company will earn revenues or achieve profitability, which could impair the Company's ability to sustain operations or obtain any required additional funding. If the Company achieves profitability in the future, it may not be able to sustain profitability in subsequent periods. It is likely that the Company will experience fluctuating revenues, operating results and cash flows. As a result, period-to-period comparisons of financial results are not necessarily meaningful and results of operations in prior periods should not be relied upon as an indication of future performance.

Nearly all aspects of the Company's activities are subject to substantial regulation. No assurance can be given that any of the Company's product candidates will fulfil

regulatory compliance. Failure to comply with such regulations could result in delays, suspension, refusals, fines and withdrawal of approvals.

The international pharmaceutical and medical technology industry is highly regulated by government bodies (hereinafter the "Competent Authorities") that impose substantial requirements covering nearly all aspects of the Company's activities notably on research and development, manufacturing, pre-clinical tests, clinical trials, labelling, marketing, sales, storage, record keeping, promotion and pricing of its research programmes and product candidates. Compliance with standards laid down by local Competent Authorities is required in each country where the Company, or any of its partners or licensees, conducts said activities in whole or in part. The Competent Authorities notably include the European Medicine Agency ("EMA") in the European Union and the Food and Drug Administration ("FDA") in the United States.

There can be no assurance that product candidates of the Company will fulfil the criteria required to obtain necessary regulatory clearance to access the market. Also, at this time, the Company cannot guarantee or know the exact nature, precise timing and detailed costs of the efforts that will be necessary to complete the remainder of the development of its research programmes and products candidates.

The specific regulations and laws, as well as the time required to obtain Competent Authorities approvals, may vary from country to country, but the general regulatory procedures are similar in the European Union and the United States of America. Each Competent Authority may impose its own requirements, may discontinue an approval, may refuse to grant approval, or may require additional data before granting approval, notwithstanding that approval may have been granted by one or more other Competent Authorities. Competent Authority approval may be delayed, limited or denied for a number of reasons, most of which are beyond the Company's control. Such reasons include the production process or site not meeting the applicable requirements for the manufacture of regulated products, or the products not meeting applicable requirements for safety or efficacy during the clinical development stage or after marketing. No assurance can be given that clinical trials will be approved by Competent Authorities or that products will be approved for marketing by Competent Authorities in any pre-determined indication or intended use. Competent Authorities may disagree with the Company's interpretation of data submitted for their review. Even after obtaining approval for clinical trials or marketing, products will be subject to ongoing regulation and evaluation of their benefit/safety or risk/performance ratio; a negative evaluation of the benefit/safety or risk/performance ratio could result in a potential use restriction and/or withdrawal of approval for one or more products. At any time Competent Authorities may require discontinuation or holding of clinical trials or require additional data prior to completing their review or may issue restricted authorisation or authorise products for clinical trials or marketing for narrower indications than requested or require further data or studies be conducted and submitted for their review. There can be no guarantee that such additional data or studies, if required, will corroborate earlier data.

Research programmes and product candidates of the Company must undergo rigorous pre-clinical tests and clinical trials, the start, timing of completion, number and results of which are uncertain and could substantially delay or prevent the products from reaching the market.

Pre-clinical tests and clinical trials are expensive and time-consuming and their results are uncertain. The Company, its collaborative partners or other third parties may not successfully complete the pre-clinical tests and clinical trials of the research programmes and product candidates. Failure to do so may delay or prevent the commercialisation of products. The Company cannot guarantee that its research programmes and product candidates will demonstrate sufficient safety or efficacy or performance in its pre-clinical tests and clinical trials to obtain marketing authorisation in any given territory or at all, and the results from earlier pre-clinical tests and clinical trials may not accurately predict the results of later-stage pre-clinical tests and clinical trials. At any stage of development, based on a review of available pre-clinical and clinical data, the estimated costs of continued development, market assessments and other factors, the development of any of the Company's research programmes and product candidates may be suspended or discontinued.

Clinical trials can be delayed for a variety of reasons, including, but not limited to, delays in obtaining regulatory approval to commence a trial, in reaching agreement on acceptable terms with prospective contract research organisations (CROs) and contract manufacturing organisations (CMOs) and clinical trial sites, in obtaining ethics committee approval, in recruiting suitable patients to participate in a trial, in having patients complete a trial or return for follow-up, in adding new sites or in obtaining sufficient supplies of clinical trial materials or clinical sites dropping out of a trial and in the availability to the Company of appropriate clinical trial insurances. Such delays could result in increased costs and delay or jeopardise the Company's ability to obtain regulatory approval and commence product sales as currently contemplated. Many factors affect patient enrolment, including, but not limited to, the size and nature of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, competing clinical trials, clinicians' and patients' perceptions as to the potential advantages of the product being studied in relation to other available therapies, including any new products that may be approved for the indications the Company is investigating and whether the clinical trial design involves comparison to placebo or standard of care. If the Company experiences lower than expected enrolment in the trials, the trials may not be completed as envisaged or may become more expensive to complete. The Company and its collaborative partners are, or may become subject to, numerous ongoing regulatory obligations, such as data protection, environmental, health and safety laws and restrictions on the experimental use of animals and/or human beings. The costs of compliance with applicable regulations, requirements or guidelines could be substantial, and failure to comply could result in sanctions, including fines, injunctions, civil penalties, denial of applications for marketing authorisation of its products, delays, suspension or withdrawal of approvals, licence revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could significantly increase the Company's or its collaborative partners' costs or delay the development and commercialisation of its product candidates.

The Company may need substantial additional funding, which may not be available on acceptable terms when needed, if at all.

The Company may require additional funding to sufficiently finance its operations and to take advantage of new business opportunities. The Company's future financing needs will depend on many factors, including the progress, costs and timing of its research and development activities, the clinical trials, the costs and timing of obtaining regulatory approval, the costs of obtaining, maintaining and enforcing its patents and other intellectual property rights, the costs and timing of maintaining or obtaining manufacturing for its products and product candidates, the costs and timing of establishing sales and marketing capabilities and the terms and timing of establishing collaborations, licence agreements and other partnerships.

Assuming the Company's lead product candidate C-Cure proceeds further to the registration phase and, eventually, marketing and its pre-clinical programmes proceed into clinical development, the Company does not expect its existing capital resources and the net proceeds of its recent IPO to be sufficient to enable the Company to fund the completion of all such clinical development programmes through commercialisation. Accordingly, the Company expects it will need to raise additional funds.

The Company's ability to raise additional funds will depend on financial, economic and market conditions and other factors, over which it may have no or limited control, and the Company cannot guarantee that additional funds will be available to it when necessary on commercially acceptable terms, if at all. If the necessary funds are not available, the Company may need to seek funds through collaborations and licensing arrangements, which may require it to reduce or relinquish significant rights to its research programmes and product candidates, to grant licences on its technologies to partners or third parties or enter into new collaboration agreements, the terms could be less favourable to the Company than those it might have obtained in a different context. If adequate funds are not available on commercially acceptable terms when needed, the Company may be forced to delay, reduce or terminate the development or commercialisation of all or part of its research programmes or product candidates or it may be unable to take advantage of future business opportunities.

The Company may face significant competition and technological change which could limit or eliminate the market opportunity for its product candidates.

The market for pharmaceutical products is highly competitive. The Company's competitors include many established pharmaceutical, biotechnology, universities and other research or commercial institutions, many of which have substantially greater financial, research and development resources than the Company. The fields in which the Company operates are characterised by rapid technological change and innovation. There can be no assurance that competitors of the Company are not currently developing, or will not in the future develop technologies and products that are equally or more effective and/or are more economical as any current or future technology or product of the Company. Competing products may gain faster or greater market acceptance than the Company's products and medical advances or rapid technological development by competitors may result in the Company's product candidates becoming non-competitive or obsolete before the Company is able to recover its research and development and commercialisation expenses. If the Company or its product candidates do not compete effectively, it may have a material adverse effect on the Company's business.

The Company's patents and other intellectual property rights portfolio is relatively young and may not adequately protect its research programmes and product candidates, which may impede the Company's ability to compete effectively.

The Company's success will depend in part on the ability of the Company to obtain, maintain and enforce its patents and other intellectual property rights. The Company's research programmes and product candidates are covered by several patent application families, which are either licensed to the Company or owned by the Company. Out of the numerous patent applications filed by the Company, only two national patents have been granted in Belgium and three national patents have been granted in the US, while the other patient applications are still pending. The Company cannot guarantee that it will be in a position in the future to develop new patentable inventions or that the Company or its licensors will be able to obtain or maintain these patent rights against patent offices and other third-party challenges to their validity, scope and/or enforceability. The Company cannot guarantee that it is or has been the first to conceive an invention and to file a patent or a patent application, notably given the fact that patent applications are not published in most countries before an 18-months period from the date of the filing. Moreover, the Company may have no or limited control over the effectiveness of its licensors in preventing the misappropriation of their patents and intellectual property. Because patent law in the biopharmaceutical industry is highly uncertain, there can be no assurance that the technologies used in the Company's research programmes and product candidates are patentable, that patents will be granted to the Company or its licensors under pending or future applications, or that patents will be of sufficient breadth to provide adequate and commercially meaningful protection against competitors with similar technologies or products, or that patents granted to the Company or its licensors will not be successfully challenged, circumvented, invalidated or rendered unenforceable by third parties, hence enabling competitors to circumvent or use them and depriving the Company from the protection it may expect against competitors. If the Company or its licensors do not obtain patents in respect of their technologies or if the patents of the Company or its licensors are invalidated (for example, as a result of the discovery of prior art), third parties may use the technologies without payment to the Company. A third party's ability to use unpatented technologies is enhanced by the fact that the published patent application contains a detailed description of the relevant technology.

The Company cannot guarantee that third parties, contract parties or employees will not claim ownership rights over the patents or other intellectual property rights owned or held by the Company.

The Company also relies on proprietary know-how to protect its research programmes and product candidates and Cardiopoiesis platform. Know-how is difficult to maintain and protect. The Company uses reasonable efforts to maintain its know-how, but it cannot assure that its partners, employees, consultants, advisors or other third parties will not wilfully or unintentionally disclose proprietary information to competitors. Furthermore, the Company's competitors may independently develop equivalent knowledge and know-how, which could diminish or eliminate the Company's competitive advantage.

The enforcement of patents, know-how and other intellectual property is costly, time consuming and highly uncertain. The Company cannot guarantee that it will be successful in preventing the misappropriation of its patented inventions, know-how and other intellectual property rights and those of its licensors, and failure to do so could significantly impair the ability of the Company to effectively compete.

As far as the Company is aware, its intellectual property has not been challenged otherwise than by patent offices in the normal course of examination of its patent applications or misappropriated (to the exception, however, of the C-Cure trademark for which the Company has received a "cease and desist" request letter from SMB SA limited to the Benelux market in the event it would be authorized by EMA to use this trademark for an approved pharmaceutical product. In view of the therapeutic connotations of the word "C-Cure", the Company is however not likely to be authorized by EMA to use this mark to identify its products or services).

The Company has obtained and will obtain significant funding from the Walloon and Flemish Regions. The terms of the agreements signed with the Regions may hamper the Company to partner part or all its products and restrict the Company's ability to determine the location of its premises

The Company contracted over the past year numerous funding agreements with the Walloon Region to partially finance all of its research and development programs. Under the terms of the agreements, the Company would need to obtain the consent of the Walloon Region for any out-licensing agreement or sale to a third party of any or all of its products, prototypes or installations which may reduce the Company's ability to partner or sell part or all of its products.

Furthermore, when the research and development programs partially financed by the Company enter in "exploitation phase", the Company has to start reimbursing the funding received. The Company may not be able to reimburse such funding under the terms of the agreements or such reimbursement may jeopardize the funding of its clinical and scientific activities.

The Company has committed (i) to start, within three years as from the completion of its IPO, the establishment of a significant operational site located in the Flemish region of Belgium, which site must become the Company's major effective commercial production site within six years as from the completion of its IPO and (ii) to maintain its headquarters and registered office in the Walloon Region and all existing activities of the Company including but not limited to production for clinical use, clinical, R&D, sales, marketing and administration will continue to be performed and developed in the Walloon Region, which restricts the Company's ability to determine the most convenient or cost-effective location of its premises.

The above commitments are binding contractual undertakings of the Company. If the Company would not respect its contractual undertakings, the Company could be held liable for breach of contract.

The Company may infringe on the patents or intellectual property rights of others and may face patent litigation, which may be costly and time consuming.

The Company's success will depend in part on its ability to operate without infringing on or misappropriating the intellectual property rights of others. The Company cannot guarantee that its activities, or those of its licensors, will not infringe on the patents or other intellectual property rights owned by others. The Company may expend significant time and effort and may incur substantial costs in litigation if it is required to defend against patent or other intellectual property right suits brought against the Company or its licensors regardless of whether the claims have any merit. Additionally, the Company cannot predict whether it or its licensors will be successful in any litigation. If the Company or its licensors are found to infringe on the patents or other intellectual property rights of others, it may be subject to substantial claims for damages, which could materially impact the Company's cash flow and financial position. The Company may also be required to cease development, use or sale of the relevant research programme, product candidate or process or it may be required to obtain a licence on the disputed rights, which may not be available on commercially reasonable terms, if at all. The Company may be unable to develop or commercialise a product, product candidate or research

programme, or may cease some of its operations, which may have a material adverse affect on the Company's business.

