

NEW VENTURETEC

Annual Report 2016



New Ventruetec is an investment company investing in venture portfolio companies which are in their early development stage, with no history of revenues, earnings or significant operations, and are subject to all of the risks inherent in the venture business. No investment in New Venturetec shares should be made by any person who is not in a position to bear the economic risk including the possibility of the loss of the entire amount of such investment. **The risk is 100%.**

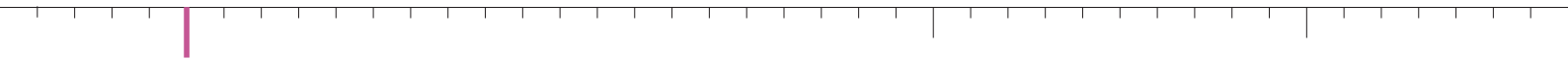
Any forward looking statements or projections made by the Company or its portfolio companies, including those made in this report, are based on management's expectations at the time they are made, and are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Specifically, discussions of possible future growth and development in revenue and customers are forward looking in nature, and actual results could differ materially from current expectations. Each of the portfolio companies' future results may be impacted by factors such as technological changes, market acceptance of the companies' services and products, ability to grow its customer base, and competitive market pressures, among other things.

The shares of New Venturetec are listed on the SIX Swiss Exchange. The price per share is based on supply and demand on the market. Further, the trading of New Venturetec shares may be rather illiquid. New Venturetec does not make a market in its shares and the Company has no agreement with any market maker. No assurance can be

given that any operational development of the Company or its portfolio is not affecting the price of the New Venturetec shares on the market.

Some of the investees may be in a development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. Companies which are in the need of cash often face unfavourable financing terms to existing shareholders – in our case New Venturetec – which basically means heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place for which no assurance can be given that this may occur. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total un-recoverability of an investment. The financial risk management objectives and policy of New Venturetec are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. Furthermore, the Company does not hedge any foreign currencies or interest rate risk exposure.

New Venturetec Shareholders should be aware of the risks which could result in a loss of 100% of the investment. This is a real possibility. Any investor should only invest in New Venturetec if he can afford the complete loss of the investment without having to change his lifestyle.



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Dear Shareholder

Please find herewith the Annual Report 2016 of New Venturetec.

The results for the year ended September 30, 2016 show a loss of USD 60,649,374. The loss resulted mainly from the decrease of the traded share price of Osiris Therapeutics from USD 18.47 per share to USD 4.96 per share in the reporting period or -73.2% and the decrease of the traded share price of Myriad Genetics from USD 37.48 to USD 20.58 or -45.1%. Further, the Company had to write off the investment in Prolexys of USD 500,000 book value in the reporting period. The stock price of New Venturetec decreased by 71.2% from CHF 6.99 to CHF 2.01. The net asset value decreased by 92.7% in USD and 92.8% in CHF.

The enclosed consolidated financial statements are presented according to IFRS (International Financial Reporting Standards). The net asset value per share as of September 30, 2016 is USD 0.94 compared to USD 12.94 a year ago, which is a decrease of 92.7%; in CHF 0.91 respectively CHF 12.59 or an decrease of 92.8%.

The Group's net loss for the year is USD 60,649,374 compared to a gain of USD 15,105,549 a year ago or a loss of USD 12.09 per share compared to a gain of USD 3.00 per share in 2015. The average exchange rate CHF/USD for 2015/16 was 0.9826 compared to 0.9555 in 2014/15.

The reporting period has been unfortunately very difficult. Not the business as such but a financial restatement which was announced by Osiris led to the sharp decline in the stock price. Management is working hard to get the problems resolved and be current with the financial reporting again.

Myriad Genetics announced a slower than expected growth in the current fiscal year which had a negative impact on the stock price.

We are very sorry for this unpleasant situation. We continue to believe in the company's success.

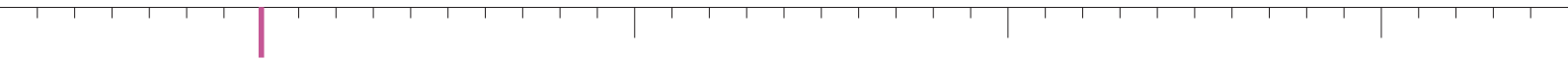
New Venturetec remains a risky investment with a high degree of a total loss. We continue to work hard and build value. We remain committed.

Thank you for your patience and your continuous support.

Sincerely yours,



Peter Friedli



Company

New Venturetec is an investment company incorporated in Zurich on August 8, 1997. The Company holds participations in venture companies in the areas of biotechnology and technology predominantly domiciled in the United States.

New Venturetec's business objective is to obtain capital appreciation from well-selected companies that are at the forefront of the technology and products in their field.

Investment approach

The investment targets are carefully selected after in-depth analysis of people, technology and markets of potentially high quality companies in fields being viewed as of special interest. Major attention is given to the management, its capability and commitment. Influence on key management decisions as well as on strategic planning is executed. Milestones are being set and management is being reviewed. Monitoring and control procedures as well as providing up-to date reports on company progress and financial situation are an integral part of the investment management.

Venture Capital

Venture capital investing is the process of building a business from scratch. The venture capital investments are made through different forms of securities ranging from common stock to preferred shares and convertible debt.

Venture capital can be private or public depending on the stage of the company. The company naturally evolves from its inception through generating profits if successful. Several rounds of financing at different prices are conducted in most cases.

The proceeds of such financings are used for working capital to build the business as such companies still generate losses. A company is out of the venture stage if for six to eight consecutive quarters a substantial revenue and profit increase is achieved and the outlook for the coming years ahead is for sustainable growth. At this stage the company can be private or public.

The characteristics of a venture capital investment are typically 100% risk which may result in a complete loss of the investment, lack of a market for the securities and long-term investment horizon. Venture capital offers the possibility to participate in the formation and growth of companies.

To understand risks does not prevent anyone from making losses as the human decision making process cannot be replaced.

I Information summary

Company	New Venturetec Ltd.
Domicile	Steinhausen
Type of securities	Bearer Shares
Outstanding shares	5,000,000 Shares
Initial public offering	October 17, 1997
Dividend	The Company does not intend to pay out any dividends, but rather reinvests any realized cash from disinvestments
Management fee	1.0% p.a. payable on the quarterly net asset value
Board of Directors	Peter Friedli, Chairman Hans Lerch, Vice Chairman Andreas von Sprecher, Member and Secretary
Investment Advisor	Madison Investment Advisor, Inc.
Auditors	KPMG AG, Zurich
Listing	SIX Swiss Exchange (Segment Investment Companies)
Security number	703 683
Price information (ticker)	Telekurs (NEV), Reuters (NEV.S), Bloomberg (NWV SW Equity)
Reporting	Annual report, semi-annual report, permanent information available on Internet

The risk of venture capital investments is 100%

As briefly outlined earlier, New Venturetec offers the opportunity for capital gains. However, no assurance can be given that such returns can be realized. The risk of venture capital investments is 100%. In order for the Company to be successful in investing in start-up and emerging companies, it must identify potentially profitable enterprises at an early stage in their development, a process which is very difficult even for people with considerable experience in the venture capital field. Furthermore, the Company is competing for investment opportunities with a number of other venture capital firms. The Company may also invest in businesses which are not start-up or emerging companies, but which are for various reasons seeking to raise additional capital without making a public offering of securities. These reasons can include adverse conditions in the public securities markets, or a record of earnings and/or growth, which is less than adequate for a successful public offering of securities.

Lack of liquidity of investments

Investments will usually consist of securities that are subject to restrictions on resale as they are acquired from companies in private placement transactions. Neither the Company nor any investors, to whom the Company distributes restricted securities, will be able to sell such restricted securities to the public unless the sale is registered under applicable Federal and State securities laws, or unless an exemption from such registration is available. In connection with any particular portfolio investment, the Company may negotiate for rights to require registration under the Act. No assurance can be given, however, that the Company will be successful in such negotiations or that registration will provide adequate means of liquidating such investment.

Management, technological risks

The quality of the management of venture companies included in the portfolio of the Company is crucial for the success of the investments of the Company. Although the Company will use its expertise and experience in assessing the quality of the management, the Company has to fully rely on the management of the companies contained in the Company's investment portfolio.

Furthermore, no assurance can be given that the management will be successful in handling the technological risks, which are inherent in projects of startup companies. Research might not lead to satisfactory results and technological improvements or changes by competitors might endanger the successful launch of a product or service.

Currency risks

The accounts of the Company's subsidiary are maintained in US Dollars and the Net Asset Value per share is also published in US Dollars. The Company's investments are usually made in US Dollars. Any investment in other currencies than the US Dollar might lead to positive or negative impacts on the Company's performance in its annual financial statements, including its income statement. The Company's consolidated financial statements are presented in US Dollar. The fluctuation of foreign currencies could substantially impact the Net Asset Value per share.

Since the Company's shares are listed in Swiss francs, fluctuation in exchange rates between the Swiss franc and the US Dollar could also materially impact the price of the Company's shares. Nevertheless, the Company does not hedge against these currency risks.

Political, regulatory risks

The value of the Company's assets may be affected by uncertainties such as international political developments, transfer risks, changes in government policies, taxation, restriction on foreign investment and other developments in the laws and regulations of the countries in which the Company's assets are invested. This is especially the case in the biotechnology and communications sectors, where successful launches of products are dependent on government approval (such as FDA for biotechnology and FCC for telecommunications firms).

Market risks

The markets and individual investment vehicles in which the Company will primarily invest may prove to be highly volatile from time to time as a result of market specific risk. This may be, for example, due to a sudden change in underlying economic factors as well as changes in government policies on taxation or changes in legislation relating to the level of foreign ownership in companies.

The company's share price

Considerable price fluctuations in the shares may arise due to the general position of the investment sector, the economy as a whole and the financial markets. Such price fluctuations could have a positive and negative effect on the share price regardless of the Company's financial condition and results of operations.

Patent risks and proprietary rights

The success of the investments will depend largely on the ability to obtain patents on products to protect trade secrets and to operate without infringing the proprietary rights of others.

Legal standards regarding the scope of claims and the validity of patents, e.g. in the biotechnology market, are uncertain and evolving. There can be no assurance that the underlying firms' patents will provide them with significant competitive advantages, or that challenges will not be instituted against the validity or enforceability of any patent owned by the firms. The cost of litigation to uphold the validity and prevent infringement of a patent is substantial.

Financial reporting

The accounting, auditing, financial and disclosure requirements and reporting standards of the Company, on a consolidated basis, are those defined in the International Financial Reporting Standards of the International Accounting Standards Board. The net asset value is based on estimates of the Company. Investors should recognize that the biweekly calculation is based on indicative values and may therefore contain only limited information on the real value of the net assets of the Company. The difficulties involved in calculating the net asset value are discussed further on page 20 and note 9.1 on page 52.

Investment advisor

The Company is advised by Madison Investment Advisory, Inc., owned by Peter Friedli. The Company uses the ability of the investment advisor to evaluate investment opportunities and to further develop the Company's investments. The investment advisor advises the Board on all investment decisions for the Company as well as the net asset value computation. The Board of Directors is responsible for ensuring the Investment Policy set by the Company are strictly followed. It should be realized that Peter Friedli is the key person for both the investment advisor and the Board of Directors and that between him and the Company conflicts of interests may arise.

Liquidity risk

New Venturetec operates on tight liquidity and has to generate cash to cover its operational costs and interest. Further, the Group has liabilities outstanding in the amount of USD 24,232,072 as per September 30, 2016. New Venturetec does not have any operational income and consequently the only way to generate liquidity is through the sale of assets or funding through additional debt or equity. Please see note 16.3 on page 65 for further information the liquidity risk.

Liquidity of Venturetec's investment in Osiris Therapeutics

Venturetec, Inc. directly owns 4,103,301 shares of Osiris Therapeutics, which represents 12.2% of the outstanding shares of Osiris Therapeutics. Based on this ownership, Venturetec is a reporting person in respect of Osiris Therapeutics and is subject to reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Venturetec has reported its transactions and holdings of Osiris Therapeutics with the United States Securities and Exchange Commission (SEC) through the filing of Forms 3 and 4, consistently since first becoming a reporting person following the IPO of Osiris Therapeutics.

The sale by Venturetec of shares of Osiris Therapeutics common stock requires either registration under the Securities Act of 1933, as amended (the "Securities Act"), or that the sale be exempt from registration. Rule 144 under the Securities Act provides a safe harbor from registration for sales by a person other than an issuer, underwriter or dealer. Compliance with Rule 144 requires compliance with various restrictions set forth in the rule, including limitations on the number of shares sold in a given period and the manner in which sales may be completed. For sales by an affiliate of an issuer, which Venturetec is presumed to be, Rule 144 provides that the volume of securities sold during any preceding three-month period may not exceed the greatest of the following limitations:

1. 1% of the stock outstanding, which for Osiris Therapeutics would be 345,886 shares.
2. The average weekly reported volume of trading reported on all national securities exchanges during the preceding four weeks ending September 30, 2016, which for Osiris Therapeutics is currently 323,475.
3. The average weekly volume of trading of the securities reported through the consolidated transaction reporting system, which for the week ended September 30, 2016, was 351,500 shares.

Accordingly, for sales of Osiris Therapeutics common stock, the so called "volume limitation" under Rule 144 for an affiliate is currently 351,500 shares available to be sold during the next three months.

Rule 144 also requires, in the case of affiliate sales, that a Form 144 be filed with the SEC in advance of the sale. The sale must then take place within 90 days after the filing of the Form 144. If and when a sale transaction occurs, the sale must be reported to the SEC by the filing of a Form 4, within two days.

In addition, as a greater than 10% Shareholder, Venturetec is further limited as to when it can engage in purchasing or selling shares of Osiris Therapeutics. Venturetec is subject to Osiris' Trading Window and must clear all purchase and/or sales transactions in the Company's common stock with either the President & CEO or the Chief Financial Officer. Osiris' Trading Window usually closes 15-days prior to the end of each fiscal quarter and then reopens on the third Trading Day after the financial results for the quarter are published, which typically is 35–45 days after the fiscal quarter end. The Trading Window may also close during other times at the discretion of the Company.

Risks of Osiris Therapeutics

Extracts from Osiris Therapeutics 10k Reporting 2014 regarding specific risk factors of the company shall be studied on Annex I on page 76.

Investment objectives

The objective of New Venturetec is to achieve long-term capital appreciation through equity and debt investments in start-up, emerging and growth companies which the Company believes offer significant growth opportunities. We identify successful and promising companies and then actively work with management over a ten year time horizon or more.

The investment decisions will be based upon (i) New Venturetec's ability to identify companies which can successfully utilize capital at an early stage in their life cycle, (ii) carefully selected or assessed management teams, (iii) strategic advice for positioning such companies in high growth markets (iv) an influence on the portfolio companies.

Investments

Investments will typically be structured in negotiated transactions directly with the portfolio company. The securities acquired will primarily consist of common and preferred stock or convertibles, a combination of equity and debt securities and warrants, secured and unsecured debentures, options and other rights to acquire such securities. Since some of the investments may be in private firms or restricted securities of publicly traded enterprises, the resale or disposition of such investments will generally be restricted for a period of time. Following its initial investments, the Company anticipates that it may provide additional or "follow-on" funds to portfolio companies. Follow-on investments may be made pursuant to the rights to acquire additional securities, or in order to increase the Company's position in a successful or promising entity. The Company may also be called upon to provide follow-on investments for reasons such as the provision of additional capital to enable a portfolio company to fully implement its business plan, to develop a new line of business or to recover from unexpected business problems.

Investment process

Any investment decision will be made by the Board of Directors after careful evaluation of the situation. Using the expertise of the investment advisor, New Venturetec will diversify its investments in several ways that may, but need not include diversification among different industries of interest.

The investments will be acquired in transactions usually negotiated directly by the Company with the portfolio company or an affiliate thereof. New Venturetec will seek to structure the terms of the investment in order to provide for the capital needs and success of the portfolio company, while at the same time maximizing the Company's opportunity of long-term capital appreciation and minimizing adverse risks. An important factor in successful investing is the proper structuring of the transaction in terms of the type of security, restrictions on the use of funds, commitments or rights to provide additional financing, control and involvement in such a company's business and disinvestment strategy. A further aspect is the proper valuation of the potential portfolio companies, and thus, the pricing of the transaction.

It is the goal of New Venturetec to create value through in-depth analysis of companies and active management. We screen many companies and select those with the best combination of all business factors. This process can take up to several months. During that period we also learn about the management which is the major focus for any investment decision. Investments are understood to be foremost an investment in people. Understanding the industry and the markets coupled with personal commitment, integrity and hard work is a must.

We invest into comprehensive technology and markets. In most cases, the products are at the leading edge as well as unique and provide a clear advantage to the customer. The markets are thoroughly analyzed and need to be considered real and growing, but by no means too futuristic. There must be a defined need and obvious payback for the targeted customers. Competition is viewed as healthy and inspiring. The portfolio companies seek patent applications and protection of intellectual property to secure a leading position.

Most important for the success of a portfolio company is the quality of the management and their entrepreneurial spirit. Therefore, our main focus in considering an investment is management. We weight management with 80% of the investment factors. We invest in people and the future of such a business. To evaluate people is a time-consuming and demanding process. The qualities of a CEO depend on the specific situation but in essence consist of key factors that are applicable at all times.

Active involvement

We believe an investor must add value. As a result of our experience and focus, we are qualified to add value to companies. We believe no substitute exists for spending time with our portfolio companies in order to understand the key issues facing management. Our mission is to add valuable assistance so that each company succeeds. We work to assist management in implementing its agenda and view ourselves as a resource that is available to the entire senior management team.

We believe that companies often grow faster than people. Cost control is an important factor to assure that the invested capital is treated wisely in the process of creating value. We believe in efficiency and the proper use and allocation of all resources, be it financial, human or time. New Venturetec takes up the challenges on a detailed basis and creates a culture of commitment while striving for success. The process and dynamics of building value must be understood and acted upon accordingly. Not every company will make it. There is a natural fall-out in the growth process due to false market assumptions, technology changes and miscalculations. Such fallout may occur due to human mistakes and mismanagement. An idea alone does not make a viable business, and a technology is not a market. The process of investment due-diligence and close monitoring is key. We are committed to consequently apply these guidelines. Our approach is entirely entrepreneurial.

Long-term investment perspective

An important distinguishing element is our long-term investment perspective. New Venturetec only makes investments where we believe that we can help the entrepreneur build a market leader over a five to ten year investment horizon. We invest with a view towards maintaining our equity positions for a significant period of time following an initial public offering. In addition, we may remain active board members for many years after a company has gone public.

We are not structured to focus on short-term liquidity. The structure of New Venturetec as an investment company permits us to pursue long-term investment strategies in building value and realizing returns. Our investments and economic incentives are structured with a long-term view and our assistance to management is always provided with long-term corporate objectives in mind. This long-term commitment provides the foundation for success and plays a key role in our ability to build lasting relationship with management and shareholders.

Investment guidelines

Investment objective

The objective of Venturetec, Inc. is to achieve long-term capital appreciation through investments in venture companies which the Company believes offer significant growth opportunities.

Investment policy

The Company invests in venture companies only. **The risks of venture capital investments are 100% (see also risks).**

Geographic area

The Company's investments are predominately in the United States of America. Exceptional investments may be domiciled in Europe.

Industry focus

The Company invests in companies in the areas of biotechnology and technology.

Investment strategy

The Company invests in venture companies in all stages from seed to late stage. Investments are made mainly in private but also in public companies and in all classes of securities, including common and preferred equity, secured and unsecured debt, convertibles, options, warrants and combinations thereof. The investment horizon may be up to 20 years.

Investment allocation

The purpose to invest is to build companies over a long period of time. This might result in a portfolio with only a few investments, rather than many smaller positions. It therefore might enhance the risk of a portfolio which concentrates in a small number of investments.

Leverage

The Company may borrow capital to pursue the investment objectives.

Hedging

The Company does not hedge any positions, investments, currencies, interests and the like. The Company does not do short selling, use of derivative instruments for the purpose of securing its investments or security lending or borrowing.

Currency

Investments are mainly done in US Dollars. The Company is not following any defined currency ratios.

Disinvestments

Positions held by the Company are mostly illiquid or there are legal or market driven limitations for sale or transfer of the securities, such as low liquidity in the public market, large positions, board representations, insider regulations, lock-up's and contractual sales limitations. The Company acts in the best interest of the shareholders to structure and execute disinvestments together with other shareholders and the management of the portfolio companies.

Carry of responsibilities

The Board of Directors of the Company is responsible and has to decide on all investments and disinvestments of the Company. Madison Investment Advisory, is the investment advisor for the Board and advises the Board among others on investment selection and allocation, investment management and process, structuring of investments, monitoring and the disinvestments of investments. Peter Friedli, the Chairman of the Company is the owner of Madison Investment Advisory. There may be a conflict of interest due to the fact that the investment advisor is involved with other investment companies and represents other investors. The investment advisor or Peter Friedli may represent the Company and other investors on the board of directors of the portfolio companies. As a member of the board he will represent all shareholders of each company. The investment advisor may also supply investment banking services to the portfolio companies and may be compensated for such services. Such remuneration is explicitly authorized. Peter Friedli may also invest personally in Portfolio Companies.

Risk

Some of the investees may be in the development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding which may result in a dilution for holdings of the Company. These investments are offer the opportunity of significant capital gains, but involve a high degree of business and financial risk, **that can result in a 100% loss of the investment.** The Company may be limited or restricted to make disinvestments or sell or transfer any positions at any specific time and thereof risks to lose momentum or favorable market conditions.

Change of Investment Guidelines

The Company's investment guidelines may be changed by the Board of Directors of the Company at any time in whole or in part subject to terms and conditions of agreements and contracts.

Disclaimer and risk factors

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, companies listed below caution investors that any forward looking statements or projections made by the company, including those that may be made in this report, are based on management's expectations at the time they are made, and are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Specifically, discussions of possible future growth and development in revenue and customers are forward looking in nature, and actual results could differ materially from current expectations. Each of the below listed companies' future results may be impacted by factors such as technological changes, market acceptance of the company's services, ability to grow its customer base, competitive market pressures and general economic environment, among other things. Each of the below listed companies' future results are also subject to other risk factors, including those detailed from time to time in the company's reports. Despite making these forward-looking statements, companies undertake no obligation or intention to update these statements after the date of this report.

Some of the investees may be in a development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. Companies which are in the need of cash often face unfavourable financing terms to existing shareholders – in our case New Venturetec – which basically means heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place for which no assurance can be given that this may occur. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total un-recoverability of an investment. The financial risk management objectives and policy of New Venturetec are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. Furthermore, the Company does not hedge any foreign currencies or interest rate risk exposure.

New Venturetec Shareholders should be aware of the risks which could result in a loss of 100% of the investment. This is a real possibility.

Osiris Therapeutics (NASDAQ:OSIR)

www.osiris.com

New Venturetec cost	USD 24.2 million
New Venturetec holding of Osiris Therapeutics	12.2%
Valuation as of September 30, 2016	USD 20.4 million
% of total investments as of September 30, 2016	83%

Osiris is currently in the process to restate its financial information for 2014. Due to this upcoming restatement, Osiris Therapeutics did not issue any current financials or any information on its current performance.

Please see Appendix I on page 76 for information on the risk of Osiris Therapeutics.

Myriad Genetics (NASDAQ:MYGN)

www.myriad.com

New Venturetec cost	USD 5.9 million
New Venturetec holding of Myriad Genetics	0.2%
Valuation as of Sept. 30, 2016	USD 4.1 million
% of total investments as of September 30, 2016	17%

The following text is an extract from the Myriad Genetics, Inc. annual report 2016 (Form 10k). The terms "Myriad," "we," "us," and "our" means Myriad Genetics, Inc.