In parallel with the development of the Company's own intellectual property, patent literature related to heart repair in general and, more specifically, patents of competing companies, are regularly evaluated, in order to avoid infringement and to explore the space of patentable subject matter. To date, no patent infringement claims have been made against Cardio3 BioSciences nor by Cardio3 BioSciences against third parties.

There can be no assurance that the Company's efforts to search for existing proprietary rights before embarking on a research and development programme with respect to a particular product candidate, method, process or technology will uncover all relevant third party rights relating to such product, method, process or technology.

The Company may spend significant time and effort and may incur substantial costs if required to defend against any infringement claims or to assert its intellectual property rights against third parties. The risk of such a procedure by a third party may increase in view of the Company making public announcement regarding one or more of its research programmes and product candidates. The Company may not be successful in defending its rights against such procedures or claims and may incur as a consequence thereof significant losses, costs or delays in its intended commercialisation plans as a result thereof.

The future commercial success of the Company's product candidates will depend on the degree of market acceptance of its products among physicians, patients, healthcare payers and the medical community.

The Company's product candidates are at varying stages of development and the Company may never have a product that is commercially successful. Cardio3 BioSciences has to date no product authorised for marketing yet. Its lead product candidate, C-Cure®, is in clinical-stage development. Whilst C-Cure® showed some positive clinical trial results, it will require further clinical investigation, regulatory review, significant marketing efforts and substantial investment before it can provide the Company with any significant revenues. Due to the inherent risk in the development of pharmaceutical and medical device products, it is probable that not all of the product candidates in Cardio3 BioSciences' portfolio will successfully complete development and be marketed.

The Company does not expect to be able to market any of its products for a number of years. Furthermore, when available on the market physicians may not prescribe the Company's products, which would prevent the Company from generating significant revenues or becoming profitable. Market acceptance of the Company's future products by physicians, patients and healthcare payers will depend on a number of factors, many of which are beyond the Company's control, including, but not limited to:

- The wording of the product label;
- Acceptance by physicians, patients and healthcare payers of each product as safe, effective and cost-effective;
- Relative convenience, ease of use, ease of administration and other perceived advantages over alternative products;
- Prevalence and severity of adverse events;
- Limitations, precautions or warnings listed in the summary of product characteristics, patient information leaflet, package labeling or instructions for use;
- The cost of treatment with the Company's products in relation to alternative treatments;
- The extent to which products are approved for inclusion and reimbursed on formularies of hospitals and managed care organizations;
- Whether products are designated in the label and/or under physician treatment guidelines and/or under reimbursement guidelines as a first-line therapy, or as a second-line, or third-line or last-line therapy; and

The price setting, the availability and level of adequate reimbursement by third parties, such as insurance companies, governmental and other healthcare payers is

uncertain and may impede on the Company's ability to generate sufficient operating margins to offset operating expenses.

The Company's commercial performance will depend in part on the conditions for setting the sales price of its products by the relevant public commissions and bodies and the conditions of their reimbursement by the health agencies or insurance companies in the countries where the Company intends to market its products. The current context of healthcare cost control and economic and financial crisis that most countries are currently facing, coupled with the increase in health care budgets caused by the aging population creates extra pressure on health care spending in most if not all countries. Consequently, pressure on sales prices and reimbursement levels is intensifying owing in particular to;

- Price controls imposed by many States;
- The increasing reimbursement limitations of some products under budgetary policies;
- The heightened difficulty in obtaining and maintaining a satisfactory reimbursement rate for medicines.

Obtaining adequate pricing decisions that would generate return on the investment incurred for the development of C-Cure and or other product candidates developed by the company is therefore uncertain. The company's ability to manage its expenses and cost structure to adapt to increased pricing pressure is untested and uncertain.

All of these factors will have a direct impact on the Company's ability to make profits on the products in question. The partial/no reimbursement policy of medicines could have a material adverse effect on the business, prospects, financial situation, earnings and growth of the Company.

The Company has limited experience in sales, marketing and distribution

Given its stage in development, the Company has never marketed a product and has therefore limited experience in the fields of sales, marketing and distribution of therapies. The Company has currently no marketing nor sales capacity and intends to set up its own marketing and contract sales force when the C-Cure CHART-1 primary endpoint data will be available. As a consequence, the Company will have to acquire marketing skills and develop its own sales and marketing infrastructure and would need to incur additional expenses, mobilize management resources, implement new skills and take the time necessary to set up the appropriate organization and structure to market the relevant product(s), in accordance with applicable laws.

While several managers of the Company have commercialized and launched high technology medical products there can be no assurance that the existing limited experience would be sufficient to effectively commercialize any or all of the Company's product candidates. The Company may not be able to attract qualified sales and marketing personnel on acceptable terms in the future and therefore may experience constraints that will impede the achievement of its commercial objectives. Such events could have a material adverse effect on the Company's business, prospects, financial situation, earnings and growth.

The Company relies and will continue to rely on collaborative partners regarding the development of its research programmes and product candidates.

The Company is and expects to continue to be dependent on collaborations with partners relating to the development and commercialisation of its existing and future research programmes and product candidates. The Company currently has collaborative research relationships with the Mayo Foundation for Medical Research and Education ("Mayo Clinic") and Cardiovascular Centre Aalst. The Company had, has and will continue to have discussions on potential partnering opportunities with various pharmaceutical and medical device companies. If the Company fails to enter into or maintain collaborative agreements on reasonable terms or at all, the Company's ability to develop its existing or future research programmes and product candidates could be delayed, the commercial potential of its products could change and its costs of development and commercialisation could increase.

The Company's dependence on collaborative partners subjects it to a number of risks, including, but not limited to, the following:

- The Company may not be able to control the amount or timing of resources that collaborative partners devote to the Company's research programs and product candidates;
- The Company may be required to relinquish significant rights, including intellectual property, marketing and distribution rights;
- The Company relies on the information and data received from third parties regarding its research programs and product candidates and will not have control of the process conducted by the third party in gathering and composing such data and information. The Company may not have formal or appropriate guarantees from its contract parties with respect to the quality and the completeness of such data;
- A collaborative partner may develop a competing product either by itself or in collaboration with others, including one or more of the Company's competitors;
- The Company's collaborative partners' willingness or ability to complete their obligations under the Company's collaboration arrangements may be adversely affected by business combinations or significant changes in a collaborative partner's business strategy; and/or
- The Company may experience delays in, or increases in the costs of, the development of the Company's research programs and product candidates due to the termination or expiration of collaborative research and development arrangements.

The Company's ability to pursue the development and commercialisation of its research programmes and product candidates depends on the continuation of the agreement with Mayo Clinic.

The Company's business notably depends on intellectual property rights which are not owned by the Company, but rather have been granted to it pursuant to licence agreements. The Company is therefore required to comply with certain conditions to maintain its rights to these intellectual property rights.

In particular, the Company's current relationship with Mayo Clinic is essentially based on the Technology Licence Agreement dated 4 June 2007, as amended on 1 July 2008 (the "First Amendment") and 18 October 2010 (the "Second Amendment") (together, the "Mayo Licence"), through which the Company acquired rights to the majority of the Company's current intellectual property portfolio and which has created a long-term research relationship with Mayo Clinic.

Under the Mayo Licence, the Company acquired an exclusive worldwide licence to the inventions "Cardiogenic Cocktail for the production of Cardiac Cells" and "Stem Cell Based Therapy for Non-ischemic Cardiomyopathic Heart Failure" as well as a non-exclusive licence to the know-how in connection thereof. The conditions for the Company to maintain the rights granted to it include, among others, the payment of licensing fees on net sales, the performance of development efforts and the sale of products that incorporate the licensed technology.

More specifically, the Mayo Licence contains provisions that may result in early termination, particularly in the event of a breach of contractual provisions, or the insolvency or bankruptcy of the Company.

Any violation by the Company of the Mayo Licence may lead to the loss of the use of the related intellectual property rights. Should the Company lose the Mayo Licence or if it were unable to obtain new rights on reasonable terms similar to those it holds through such licence, it might be unable to develop, manufacture or sell its products. This could have a material adverse effect on the Company's business, financial situation, earnings or growth and, the rights of sub-licensees will terminate as well. A termination in whole or in part of the Mayo Licence would substantially impair the Company's ability to generate revenues. However, the Company believes that such risk is relatively low given the cases pursuant to which the Mayo Licence may be early terminated.

Changes in regulatory approval policies or enactment of additional regulatory approval requirements may delay or prevent the product candidates from being marketed.

The regulatory clearance process is expensive and time consuming and the timing of marketing is difficult to predict. Once marketed, products may be subject to post-authorisation safety studies or other pharmaco-vigilance or device vigilance activities or may be subject to limitations on their uses or

may be withdrawn from the market for various reasons, including if they are shown to be unsafe or ineffective, or when used in a larger population that may be different from the trial population studied prior to market introduction of the product.

The Company's product candidates may become subject to changes in the regulatory framework or market conditions. Regulatory guidelines may change during the course of product development and review process, making the chosen development strategy suboptimal. Market conditions may change resulting in the emergence of new competitors or new treatment guidelines which may require alterations in the development strategy. These factors may result in significant delays, increased trial costs, significant changes in commercial assumptions or failure of the products to obtain marketing authorisation.

The Company is subject to inspection and shall be subject to market surveillance by the FDA, EMA and other Competent Authorities for compliance with regulations that prohibit the promotion of the Company's products for a purpose or indication other than those for which approval has been granted.

While a product manufacturer may not promote a product for such *"off label"* use, doctors are allowed, in the exercise of their professional judgment in the practice of medicine, to use a product in ways not approved by Competent Authorities. Off-label marketing regulations are subject to varying evolving interpretations.

Post-approval manufacturing and marketing of Company's products may show different safety and efficacy profiles to those demonstrated in the data on which approval to test or market said products was based. Such circumstances could lead to the withdrawal or suspension of approval, which could have a material adverse effect on the Company's business, financial condition, operating results or cash flows. In addition, Competent Authorities may not approve the labelling claims or advertisements that are necessary or desirable for the successful commercialisation of the Company's products.

Competent Authorities have broad enforcement power, and a failure by the Company or its collaboration partners to comply with applicable regulatory requirements can, among other things, result in recalls or seizures of products, operating and production restrictions, withdrawals of previously approved marketing applications, total or partial suspension of regulatory approvals, refusal to approve pending applications, warning letters, injunctions, penalties, fines, civil proceedings, criminal prosecutions and imprisonment.

Maintenance of high standards of manufacturing in accordance with Good Manufacturing Practices and other manufacturing regulations.

Cardio3 BioSciences and key third-party suppliers on which it relies currently or in the future must continuously adhere to (current) Good Manufacturing Practices and corresponding manufacturing regulations of Competent Authorities. In complying with these regulations, the Company and its third-party suppliers must expend significant time, money and effort in the areas of design and development, testing, production, record-keeping and quality control to assure that the products meet applicable specifications and other regulatory requirements. The failure to comply with these requirements could result in an enforcement action against the Company, including the seizure of products and shutting down of production. Any of these third-party suppliers and the Company also may be subject to audits by the Competent Authorities. If any of the Company's third-party suppliers or the Company itself fails to comply with (current) Good Manufacturing Practices or other applicable manufacturing regulations, the Company's ability to develop and commercialise the products could suffer significant interruptions.

The Company relies on a single manufacturing facility

The Company faces risks inherent in operating a single manufacturing facility, since any disruption, such as a fire, natural hazards or vandalism could significantly interrupt the Company's manufacturing capability. The Company currently does not have alternative production plans in place or disaster-recovery facilities available. In case of a disruption, the Company will have to establish alternative manufacturing sources. This would require substantial capital on the part of the Company, which it may not be able to obtain on commercially acceptable terms or at all. Additionally, the Company

would likely experience months or years of manufacturing delays as it builds or locates replacement facilities and seek and obtain necessary regulatory approvals. If this occurs, the Company will be unable to satisfy manufacturing needs on a timely basis, if at all. Also, operating any new facilities may be more expensive than operating the Company's current facility. Further, business interruption insurance may not adequately compensate the Company for any losses that may occur and the Company would have to bear the additional cost of any disruption. For these reasons, a significant disruptive event of the manufacturing facility could have drastic consequences, including placing the financial stability of the company at risk.

The Company will need increased manufacturing capacity

The Company may not be able to expand the manufacturing capacity within the anticipated time frame or budget or may not be able to obtain the requisite regulatory approvals for the increase in manufacturing capacity on a timely basis, or at all. If the Company cannot obtain necessary approvals for this contemplated expansion in a timely manner, its ability to meet demand for its products would be adversely affected. The current plans of the Company are to operate two manufacturing sites, one in Belgium and one in the US, for which the Company will need to obtain the consent of the Walloon Region. The Company may have difficulties in finding suitable locations or commercially acceptable terms for the leasing of such facilities. The Company may also have difficulties in finding a commercial partner for the construction of those facilities and/or partners for investing in the capital expenses related to the manufacturing plants. The Company will need to obtain GMP certification of those plants for commercial products. Obtaining those certificates may be delayed, or may not be granted.

Dependence on and ability to attract key personnel and managers

The Company's success depends in part on its continued ability to attract, retain and motivate highly qualified clinical and scientific personnel and on its ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists.

If the Company loses the services of certain clinical and scientific personnel or members of its management team, its research and development efforts may be seriously and adversely affected. Although Cardio3 BioSciences generally has not experienced substantial problems retaining key employees, its employees can terminate their employment with the Company at any time with relatively short notice. There can be no assurance that the Company will be able to retain personnel, enforce non-competition undertakings or, where necessary, attract such personnel on acceptable terms, given the competition for experienced people from numerous specialised biotechnology firms and pharmaceutical companies. The Company's anticipated growth and expansion into areas and activities requiring additional expertise such as clinical trials, registration, manufacturing and marketing, are expected to place increased demands on the Company's resources. These demands are expected to require the addition of new personnel and/or managers and the development of additional expertise by current personnel and/or managers. The failure to attract the needed personnel or to develop such needed expertise could have a materially adverse effect on the Company's prospects for success.

2.8.4 **Audit activities**

Internal audit activities are performed by the departments of Finance, for all matters related to accounting and financial information, and Quality Assurance for all matters related to the operational activities of the Company.

As of the date of this report, there is not yet a dedicated internal audit function.

In order to properly manage identified risks, Cardio3 BioSciences set the following audit measures:

- access and security systems at the premises and offices;
- establishment, under the supervision of the Quality Assurance department, of a set of procedures covering all activities of the Company;
- weekly modifications and updates of the existing procedures;
- development of electronic approval system in the existing ERP system;

- implementation of extra controls in the existing ERP system;
- development of a monthly financial reporting tool which allow a close monitoring of the financial information and KPI's.

2.8.5 Controls, supervision and correctives actions

Controls are performed by all persons in charge of departments and services. When deviations are identified, there are reported to, depending of there relative importance, the head of department or the Executive Management Team.

As there is no Audit Committee in place within the Company, the responsibilities of the Audit Committee are supported by the Board of Directors. All supervision activities are performed by the Board of Directors and the Executive Management Team. It is their responsibility to monitor the effectiveness of the internal audit and risk analysis. The executive team supervises the implementation of internal audit and risk management, taking into consideration the recommendations of the Board.

The EMT is also in charge of proposing the Board corrective actions when identified.

External audit

Ernst & Young Réviseurs d'Entreprises SCCRL, represented by Eric Golenvaux, is the external financial auditor of the Company. This mission includes the auditing of the statutory annual accounts, the consolidated annual accounts of Cardio3 BioSciences SA and its subsidiaries if any.

The Company is also subject to ad hoc audit performed by the competent authorities to ensure compliance with GMP, GCP or other regulations.

3 SHARES AND SHAREHOLDERS

3.1 *Capital increase and issuance of shares*

On 1st January 2013, the share capital of Cardio3 BioSciences was represented by 1,210,518 shares. In the course of 2013, there were two capital increases resulting from the Round D private placement and the Initial Public Offering, resulting respectively in the issuance of 3,533,549 and 1,588,725 new shares. As of 31 December 2013, the share capital of Cardio3 BioSciences amounted to 22,138k€ and was represented by 6,332,792 shares. The evolution of the capital of the Company since its inception on 24 July 2007 is presented in the notes to the financial statements.

All shares are issued and fully paid up and are of the same class. Each share (i) entitles its holder to one vote at the Shareholders' Meetings; (ii) represents an identical fraction of the capital and has the same rights and obligations and participates equally in the profit of Cardio3 BioSciences SA; and (iii) gives its holder a preferential subscription right to subscribe to new shares, convertible bonds or warrants in proportion to the part of the share capital represented by the shares already held.

The preferential subscription right can be restricted or cancelled by a resolution approved by the Shareholders' Meeting, or by the Board of Directors subject to an authorization of the Shareholders' Meeting, in accordance with the provisions of the Belgian Company Code and the Company's articles of association.

3.2 *Authorized capital*

In accordance with the articles of association, the Extraordinary General Shareholders' Meeting of Cardio3 BioSciences SA authorized the Board of Directors to increase the share capital of the Company, in one or several times, and under certain conditions set forth in extenso in the articles of association. This authorization was given on 11 June 2013 and is valid for a period of five years starting on 26 July 2013, i.e. until 26 July 2018. The Board of Directors may increase the share capital of the Company within the framework of the authorized capital for an amount of up to €21,412,720.43.

When increasing the share capital within the limits of the authorized capital, the Board of Directors may, in the Company's interest, restrict or cancel the shareholders' preferential subscription rights, even if such restriction or cancellation is made for the benefit of one or more specific persons other than the employees of the Company or its subsidiaries.

3.3 *Changes in share capital*

In accordance with the Belgian Company Code, Cardio3 BioSciences SA may increase or decrease its capital by decision of the Extraordinary General Shareholders' Meeting taken with a majority of 75% of the votes cast, at a meeting where at least 50% of the share capital of the Company is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary General Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting. There are in this respect no conditions imposed by the Company's articles of association that are more stringent than those required by law.

Within the framework of the powers granted to it under the authorized capital, the Board of Directors may also increase the Company's capital as specified in its articles of association.

3.4 *Anti-takeover provisions under Belgian laws*

Under Belgian law, public takeover bids for all the outstanding voting securities issued by the issuer are subject to the supervision of the FSMA. If the latter determines that a takeover violates Belgian law, it may lead to suspension of the exercise of the rights attached to any shares that were acquired in connection with the envisaged takeover. Pursuant to the Belgian law of 1 April 2007 on public takeovers, a mandatory takeover bid must be made when, as a result of its own acquisition or the

acquisition by persons acting in concert with it, a person owns, directly or indirectly, more than 30% of the securities with voting rights in a company with registered office in Belgium whose securities are admitted to trading on a regulated or recognized market. The acquirer must offer to all other shareholders the opportunity to sell their shares at the highest of (i) the highest price offered by the acquirer for shares of the issuer during the 12 months preceding the announcement of the bid or (ii) the weighted average price of the shares on the most liquid market of the last 30 calendar days prior to the date on which the obligation of the acquirer to offer the takeover of the shares of other shareholders starts.

3.5 *Change of the articles of association*

Pursuant to the Belgian Company Code, any amendment to the articles of association such as an increase or decrease in the capital of the Company, and certain other matters such as the approval of the dissolution, merger or de-merger may only be authorized with the approval of at least 75% of the votes validly cast at an Extraordinary General Shareholders' Meeting where at least 50% of the Company's share capital is present or represented. If the attendance quorum of 50% is not met, a new Extraordinary General Shareholders' Meeting must be convened at which the shareholders may decide on the agenda items, irrespective of the percentage of share capital present or represented at such meeting.

3.6 *Agreements with and between Shareholders*

On the date of this report, the Company is not aware of the existence of any shareholders' agreements between its shareholders.

On 17 June 2013, all shareholders owning more than 50,000 shares of the Company entered into a lock-up agreement with the joint book runners of the IPO, i.e. Kempen and Co and Invest Securities SA. This agreement is valid for 12 months and will last until 16 June 2014.

3.7 *Shareholders' structure*

Based on the transparency notifications received by the Company, the shareholders owning 5% or more of the Company's shares on 31 December 2013 were TOLEFI SA (2,267,844 shares), SRIW SA and its subsidiary Sofipole SA (together 661,172 shares), PMV-TINA Comm. VA (570,571 shares) and Mayo Foundation for Medical Education and Research (340,947 shares).

3.8 *Financial service*

The financial services for the shares are provided by BNP Paribas Security Services.

4 CONSOLIDATED FINANCIAL STATEMENTS

1 INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2013 AND FOR THE YEAR THEN ENDED UNDER IFRS

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report contains our opinion on the consolidated financial statements (the "Consolidated Financial Statements") as well as our report on other legal and regulatory requirements as further defined below. The Consolidated Financial Statements include the consolidated statement of financial position as of 31 December 2013, the consolidated statement of comprehensive income (consolidated income statement and consolidated statement of other comprehensive income), consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2013 and the notes.

Report on the Consolidated Financial Statements - unqualified opinion

We have audited the Consolidated Financial Statements of Cardio3 BioSciences SA ("the Company") and its subsidiaries (collectively referred to as "the Group") as of and for the year ended 31 December 2013. These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The total of the consolidated statement of financial position amounts to K€ 32,385.91 and the consolidated statement of comprehensive income shows a loss for the year of K€ 12,346.22.

Responsibility of the board of directors for the preparation of the Consolidated Financial Statements

The board of directors is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union. The board of directors is also responsible for the implementation of internal controls, which it considers necessary for the preparation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the statutory auditor

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing ("ISA"). Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Group's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated financial statements.

We have obtained from management and the Company's officials the explanations and information necessary to perform our audit and we believe that the resulting audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unqualified opinion

In our opinion, the Consolidated Financial Statements of the Company give a true and fair view of the Group's consolidated financial position as of 31 December 2013 and of its consolidated financial

performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the report of the board of directors on the Consolidated Financial Statements, including the corporate governance statement, in accordance with articles 96 and 119 of the Company code (Wetboek van vennootschappen/Code des sociétés) as well as the compliance of these Consolidated Financial Statements with the Company code.

As part of our audit mandate and in accordance with the applicable supplementary standard issued by the Belgian Institute of Registered Auditors (Instituut van de Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises) as published in the Belgian State Gazette on 28th August 2013 (the "Supplementary Standard"), it is our responsibility to perform certain procedures, in all material respects, on the compliance of certain legal and regulatory requirements, as defined in the Supplementary Standard. As a result of these procedures, we provide the following additional statement which does not modify our opinion on the Consolidated Financial Statements:

- The report of the board of directors on the Consolidated Financial Statements includes the information required by law, is consistent with the Consolidated Financial Statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Diegem, 2 April 2014

Ernst & Young Réviseurs d'Entreprises SCCRL

Statutory auditor

represented by

Eric Golenvaux

Partner

2 CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2013 AND 2012 UNDER IFRS

2.1 *Consolidated statement of financial position*

(€'000 audited) **For the year ended 31 December**

	Notes	2013	2012
NON-CURRENT ASSETS		**9,783.44**	**10,148.41**
Intangible assets	3.6	9,400.11	9,614.76
Property, Plant and Equipment	3.7	243.21	383.12
Other non-current assets		140.12	150.53
CURRENT ASSETS		**22,602.47**	**2,336.62**
Trade and Other Receivables	3.8	421.28	442.84
Other current assets		122.93	248.75
Short term investments	3.9	3,000.00	-
Cash and cash equivalents	3.10	19,058.26	1,645.03
TOTAL ASSETS		**32,385.91**	**12,485.03**
EQUITY		**16,898.01**	**(2,259.89)**
Share Capital	3.11	22,138.01	9,974.51
Share premium		33,326.30	-
Cost of capital		(2,853.10)	-
Convertible loan	3.11	-	11,406.35
Share-based payments	3.12	675.24	1,006.11
Retained loss		(36,388.44)	(24,646.86)
NON-CURRENT LIABILITIES		**12,099.12**	**11,265.92**
Finance leases	3.13	27.12	108.89
Advances repayable	3.14	12,072.00	11,157.03
Other non-current liabilities		-	-
CURRENT LIABILITIES		**3,388.78**	**3,479.00**
Finance leases	3.13	79.25	160.49
Advances repayable	3.14	428.45	684.66
Trade payables	3.15	2,169.36	1,770.31
Other current liabilities	3.15	608.79	807.23
Current tax liabilities		102.93	56.31
TOTAL EQUITY AND LIABILITIES		**32,385.91**	**12,485.03**

2.2 *Consolidated statement of comprehensive income*

(€'000 audited)	Notes	For the year ended 31 December 2013	2012
Revenue		-	54.00
Manufacturing expenses	3.17	(2,415.21)	(2,185.90)
Clinical, Quality & Regulatory expenses	3.18	(4,472.70)	(3,605.14)
Research and Development expenses	3.19	(2,158.07)	(3,400.82)
General administrative expenses	3.20	(2,987.55)	(1,881.60)
Other operating income	3.22	1,084.30	2,092.28
Other operating expenses	3.22	(1,020.00)	(3,974.56)
Operating profit (Loss) – EBIT		**(11,969.23)**	**(12,901.74)**
Financial income	3.24	59.85	19.17
Financial expenses	3.24	(436.84)	(641.68)
Profit (Loss) before taxes		**(12,346.22)**	**(13,524.25)**
Income taxes	3.16	-	-
Profit (Loss) for the period [1]		**(12,346.22)**	**(13,524.25)**
Net loss attributable to Equity Holders [2]		**(12,346.22)**	**(13,524.25)**
Basic and diluted loss per share (in €) [3]	3.25	(3.01)	(11.17)

[1] As there is no other Comprehensive Income, profit/loss for the period equals total comprehensive income.
[2] For 2013 and 2012, loss is fully attributable to equity holders of the Company as the Company does not have any non-controlling interests.
[3] As the Company is suffering losses, warrants and the convertible loan have an anti-dilutive effect. As such, there is no difference between the basic and the diluted earnings per share. In case the warrants would be included in the calculation of the loss per share, this would decrease the loss per share.