Myriad Genetics is one of the largest specialty molecular diagnostic laboratories in the world and since our founding in 1992, have tested over 2.0 million patients. We are headquartered in Salt Lake City, Utah and generated worldwide revenues of approximately \$754 million during our fiscal year ended June 30, 2016. We are a leading personalized medicine company dedicated to being a trusted advisor transforming patient lives through pioneering molecular diagnostics. Through our proprietary technologies, we believe we are positioned to identify important disease genes, the proteins they produce, and the biological pathways in which they are involved to better understand the genetic basis of human disease and the role that genes and their related proteins may play in the disease process. We believe that identifying biomarkers (DNA, RNA and proteins) will enable us to develop novel molecular diagnostic tests that can provide important information to solve unmet medical needs.

Our goal is to provide physicians with critical information to guide the healthcare management of their patients by addressing four major questions a patient may have about their healthcare:

- What is the likelihood of my getting a disease?
- Do I have a disease?
- How aggressively should my disease be treated?
- Which therapy will work best to treat my disease?

Over time, we have developed and plan to develop additional products that answer these important questions in six medical specialties: oncology, preventive care, urology, dermatology, autoimmune and neuroscience. We believe that these product channels represent markets where there is a significant opportunity for high-value molecular diagnostic tests to positively impact patient care and drive value for the healthcare system.

Our strategy is focused on executing the following three strategic imperatives:

1. *Transition and expand the hereditary cancer market:* In fiscal year 2016, approximately 84 percent of our revenue was derived from the sale of products to assess a patient's risk for hereditary cancer. Given that this is our most important market and that we are the worldwide leader in hereditary cancer testing, we are focused on transitioning this market from single-syndrome testing to a more sensitive panel approach. Additionally, we are continuing to expand market penetration as well as grow the number of patients eligible for testing. In the United States, we are currently conducting multiple clinical studies focused on expanding the addressable patient populations who qualify for hereditary cancer testing. Upon completion of these studies, we plan to work with professional guideline organizations to expand access to our hereditary cancer testing products.
2. *Launch new products across a diverse set of disease indications:* We plan to continue to use our proprietary DNA sequencing, RNA expression and protein analysis technologies, including our supporting bioinformatics and robotic technologies, in an effort to efficiently discover important genes and their proteins and to understand their role in human disease. Based on these biomarkers, we plan to develop highly accurate, informative tests that may help physicians better manage their patients' healthcare. We believe that our technologies provide us with a significant competitive advantage and the potential for numerous product opportunities. Our goal is to commercialize informative molecular diagnostic tests that can save lives and improve the quality of life of patients. In addition to the commercially marketed products mentioned below in our molecular diagnostic testing segment we have a pipeline of additional publicly announced tests. We believe the global market for all of our commercial and pipeline products exceeds \$25 billion annually.
3. *Expand our molecular diagnostic business internationally:* We believe that the market for our molecular diagnostic products in Europe, Latin America and Asia represents an attractive commercial opportunity. We have established sales offices in Germany, France, United Kingdom, Spain, Switzerland, Italy, Australia and Canada; laboratory operations in Germany; and international headquarters in Switzerland. We believe that our portfolio of products would benefit patients worldwide by assisting physicians in guiding their health care decisions.

Molecular Diagnostic Testing

Our molecular diagnostic tests are designed to analyze genes, their expression levels and corresponding proteins to assess an individual's risk for developing disease later in life, accurately diagnose disease, determine a patient's likelihood of responding to a particular drug, or assess a patient's risk of disease progression and disease recurrence. Provided with this valuable information, physicians may more effectively manage their patient's healthcare to prevent or delay the onset of disease and help ensure that patients receive the most appropriate treatment for their disease. Below are the descriptions of our primary molecular diagnostic tests:

myRisk™ Hereditary Cancer

DNA sequencing test for assessing the risks for hereditary cancers. Our myRisk Hereditary Cancer test represents the next generation of our existing hereditary cancer testing franchise which we anticipate will eventually replace our current predictive medicine test offerings (BRAC Analysis, BART, Colaris and Colaris AP and Melaris) with a single comprehensive test. myRisk Hereditary Cancer is designed to determine a patient's hereditary cancer risk for breast cancer, ovarian cancer, colon cancer, uterine cancer, melanoma, pancreatic cancer, prostate cancer and gastric cancer. The test analyzes 25 separate genes to look for deleterious mutations that would put a patient at a substantially higher risk than the general population for developing one or more of the above cancers. All 25 genes in the panel are well documented in clinical literature for the role they play in hereditary cancer and have been shown to have actionable clinical interventions for the patient to lower disease risk or risk of cancer recurrence. The myRisk report presents the myRisk Genetic Test Result and myRisk Management Tool that summarizes published management guidelines related to the patient's genetic mutation as well as their personal and family history of cancer. myRisk Hereditary Cancer testing identifies more mutation carriers than BRAC Analysis and COLARIS combined. We believe the global market for myRisk Hereditary Cancer and all of our hereditary cancer tests is approximately \$5 billion annually. myRisk Hereditary Cancer was initially released through an early access launch that began in September 2013.

BRACAnalysis

DNA sequencing test for assessing the risk of developing breast and ovarian cancer. Our BRAC Analysis test is an analysis of the BRCA1 and BRCA2 genes for assessing a woman's risk of developing hereditary breast and ovarian

cancer. A woman who tests positive for a deleterious mutation with the BRAC Analysis test has up to an 87% risk of developing breast cancer and up to a 44% risk of developing ovarian cancer by age 70. As published in the Journal of the National Cancer Institute, researchers have shown that pre-symptomatic individuals who have a high risk of developing breast or ovarian cancer can reduce their risk by more than 50% with appropriate preventive therapies. Additionally, BRAC Analysis may be used to assist patients already diagnosed with breast or ovarian cancer and their physicians in determining the most appropriate therapeutic interventions to address their disease.

According to the American Cancer Society, in 2016 there will be approximately 271,000 women in the United States diagnosed with breast cancer or ovarian cancer.

BART

DNA sequencing test for hereditary breast and ovarian cancer. Our BART test is based on proprietary technology for detecting large genomic rearrangements in the genes involved in hereditary breast and ovarian cancer patients. As published in the journal Cancer, researchers have shown that up to 10% of hereditary breast and ovarian cancer susceptibility is due to large rearrangement mutations that can't be detected using conventional sequencing technology.

BRACAnalysis CDx

DNA sequencing test for use as a companion diagnostic with the PARP inhibitor Lynparza (olaparib) currently indicated for use in identifying ovarian cancer patients with deleterious or suspected deleterious germline BRCA variants eligible for treatment with Lynparza. Approximately 15% of patients with epithelial ovarian cancer are BRCA positive.

Tumor BRACAnalysis CDx

DNA sequencing test designed to be utilized to predict response to DNA damaging agents such as platinum based chemotherapy agents and poly ADP ribose (PARP) inhibitors. Tumor BRACAnalysis CDx looks at both germline and somatic mutations in the BRCA1 and BRCA2 genes giving a more complete picture of potential loss of DNA repair ability within the tumor. Approximately 22% of epithelial ovarian cancer patients will test positive for Tumor BRACAnalysis CDx. Currently the test is only offered through our European laboratory in Munich Germany.

COLARIS

DNA sequencing test for assessing the risk of colorectal and uterine cancer. Our COLARIS test is an analysis of the

MLH1, MSH2, MSH6, PMS2, EPCAM and MYH genes for assessing a person's risk of developing colorectal and uterine cancer. Individuals who carry a deleterious mutation in one of the colon cancer genes in the COLARIS test have a greater than 80% lifetime risk of developing colon cancer and women have up to a 71% lifetime chance of developing uterine cancer. Colon cancer is a preventable disease if high-risk individuals diligently have colonoscopies and remove any precancerous polyps. According to the American Cancer Society, approximately 207,000 new cases of colorectal cancer or uterine cancer will be diagnosed in the United States in 2016.

COLARIS AP

DNA sequencing test for assessing the risk of colorectal cancer. Our COLARIS AP test detects mutations in the APC and MYH genes, which cause a colon polyp-forming syndrome such as familial adenomatous polyposis (FAP), a more common variation of the syndrome known as attenuated FAP, and the MYH-associated polyposis signature (MAP). Individuals who carry a deleterious mutation in the APC or MYH gene may have a greater than 90% lifetime risk of developing colon cancer. Effective preventive measures include colonoscopy and the removal of precancerous polyps and prophylactic surgery.

Vectra DA

Protein detection test for assessing the disease activity of rheumatoid arthritis. Our Vectra DA test is a quantitative, objective multi-biomarker blood test validated to measure rheumatoid arthritis (RA) disease activity. Vectra DA assesses multiple mechanisms and pathways associated with RA disease activity and integrates the concentrations of 12 serum proteins into a single score reported on a scale of 1 to 100. The test may be used throughout the course of a patient's disease and provides clinicians with expanded insight on disease severity and the risk of radiographic progression. According to the Arthritis Foundation, there are over 1.5 million Americans with rheumatoid arthritis. We believe the global market for Vectra DA is approximately \$3 billion annually.

Prolaris

RNA expression test for assessing the aggressiveness of prostate cancer. Our Prolaris test is a gene expression assay that assesses whether a patient is likely to have a slow growing, indolent form of prostate cancer that can be safely monitored through active surveillance, or a more aggressive form of the disease that would warrant aggressive interven-

tion such as a radical prostatectomy or radiation therapy. The Prolaris test was developed to improve physicians' ability to predict disease outcome and to thereby optimize patient treatment. According to the American Cancer Society, in the United States approximately 181,000 men are expected to be diagnosed with prostate cancer in 2016. We believe the global market for Prolaris is approximately \$1.5 billion annually.

EndoPredict

RNA expression test for assessing the aggressiveness of breast cancer. The EndoPredict test is a next-generation RNA expression test used to determine which women with breast cancer would benefit from chemotherapy. EndoPredict predicts the likelihood of metastases to help guide treatment decisions for chemotherapy and extended anti-hormonal therapy. EndoPredict has been shown to accurately predict cancer-specific disease progression and metastases with no confusing intermediate results in 13 published clinical studies with more than 2,200 patients and is CE marked. We believe the global market opportunity for EndoPredict is greater than \$600 million with the majority of that market existing in major European countries, Canada, and the United States.

myPath Melanoma

RNA expression test for diagnosing melanoma. Our myPath Melanoma test is a gene expression based profile that is performed on biopsy tissue for the purpose of aiding a dermatopathologist in the diagnosis of melanoma. Every year in the United States, there are approximately two million skin biopsies performed specifically for the diagnosis of melanoma. Approximately 14% of these biopsies are classified as indeterminate where a dermatopathologist cannot make a definitive call as to whether the biopsy is benign or malignant. Outcomes for patients are poor if melanoma is not caught in early stages with five year survival rates dropping from 98% for localized to less than 20% for distant stage disease cancer based upon data from the American Cancer Society. We believe myPath Melanoma may provide an accurate tool to assist physicians in correctly diagnosing indeterminate skin lesions. We believe the global market for myPath Melanoma is approximately \$1 billion annually. myPath Melanoma was released through an early access launch that began in November 2013.

myChoice HRD

Companion diagnostic to measure three modes of homologous recombination deficiency (HRD) including loss of

heterozygosity, telomeric allelic imbalance and large-scale state transitions in cancer cells. Our myChoice HRD test is the most comprehensive homologous recombination deficiency test to detect when a tumor has lost the ability to repair double-stranded DNA breaks, resulting in increased susceptibility to DNA-damaging drugs such as platinum drugs or PARP inhibitors. The myChoice HRD score is a composite of three proprietary technologies: loss of heterozygosity, telomeric allelic imbalance and large-scale state transitions. Positive myChoice HRD scores, reflective of DNA repair deficiencies, are prevalent in all breast cancer subtypes, ovarian and most other major cancers. In previously published data, Myriad showed that the myChoice HRD test predicted drug response to platinum therapy in certain patients with triple-negative breast and ovarian cancers. It is estimated that 1.4 million people in the United States and Europe who are diagnosed with cancers annually may be candidates for treatment with DNA-damaging agents.

myPlan Lung Cancer

RNA expression test for assessing the aggressiveness of lung cancer. Our myPlan Lung Cancer test is a gene expression based profile that may aid a physician in making a determination as to the aggressiveness of a patient's lung cancer and based upon this determination more accurately guide patient therapy. Most early stage lung cancer patients do not see added benefit from chemotherapy. We believe the global market for myPlan Lung Cancer is approximately \$200 million annually. myPlan Lung Cancer was released through an early access launch that began in October 2013.