2.3 *Consolidated statement of changes in equity*

(€'000 audited)	Share capital (Note 3.11)	Share premium (Note 3.11)	Cost of capital (Note 3.11)	Convertible loan (Note 3.11)	Share-based payments (Note 3.12)	Retained loss	Total Equity
Balance as of 1st January 2012	**9,974.51**			**4,036.10**	**855.33**	**(11,122.61)**	**3,743.33**
Issuance of convertible loan				6,778.66			6,778.66
Interest accrued on convertible loans				591.59			591.59
Share-based payments					150.78		150.78
Loss of the year						(13,524.25)	(13,524.25)
Balance as of 31 December 2012	**9,974.51**	**-**		**11,406.35**	**1,006.11**	**(24,646.86)**	**(2,259.89)**
Capital increase in cash	7,113.27	26,338.76					33,452.03
Exercise of warrants	24.09						24.09
Issuance of convertible loan				250.00			250.00
Interest accrued on convertible loans				357.33			357.33
Contribution in kind convertible loans	5,026.14	6,987.54		(12,013.68)			-
Share-based payments					(330.87)	604.64	273.77
Transaction costs associated with capital increases			(2,853.10)				(2,853.10)
Loss of the period						(12,346.22)	(12,346.22)
Balance as of 31 December 2013	**22,138.01**	**33,326.30**	**(2,853.10)**	**-**	**675.24**	**(36,388.44)**	**16,898.01**

2.4 *Consolidated statement of Cash flow*

(€'000 audited)	Notes	For the year ended 31 December 2013	2012
Net Profit/(Loss) for the period attributable to Equity Holders		(12,346.22)	(13,524.25)
Non-cash adjustments			
Depreciation of Property, Plant & Equipment	3.7	212.77	266.99
Amortisation of Intangible Assets	3.6	673.25	626.82
Interests on convertible loans		357.33	591.59
Advances received - previously derecognized		395.43	3,944.56
Share-based payments	3.12	273.77	150.78
Change in working capital			
Trade receivables, other receivables		(451,92)	(1,180.88)
Trade payables, other payable and accruals		247.20	787.55
Net cash (used)/from in operations		**(10,638.39)**	**(8,336.84)**
Acquisitions of Property, Plant & Equipment	3.7	(72.85)	(40.08)
Acquisitions of Intangible assets	3.6	(458.60)	(616.88)
Acquisition of short term investment	3.9	(3,000.00)	-
Net cash used in investing activities		**(3,531.45)**	**(656.96)**
Cash flows from financing activities			
Repayments of finance leases		(163.01)	(291.27)
Proceeds from issuance of shares and exercise of warrants	3.11	30,623.02	-
Proceeds from advances and subsidies	3.14	1,084,30	2,170.07
Proceeds from convertible loans		250.00	7,028.65
Repayment of advances		(211.24)	(20.00)
Other financing cash flows		**-**	**-**
Net cash from financing activities		**31,583.07**	**8,887.45**
Net cash and cash equivalents at beginning of the period		**1,645.03**	**1,751.38**
Change in net cash and cash equivalents		17,413.23	(106.35)
Net cash and cash equivalents at the end of the period		**19,058.26**	**1,645.03**

3 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.1 *General information*

The Company was incorporated on 24 July 2007 under the name "Cardio3 BioSciences". Cardio3 BioSciences is a limited liability company ("Société Anonyme") governed by Belgian law with its registered office at Axis Parc, Rue Edouard Belin 12, B-1435 Mont-Saint-Guibert, Belgium (company number 0891.118.115).

Cardio3 BioSciences is a Belgian biotechnology company specialising in stem cell-based therapies for the treatment of cardiovascular diseases. It is acting in the field of cardiac regenerative medicine. It is currently developing several curative therapies based on a unique technology.

3.2 *Summary of significant accounting policies*

All important accounting policies used for preparing the consolidated financial statements are explained here below.

3.2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for financial liabilities as well as certain monetary items in foreign currencies that are measured at fair value. The consolidated financial statements have been approved for issue by the Company's Board of Directors on 14 March 2014.

The consolidated financial statements are presented in euro and all values are presented in thousands (€000) except when otherwise indicated.

Statement of compliance

On a voluntary basis, the consolidated financial statements of the Company have been prepared for the first time for the year ended 31 December 2012 (the transition date being 1 January 2010) in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU).

For all periods up to and including the year ended 31 December 2013, the Company prepared its financial statements in accordance with generally accepted accounting practice in Belgium (Belgian GAAP).

As required by Belgian Company Law, the Company will continue to prepare its financial statements in accordance with Belgian accounting laws and regulations (collectively "Belgian GAAP"), which is the Company's primary accounting framework. The Company has a subsidiary, incorporated in the United States of America but it is not required to prepare consolidated financial information for any of the periods stated under Belgian GAAP.

The Company has, also on a voluntary basis, opted to present in this Annual Report, historical financial information covering its business over a period of two calendar years (2012 and 2013).

The preparation of the consolidated financial statements in accordance with IFRS as adopted in the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, are areas where assumptions and estimates are significant to the financial statements. They are disclosed in Note 3.4.

Going concern

The Company is pursuing a strategy to develop certain products and obtain approval from the authorities to commercialise those products. The Company initiated end of 2012 the International Phase III clinical trial for its C-Cure product candidate. Management has prepared detailed budgets and

cash flow forecasts for the following years. These forecasts reflect the strategy of the Company and include significant expenses and cash outflows in relation to the development and (pre-)clinical trials of selected research programmes and products candidates.

The Company estimates its cash requirements until end of 2015 to €22.1 million, which correspond to the cash position of the Company at year end 2013, including short term investments.

After due consideration of the above, the Board of Directors determines that management has an appropriate basis to conclude on the continuity over the next 12 months of the Company's business and hence it is appropriate to prepare the financial statements on a going concern basis.

Changes to accounting standards and interpretations

The Group applied, for the first time, certain standards and amendments that require additional disclosures and a different presentation of OCI but did not affect the financial position or performance of the group. These include IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements.

Several other amendments apply for the first time in 2013. However, these did not have an impact on the annual consolidated financial statements of the Group.

The nature and the impact of each of the following new standards, amendments and/or interpretations are described below:

- IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
- IAS 12 Income Taxes – Recovery of Tax Assets
- IAS 19 Employee Benefits (amended)
- IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets, effective 1 January 2014 but early adopted
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Annual Improvements to IFRSs (Issued May 2012)

Standards issued but not yet effective

New or amended standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements which the Company believes are applicable to the Company are listed below.

- IFRS 9 Financial Instruments[1], effective date has been postponed and has not yet been determined
- IAS 19 Employee Benefits – Defined benefit Plans: Employee Contributions[1], effective 1 July 2014
- IAS 32 Financial Instruments - Presentation: Offsetting Financial Assets and Financial Liabilities, effective 1 January 2014
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting, effective 1 January 2014
- IFRIC 21 Levies[1], effective 1 January 2014
- Annual Improvements to IFRSs 2010-2012 Cycle (Issued December 2013)[1], effective 1 July 2014
- Annual Improvements to IFRSs 2011-2013 Cycle (Issued December 2013)[1], effective 1 July 2014

New or amended standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements which the Company believes are not applicable to the Company are listed below:

- IFRS 10 Consolidated Financial Statements, effective 1 January 2014
- IFRS 11 Joint Arrangements, effective 1 January 2014

[1] Not yet endorsed by the EU as per 10 March 2014

- IFRS 12 Disclosure of Interests in Other Entities, effective 1 January 2014
- IFRS 10-12 - Transition Guidance, effective 1 January 2014
- IFRS 10, IFRS 12 and IAS 27 - Investment Entities, effective 1 January 2014
- IAS 28 Investments in Associates and Joint Ventures, effective 1 January 2014
- IAS 27 Separate Financial Statements, effective 1 January 2014
- IFRS 14 Regulatory Deferral Accounts (Issued on 30 January 2014) [1], effective 1 January 2016

3.2.2 Consolidation

The Company has a subsidiary, incorporated in the United States of America with a share capital of $10,000. Cardio3 Inc is a dormant company with no operational activities and showing a net loss for the year ended 31 December 2013 and 31 December 2012 of respectively $6,397 and $3,292.

3.2.3 Foreign currency translation

The items in the consolidated financial statements are presented in Euro, the functional currency of the Company.

Foreign currency transactions (mainly USD) are translated into functional currency using the applicable exchange rate on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Foreign currency exchange gains and losses arising from settling foreign currency transactions and from the retranslation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

3.2.4 Income

The Company's current incoming cash flows are primarily generated from Regional government ("Walloon Region" or "Region") recoverable cash advances and subsidies.

Since inception, the Company has been awarded non-dilutive financial support from the Walloon Region (the "Region") totalling €20,715,121. The support has been granted in the form of recoverable cash advances ("RCAs") for an amount of €18,732,642 (of which €15,343,925 has been effectively paid out to the Company as per 31 December 2013) and subsidies for an amount of €1,982,479 (of which €1,643,376 has been effectively paid out to the Company as per 31 December 2013).

RCAs are dedicated to support specific development programmes. All RCA contracts, in essence, consist of three phases, *i.e.*, the "research phase", the "decision phase" and the "exploitation phase". During the research phase, the Company receives funds from the Region based on statements of expenses.

Upon receipt, these advances are accounted for as government grants because they are intended to compensate the research and development expenses as defined in the different contracts.

At the end of the research phase, the Company should within a period of six months decide whether or not to exploit the results of the research programme (decision phase). The exploitation phase has a duration of 10 years. In the event the Company decides to exploit the results under an RCA, the relevant RCA becomes refundable and at that moment a liability is recognised. The reimbursements of the RCAs to the Walloon Region consist of two elements, *i.e.*, turnover-dependent reimbursements (a percentage of turnover) and turnover-independent reimbursements (an annual lump-sum).

Such refundable advances are accounted for as a zero-interest loan for which the interest benefit is considered a government grant. Accordingly, when estimating the liability, the Company (i) determines its best-estimate of the period during which it will benefit from the advance and (ii) determines the

amount of the liability as the difference between the nominal amount of the loan and its discounted value using a market rate for a liability with similar risk profile to the Company. The interest expense resulting from the remeasurement of the liability at each reporting date using the effective interest rate method is presented on the same line as the interest income resulting from the amortisation of the government grant recorded in the statement of comprehensive income.

In case the Company decides not to exploit (or not to continue to exploit) the results under an RCA, then such RCA does not become refundable (respectively is no longer refundable as of the calendar year after such decision), and the rights related to such results must be transferred to the Region. In such case, Cardio3 BioSciences will also have to grant (or cause to be granted) an exclusive licence to the Region to the relevant Mayo patents, resulting in the derecognition of the intangible asset. Also, in case Cardio3 BioSciences would decide to renounce to its rights to patents which may result from the research, title to such patents will need to be transferred to the Region.

3.2.5 Intangible assets

Intangible assets acquired separately, are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs (when conditions are met), are not capitalised. Expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful life of intangible assets is assessed as finite. They are amortised over the expected useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Indication of impairment is related to the value of the patent demonstrated by the pre-clinical and clinical result of the technology. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Company can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- 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.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

For the industry in which the Company operates, the life science industry, criteria a) and d) tend to be the most difficult to achieve. Experience shows that in the Biotechnology sector technical feasibility of completing the project is met when such project completes successfully Phase III of its development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation of the asset begins when development has been completed and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in Research & Development expenses. During the period of development, the asset is tested for impairment annually.

As of May 2012, the development costs of C-Cath$_{ez}$ are capitalized as the defined milestone criteria above have been met.

Licences

Payments related to the acquisition of technology rights are capitalised as intangible assets when the two following criteria are met:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Licences for the use of intellectual property are granted for a period of 20 years. Amortisation is calculated on a straight-line basis over this useful life.

3.2.6 **Property, plant and equipment**

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Land and buildings: 15 to 20 years
- Plant and equipment: 5 to 15 years
- Furniture: 3 to 10 years
- Leasehold improvements: 3 to 10 years (based on duration of leased office building)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if applicable.

3.2.7 **Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

The company has performed sale and leaseback transactions. If the sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If the transaction results in an operating lease and the transaction occurred at fair value, any profit or loss is recognised immediately.

3.2.8 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used based on the discounted cash-flow model.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The Company has two cash-generating units which consist of the development and commercialization activities on its two products, C-Cath$_{ez}$ and C-Cure. Indicators of impairment used by the Company are the pre-clinical and clinical results obtained with the technology.

3.2.9 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

3.2.10 Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company's financial assets include cash and short-term deposits, advances received, trade and other receivables and loan and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and trade receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Trade receivables mainly relate to recharges of certain expenses to other companies. Those trade debtors are not impaired and are not material in relation to the current and total assets. Impairments are assessed on an individual basis and as such, there is not general rule that trade debtors overdue since a certain number of days are impaired.

Derecognition

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Advances receivable

Please refer to note 3.2.4.

3.2.11 **Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the

asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

3.2.12 **Financial liabilities**

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the expense when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance expense in the statement of comprehensive income.

Advances repayable

Please refer to note 3.2.4.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.2.13 **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial position net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.2.14 **Employee benefits**

Defined contribution plan

The Company operates a pension plan which requires contributions to be made to the Company's group insurance. All employees have access to this scheme. It is a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits they are entitled to under the existing schemes. The pension contributions paid by the Company are expensed when due.

Share-based payment transactions

Certain employees, management members and Board of Directors members of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model, further details are given in the Note 3.12. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The expense or credit for a period accounted for in the statement of comprehensive income represents the movement in cumulative expense recognised as of the beginning and end of that period.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award were met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately in the statement of comprehensive income. This includes any award where non-vesting conditions within the control of either the Company or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 3.25).

3.2.15 **Taxes**

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those used in Belgium. As the Company is reporting a net loss no corporate tax has been paid.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except for the two cases expressed above.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.2.16 **Earnings per share**

The basic net profit/(loss) per share is calculated based on the weighted average number of shares outstanding during the period.

The diluted net profit/(loss) per share is calculated based on the weighted average number of shares outstanding including the dilutive effect of potentially dilutive ordinary shares such as warrants and convertible debts. Potentially ordinary shares should be treated as dilutive, when and only when their conversion to ordinary shares would decrease the net profit per share.

3.3 *Risk Management*

Financial risk factors

Interest rate risk – The interest rate risk is very limited as the Company has only a limited amount of finance leases and no outstanding loans except for convertible loans at the end of 2012 (converted in capital during 2013). So far, because of the materiality of the exposure, the Company did not enter into any interest hedging arrangements.

Foreign exchange risk – The Company may be exposed to foreign exchange risk as certain collaborations or supply agreements of raw materials are denominated in USD. So far, because of the materiality of the exposure, the Company did not enter into any currency hedging arrangements.

Liquidity risk

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank deposit and finance leases.

The Company is exposed to liabilities and contingent liabilities as a result of the RCA's it has received from the Walloon Government. Out of the RCAs contracted as of the date of this Annual Report, €15.3 million has been effectively paid out as per 31 December 2013.

In 2014 and 2015, the Company will have to make an exploitation decision on the remaining RCA's (Agreement 5951, 6548, 6646 and 7027) with a potential recognition of an additional liability of €2.4 million based on the advances effectively paid out as per 31 December 2013.

Capital risk management

The Company's objectives when managing capital are to safeguard Cardio3 BioSciences' ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an adequate structure to limit to costs of capital.

3.4 *Critical accounting estimates and judgments*

Judgments

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Advances received from the Walloon Region: recognition of a liability

The Company receives recoverable cash advances from the Walloon Region in order to compensate the research and development costs incurred by the Company. Upon receipt, these advances are accounted for as government grants and incurred research and development costs are offset against the advances received. The advances received only become reimbursable if certain conditions are met. Assessing if these conditions are met (or not) can only reasonably be performed at the end of the 'research phase'. At the end of this research phase, the Company should, within a period of six months, decide whether or not to exploit the results of the research programmes ('decision phase'). In the event the Company decides to exploit the results under an RCA, the relevant RCA becomes refundable to the Walloon Region and at that moment, a liability is recognised.

Development costs

Development costs are capitalised in accordance with the accounting policy described in Note 3.2.5. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model (completion of Phase III clinical trial for each product). In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. As of May 2012, the development costs of C-Cath$_{ez}$ are capitalized as the defined milestone criteria above have been met.

Deferred Tax Assets

Deferred tax assets for unused tax losses are recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 3.16.

Leases

The Company has entered into various leases. For certain leases, the Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as finance leases. Further details are contained in Note 3.13.

Estimates and assumptions

The preparation of the Company's financial statements requires management to make estimates and assumptions at each reporting dates that affect the reported amounts of revenues, expenses, assets and liabilities.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date such that the carrying amounts of assets and liabilities could differ significantly from the estimates from future periods, are discussed below:

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 3.12.

Useful life of Mayo Clinic technology licence

The Company estimated the useful life of this licensed technology to 20 years, based on legal and economic factors that influence this useful life.

To determine the useful life, the Company has considered the terms of the "Technology Licence Agreement". Should the useful life estimated be shorter than 20 years, the yearly annual amortisation expense would increase.

3.5 *Operating segment information*

The Company does not distinguish different segments because of the non-materiality of the revenues generated by C-Cath$_{ez}$. Therefore, the Company itself is considered as a single reportable segment.

Its non-current assets are all located in its country of domicile, i.e. Belgium.

3.6 *Intangible assets*

(€'000)	Development costs	Patents & Licences	Software	Total
Cost:				
As of 1 January 2012	**-**	**11,844.44**	**41.94**	**11,886.38**
Additions	549.29	-	67.59	616.88
As of 31 December 2012	**549.29**	**11,844.44**	**109.53**	**12,503.26**
Additions	458.60	-	-	458.60
As of 31 December 2013	**1,007.89**	**11,844.44**	**109.53**	**12,961.86**
Amortisation:				
As of of 1 January 2012	**-**	**(2,246.28)**	**(15.41)**	**(2,261.69)**
Amortisation	(21.54)	(592.22)	(13.05)	(626.82)
As of 31 December 2012	**(21.54)**	**(2,838.50)**	**(28.46)**	**(2,888.50)**
Amortisation	(60.98)	(592.22)	(20.05)	(673.25)
As of 31 December 2013	**(82.52)**	**(3,430.72)**	**(48.51)**	**(3,561.75)**
Net book value				
As of 31 December 2012	**527.75**	**9,005.94**	**81.07**	**9,614.76**
As of 31 December 2013	**925.37**	**8,413.72**	**61.02**	**9,400.11**

Intangible assets primarily relate to a licence, granted in August 2007 by Mayo Clinic (for an amount of €9,500,000) upon the Company's inception and an extension to the licensed field of use, granted on 29 October 2010 for a total amount of €2,344,413. The licence and its extension are amortised straight line over a period of 20 years. Management has not identified any impairment indicators in relation to this intangible asset, especially because it constitutes the pillar on which the Company bases its research.

All C-Cure related research and development costs, not eligible for capitalisation, have been recognised as research and development expenses. Since May 2012 and the CE marking of C-Cath$_{ez}$, the development costs of C-Cath$_{ez}$ are capitalized and depreciated over the estimate residual intellectual property protection as of the CE marking (16 years and 17 years respectively in 2013 and 2012).

3.7 *Property, plant and equipment*

(€'000)	**Equipment**	**Furnitures**	**Leasehold**	**Total**
Cost:				
As of 1 January 2012	**1,044.91**	**166.59**	**543.47**	**1,754.97**
Additions	294.64	-	-	294.64
Disposals	-	-	-	-
Transfer	-	-	-	-
Exchange adjustment	-	-	-	-
As of 31 December 2012	**1,339.55**	**166.59**	**543.47**	**2,049.61**
As of 1 January 2013	**1,339.55**	**166.59**	**543.47**	**2,049.61**

(€'000)	Equipment	Furnitures	Leasehold	Total
Additions	40.56	9.06	23.23	72.85
Disposals	(7.00)	-	-	(7.00)
Transfer	-	-	-	-
Exchange adjustment	-	-	-	-
As of 31 December 2013	**1,373.11**	**175.65**	**566.70**	**2,115.46**
Depreciation and impairment:				
As of 1 January 2012	**(718.53)**	**(153.35)**	**(527.62)**	**(1,399.50)**
Depreciation charge of the year	(255.29)	(6.72)	(4.98)	(266.99)
Impairment	-	-	-	-
Disposals	-	-	-	-
Exchange adjustment	-	-	-	-
As of 31 December 2012	**(973.82)**	**(160.07)**	**(532.60)**	**(1,666.49)**
As of 1 January 2013	**(973.82)**	**(160.07)**	**(532.60)**	**(1,666.49)**
Depreciation charge of the year	(204.10)	(5.45)	(3.22)	(212.77)
Impairment	-	-	-	-
Disposals	7.00	-	-	7.00
Exchange adjustment	-	-	-	-
As of 31 December 2013	**(1,170.92)**	**(165.52)**	**(535.82)**	**(1,872.26)**
Net book value				
As of 31 December 2012	**365.73**	**6.52**	**10.87**	**383.12**
As of 31 December 2013	**202.19**	**10.13**	**30.88**	**243.21**

Property, Plant and Equipment is mainly composed of office furniture, leasehold improvements, and laboratory machinery and equipment. Leasehold improvements are depreciated over the duration of the office building lease. Laboratory equipment is depreciated over 3 to 5 years.

Finance leases

Lease contracts considered as finance lease relate to some contracts with financial institutions and relate to laboratory and office equipment. All finance leases have a maturity of three years and were initiated since March 2008. A key common feature is that they include an option to purchase the leased asset at the end of the three-year-lease term. The carrying value of plant and equipment held under finance leases at 31 December 2013 was €137,512 (31 December 2012 was €320,657). The carrying value corresponds to the net asset value of the leases at the end of period and includes the purchase option price.

3.8 *Trade receivable and other current assets*

(€'000)	As of 31 December	
	2013	**2012**
Trade receivable		
Trade receivable	149.34	216.79

(€'000)	As of 31 December	
	2013	**2012**
Total	149.34	216.79
Other receivables		
VAT receivable	232.80	137.85
Other receivables	39.14	88.20
Total	271.94	226.05
Total Receivables and Other receivables	**421.28**	**442.84**

Trade receivables mainly relate to recharges of certain expenses to other companies and credit notes to receive. Impairment of such receivables are assessed on an individually basis at the end of each accounting year.

As per 31 December 2013 and 31 December 2012, no receivable was overdue. There were no carrying amounts for trade and other receivables denominated in foreign currency and no impairments were recorded.

3.9 *Short term investments*

(€'000)	As of 31 December	
	2013	**2012**
Short term investments	3,000.00	-
Total	**3,000.00**	**-**

Amounts recorded as short term investments in the current assets correspond to short term deposits with fixed interest rates. Short-term deposits are made for variable periods depending on the short term cash requirements of the Company. Interest is calculated at the respective short-term deposit rates.

3.10 *Cash and cash equivalents*

(€'000)	As of 31 December	
	2013	**2012**
Cash at bank and on hand	19,058.26	1,645.03
Total	19,058.26	1,645.03

Cash at banks earn interest at floating rates based on daily bank deposit rates.

3.11 *Share Capital & convertible loans*

The number of shares issued is expressed in units.

	As of 31 December	
	2013	**2012**
Class A shares		
Number of issued and outstanding shares	-	671,107
Share Capital (€'000)	-	3,300.00
Class B shares		
Number of issued and outstanding shares	-	539,411
Ordinary shares	6,332,792	
Share Capital (€'000)	22,138.01	6,674.51

	As of 31 December	
	2013	2012
Total number of issued and outstanding shares	**6,332,792**	**1,210,518**
Total share capital (€'000)	**22,138.01**	**9,974.51**

The Company has been incorporated on 24 July 2007 with a share capital of €62,500 by the issuance of 409,375 class A shares. On 31 August 2007, the Company has issued 261,732 class A shares to Mayo Clinic by way of a contribution in kind of the upfront fee that was due upon execution of the Mayo Licence for a total amount of €9,500,000.

Round B Investors have participated in a capital increase of the Company by way of a contribution in kind of a convertible loan (€2,387,049) and a contribution in cash (€4,849,624 of which €1,949,624 uncalled) on 23 December 2008; 204,652 class B shares have been issued at the occasion of that capital increase. Since then, the capital is divided in 875,759 shares, of which 671,107 are class A shares and 204,652 are class B shares.

On 29 October 2010, the Company closed its third financing round resulting in a capital increase totalling €12,100,809. The capital increase can be detailed as follows:

- capital increase in cash by certain existing investors for a total amount of €2,609,320.48 by the issuance of 73,793 class B shares at a price of €35.36 per share;
- capital increase in cash by certain existing investors for a total amount of €471,240 by the issuance of 21,000 class B shares at a price of €22.44 per share;
- capital increase in cash by certain new investors for a total amount of €399,921.60 by the issuance of 9,048 class B shares at a price of €44.20 per share;
- exercise of 12,300 warrants ("Warrants A") granted to the Round C investors with total proceeds of €276,012 and issuance of 12,300 class B shares. The exercise price was €22.44 per Warrant A;
- contribution in kind by means of conversion of the loan C for a total amount of €3,255,524.48 (accrued interest included) by the issuance of 92,068 class B shares at a conversion price of €35.36 per share;
- contribution in kind by means of conversion of the loan D for a total amount of €2,018,879.20 (accrued interest included) by the issuance of 57,095 class B shares at a conversion price of €35.36 per share. The loan D is a convertible loan granted by certain investors to the Company on 14 October 2010 for a nominal amount of €2,010,000.
- contribution in kind of a payable towards Mayo Foundation for Medical Education and Research for a total amount of €3,069,911 by the issuance of 69,455 class B shares at a price of €44.20 per share. The payable towards Mayo Clinic was related to (i) research undertaken by Mayo Clinic in the years 2009 and 2010, (ii) delivery of certain materials, (iii) expansion of the Mayo Clinical Technology Licence Contract by way the Second Amendment dated 18 October 2010.

On 5 May 2011, pursuant the decision of the Extraordinary General Meeting, the capital was reduced by an amount of €18,925,474 equivalent to the outstanding net loss as of 31 December 2010.

On 31 May 2013, the Company closed its fourth financing round. The Round D financing amounts in total to €19,013,401.36. The convertible loans E, F, G and H previously recorded as quasi equity were contributed in kind for a total amount of €12,013,681.96 and the share capital and issue premium were increased by an amount of €6,999,719.40 through a contribution in cash brought by existing shareholders of the Company.

At the Extraordinary Shareholders Meeting of 11 June 2013 all existing classes of shares of the Company have been converted into ordinary shares. Preferred shares have been converted at a 1 for 1 ratio and subsequently.

On 5 July 2013, the Company completed its Initial Public Offering. The Company issued 1,381,500 new shares at €16.65 per shares, corresponding to a total of €23,001,975.

On 15 July 2013, the over-allotment option was fully exercised for a total amount of €3,450,296 corresponding to 207,225 new shares. The total IPO proceeds amounted to €26,450,296 and the capital and the share premium of the Company increased accordingly.

The costs relating to the capital increases performed in 2013 amounted to €2.8 million and are presented in deduction of equity.

On 11 June 2013, the Extraordinary General Shareholders' Meeting of Cardio3 BioSciences SA authorized the Board of Directors to increase the share capital of the Company, in one or several times, and under certain conditions set forth in extenso in the articles of association. This authorization is valid for a period of five years starting on 26 July 2013 and until 26 July 2018. The Board of Directors may increase the share capital of the Company within the framework of the authorized capital for an amount of up to €21,412,720.43.

As of 31 December 2013 all shares issued have been fully paid.