Pharmaceutical and Clinical Services

Through Myriad RBM, we provide biomarker discovery and pharmaceutical and clinical services to the pharmaceutical, biotechnology, and medical research industries utilizing our multiplexed immunoassay technology. Our technology enables us to efficiently screen large sets of well-characterized clinical samples from both diseased and non-diseased populations against our extensive menu of biomarkers. During the year ended June 30, 2016, Myriad RBM accounted for 3.6% of total revenue. In addition to the fees received from analyzing these samples, we also use this information to create and validate potential companion diagnostic test panels.

The Molecular Diagnostic Industry and Competition

The markets in which we compete are rapidly evolving, and we face competition from multiple public companies, private companies, and academic/university laboratories for a number of our laboratory testing services.

In the hereditary cancer testing market we have faced increased competition since a landmark U.S. Supreme Court decision in June 2013 invalidated some of the key patent claims covering our hereditary cancer testing products. These patents were originally set to begin expiring in 2015 and beyond. Since this Supreme Court decision, numerous large reference laboratories, small private laboratories, and academic/university laboratories have launched competing hereditary cancer tests. Despite the impact from competition, we continue to have a dominant market position in hereditary cancer testing.

The market for hereditary cancer testing has evolved dramatically over time. Broad reimbursement coverage for hereditary cancer tests began emerging in the early 2000s and coupled with increased public awareness around genetics and Myriad's marketing and promotional efforts, there has been significant growth in testing volumes. One of the largest drivers of growth has been increased testing in asymptomatic patients in the preventive care setting which now comprise nearly half of all tests performed in the United States. We are working to continue to expand awareness around hereditary cancer testing and expand the number of patients that qualify for hereditary cancer testing under medical guidelines and health insurance coverage policies.

Another factor influencing the marketplace has been the advent of next generation sequencing. This has allowed the transition from single syndrome tests to targeted pan-cancer panels in a cost effective manner without sacrificing test accuracy. We launched our first pan-cancer panel, myRisk Hereditary Cancer, in September, 2013, and we believe panel based tests will become standard of care in the marketplace based upon their greater sensitivity at finding cancer causing mutations. We have presented multiple studies showing that myRisk Hereditary Cancer can detect greater than 60 percent more deleterious mutations when compared to our legacy hereditary cancer tests.

Myriad competes in the hereditary cancer testing market based upon several factors including:

- the analytical accuracy of our tests
- our ability to classify genetic variants in hereditary cancer genes
- the quality of our sales and marketing for our products
- the quality of our customer service and support
- turnaround time; and
- value

We believe that we have substantial advantages in terms of our test accuracy and ability to classify variants. Based on our testing experience of over 2.0 million patients, and our substantial investments in our variant classification program, we have compiled a proprietary database of over 40,000 unique genetic variants in the genes tested by myRisk Hereditary Cancer. We believe this database allows us to provide more accurate results to patients and return a variant of unknown significance (VUS) result to patients less frequently. We have demonstrated that this classification advantage leads to lower long-term healthcare costs and lower utilization of unnecessary healthcare services.

Given our scale relative to other laboratories in the hereditary cancer testing market, we believe we also have substantial competitive advantages in terms of cost efficiencies and laboratory automation, which leads to faster turnaround times for our tests.

In the urology market, we compete against a small number of public and private companies for our prostate cancer prognostic test, Prolaris. We compete in this market primarily based upon the quality of the clinical data supporting the test, its first mover advantage in the marketplace and the strength of its sales support and customer service.

In the autoimmune market, our Vectra DA test competes primarily against traditional methodologies for assessing rheumatoid arthritis disease activity such as a physician's clinical assessment of the patient and single marker laboratory tests such as C-reactive protein (CRP). We believe we have the only clinically validated multi-biomarker product on the market to assess rheumatoid arthritis disease activity.

In the pharmaceutical and clinical services segment, our Myriad RBM division competes against other contract research organizations and academic laboratories for business from pharmaceutical and research customers.

Risk of venture capital investments

The Company makes investments in a variety of areas offering the opportunity of significant capital gains, but which involve a high degree of business and financial risk that can result in substantial losses, **which can be 100%**. Among these are the risks associated with investments in companies at an early stage of development or with little or no operating history, companies operating at a loss or with substantial variations in operating results from period to period, and companies with the need for additional capital to support expansion or to achieve or maintain a competitive position. For a more detailed discussion of the risks in connection with venture capital investments please refer to page 6.

Determination of the net asset value

The net asset value per share is a figure which is calculated on a regular, consistent basis to approximately reflect the intrinsic value of one share of the Company. The net asset value is expected to serve as an indicator for the price of the shares of the Company. The net asset value is calculated by the Company by dividing the value of the net assets of the Company (the value of its assets less its liabilities) by the total number of shares outstanding.

The Company calculates the fair value of every single investment on a regular basis (at least bi-weekly). The calculation takes into consideration all assets and liabilities on a pro rata basis, accrued expenses and accrued income (e.g. interest on cash, if any) incurred by the Company.

The fair value of New Venturetec's investments is calculated on the basis of the following principles and guidelines:

a) Valuation of public companies

For the purpose of the net asset value calculation of public companies, the closing bid price on the reporting day as reported by the exchange where the stock is quoted and traded is used.

b) Valuation of private companies

For the purpose of the fair value calculation of private companies the following principles apply:

Most important valuation factors

- performance-based terms & structures
- price negotiation and action
- experience and performance of management
- existing tangible and intangible assets
- technology validation
- last paid price
- financial forecasts
- market potential, position within market
- comparison to competitors

The original cost or the subsequent capital increase price is considered an approximation of the fair value at the time of the transaction.

Start-up capital: Technology assessment, negotiations with management, industry comparables and competitors' bids are the main factors that affect the valuation. Net asset value calculation at cost, less any write-off deemed necessary if subsequent performance is below business plan.

Capital increase: Re-evaluation of technology assessment, negotiations with management, industry comparables and competitors' bids, achievement of milestones and business plan guidelines. Net asset value calculation is principle based on the capital increase price less discount, if deemed necessary based on the valuation factors listed below.

Write up: A write up is recognized when a significant event occurs such as the issuing of a patent, corporate partnering, increased profitability and achievement of milestones.

Write down: A write down is recognized when a significant event occurs such as a permanent impairment of assets, performance significantly below the business plan and a change in the valuation of comparable companies.

Furthermore, it has to be taken into consideration that private companies are not subject to any external (third-party) valuation procedures, and the intrinsic value may therefore be difficult to assess. The valuation of the private investments as shown in the report is made by the Company according to above guidelines. The valuation may change from day to day depending on the Company's development and market circumstances. However, the risk remains, that the valuations are not accurate and can change any day.

Description of valuations

Public companies

Public companies are valued at the closing bid price each day. The reported valuation is based on the closing price as of September 30, 2016. These investments are subject to general stock market conditions.

Osiris Therapeutics is listed on NASDAQ, symbol OSIR.
Myriad Genetics is listed on NASDAQ, symbol MYGN.

Private Companies

Valuations are based on the company's status at a given date.

- Increases in valuations are due to achievements of milestones, capital increases or other significant positive business developments
- Companies valued at cost have generally achieved the expected milestones
- Decreases in valuations are generally due to financial market conditions, unfavorable capital increases and the company generally being behind plan

Investment valuation

change in %
01.10.15 – 30.09.16

Public companies

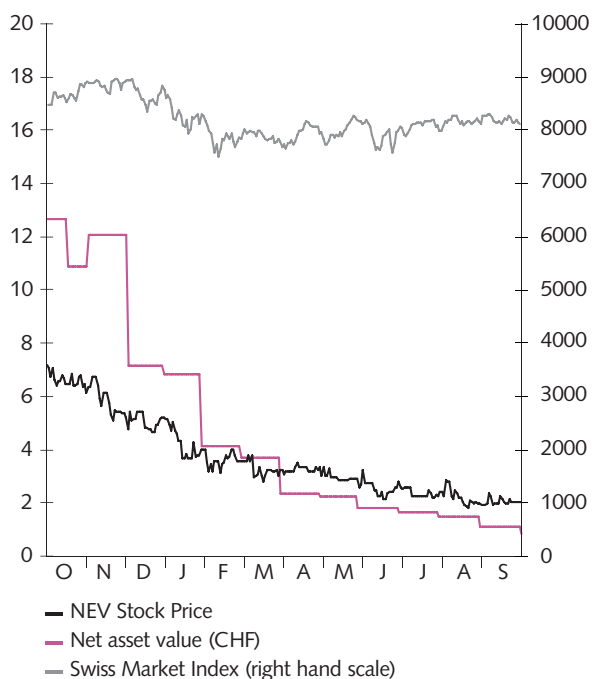
Osiris Therapeutics	-73.2%
Myriad Genetics	-45.1%

Private companies

There are currently no private companies in the portfolio

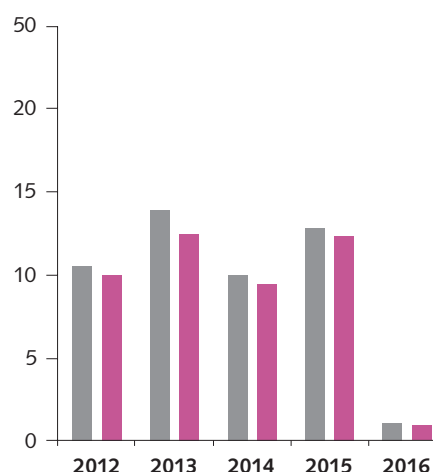
October 1, 2015 – September 30, 2016 in CHF

NEV Prices



January 1, 2012 – September 30, 2016 in USD and CHF

Net Asset Value Performance



NAV Performance

Net asset value total return net	Total return		Total return	
	CHF	30.09.2016	USD	30.09.2016
January 1997	28.94	-96.83%	20.00	-95.28%
Fiscal year 2015/16	12.67	-92.22%	14.01	-92.70%
NAV as per September 30, 2015	12.59		12.94	

IRR net, p.a.

	Based on NAV		Based on
	CHF	USD	market price
	CHF	USD	CHF
January 1997	-17.99%	-16.07%	-14.40%
Since IPO, Oct. 1997	-18.28%	-16.34%	-14.68%
Since capital increase February 1999	-19.21%	-17.19%	-15.54%

Prices and volumes

	2015/2016	2014/2015	2013/2014
High/low share price in CHF (SIX)	6.90/1.80	7.75/4.63	7.01/4.93
High/low net asset value in CHF:	12.59/0.94	16.12/9.34	13.97/9.29
Closing share price (SIX)			
at the end of the period in CHF:	2.01	6.99	5.00
Net asset value in CHF			
at the end of the period:	0.94	12.59	9.48
Premium/discount	113.83%	-44.48%	-47.26%
Average daily trading volume	6,226	6,877	12,320

The following information completes the Annual Report in terms of Corporate Governance. New Venturetec is listed on the SIX Swiss Exchange, Symbol NEV, which requires certain disclosures on this subject. Additional information can be found in other parts of the report or on our website www.newventuretec.com.