Category	Transaction date	Description	# of shares	Par value (in €)
Class A shares	24 July 2007	Company incorporation	409,375	0.15
Class A shares	31 August 2007	Contribution in kind (upfront fee Mayo Licence)	261,732	36.30
Class B shares	23 December 2008	Capital increase (Round B)	137,150	35.36
Class B shares	23 December 2008	Contribution in kind (Loan B)	67,502	35.36
Class B shares	28 October 2010	Contribution in cash	21,000	22.44
Class B shares	28 October 2010	Contribution in kind (Loan C)	92,068	35.36
Class B shares	28 October 2010	Contribution in kind (Loan D)	57,095	35.36
Class B shares	28 October 2010	Contribution in cash	73,793	35.36
Class B shares	28 October 2010	Exercise of warrants	12,300	22.44
Class B shares	28 October 2010	Contribution in kind (Mayo receivable)	69,455	44.20
Class B shares	28 October 2010	Contribution in cash	9,048	44.20
Class B shares	31 May 2013	Contribution in kind (Loan E)	118,365	38,39
Class B shares	31 May 2013	Contribution in kind (Loan F)	56,936	38,39
Class B shares	31 May 2013	Contribution in kind (Loan G)	654,301	4,52
Class B shares	31 May 2013	Contribution in kind (Loan H)	75,755	30,71
Class B shares	31 May 2013	Contribution in cash	219,016	31,96
Class B shares	4 June 2013	Conversion of warrants	2,409,176	0,01
Ordinary shares	11 June 2013	Conversion of Class A and Class B shares in ordinary shares	4,744,067	-
Ordinary shares	5 July 2013	Initial Public Offering	1,381,500	16.65
Ordinary shares	15 July 2013	Exercise of over-allotment option	207,225	16.65

The total number of shares issued and outstanding as of 31 December 2013 totals 6,332,792. All shares are ordinary shares.

3.12 *Share based payments*

Warrants issued on 26 September 2008

On 26 September 2008, the Extraordinary Shareholder's Meeting issued 90,000 warrants. Of these 90,000 warrants, 50,000 were offered and accepted, 30,835 warrants lapsed and 19,165 warrants are outstanding on the date hereof.

For the beneficiaries of the warrants issued in September 2008, the warrants are vested in equal tranches over a period of three years. The warrants become 100% vested after the third anniversary of the issuance and will be settled in ordinary shares of the Company upon exercise. Exercise period is three years and will last until 31 December 2014.

The warrants can only be exercised when vested and as from the beginning of the fourth calendar year following the year in which the warrants have been granted (thus starting on 1January 2012). All non-vested warrants are forfeited at the time of the termination of the contractual agreement (employee contract or consultant agreement). The exercise price amounts to €22.44. Warrants not exercised within 6 years after issue become null and void.

Warrants issued on 5 May 2010

At the Extraordinary Shareholders Meeting of 5 May 2010, a plan of 50,000 warrants was approved. Of these 50,000 Warrants (15,000 Warrants A, 5,000 Warrants B and 30,000 Warrants C), 12,710 Warrants A were accepted but none are outstanding on the date hereof, 5,000 Warrants B were accepted and are still outstanding on the date hereof, and 21,700 Warrants C were accepted and 3,464 Warrants C are still outstanding on the date hereof

12,300 *Warrants A* were exercised on 29 October 2010.

Warrants B are immediately vested. The exercise price amounts to €35.36. Warrants not exercised within 6 years after issue become null and void.

The 30,000 *warrants C* have the same characteristics as the 50,000 warrants granted on 26 September 2008.

Each warrant C gives the beneficiaries the right to subscribe to one common share of the Company. The warrants are granted for free and have an exercise price equal to the fair market price of the underlying shares at the date of the grant, as determined by the Board of Directors of the Company, upon concurring opinion of the Company's Statutory Auditor.

Warrants issued on 29 October 2010

At the Extraordinary Shareholders Meeting of 29 October 2010, a plan of 79,500 warrants was approved. The Board of Directors was allowed to issue a total of 79,500 warrants to be offered to Company's employees, management team and independent directors. Out of the 79,500 warrants offered, 61,050 warrants were accepted by the beneficiaries and 7,632 warrants are outstanding on the date hereof.

The warrants issued in October 2010 have a vesting period of three years and become exercisable at the end of the third calendar year following the issuance date, thus starting on 1 January 2014. The exercise price amounts to €35.36. Warrants not exercised within 10 years after issue become null and void.

Warrants issued on 31 January 2013

On 31 January 2013, the Extraordinary Shareholders Meeting issued a total of 140,000 Personnel Warrants (as defined infra in Note 3.12). Out of the 140,000 warrants, 120,000 were granted to certain members of the Executive Management Team and a pool of 20,000 warrants was created. The exercise price of these warrants is €4.52. The warrants attributed to certain members of the Executive Management Team were fully vested at 31 December 2013. The warrants attributed to the Executive Management Team could be exercised as from 1 January 2014 until 31 January 2023.

The remaining 20,000 warrants were not granted and therefore lapsed.

Warrants issued on 6 May 2013

At the Extraordinary Shareholders Meeting of 6 May 2013, a plan of 266,241 warrants was approved. Warrants were offered to Company's employees and management team. Out of the 266,241 warrants offered, 253,150 warrants were accepted by the beneficiaries and 249,700 warrants are outstanding on the date hereof.

The 253,150 warrants will be vested in equal tranches over a period of three years. The warrants become 100% vested after the third anniversary the issuance. The warrants that are vested can only be exercised at the end of the third calendar year following the issuance date, thus starting on 1 January 2017. The exercise price amounts to €2.64. Warrants not exercised within 10 years after issue become null and void.

The fair value of the warrants has been determined at grant date based on the Black-Scholes formula. The variables, used in this model, are:

	Warrants issued on					
	26 September 2008	**05 May 2010 (warrants B)**	**05 May 2010 (warrants C)**	**29 October 2010**	**31 January 2013**	**6 May 2013**
Number of warrants issued	90,000	5,000	30,000	79,500	140,000	266,241
Number of warrants granted	50,000	5,000	21,700	61,050	120,000	253,150
Number of warrants not vested as of 31 December 2013	-	-	4,334	15,177	-	253,150
Value of shares	22.44	22.44	22.44	35.36	4.52	2.64
Exercise price (in €)	22.44	35.36	22.44	35.36	4.52	2.64
Expected dividend yield	-	-	-	-	-	
Expected share value volatility (*)	35.60%	35.60%	35.60%	35.60%	35.60%	39.55%
Risk-free interest rate	4.56%	3.31%	3.31%	3.21%	2.30%	2.06%
Fair value (in €)	9.60	5.72	9.05	9.00	2.22	1.38
Weighted average remaining contractual life	1.00	2.42	2.42	6.78	9.09	9.35

	2013		**2012**	
	Average exercise price (in €)	**Warrants**	**Average exercise price (in €)**	**Warrants**
Outstanding as of 1 January	**28.77**	**114,645**	**28.85**	**116,547**
Granted	3,24	373,150	-	-
Forfeited	29,14	82,834	33.77	1,902
Exercised	-	-	-	-
Expired	-	-	-	-
At 31 December	**5,32**	**404,961**	**28.77**	**114,645**

(*) expected volatility has been determined based on the benchmark of peer companies

The warrants are accounted for as equity-settled share-based payment transaction. The total expense recognised in the statement of comprehensive income for the outstanding warrants totals €1,279,881.37 at year end 2013. The expense is presented in General and Administrative Expenses.

Each warrant gives the beneficiaries the right to subscribe to one common share of the Company. The warrants are granted for free and have an exercise price equal to the fair market price of the underlying shares at the date of the grant, as determined by the Board of Directors of the Company, upon concurring opinion of the Company's statutory auditor.

3.13 *Finance lease*

The maturity of the finance lease is detailed as follows:

(€'000)	As of 31 December	
	2013	2012
Within one year	79.25	160.49
After one year but not more than five years	27.12	108.89
More than five years	-	-
Total	**106.37**	**269.38**

3.14 *Advances repayable*

(€'000)	As of 31 December	
	2013	2012
Total non-current Advance Repayable	12,072.00	11,157.03
Current Advance Repayable	428.45	684.66
Total at 31 December	**12,500.45**	**11,841.69**

The amounts recorded under 'Current Advance Repayable' correspond to the contractual turnover-independent amounts to be repaid to the Region in the 12 months period.

Those advances were previously recognized in the income statement. Reference is made to the table in note 3.26 which shows (i) the year for which amounts under those agreements have been received and initially derecognized in the statement of comprehensive income as other operation income and (ii) a description of the specific characteristics of those recoverable cash advances including repayment schedule and information on other outstanding advances.

3.15 *Trade payables and other current liabilities*

(€'000)	As of 31 December	
	2013	2012
Total trade payables	**2,169.36**	**1,770.31**
Other current liabilities		
Social security	155.39	173.76
Payroll accruals	435.67	415.37
Other current liabilities	17.73	218.10
Total other current liabilities	**608.79**	**807.23**

Trade payables (composed of supplier's invoices and accruals for supplier's invoices not yet received at closing) are non-interest bearing and are normally settled on a 60-day terms. Other current liabilities are non-interest bearing and have an average term of six months. Fair value equals approximately the carrying amount of the trade payables and other current liabilities.

3.16 *Deferred taxes*

No numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate for the years ended 31 December 2013 and 31 December 2012 have been presented considering the loss and absence of tax charge for these years.

(€'000)	For the year ended 31 December	
	2013	2012
Net loss carried forward	**(39,833.56)**	**(38,284.74)**
Opening temporary differences	**(13,049.92)**	**(1,678.22)**

Amortization of intangibles	110.98	940.87
Recoverable cash advances	(400.30)	(3,024.56)
Capitalization of development costs	(8,239,53)	(9,101.06)
Share based payments	(273.77)	(150.78)
Cost of capital	2,853.10	-
Other timing differences	-	(36.17)
Total temporary differences of the period	**(5,949.52)**	**(11,371.71)**
Accumulated temporary differences	**(18,999.44)**	**(13,049.92)**
Total IFRS tax losses carried forward and		
Deductible temporary difference (net)	**(58,833.00)**	**(51,334.66)**
Unrecognised deferred tax assets	**19,997.34**	**17,448.65**

The Company has unused tax losses carried forward that are available indefinitely for offset against future taxable profits of the Company. In addition to the net loss carried forward, the Company can benefit from additional tax benefits (notional interest deduction) which can be carry-forward for a period of 7 years.

(€'000)	**As of 31 December**	
	2013	**2012**
Notional interest	(1,860.53)	(1,860.53)

The Company has a history of losses and significant uncertainty exists surrounding the Company's ability to realise taxable profits in the near future. Therefore, the Company did not recognise any deferred tax assets in respect of these losses, unless sufficient taxable temporary differences were available.

The statutory tax rate is 33.99%. It should be noted that the Company has obtained on 14 October 2009 a tax ruling issued by the Belgian tax authorities by whom the Company is allowed to exempt 80% of all future C-Cure revenues originated from patents and licences registered in the books of the Company. The tax ruling has no expiration date and will be applicable until the Mayo Clinic patents related to C-Cure will fall in the public domain.

3.17 *Manufacturing expenses*

(€'000)	**For the year ended 31 December**	
	2013	**2012**
Employee expenses	841.89	794.51
Contractor fees	76.11	206.48
Pilot Plan consulting fees	289.24	285.44
Raw materials	988.13	719.84
Rent & utilities	132.85	77.53
Other manufacturing costs	86.99	102.10
Total Manufacturing expenses	**2,415.21**	**2,185.90**

3.18 *Clinical, quality and regulatory expenses*

	2013	**2012**
Employee expenses	1,459.99	1,545.09
Study cost	2,169.46	1,393.32

	2013	2012
IP filing & maintenance fees	360.47	290.15
Travel & living	179.76	154.97
Consulting fees	268.96	203.60
Other costs	34.06	18.01
Total Clinical, quality and regulatory expenses	**4,472.70**	**3,605.14**

3.19 *Research and development expenses*

(€'000)	For the year ended 31 December	
	2013	**2012**
Employee expenses	898.19	843.50
Mayo research Project	4.15	440.77
Pre-clinical studies	275.09	618.96
Delivery systems	458.60	1,017.82
Other costs	65.29	60.26
R&D consultant fees	29.33	74.99
Capitalization C-Cath$_{ez}$ development costs	(458.60)	(549.29)
Subtotal	**1,272.05**	**2,507.01**
Depreciation and amortization	886.02	893.81
Total Research and development expenses	**2,158.07**	**3,400.82**

3.20 *General and administration*

(€'000)	For the year ended 31 December	
	2013	**2012**
Employee expenses	909.89	773.19
Share-based payment	273.77	150.78
Rent	322.66	297.52
Communication & Marketing	206.19	79.42
Consulting fees	974.77	324.02
Travel & Living	147.00	164.32
Other	153.27	92.34
Total General and administration	**2,987.55**	**1,881.60**

3.21 *Employee benefit expenses*

(€'000)	For the year ended 31 December	
	2013	**2012**
Salaries, wages and bonuses	2,151.28	2,055.65
Executive Management team compensation	1,125.39	865.67

Other Management Team compensation	-	92.94
Share based payments	273.77	150.78
Social security	666.31	744.68
Group insurance	141.16	138.64
Hospitalisation insurance	21.99	24.72
Other benefit expenses	3.83	33.99
Total Employee expenses	**4,383.73**	**4,107.07**

Headcount	**For the year ended 31 December**	
	2013	**2012**
Manufacturing	17	14
Clinical	16	18
Research & Development	13	12
General and administrative staff	5	6
Total Headcount	**51**	**50**

3.22 *Other operating income and expenses*

The Company receives subsidies and recoverable cash advances from the Walloon Region in order to compensate the research and development costs incurred by the Company. Upon receipt, these subsidies and advances are accounted for as government grants and booked as other operating income.

The advances received only become reimbursable if certain conditions are met. Assessing if these conditions are met (or not) can only reasonably be performed at the end of the 'research phase'. At the end of this research phase, the Company should, within a period of six months, decide whether or not to exploit the results of the research programmes ('decision phase'). In the event the Company decides to exploit the results under an RCA, the relevant RCA becomes refundable to the Walloon Region and at that moment, a liability is recognised and an equivalent other expenses is accounted for.

(€'000)	**For the year ended 31 December**	
	2013	**2012**
Recoverable cash advances (RCA)	954.82	1,786.18
Subsidies	129.48	306.10
Total Operating Income	**1,084.30**	**2,092.28**
RCA recognized as liability	**1,020.00**	**3,974.56**

In 2012, the advances related to the agreements number 6003, 6230 and 6363 were recognized as liabilities. In 2013, the advance related to the agreement 6633 was recognized as liabilities.

Since inception, the Company has been awarded non-dilutive financial support from the Walloon Region (the "Region") totalling €20,715,121. The support has been granted in the form of recoverable cash advances ("RCAs") for an amount of €18,732,642 (of which €15,343,925 has been effectively paid out to the Company as per 31 December 2013) and subsidies for an amount of €1,982,479 (of which €1,643,376 has been effectively paid out to the Company as per 31 December 2013).

3.23 *Operating leases*

The Company has entered into various leasing contracts for the purpose of renting buildings and equipment. These leases have an average life of three to five years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases.

Operating lease expenses amounts to €576,201 in 2013 and €569,489 in 2012.

Future minimum rentals payable under non-cancellable operating leases as of 31 December are detailed as follows:

(€'000)	As of 31 December	
	2013	**2012**
Within one year	624.09	460.55
After one year but no more than five years	1,068.36	1,218.05
More than five years	-	-
Total Operating leases	**1,692.45**	**1,678.60**

3.24 *Finance income and expense*

(€'000)	For the year ended 31 December	
	2013	**2012**
Interest shareholders loans	400.91	591.59
Interest finance leases	6.04	10.87
Interest on overdrafts and other finance costs	18.47	24.99
Exchange Differences	11.42	14.23
Finance expenses	**436.84**	**641.68**
Interest income bank account	47.53	3.46
Exchange Differences	11.78	12.97
Other	0.54	2.74
Finance income	**59.85**	**19.17**

3.25 *Earnings per share*

The earnings per share are calculated by dividing net result of the period by the weighted average number of ordinary shares outstanding during the period. Warrants and the convertible loans have an anti-dilutive effect. As the Company is suffering losses, warrants and the convertible loans have an anti-dilutive effect. As such, there is no difference between the basic and the diluted earnings per share. In case the warrants would be included in the calculation of the loss per share, this would decrease the loss per share.

(€'000)	As of 31 December	
	2013	**2012**
Loss of the year attributable to Equity Holders	(12,346.22)	(13,524.25)
Weighted average number of shares outstanding	4,099,216	1,210,518
Earnings per share (non-fully diluted)	**(3.01)**	**(11.17)**

3.26 *Contingent assets and liabilities*

Recoverable cash advances received from the Walloon Region

As per 31 December 2013, the Company has received a total of €15,343,925 in recoverable cash advances out of a total contractual amount of €18,732,642. Taking into account the unused amounts of the terminated contracts, the residual amount to receive out of the existing contracts amounts to €3,388,717 and should be received over 2014 and 2015 depending on the progress of the different programmes partially funded by the Region.

(in €)		Amounts received for the years ended 31 December				Amounts yet to receive
Contract number	Contractual amount	Previous years	2012	2013	Total	2014 and beyond
5160	2,920,000	2,920,000	-	-	2,920,000	-
5731	3,400,000	3,400,000	-	-	3,400,000	-
5914	700,000	630,000	57,135	-	687,135	12,865
5915	910,000	819,000	91,000	-	910,000	-
5951	1,470,000	866,231	-	-	866,231	603,769
6003	1,729,200	1,430,150	285,101	-	1,715,251	13,949
6230	1,083,442	983,442	100,000	-	1,083,442	-
6363	1,140,000	570,000	449,610	106,256	1,125,866	14,134
6548	660,000	330,000	87,434	123,566	541,000	119,000
6633	1,020,000	-	920,000	100,000	1,020,000	-
6646	1,200,000	-	450,000	-	450,000	750,000
7027	2,500,000	-	-	625,000	625,000	1,875,000
Total	**18,732,642**	**11,948,823**	**2,440,280**	**954,822**	**15,343,925**	**3,388,717**

As described in notes 3.2.4 and 3.2.14, the advances are recognised in other operating income as they are received.

The contracts 5160, 5731, 5914, 5915 and 5951 have the following specific characteristics:

- funding by the Region covers 70% of the budgeted project costs;
- certain activities have to be performed within the Region;
- in case of an outlicensing agreement or a sale to a third party, Cardio3 BioSciences will have to pay 10% of the price received (excl. of VAT) to the Region;
- turnover-independent reimbursements, turnover-dependent reimbursements, and amounts due in case of an outlicensing agreement or a sale to a third party, are, in the aggregate, capped at 100% of the principal amount paid out by the Region;
- turnover-dependent reimbursements payable in any given year can be set-off against turnover-independent reimbursements already paid out during that year;
- the amount of turnover-independent reimbursement and turnover-dependant reimbursement may possibly be adapted in case of an outlicensing agreement, a sale to a third party or industrial use of a prototype or pilot installation, when obtaining the consent of the Walloon Region to proceed thereto.

The other contracts have the following specific characteristics:

- funding by the Region covers 60% of the budgeted project costs;
- certain activities have to be performed within the European Union;
- turnover-independent reimbursements represent in the aggregate 30% of the principal amount;
- turnover-dependent reimbursements range between 50% and 200% (including accrued interest) of the principal amount of the RCA depending on the actual outcome of the project compared to the outcome projected at the time of grant of the RCA (below or above projections);

- interests (at Euribor 1 year (as applicable on the first day of the month in which the decision to grant the relevant RCA was made + 100 basis points) accrue as of the 1st day of the exploitation phase;
- the amount of turnover-independent reimbursement and turnover-dependant reimbursement may possibly be adapted in case of an outlicensing agreement, a sale to a third party or industrial use of a prototype or pilot installation, when obtaining the consent of the Region to proceed thereto.
- turnover-independent reimbursements and turnover-dependent reimbursements are, in the aggregate (including the accrued interests), capped at 200% of the principal amount paid out by the Region;
- in case of bankruptcy, the research results obtained by the Company under those contracts are expressed to be assumed by the Region by operation of law.

The table below summarizes, in addition to the specific characteristics described above, certain terms and conditions for the recoverable cash advances:

Contract number	**Research phase**	**Percentage of total project costs**	**Turnover-dependent reimbursement**	**Turnover-independent reimbursement**	**Interest rate accrual**	**Amounts due in case of licensing (per year) resp. Sale**
(€'000)						
5160	01/05/05-30/04/08	70%	0.18%	Consolidated with 6363	N/A	N/A
5731	01/05/08-31/10/09	70%	0.18%	Consolidated with 6363	N/A	N/A
5914	01/09/08-30/06/11	70%	5.00%	30 in 2012 and 70 each year after	N/A	10% with a minimum of 100/Y
5915	01/08/08-30/04/11	70%	5.00%	40 in 2012 and 70 each year after	N/A	10% with a minimum of 100/Y
5951	01/09/08-31/08/11	70%	5.00%	100 in 2014 and 150 each year after	N/A	10% with a minimum of 200/Y
6003	01/01/09-30/09/11	60%	0.18%	Consolidated with 6363	N/A	N/A
6230	01/01/10-31/03/12	60%	0.18%	Consolidated with 6363	N/A	N/A
6363	01/03/10-30/06/12	60%	0.18%	From 103 to 514 starting in 2013 until 30% of advance is reached	Starting on 01/01/13	N/A
6548	01/01/11-31/03/13	60%	0.01%	From 15 to 29 starting in 2014 until 30% of advance is reached	Starting on 01/10/13	N/A
6633	01/05/11-30/11/12	60%	0.27%	From 10 to 51 starting in 2013 until 30% of advance is reached	Starting on 01/06/13	N/A
6646	01/05/11-30/04/13	60%	0.01%	From 12 to 60 starting in 2015 until 30% of advance is reached	Starting on 01/01/14	N/A
7027	01/11/12-31/10/14	50%	0.33%	From 25 to 125 starting in 2015 until 30% of advance is reached	Starting on 01/01/15	N/A

In 2014, the Company will have to make an exploitation decision on one RCA (Agreement n°6548), with a potential recognition of an additional liability of €0.5 million. In 2015, the Company will have to make exploitation decisions on the remaining RCA's (Agreement 5951, 6646 and 7027) with a potential recognition of an additional liability of €1.9 million based on the advances effectively paid out as per 31 December 2013.

3.27 *Commitments*

3.27.1 Mayo Foundation for Medical Education and Research

Based on the terms of the second amendment of the licence agreement dated 18 October 2010, the Company is entitled to;

Directed research grants

For the years 2012-2014, the Company has committed to directed research funding (which aimed at assisting the Company in, e.g. moving towards commercialisation and/or to further develop existing or new product candidates) of $500,000 per year. Any results of this research will automatically fall under the Mayo Licence.

Undirected research grants

The Company will fund research in the Field at Mayo Clinic of $1,000,000 per year for four years beginning in or after 2015, as soon as the Company has had both a first commercial sale of a Licensed Product and a positive cash flow from operations in the previous financial year. The Company will have an exclusive right of first negotiation to acquire an exclusive license to inventions that are the direct result of work carried out under these grants. In case the Company exercises its option to negotiate, but no agreement is reached within a certain period, then Mayo Clinic during the following nine-month period cannot enter into a licence with a third party.

Royalties

The Company will pay a 2% royalty (on net commercial sales by itself or its sub-licensees) to Mayo Clinic, for all of the products that absent the Mayo Licence would infringe a valid claim of a Licensed Patent (each, a "Licensed Product"), during a royalty period (on a Licensed Product-by-Licensed Product basis) beginning on the date of first commercial sale of such Licensed Product and ending on the earlier of: (i) 15 years from first commercial sale; (ii) the date on which such Licensed Product is no longer covered by a valid claim of a Licensed Patent in the territories in which it is sold; (iii) or termination of the Mayo Licence.

3.28 *Related-party transactions*

3.28.1 Remuneration of key management

Key management consists of the members of the Executive Management Team and the entities controlled by any of them.

	As of 31 December	
	2013	**2012**
Number of Management Members	4	3

(€'000)	For the years ended 31 December	
	2013	**2012**
Short term employee benefits[1]		-
Post employee benefits		-
Share-based compensation	218.08	79.21
Other employment costs[2]		-
Management fees	986.72	669.48
Total benefits	**1,204.80**	**748.69**

[1] Include salaries, social security, bonuses, lunch vouchers

[2] Such as company cars

	As of 31 December	
	2013	**2012**
Number of warrants granted	294,500	-
Number of warrants lapsed	60,000	-
Cumulative outstanding warrants	294,725	60,225
Exercised warrants	-	-
Outstanding payables (in '000€)	215.53	54.98
Shares owned	96,768	41,815

3.28.2 **Transactions with non-executive directors**

	For the year ended 31 December	
(€'000)	**2013**	**2012**
Share-based compensation	-	20.25
Management fees	22	-
Total benefits	**22**	**20.25**

	As of 31 December	
	2013	2012
Number of warrants granted	-	-
Number of warrants lapsed	-	-
Number of exercised warrants	-	-
Cumulative outstanding warrants	15,400	15,400
Outstanding payables (in '000€)	26.62	-
Shares owned	485,278	79,884

3.28.3 **Transactions with shareholders**

	For the years ended 31 December	
(€'000)	**2013**	**2012**
Rent	248.86	195.26
Patent costs[(1)]	123.33	603.28
Scientific collaboration	-	385.59
Other		-
Total	**372.19**	**1,184.13**

[1] Relate to Mayo Licence maintenance and patent attorney fees

	As of 31 December	
(€'000)	**2013**	**2012**
Outstanding payables	**115.15**	**158.29**

3.29 *Events after the balance sheet date*

During the month of January 2014, some members of the Executive Management Team and some former employees of the Company exercised in total of 126,299 warrants resulting in the issuance of 126,299 new shares. The capital increase of the Company was therefore increased by an amount of €683,749.56, corresponding to the exercise price of the 126,299 warrants.

4 STATUTORY ACCOUNTS AS OF 31 DECEMBER 2013 AND 2012 ACCORDING TO BELGIAN GAAP

This section contains selected financial information, consisting of the balance sheet, income statement and certain notes, as derived from the statutory financial statements of Cardio3BioSciences SA as of and for the year ended 31 December 2013 (including comparative information as of and for the year ended 31 December 2012). These financial statements were prepared in accordance with the applicable accounting framework in Belgium and with the legal and regulatory requirements applicable to the financial statements in Belgium and are filed with the National Bank of Belgium. These statutory financial statements were approved by the Shareholders' Meeting on 5 May 2014 and the statutory auditor has issued an unqualified audit opinion with respect to these statutory financial statements. The full set of the statutory financial statements is available on the website of the National Bank of Belgium (*www.nbb.be*).