Company summary

New Venturetec is an investment holding company incorporated in Zurich on August 8, 1997. The Company is the owner of Venturetec, Inc., Tortola, BVI. Venturetec, Inc. holds participations in venture companies in the areas of biotechnology and technology which are domiciled in the USA.

The Company's business objective is to obtain capital appreciation from well selected companies that are at the forefront of technology and products in their field. The management builds positions early enough in leading technology companies with a long term investment commitment. **These investments bear a high degree of risk.**

Venture capital

Venture Capital investing is the process of building a business from scratch. The investments of venture capital are made through different forms of securities ranging from common stock to preferred shares and convertible debt.

Venture capital can be private or public depending on the stage of the company. The company naturally evolves from its inception through generating profits if successful. In most cases several rounds of financing at different prices are conducted.

The proceeds of such financing are mostly used for working capital to build the business as such companies still generate losses. The characteristics of venture investments are typically of high risk, lack of a market for the securities and a long-term investment horizon. No assurance can be given that returns are realized. **The risks of venture capital investments are 100%.**

Investing in New Venturetec

New Venturetec is the owner of Venturetec, Inc., which is currently holding investments in five portfolio companies. The participations are managed to assure the best possible value creation for its shareholders. Cash from disinvestments will likely be reinvested. The investment horizon should be 10 years or more. A shareholder is recommended to follow the development with interest and base an investment or

disinvestment decision on results of the development of the portfolio companies rather than on the general capital market and the investors' sentiment. **Any investor should only invest in New Venturetec if he can afford the complete loss of the investment without having to change his lifestyle. Significant risk is involved and the timelines may exceed the expectations. In addition, the market of New Venturetec shares is very illiquid. The risks of venture investments are 100%. The total loss of the investment has to be considered as a realistic possibility.**

Group structure and shareholders

The group New Venturetec comprises of New Venturetec Ltd. and its wholly owned subsidiary Venturetec, Inc.

New Venturetec

New Venturetec Ltd. is a holding company established 1997 under Swiss law, domiciled in Steinhausen (ZG). The Company is the owner of Venturetec, Inc., Tortola, BVI. New Venturetec Ltd. is listed on the SIX Swiss Exchange (NEV), ISIN # CH0007036830, Valoren # 703683. As of September 30, 2016 the Company's market capitalization was CHF 10,050,000.

Venturetec, Inc.

Venturetec, Inc. is a fully owned subsidiary of New Venturetec, domiciled in Tortola, British Virgin Islands, incorporated on September 11, 1996 with a share capital of USD 20,000,000. The purpose of the Company is to hold investments mainly in US high risk venture capital companies in the industries of biotechnology and technology.

The Board of Directors of Venturetec, Inc. consists of two members:

Peter Friedli, President, Swiss

Luis A. Davis, independent director, BVI resident

Investment advisor

Madison Investment Advisor, Inc., Panama, owned by Peter Friedli, Chairman of the Board of New Venturetec, is the investment advisor of Venturetec, Inc. The investment advisor supports and advises the Board on specific duties with regards to the selection, purchase, sale, structure and disposal of the Group's investments. As per October 1, 2014, the Board and the Investment Advisor agreed to reduce the advisory fee to an all-inclusive fee of 1.0% per annum on the Group's net asset value as estimated based on the valuation guidelines of the Company on a monthly basis. The advisory fee is subject to the retrospectively yearly

approval by the annual shareholder meeting in accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC"). See also note 12 on page 59. For more details on the investment advisory agreement see page 28.

Significant shareholders

As of September 30, 2016 the following shareholders filed a holding of 3% or more of the total outstanding shares to the Company to SIX Swiss Exchange:

Between 5% and 10%

Reinhard und Rosa Siegrist
Alexander und Chantal Biner, through 4IS Four Eyes AG, St.Gallen

Between 3% and 5%

RM Strategic Fund
HERCULIS, Partners "Aries" Fund, Liechtenstein

Please see <https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html> for more detailed information.

Cross-shareholdings

The Company is not aware of any cross-shareholdings that exceed 3% of the capital shareholdings or voting rights on both sides.

Capital structure

The paid-in capital is CHF 30,000,000 consisting of 5,000,000 bearer shares with a par value of CHF 6.00 each. In the fiscal year 2013/14, the paid-in capital of the

New Venturetec was reduced from CHF 62,500,000 to CHF 30,000,000 or from CHF 12.50 per share to CHF 6.00 per share, by transferring CHF 32,500,000 to the reserves of additional paid in capital. All shares are fully paid in.

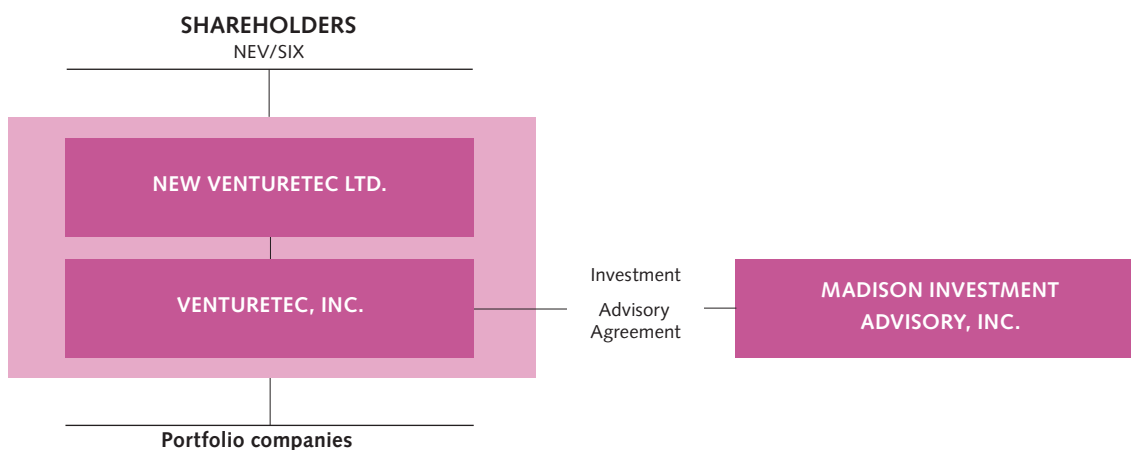
Conditional capital

On December 4, 2013, the annual meeting of shareholders resolved the creation of conditional capital in the amount of CHF 10,200,000 consisting of 1,700,000 bearer shares with par value of CHF 6.00 each. These shares stand in relation to a CHF 15,055,000 convertible bond issued by the Company on January 23, 2014 with maturity date on January 23, 2018. For further details on the terms of the conditional capital, please see on art. 3a of the articles of association of New Venutrectec. http://www.newventuretec.com/company/articles_of_association.aspx#

Authorized capital

On November 25, 2014, the ordinary shareholder meeting of New Venturetec approved the creation of authorized capital with nominal value of up to CHF 15,000,000 through the issuance of up to 2,500,000 bearer shares with a nominal value of CHF 6.00 per share. In accordance with art. 3b of the articles of association the board of directors is authorized to execute a capital increase within the bounds of this authorized capital until November 25, 2016. For further details on the terms of the conditional capital, please see on art. 3b of the articles of association of New Venutrectec. http://www.newventuretec.com/company/articles_of_association.aspx#

There is no other authorized or conditional capital outstanding. Except of the above stated, there was no change



in the capital structure of the Company for the last three years. No other warrants, options or convertible securities are outstanding. The outstanding loans and the convertible bond are described in a separate paragraph below.

Shares

Each share entitles the holder to one vote at the general assembly of the Company. There are no shares which carry preferential rights. Shareholders are entitled to the rights as set forth in the Swiss Code of Obligation.

Treasury stocks

The Company does not own any of its shares.

Board of Directors

The Board of Directors of New Venturetec consists of two independent members and Peter Friedli. The Board leads all material aspects of the Company including investment and disinvestment decisions, general management and administrative matters and the delegation thereof, as well as investor relation and corporate affairs. The Board periodically discusses the investment holdings of Venturetec, Inc. as well as general business issues relating to its shareholders and investment outlook. Peter Friedli abstains from voting concerning any business issue between himself, the investment advisor and New Venturetec.

Peter Friedli, Chairman, Swiss, executive

Peter Friedli has been a founder and principal of various venture investment firms since 1986. Mr. Friedli has over 29 years of entrepreneurial experience as an independent investment manager in venture capital and has specialized in investments predominantly domiciled in the United States in the areas of biotechnology and technology. He has held interests in more than 170 venture companies ranging from start-up to public companies. Peter Friedli possesses an active involvement in the management of a number of those companies and also serves on the board of them. Prior to that, he worked in the field of international management consulting for service and industrial companies in Europe and the United States.

Peter Friedli is a director of the portfolio company Osiris Therapeutics, Inc. Further, Mr. Friedli is President of Madison Investment Advisor, Inc.

Mr. Friedli is a founder of New Venturetec and has been a member of the Board of Directors since 1997. He is elected until the ordinary shareholder meeting 2016.

Hans Lerch, Vice Chairman, Swiss, non executive

Hans Lerch had a long time career with Kuoni and served as the company's President and CEO from 1999–2005. Thereafter, he was CEO of SR Technics Holding in Zürich and vice Chairman and CEO of Hotelplan Holding AG, Zürich. Other significant positions are Member of the Board of Directors of Kühne+Nagel International, Schindellegi, Chairman of the Board of Directors of the International School of Tourism, Zurich and Executive Vice Chairman of the Abercrombie & Kent Group, London. Mr. Lerch is trained in trading and tourism. Mr. Lerch is no, and has never been, member of the management of New Venturetec, Venturetec, Inc. or Madison Investment Advisor, Inc., further Mr. Lerch or any related party of Mr. Lerch has no and never had any material business relationship to New Venturetec, Venturetec, Inc. or Madison Investment Advisor other than being a member of the Board of Directors of New Venturetec.

Mr. Lerch has been a member of the Board of Directors since 2007. He is elected until the ordinary shareholder meeting 2016.

Andreas von Sprecher, member and Secretary, Swiss, non executive

Andreas von Sprecher is a founding partner at the law firm Hüppi & von Sprecher since more than 10 years. Prior to that Mr. von Sprecher worked as an attorney of law. He is involved in some entrepreneurial projects in the area of tourism and viticulture. Mr. von Sprecher graduated in Law at the University of Zurich and has been admitted to the bar of the Canton of Zurich in 1989.

Mr. von Sprecher is no, and has never been, member of the management of New Venturetec, Venturetec, Inc. or Madison Investment Advisor, Inc., further Mr. von Sprecher or any related party of Mr. von Sprecher has no and never had any material business relationship to New Venturetec, Venturetec, Inc. or Madison Investment Advisor other than being a member of the Board of Directors of New Venturetec.

Mr. von Sprecher is Partner at Hüppi & von Sprecher. He is a member of the Board of Directors of the Schweizerische Mobiliar Genossenschaft and SHV Interholding AG.

Mr. von Sprecher has been a member of the Board of Directors since 2002. He is elected until the ordinary shareholder meeting 2016.

External board representations

The by-laws of the Company regulate the maximal external board representations for all members of the board of directors of the Company in accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC"). Therefore, non of the members of the Board of directors may take service on more than 30 other boards of directors of companies not related to New Venturetec, of which not more than ten board seats may be in listed companies.

Elections

The members of the board of directors are individually elected for one year, the next election will be at the general meeting of Shareholders in 2016. Board members can be re-elected.

Board remuneration

The annual Board of Directors fee for Mr. Lerch and Mr. von Sprecher is CHF 25,000 each. Peter Friedli is not paid for serving on the Board of Directors.

The fully owned subsidiary Venturetec, Inc. entered into an investment advisory agreement with Madison Investment Advisor, Inc., which is fully owned by Peter Friedli, the Chairman of the board of directors of New Venturetec, on October 1, 2014. In accordance with the investment advisory agreement, the fee is determined to an all inclusive fee of 1% per annum on the group's net asset value as estimated based on the valuation guidelines of the Company on a monthly basis.

Of the 1% all inclusive advisory fee, the lower of USD 50,000 or 10% of the annual advisory fee will directly be paid to a third party for administrative services. The advisory fees for the fiscal year 2015/16 paid or payable to Madison Investment Advisor are USD 174,308.

Board members never received any stock options, free shares, social security contributions other than required by law, or any other compensation or benefits other than the reported Board of Director's fee.

In accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC") and the articles of association of the company all remunerations to members of the Board of Directors and the management have to be retrospectively approved by the annual shareholders meeting. No special rulings with regard to loans or special social benefits for the members of the Board of Directors or the management are defined in the bylaws of the Company.

For further details on the remuneration of the board of directors and the management please see the "Compensation report" on page 34 and note 14 on page 68.

Shareholdings

Peter Friedli: holding per September 30, 2016: 103,381 shares. No trading during the reporting period.

Peter Friedli holds convertible bonds issued by the company and convertible into common shares of New Venturetec as described in note 10, page 57 and on page 30 below.

Hans Lerch: holding per September 30, 2016: 20,000 shares. No trading during the reporting period.

Andreas von Sprecher: holding per September 30, 2016: 3,000 shares. No trading during the reporting period.

Andreas von Sprecher holds convertible bonds issued by the company and convertible into common shares of New Venturetec as described in note 10, page 57 and on page 30 below.

Portfolio company influence

As a member of the Board Peter Friedli represents all shareholders on the portfolio companies' board. Venturetec, Inc. itself does not have management or strategic influence.

Internal organization

The business of New Venturetec requires specific know how from the members of the Board of Directors which is covered as follows:

- Investment management, including venture capital know how in the area of biotechnology and technology, portfolio consulting and assessments, board participation, strategic consulting, hiring of management and corporate finance. This is covered by Peter Friedli
- Management of investment company: Peter Friedli, Hans Lerch
- Corporate governance: Peter Friedli, Hans Lerch, Andreas von Sprecher
- Legal: Andreas von Sprecher

The Board of Directors constitutes itself. It appoints the Chairman and the Vice Chairman, as well as a Secretary, who is a member of the Board. Meetings of the Board of Directors are convened by the Chairman or, in his absence, by the Vice Chairman. Individual members of the Board of Directors may, stating their reasons, demand that the Chair-

man call a meeting immediately. Prior to the meetings, the members of the Board of Directors receive comprehensive documentation on the agenda items to be discussed at the meeting.

The Board of Directors passes its resolutions by a majority of votes, whereby the Chairman has the deciding vote in the event of a tie. The Board of Directors is quorate when the majority of its members are present at a Board meeting. Resolutions may also be passed in writing or by telephonic meetings without a physical meeting of the Board of Directors being held. Circular resolutions must be unanimous in order to be valid.

The Board of Directors meets for several hours at least four times a year or whenever business requires. The members of the Board have regular informal discussions and reviews between the Board meetings. Three meetings of the Board of Directors took place in the reporting period, all of them lasted several hours. The full Board of Directors was present at all meetings. Peter Friedli visits most of the portfolio companies several times a year.

The Chairman of New Venturetec is annually elected by the annual shareholders meeting in accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC") and the articles of association of the company.

Committees

In accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC") and the articles of association of the company, the board of directors is supported by a compensation committee. Based on the business and organizational structure of the company the Board of directors does not appoint any other committees.

Compensation committee

The compensation committee consists of two independent members of the Board of directors, which have been individually elected by the ordinary shareholders meeting for a term of one year until the ordinary shareholders meeting 2016. Members of the compensation committee until the end of the ordinary shareholders meeting on December 2, 2016 are Mr. Hans Lerch and Mr. Andreas von Sprecher.

The duties of the compensation committee is to support the Board of directors to define and survey compensation politic, the compensation rules and the performance goals for the members of the Board of directors and the manage-

ment and to prepare the proposals for the compensation of the members of the Board of directors and the management to the ordinary shareholders meeting. The compensation committee has no decision power. The compensation committee meets once a year for 1–2 hours in October or November. There have been one meeting in the reporting period.

Responsibility and risk control

The Board of Director is the Company's highest governing body and is also charged with supervising and monitoring the activities of the management. According to the Swiss Code of Obligations and the article of association of the Company the Board of Directors is responsible for the strategy, direction, supervision and control of the Company and its management. The Board of Directors of New Venturetec is specifically responsible for the investment strategy and the investment guidelines, organizational regulations, appointing the management, financial planning and accounting policies, overall supervision and the relationship to the shareholders. The Board is further deciding on all investments and disinvestments of the Company. Specifically with regard to the supervision and monitoring the Board of Directors receives regular reports on the Company's business, examines the annual report and semi-annual report and the annual and semi-annual consolidated financial statements and examines the reports produced by the statutory auditors of the Company.

The board of directors may delegate any management item of New Venturetec or Venturetec, Inc. to one or several members of the board. The execution of investments or disinvestments may be delegated to one or several members of the board of directors or to any third parties in accordance to Art. 716b of the Swiss Code of Obligations, the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC") and the articles of association. Venturetec, Inc. entered into an investment advisory agreement with Madison Investment Advisor, Inc. Madison Investment Advisor advises the Board on any investment related items including investments and disinvestments and the monitoring and management of the investees. Further details on the investment advisory agreement are described in the management section below. Any transactions which are related to the investment advisor have to be approved by the independent members of the Board.

Madison investment advisor informs the Board on the status of the portfolio companies on a regular basis and as

business requires. The members of the Board and the investment advisor have regular informal discussions and reviews on corporate and portfolio matters between the board meetings.

Information and control instruments

The Board of Directors adopted the investment guidelines of the Company, see page 5. Any transactions which are related to the investment advisor have to be approved by the independent members of the Board. Madison Investment Advisor does not own any shares of New Venturetec nor of any portfolio companies. The Company, the Board and the management strictly follows the trading and insider rules of the SIX Swiss Exchange.

In addition to the Company's comprehensive external reporting, the Board discusses and reviews the financial performance, major events at portfolio companies as the law permits, net asset value of the portfolio and liquidity planning of New Venturetec at every Board meeting. The Board regularly reviews and discusses the risks on the portfolio company level, as well as the general financial risks of New Venturetec taking all internal and external factors into account. Further, all decisions regarding the investment advisor and Peter Friedli have to be approved by the independent Board members. For further information, please also see "Liquidity risk" on page 29 and "Risk management" on page 32.

Management

The Board of Directors decides on all material matters of the Company, including investments and disinvestments, general corporate and business affairs and regulatory and administrative matters. No additional management have been appointed. The Board delegates the executions of investments, disinvestment and general corporate and administrative duties to one of the Board members, the investment advisor or to any third party.

Under a separate investment advisory agreement, Venturetec, Inc. appointed Madison Investment Advisor, Inc. as investment advisor to support and advise the Board on specific duties with regards to the selection, purchase, sale, structure and disposal of the Group's investments. Madison Investment Advisor also represents the Company on the investees, including selected representations of Venturetec, Inc. on the Board of directors of the portfolio companies. The investment advisor may execute and implement resolutions taken by the Board.

The key points of the investment advisory agreement are:

- The Company appoints the advisor to advise the Board of the Company on all aspects of the portfolio investments of the Company including but not limited to investment selection, due diligence, investment structure and contract negotiations, monitoring, disinvestments and reporting
- The advisor will represent the Company in all relations with the invested portfolio companies, including the representation on the Board of Directors of the portfolio companies. Being a Director of any portfolio company, the advisor will represent all shareholders of the portfolio company, consisting with applicable laws and regulations
- The advisor shall have the full power of attorney on the voting and shareholder rights at the portfolio companies on behalf of the Company, including to sign any documents or shareholder consents on behalf of the Company
- The advisor will regularly report the status or any material developments on the invested portfolio companies to the Board of Directors in compliance with and as permitted by all applicable laws and regulations
- The advisor will advise the Board of Directors with regard to the investment strategy and the investment allocation of the Company
- The advisor will support the Board of Directors in all corporate, administrative and regulatory matters of the Company
- The Advisor will support the Board of Directors in investor relations and communications to the public
- The advisor will execute the above tasks in a manner which is consisting with the investment guidelines of the Company and all applicable laws and regulations.

The investment advisory agreement can be terminated with one year written notice.

Advisory fees

The fully owned subsidiary Venturetec, Inc. entered into an investment advisory agreement with Madison Investment Advisor, Inc., which is fully owned by Peter Friedli, the Chairman of the board of directors of New Venturetec, on October 1, 2014. In accordance with the investment advisory agreement, the fee is determined to an all inclusive

fee of 1% per annum on the group's net asset value as estimated based on the valuation guidelines of the Company on a monthly basis. The advisory fee is payable to the investment advisor quarterly by the end of each quarter.

Of the 1% all inclusive advisory fee, the lower of USD 50,000 or 10% of the annual advisory fee will directly be paid to a third party for administrative services. The advisory fees for the fiscal year 2015/16 paid or payable to Madison Investment Advisor are USD 174,308.

The advisory fee is subject to the retrospectively yearly approval by the annual shareholder meeting in accordance with OaEC and the by-laws of the company.

Administration

Huwylar Private Equity GmbH, Steinhausen, Switzerland, provides administration services and general management support on organizational and regulatory matters to the Board of Directors. The administration fee is CHF 200,000 per annum, payable quarterly.

Conflict of interests

Peter Friedli is the Chairman of the Board of Directors of New Venturetec Ltd. and President of Venturetec, Inc. and owner of Madison Investment Advisor, Inc. Further, Peter Friedli is a Member of the Board of some of the portfolio companies. As such, Mr. Friedli represents all shareholders of each portfolio company. Any related party transaction is approved by the independent Board Members of New Venturetec or the board of the portfolio company respectively with Mr. Friedli abstaining from any vote or as directed by corporate counsel. Peter Friedli may provide investment banking services to portfolio companies if and when needed and may be compensated for such services. Peter Friedli is explicitly authorized to conduct investment banking and / or consulting services to portfolio companies at its own terms if and when needed. Peter Friedli may be paid for such services by the portfolio company including if Venturetec invests in said portfolio company. New Venturetec or Venturetec, Inc. shall not have the right or claim to such payment. Peter Friedli did also personally invest in portfolio companies at market terms. New Venturetec benefits from such investments. Through the effort and services of Peter Friedli for portfolio companies, New Venturetec benefits. New Venturetec has also benefited from the loans, which are provided by Mr. Friedli.

Further conflicts may arise in the course of doing business from time to time.

Liquidity risk

New Venturetec operates on tight liquidity and has to generate cash to cover its operational costs and interest. Further, the Group has liabilities outstanding in the amount of USD 24,232,072 as per September 30, 2016. New Venturetec does not have any operational income and consequently the only way to generate liquidity is through the sale of assets or funding through additional debt or equity. Beside the holdings in Osiris Therapeutics and Myriad Genetics, all investments are held privately for which there is no market. Please see note 16.3 on page 65 for further information the liquidity risk.

Liquidity of Venturetec's investment in Osiris Therapeutics

Venturetec, Inc. directly owns 4,103,301 shares of Osiris Therapeutics, which represents 12.2% of the outstanding shares of Osiris Therapeutics. Based on this ownership, Venturetec, Inc. is a reporting person in respect of Osiris Therapeutics and is subject to reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Venturetec, Inc. has reported its transactions and holdings of Osiris Therapeutics with the United States Securities and Exchange Commission (SEC) through the filing of Forms 3 and 4, consistently since first becoming a reporting person following the IPO of Osiris Therapeutics.