4.1 *Balance Sheet*

(in €)	2013	2012
ASSETS		
FIXED ASSETS	**19,317,434**	**11,553,849**
II. Intangible fixed assets	**18,934,105**	**11,020,202**
III. Tangible fixed assets	**243,213**	**383,118**
Land and buildings	-	-
Installations machinery and equipment	49,980	37,204
Furniture and vehicles	24,833	14,396
Leasing and similar rights	137,512	320,657
Other fixed assets	30,888	10,861
IV. Financial fixed assets	**140,116**	**150,529**
CURRENT ASSETS	**22,602,456**	**2,192,160**
VI. Stocks and contracts in progress		
Goods purchase for resale	**-**	**-**
VII. Amounts receivable within one year	**421,283**	**442,837**
Trade debtors	149,338	216,790
Others amounts receivable	271,945	226,047
VIII. Investment	**3,000,000**	**-**
IX. Cash at bank and in hand	**19,058,260**	**1,645,026**
X. Deferred charges and accrued income	**122,913**	**104,297**
TOTAL ASSETS	**41,919,890**	**13,746,009**
CAPITAL AND RESERVES	**37,495,075**	**(1,312,432)**
I. Capital	**22,138,008**	**9,974,507**
Issued capital	22,138,008	9,974,507
Uncalled capital (-)	**-**	**-**
II. Share Premium	**33,326,296**	**-**
V. Accumulated profits (losses)	**(17,969,229)**	**(11,286,939)**
PROVISIONS AND DEFERRED TAXES	**-**	**-**
VII.A. Provisions for liabilities and charges	**-**	**-**
CREDITORS	**4,424,815**	**15,058,441**
VIII. Amounts payable after more than one year	**1,042,721**	**12,327,734**
Financial debts	1,042,721	921,387
Credit institutions; leasing and other similar obligations	27,121	108,887
Other financial loans	1,015,600	812,500
Other debts	-	11,406,347
IX. Amounts payable within one year	**3,372,932**	**2,730,496**
Current portion of amounts payable after one year	508,289	247,991
Trade debts	2,169,358	1,770,307
Suppliers	2,169,358	1,770,307
Taxes; remunerations and social security costs	693,990	645,439
Taxes	102,925	56,312
Remunerations and social security costs	591,065	589,127
Other amounts payable	1,295	66,760
X. Accrued charges and deferred income	**9,162**	**211**
TOTAL LIABILITIES	**41,919,890**	**13,746,009**

4.2 *Income statement*

(in €)	2013	2012
Operating income	**10,567,500**	**12,657,941**
Turnover	-	54,000
Capitalization of development costs	8,698,125	9,696,660
Other operating income	1,869,375	2,907,281
Operating charges	**(16,841,449)**	**(14,098,856)**
Direct Material	(1,104,878)	(866,758)
Services and other goods	(10,471,072)	(6,683,332)
Remuneration; social security and pensions	(3,405,679)	(3,713,260)
Depreciation of and other amounts written off formations expenses; intangible and tangible fixed assets (-)	(966,997)	(1,880,992)
Provisions for liabilities and charges (appropriations -; use and write-backs (+)		-
Other operating charges (-)	(862,823)	(954,514)
Operating profit (loss)	**(6,273,949)**	**(1,440,915)**
Financial income	**67,734**	**6,203**
Income from current assets	47,532	3,462
Other financial income	20,202	2,742
Financial charges (-)	**(458,520)**	**(714,992)**
Interest on financial debts	(406,942)	602,464
Other financial charges	(51,578)	112,528
Profit (loss) on ordinary activities before taxes (-)	**(6,664,735)**	**(2,149,703)**
Extraordinary income	**-**	**1**
Other extraordinary income	-	1
Extraordinary charges (-)	**(23)**	**(2,843)**
Other extraordinary charges	(23)	(2,843)
Profit (Loss) for the period before taxes (-)	**(6,664,758)**	**(2,152,546)**
Income taxes (-) (+)	**(17,532)**	**-**
Profit (loss) for the period available for appropriation	**(6,682,290)**	**(2,152,546)**

4.3 *Notes*

Statement of intangibles assets

(in €)	**2013**	**2012**
Acquisition value at the end of the preceding period	21,650,645	11,886,386
Movements during the period		
Acquisitions, included produced fixed assets	8,698,125	9,764,259
Acquisition value at the end of the period	30,348,770	21,650,645
Depreciation and amounts written down at end of the preceding period	10,630,443	9,016,439
Movements during the period		
Recorded	784,222	1,614,004
Depreciation and amounts written down at the end of the period	11,414,665	10,630,443
Net book value at the end of the period	18,934,105	11,020,202

Statement of tangible fixed assets

(in €)	2013	2012
LAND AND BUILDINGS		
Acquisition value at the end of the preceding period	-	-
Movements during the period		
Acquisitions, included produced fixed assets	-	-
Acquisition value at the end of the period	-	-
Depreciation and amounts written down at end of the preceding period	-	-
Movements during the period		
Recorded	-	-
Depreciation and amounts written down at end of the period	-	-
Net book value at the end of the period	-	-
INSTALLATIONS, MACHINERY & EQUIPMENT		
Acquisition value at the end of the preceding period	495,479	460,289
Movements during the period		
Acquisitions, included produced fixed assets	27,249	35,190
Sale, transfer and withdraw	159,714	
Acquisition value at the end of the period	682,442	495,479
Depreciation and amounts written down at end of the preceding period	458,275	449,036
Movements during the period		
Recorded	16,194	9,238
Sale, transfer and withdraw	157,993	
Depreciation and amounts written down at end of the period	632,462	458,275
Net book value at the end of the period	49,980	37,204
FURNITURE AND VEHICLES		
Acquisition value at the end of the preceding period	457,583	452,689

(in €)	2013	2012
Movements during the period		
Acquisitions, included produced fixed assets	22,372	4,894
Sale, transfer and withdraw	321,370	-
Acquisition value at the end of the period	801,325	457,583
Depreciation and amounts written down at end of the preceding period	443,187	425,586
Movements during the period		
Recorded	79,978	17,602
Sale, transfer and withdraw	253,327	
Depreciation and amounts written down at end of the period	776,492	443,187
Net book value at the end of the period	24,833	14,396
LEASING AND OTHER SIMILAR RIGHT		
Acquisition value at the end of the preceding period	868,975	614,420
Movements during the period		
Acquisitions, included produced fixed assets	-	254,555
Sale, transfer and withdraw	(488,083)	
Acquisition value at the end of the period Sale, transfer and withdraw	380,892	868,975
Depreciation and amounts written down at end of the preceding	548,318	310,628
Movements during the period Recorded	113,381	237,690
Sale, transfer and withdraw	(418,319)	
Depreciation and amounts written down at end of the period	243,380	548,318
Net book value at the end of the period	137,512	320,657
Whereof:		
Land and buildings		
Installation, machinery & equipment	137,512	320,657
Furniture and vehicles	-	-
OTHER TANGIBLE ASSETS		
Acquisition value at the end of the preceding period	43,338	43,338
Movements during the period		
Acquisitions, included produced fixed assets	23,249	-
Acquisition value at the end of the period	66,587	43,338
Depreciation and amounts written down at end of the preceding period	32,476	30,018
Movements during the period		
Recorded	3,223	2,458
Movements during the period		
Depreciation and amounts written down at end of the period Recorded	35,699	32,476
Net book value at the end of the	30,888	10,861

Other investments and deposits

(in €)	2013	2012
Other Investments and deposits		
Acquisition value at the end of the preceding period	150,529	182,661
Movements during the period		
Additions	41,852	42,000
Reimbursments (-)	52,265	74,132
Net book value at the end of the period	140,116	150,529

Investment and deferred charges and accrued income assets

(in €)	2013	2012
short-term investment	3,000,000	
More than one year		
Net book value at the end of the period	3,000,000	-

Statement of capital 2013

(in €)	Amounts	Number of shares
Issued capital	2,138,008	
Structure of the capital		
Different categories of shares		
Registered		2,923,311
Dematerialized		3,409,481
	Uncalled capital	Called, but unpaid amount
Unpaid capital		Xxxxxxxxxxxxxx
Uncalled capital		
Capital called, but unpaid	Xxxxxxxxxxxxxx	
Shareholders having yet to pay up in full	Xxxxxxxxxxxxxx	
Authorised unissued capital	21,412,720	

Statement of capital 2012

(in €)	Amounts	Number of shares
Issued capital	9,974,507	
Structure of the capital		
Different categories of shares		
Registered	9,974,507	1,210,518
Bearer		-

Statement of amounts payable

(in €)	2013	2012
Analysis of amounts payable after more than one year		
Current portion of amounts initially payable after more than one year	1,042,721	12,327,734
Amounts payable expiring over five year	-	-
Analysis by current position of amounts initially payable after more than one year		
Leasing charges and similar	79,248	160,491
Other debts (loans)	428,452	87,500
Other debt	589	-
Tax, wage and social amounts payable		
Taxes		
Non expired taxes payable	102,925	56,312
Remuneration and social security		
Other amounts payable related to remuneration and social security	591,065	589,127

Operating results

(in €)	2013	2012
Other operating income		
Subsidies and recoverable cash advance received from the Walloon Region	1,620,405	2,716,627
Operating charges		
Employees recorded in the personnel register		
Total number at the closing date	47	46
Average number of employees calculated in full-time equivalents	43.5	47.5
Number of actual worked hours	72,000	81,522
Personnel costs		
Remuneration and direct social benefits	2,333,991	2,556,837
Employer's social security contributions	761,944	843,409
Employer's premiums for extra statutory insurances		
Other personnel costs (+)/(-)	146,594	149,654
Pensions	163,150	163,360
Provisions for risks and charges		
Addition		
Use of and withdrawal		-
Other operating charges		
Taxes related to operations	2,173	4,514
Other charges	860,649	950,000
Hired temporary staff and persons placed at the enterprise's disposal		
Total number at the closing date	-	-
Average number calculated as full-time equivalents	-	-
Number of actual worked hours	-	-
Charges to the enterprise	-	-

Financial results

(in €)	2013	2012
Interest charges	406,942	602,464
Valuation allowance on current assets	-	-
Other financial charges	51,578	112,528

Income tax

(in €)	2013	2012
Status of deferred taxes		
Accumulated tax losses deductible from future taxable profits	39,833,563	38,284,739

The total amount of value added tax and taxes borne by third parties

(in €)	2013	2012
The total amount of value added tax and taxes borne by third parties		
The total amount of value added tax charged		
To the enterprise (deductible)	2,162,845	1,993,576
By the enterprise	1,295,618	1,448,557
Amounts retained on behalf of third parties		
Payroll withholding taxes	888,419	895,031

Financial relationship with Amount of direct and indirect remunerations and pensions, included in the income statement, as long as this disclosure does not concern exclusively or mainly, the situation of a single identifiable person

(in €)	2013	2012
To directors and managers	382,474	-

Financial relationship with auditors

(in €)	2013	2012
Auditor's fees	44,500	19,000
Fees for exceptional services or special missions executed in the company by people who are linked to		
Other Auditor's missions	134,000	3,500

4.4 *Summary of valuation rules*

Valuation rules are determined by the Board of Directors in accordance with Chapter II of the Royal Decree of 8 October 1976 related to the annual accounts of companies.

Formation expenses are booked as intangible fixed assets and amortised over 5 years. Intangible fixed assets acquired from a third party or acquired through a contribution in kind are recorded at the acquisition value. Intangible fixed assets not acquired from a third party are valued at their cost of production in such a way that they do not exceed a prudent estimation of their future economical use or their future return.

Intangible assets developed internally are capitalized when perspectives of future return are probable and clearly identified. Clinical development expenses are capitalized when authorization to start a phase III trial of the related program is obtained. Development expenses of a medical device are capitalized when the device is CE marked.

These intangible fixed assets are – in principle – amortised prorate temporis over 5 years starting the year of the first revenue generation associated with the related asset. Furniture and fixtures are depreciated over 3, 5 or 10 years depending on the economical life of the assets.

An impairment test is performed each year at year end on all tangible and intangible assets. Exceptional depreciation or amortization expenses may result from such impairment analysis.

Financial fixed assets are booked at acquisition value. A write-off is accounted for when the financial fixed asset is permanently impaired. There is no inventory.

Direct materials purchased are directly expensed taken into account their short lifetime. Amounts receivable are booked as asset at nominal value. Amounts receivable in foreign currencies are converted in EUR at the exchange rate at closing date. Negative exchange differences resulting from the conversion in EUR at the exchange rate at closing date are expensed; positive exchange differences are accounted for as deferred income. Amounts receivable are written-off when their realizable value is estimated to be lower than their carrying value.

Bank deposits are valued at their acquisition value. Cash and cash equivalent are valued at nominal value. When the nominal value includes interests, these latter are accounted for through the balance sheet caption “deferred charges and accrued income”. A write-off is accounted for when their realizable value is estimated to be lower than their carrying value. Amount payables are booked at nominal value. Amount payables in foreign currencies are converted in EUR at the exchange rate at closing date. Negative exchange differences resulting from the conversion in EUR at the exchange rate at closing date are expensed; positive exchange differences are accounted for as deferred income.

Recoverable cash advances contracted with the Region are booked as off balance sheet when Company notifies the Region of its decision to exploit the outcome of the research and development program partially financed by the Region. A debt will be recognized the first year of revenue recognition for an amount equivalent to the funding received from the Region. Classification between long term and short term is determined based on perspectives of revenue generation and reviewed on a yearly basis.

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