The sale by Venturetec, Inc. of shares of Osiris Therapeutics common stock requires either registration under the Securities Act of 1933, as amended (the "Securities Act"), or that the sale be exempt from registration. Rule 144 under the Securities Act provides a safe harbor from registration for sales by a person other than an issuer, underwriter or dealer. Compliance with Rule 144 requires compliance with various restrictions set forth in the rule, including limitations on the number of shares sold in a given period and the manner in which sales may be completed. For sales by an affiliate of an issuer, which Venturetec, Inc. is presumed to be, Rule 144 provides that the volume of securities sold during any preceding three-month period may not exceed the greatest of the following limitations:

- 1% of the stock outstanding, which for Osiris Therapeutics would be 345,886 shares.
- The average weekly reported volume of trading reported on all national securities exchanges during the preceding four weeks ending September 30, 2016, which for Osiris Therapeutics is currently 323,475.
- The average weekly volume of trading of the securities reported through the consolidated transaction reporting system, which for the week ended September 30, 2016, was 351,500 shares.

Accordingly, for sales of Osiris Therapeutics common stock, the so called "volume limitation" under Rule 144 for an affiliate is currently 351,500 shares available to be sold in Q4 2016.

Rule 144 also requires, in the case of affiliate sales, that a Form 144 be filed with the SEC in advance of the sale. The sale must then take place within 90 days after the filing of the Form 144. If and when a sale transaction occurs, the sale must be reported to the SEC by the filing of a Form 4, within two days.

In addition, as a greater than 10% Shareholder, Venturetec, Inc. is further limited as to when it can engage in purchasing or selling shares of Osiris Therapeutics. Venturetec, Inc. is subject to Osiris' Trading Window and must clear all purchase and/or sales transactions in the Company's common stock with either the President & CEO or the Chief Financial Officer. Osiris' Trading Window usually closes 15-days prior to the end of each fiscal quarter and then reopens on the third Trading Day after the financial results for the quarter are published, which typically is 40–45 days after the fiscal quarter end. The Trading Window may also close during other times at the discretion of the Company.

These restrictions are unrelated and independent of Mr. Friedli's involvement.

Related party transactions

Loans

On January 23, 2014, New Venturetec issued convertible bonds with the following terms:

Aggregated principal amount	CHF 15,055,000
Interest rate	4% per annum
Life	4 years/until Jan. 23, 2018
Principal amount	CHF 5,000
Conversion	Each Bond of CHF 5,000 principal amount is voluntarily convertible into shares of the Company after June 30, 2014.
Conversion price	CHF 9.50 per share

Peter Friedli, the chairman of New Venturetec subscribed to CHF 12,000,000 of the Convertible Bonds which have not been subscribed by existing shareholders. Andreas von Sprecher, member of the Board of New Venturetec subscribed to CHF 50,000 of the Convertible Bonds which have not been subscribed by existing shareholders.

Total liabilities owed to related parties per September 30, 2016 are listed in the table below. Please see notes 10 and 15.3 on page 57 and 61 for further details.

None of the loans outstanding are based on accrued management fees.

Total interests on liabilities owed to related parties in the reporting period were USD 919,702.

On May 9, 2016, Peter Friedli and the Company signed a subordination agreement to address the capital loss of the company in accordance with Art 725 para. 1 CO. The total subordinated claim under this agreement of CHF 19,116,322 as per September 30, 2016 is deferred and cannot be repaid as long as a balance sheet or interim balance sheet audited in accordance with Swiss Auditing Standards shows that the Company is not in a situation of a capital loss in accordance with Art 725 para. 1 CO.

Liabilities owed to related parties as of September 30, 2016

CHF	6,589,310	Loan paid from Peter Friedli to Venturetec, Inc.	4%	31.12.16
CHF	12,000,000	Participation of Peter Friedli in the convertible bond 2018	4%	23.01.18
CHF	50,000	Participation of Andreas von Sprecher in the convertible bond 2018	4%	23.01.18

Waived and accrued management fee

In 2009, Peter Friedli waived accrued and payable management fees in the amount of USD 4,970,034. On August 22, 2011, Mr. Friedli waived additional accrued and payable management fees in the amount of USD 1,297,168. On the same date, Inflabloc shares with a book value of USD 1,500,000 have been transferred to Peter Friedli against accrued and due management fees. The Inflabloc shares had to be written off subsequently. The total amount of waived and abandoned management is USD 7,767,202. This represents the management fee of approximately seven years.

Mr. Friedli owns 103,381 shares of New Venturetec bought at an average price of CHF 33.00. Mr. Friedli never sold any New Venturetec shares. On January 23, 2014, Mr. Friedli subscribed to CHF 12,000,000 of the Convertible Bonds which have not been subscribed by existing shareholders of which CHF 5,000,000 was invested through the conversion of existing short term debt owed by New Venturetec to Mr. Friedli and CHF 7,000,000 was invested in cash.

Shareholders' participation rights

The Company follows the Swiss Code of Obligations regarding the convening of shareholder meetings. New Venturetec does not have any voting restrictions at shareholder meetings and follows the one share – one vote principle. There are no restrictions on the participation rights of any shareholders at the meetings.

Voting

A physical share certificate or a confirmation of a depository that the shares are held and blocked until the day of the shareholder meeting allows a shareholder to vote at the shareholder meeting. Proxy for voting can be given to any person, who does not have to be a shareholder of the Company. Proxies for voting given to any depositories are prohibited in accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC"). The Shareholder Meeting takes decisions with the majority of the present shareholders, except of special quorum for certain resolutions as set forth in the Swiss Code of Obligations. The Article of Association of the Company does not require higher quorum for any other resolutions.

Agenda and proposals

The Board of Directors defines the agenda of a shareholder meeting and publishes it in the Swiss Official Gazette of Commerce at least 20 days before the shareholder meeting. Shareholders, who hold shares with an aggregated amount of at least CHF 1,000,000, have the right to put any item on the agenda by written request to the Board of Directors. Such items have to be received by the Board of Directors in time to follow the rules of the publication of the agenda. Proposals regarding items, which are not included in the agenda, can be discussed upon the motion of the shareholders but not be voted at the shareholder meeting, except for motions as set forth in the Swiss Code of Obligations.

Change of control and defence measures

Opting-up clause

According to Art. 6 of the Articles of Association of the Company the opting-up is at 49%.

Auditors

KPMG AG, Zurich act as independent statutory and group auditors of the Company and have been in this role since inception. Mr. Christoph Gröbli has been the leading auditor on their behalf since the fiscal year 2015/16. The auditors are elected for a period of one year by the general assembly. The remuneration for KPMG for auditing New Venturetec's consolidated and unconsolidated financial statements for the fiscal year 2015/16 amounted to CHF 85,000. No non-audit fees were incurred during the reporting period.

Information instruments of the auditor

The auditors are meeting with the management of the Company several times and have regular telephonic contact during the normal course of the annual and semi-annual audit. In the fiscal year 2015/16 the auditors had two meetings with the board of directors. The management provides the auditors with all documents requested. The management informs the auditors regularly on the development of the portfolio companies and the business.

Risk management

Most of the investees are in a development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. Companies which are in the need of cash often face unfavourable financing terms to existing shareholders – in our case New Venturetec – which basically means heavy dilution and unfavourable liquidation preferences in case of a trade sale. This is only if the company is able to attract investments in the first place for which no assurance can be given that this may occur. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total un-recoverability of an investment. The financial risk management objectives and policy of New Venturetec are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. Furthermore, the Company does not hedge any foreign currencies or interest rate risk exposure. The risks of venture capital investments are 100%. **The total loss of the investment is a realistic possibility.**

Liquidity risk

Liquidity risk is the risk that New Venturetec will not be able to meet its financial obligations as they fall due. New Venturetec, as a greater than 10% shareholder of Osiris Therapeutics is subject to certain trade restrictions. Further, Peter Friedli is Chairman and a member of the Board of Directors of Osiris Therapeutics and therefore also subject to certain trade restrictions. These trading restrictions are also applicable to New Venturetec and may have a negative impact on the liquidity of the Group. For further details please see "Liquidity of Venturetec's investment in Osiris Therapeutics" on page 8.

We have attached risk factors of the main holding of Venturetec, Osiris Therapeutics, for your information. Please see Appendix I, page 76. The information is also publicly available.

FATCA

New Venturetec and Venturetec, Inc. fully comply with the standards of FATCA of the Internal Revenue Services of the United States of America.

Market making

New Venturetec does not make a market in its shares and does not own any of its shares and never has. The Company has no agreement with any market maker. There are no costs and no liabilities in connection with any market making activities. Several banks may act periodically as market makers on their own behalf.

Reporting and Information

Publication

The official publication organ for announcements of the Company is the Swiss Official Gazette of Commerce.

Financial reporting

New Venturetec issues audited annual and unaudited semi-annual consolidated financial statements prepared according to International Financial Reporting Standards (IFRS) and IAS 34. The annual reporting per September 30 and the semi-annual reporting per March 31.

Investor meetings

The financial results and the status of portfolio companies are reported at the Ordinary Annual Shareholders' Meeting in November/December each year. New Venturetec invites selected portfolio companies to present their company and business strategy at the shareholders' meeting.

Price information

New Venturetec traded share prices can be retrieved through electronic channels such as Telekurs (NEV), Reuters (NEV.S) and Bloomberg (NWV SW Equity).

Webpage

The webpage of New Venturetec is www.newventuretec.com. The webpage contains comprehensive information on the investment approach and strategy, latest news and detailed information about the portfolio holdings, including the latest net asset value report. Additionally, investors may find information about the portfolio companies, including a description of their business activity and the links to their webpages. Press releases and news on New Venturetec can be downloaded from the news section of the webpage on http://www.newventuretec.com/news/news_2016.aspx

Email-list

Investors can subscribe to the New Venturetec mailing list on www.newventuretec.com/investors/mailling_list.aspx. New Venturetec sends all ad hoc publication directly to the mailing registrants of the mailing list.

Contact information

The contact information to New Venutrectec can be found on the back of this annual report.

Net asset value and market price – premium / discount

The most common valuation guideline for investment companies is the net asset value. The net asset value is not an absolute value. It is an indicator based on guidelines. By no means does the net asset value represent a “true” value.

The market price is the price paid by the market participants. It is a market price determination by demand and supply. There are times when supply is higher than demand and vice versa. That simply does not correlate with the actual business performance of a company on a daily basis in any significant way. Reasons why somebody may decide to buy or sell are, in many cases, unrelated or only superficially related to the business performance.

New Venturetec offers a participation in a portfolio of young companies, not a trading opportunity. New Venturetec is the wrong vehicle for traders. It is an opportunity for investors, who understand investing in the very old fashioned and traditional way. **Investing in venture capital is a long-term commitment with high risks of 100% losses.**



Report of the Statutory Auditor to the General Meeting of New Venturetec Ltd., Steinhausen

We have audited the remuneration report of New Venturetec Ltd. for the year ended September 30, 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the tables Compensation to the board of directors and the management in the fiscal year 2015/2016 and Compensation to the board of directors and the management in the fiscal year 2014/2015 on pages 36 to 37 of the compensation report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report for the year ended September 30, 2016 of New Venturetec Ltd. complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Christoph Gröbli
Licensed Audit Expert
Auditor in Charge

Alexander Fähndrich
Licensed Audit Expert

Zurich, November 4, 2016

The following information sets out the information on the compensation details and the compensation paid to the member of the board of directors and the management of New Venturetec, Ltd. for the fiscal year 2015/16. The content and scope of the information provided herein are in accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC") – that came into effect on 1 January 2014 and the standards on Corporate Governance issued by the SIX Swiss Exchange.

Introductory note regarding the specific structure of New Venturetec Ltd. as an investment company

New Venturetec is a Swiss investment company listed on the SIX Swiss Exchange. The Company is defined in accordance with art. 2 para. 3 of the Collective Investment Schemes Act (CISA). New Venturetec is subject to the supervision and regulation of the SIX Swiss Exchange. New Venturetec is excluded from the regulatory supervision by FINMA and the regulations from the Collective Investment Act and has the form and structure as an investment company to be aligned with certain provisions of the OaEC et al.

New Venturetec is an investment company with the objective to obtain capital appreciation from investments in well selected companies that are at the forefront of technology and products in their field. Beyond this, the Company does not pursue any other business or operational activities.

Following article 716b of the Swiss Code of Obligations ("CO") and article 17 of the articles of association the board of directors may entrust the management, wholly or in part, and the representation of the Company to one or several individual persons, members of the board of directors or third parties. It may entrust the asset management, wholly or in part, to a legal person.

The board of directors established a compensation committee during the fiscal year 2015/16.

Determination principles and authority of compensation

In consideration for the duties, the general administrative activities and the responsibilities in accordance to the applicable laws and regulations, the members of the board of directors and the management are entitled to receive a fix

remuneration which is independent from the performance of the Company and / or a variable compensation which is related to the total net asset value of the Company. (see art. 20 of the articles of association on http://www.newventuretec.com/company/articles_of_association.aspx).

The board of directors is responsible for ensuring that the compensation process is fair and transparent, and subject to effective supervision. The chosen compensation process should serve to provide pay which is in line with the services provided, as well as appropriate incentives to the individual members of the board of directors and Management, taking due account of the longer-term interests of the shareholders and the Company's performance.

The compensation committee consists of at least two members of the board of directors. The shareholders' meeting elects the members of the compensation committee on an individual basis for a term of office of one year. The term of one year is deemed to signify the period from one ordinary shareholders' meeting to, and including, the next. Members whose term of office expires are eligible for immediate re-election.

The compensation committee elects one of its members as the chairman of the committee. In case of any vacancies, the board of directors elect one of its members to the compensation committee for a term which ends at the next annual shareholders meeting.

The Compensation Committee supports the board of directors with the determination of the compensation principles and the supervision thereof, as well as performance targets if applicable. It further supports the board of directors with the preparation of proposals to the Shareholders' Meeting concerning the compensation to be paid to the board of directors and Management in accordance with art. 20 of the article of association.

The board of directors approves, cancels or change any contract with the investment advisor, including the fees of the advisory services. Any members of the board of directors who might be related to the investment advisors, abstain from voting on any aspect which are related to the investment advisor, including the determination of the level of the fees.

All compensation to all the members of the board of directors, whether directly or indirectly through fees paid to the investment advisor are subject to retrospective approval by the annual shareholders meeting in accordance with article 20 of the article of association.

Compensation to the board of directors

The individual members of the board of directors receive a function and task related fix compensation which is defined upon the discretion of the board of directors. The fix compensation is paid in cash. Social security contribution will be paid in accordance to the applicable law. No additional social securities or other benefits are contributed to the members of the board of directors. The board of directors may be entitled to receive reimbursement for expenditures which are directly related to their duties if these expenditures are not yet subject the other contracts or agreements like the investment advisory agreement. The board of directors as a whole defines the compensation of its members subject to the approval by the annual shareholders meeting. Members of the board of directors are not excluded from voting for their own remuneration.

Compensation of the members of the management

New Venturetec does not have a management or any other employees. The management of the Company is performed by the board of directors and specific members of the board of directors. The board of directors is advised by the investment advisor.

Common provision for the compensation

The board of directors or the management of New Venturetec are not entitled to receive any credits or loans from the company and will not participate in any share or option based, or any other participation plan of the Company. (see art. 20 of the articles of association on

http://www.newventuretec.com/company/articles_of_association.aspx).

The remuneration to the board of directors and the management can be made by the Company or any subsidiary of the Company. Nevertheless, any remuneration, compensation or fee directly or indirectly received by any member of the board of directors or the management from New Venturetec or its subsidiary or from the investment advisor is included in the total compensation to the board of directors and the management and has to retrospectively be approved by the annual shareholders meeting in accordance with article 9 and 20 of the articles of association. (see http://www.newventuretec.com/company/articles_of_association.aspx).

New Venturetec or its subsidiary can pay any compensation, remuneration or fee to members of the board of directors or the management prior to the approval by the annual shareholders meeting. Nevertheless, these payments would be subject to the retrospectively approval by the annual shareholders meeting and in case of a rejection by the annual shareholders meeting have to be paid back to the Company.

Employment contracts with the members of the management, if any, the investment advisor and possible contracts with members of the board of directors, which form the basis of the compensation of the respective members, are concluded for a fix term of a maximum of one year or for an indefinite term with a notice period of a maximum of twelve months.

Compensation to the board of directors and the management in the fiscal year 2015/2016 (audited)

(In CHF)	Period	Gross salary fix	Indirect earnings through investment advisor	Social security contribution	Total compensation
Peter Friedli, Chairman BoD	1.10.15–30.9.16	0	171,275	0	171,275
Hans Lerch, Vice-Chairman BoD	1.10.15–30.9.16	25,000	0	1,562	26,562
Andreas von Sprecher, Member BoD	1.10.15–30.9.16	25,000	0	1,562	26,562

Compensation to the board of directors and the management in the fiscal year 2014/2015 (audited)

(In CHF)	Period	Gross salary fix	Indirect earnings from investment advisor	Social security contribution	Total compensation
Peter Friedli, Chairman BoD	1.10.14–30.9.15	0	560,165	0	560,165
Hans Lerch, Vice-Chairman BoD	1.10.14–30.9.15	25,000	0	1,562	26,562
Andreas von Sprecher, Member BoD	1.10.14–30.9.15	25,000	0	1,562	26,562

Loans or receivables to members of the board of directors and Management

As at September 30, 2016, there were no loans outstanding to current or former members of the board of directors or management, or persons related to them (September 30, 2015: none). No loans were granted during the year ended September 30, 2016 to current or former members of the board of directors or Management, or persons related to them (September 30, 2015: none). A short-term receivable of USD 135,806 to Peter Friedli is outstanding as per September 30, 2016.

Compensation to related parties

During the fiscal year 2015/2016, the Company did not pay any compensation to related parties other than described in this compensation report (previous year: none).

Compensation to former members of the board of directors and Management

No payments were made to former members of the board of directors or Management during the 2015/2016 reporting year (2014/2015: none).

Contractual conditions upon leaving New Venturetec

No member of the board of directors or Management has a contract with New Venutrectec which grants them severance pay should they decide to leave the Company.

Advisory fees

The fully owned subsidiary Venturetec, Inc. entered into an investment advisory agreement with Madison Investment Advisor, Inc., which is fully owned by Peter Friedli, the Chairman of the board of directors of New Venturetec, on October 1, 2014. In accordance with the investment advisory agreement, the fee is determined to an all inclusive fee of 1% per annum on the group's net asset value as estimated based on the valuation guidelines of the Company on a monthly basis. The advisory fee is payable to the investment advisor quarterly by the end of each quarter.

Of the 1% all inclusive advisory fee, the lower of CHF 49,130 (USD 50'000) or 10% of the annual advisory fee will directly be paid to a third party for administrative services. The advisory fees for the fiscal year 2015/16 paid or payable to Madison Investment Advisor are CHF 171,275 (USD 174,308).

The investment advisory agreement can be terminated with one year written notice.

The advisory fee is subject to the retrospectively yearly approval by the annual shareholder meeting in accordance with OaEC and the by-laws of the company.



Report of the Statutory Auditor to the General Meeting of Shareholders of New Venturetec Ltd., Steinhausen

Report of the Statutory Auditor on the Consolidated Financial Statements

As statutory auditor, we have audited the consolidated financial statements of New Venturetec Ltd., which comprise the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes (pages 40 to 66) for the year ended September 30, 2016.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), Article 14 of the Directive on Financial Reporting issued by the SIX Swiss Exchange and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 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 auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended September 30, 2016 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with article 14 of the Directive on Financial Reporting issued by the SIX Swiss Exchange and with Swiss law.

Emphasis of matter

We draw attention to note 9.1 to the consolidated financial statements, which describes the uncertainty related to the potential delisting of New Venturetec's major investment in Osiris Therapeutics Inc. by NASDAQ and the resulting potential impact of such decision on the valuation of this investment. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG



Christoph Gröbli
Licensed Audit Expert
Auditor in Charge



Alexander Fähndrich
Licensed Audit Expert

Zurich, November 4, 2016

Consolidated balance sheet

	Note	September 30, 2016 USD	September 30, 2015 USD
Assets			
Cash and cash equivalents	6.1	3,580,870	4,287,464
Other accounts receivable	7	904,576	1,465,838
Current assets		4,485,446	5,753,302
Venture capital investments	8.1	24,468,373	83,783,969
Non-current assets		24,468,373	83,783,969
Total assets		28,953,819	89,537,271
Liabilities and equity			
Accrued advisory fees	12	16,231	175,238
Other accrued expenses		211,511	296,507
Accrued interests on convertible bonds	10	425,779	424,510
Loans payable to related parties	15.3	6,634,399	6,847,961
Bank loans payable	6.2	1,500,940	1,500,740
Current liabilities		8,788,860	9,244,956
Convertible bonds	10	15,443,212	15,343,365
Deferred tax liabilities	13	0	266,213
Non-current liabilities		15,443,212	15,609,578
Total liabilities		24,232,072	24,854,534
Share capital	11	20,785,350	20,785,350
Additional paid-in capital	11	28,784,665	28,784,665
Translation reserve		2,169,008	2,180,861
Conversion options / own equity instruments	10	168,451	168,451
(Accumulated losses) / Retained earnings		(47,185,727)	12,763,410
Equity attributable to shareholders of New Venturetec		4,721,747	64,682,737
Total liabilities and equity		28,953,819	89,537,271
Number of shares outstanding		5,000,000	5,000,000
Net asset value per share		0.94	12.94

Consolidated statement of comprehensive income

	Note	Year ended September 30, 2016 USD	Year ended September 30, 2015 USD
Income			
Gains on venture capital investments	8.3/8.4	160,000	24,220,269
Dividend income		820,660	0
		980,660	24,220,269
Expenses			
Losses on venture capital investments	8.3/8.4	(59,315,596)	(7,488,759)
Impairment of other accounts receivable	7	(555,391)	0
Advisory fees	12	(193,676)	(636,254)
Interest on loans from related parties	15.3/15.4	(919,702)	(788,874)
Interest on loans from third parties		(151,160)	(163,305)
General and administrative expenses		(447,601)	(432,468)
Net foreign exchange (loss) / profit		(46,908)	394,850
		(61,630,034)	(9,114,810)
(Loss) / Profit before tax		(60,649,374)	15,105,459
Income tax income / (expense)	13	220,850	(107,347)
(Loss) / Profit for the period attributable to shareholders		(60,428,524)	14,998,112
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Translation adjustment		(11,853)	45,974
Total items that are or may be reclassified to profit or loss		(11,853)	45,974
Other comprehensive income for the year		(11,853)	45,974
Total comprehensive income for the period attributable to shareholders		(60,440,377)	15,044,086
Weighted average number of shares outstanding during the year (basic)			
		5,000,000	5,000,000
Earnings per share (basic)	17	(12.09)	3.00
Weighted average number of shares outstanding during the year (diluted)			
		6,584,737	6,584,737
Earnings per share (diluted)	17	(12.09)	2.38

Consolidated statement of changes in equity

	Share capital (note 11) USD	Additional paid-in capital (note 11) USD	Translation reserve USD	Conversion options/ own equity instruments (note 10) USD	(Accumu- lated losses)/ Retained earnings USD	Total equity attributable to shareholders of New Venturetec USD
Balance as of 30.9.2014	20,785,350	28,784,665	2,134,887	168,451	(2,234,702)	49,638,651
Translation adjustment	0	0	45,974	0	0	45,974
Total other comprehensive income	0	0	45,974	0	0	45,974
Profit for the period	0	0	0	0	14,998,112	14,998,112
Total comprehensive income	0	0	45,974	0	14,998,112	15,044,086
Balance as of 30.9.2015	20,785,350	28,784,665	2,180,861	168,451	12,763,410	64,682,737
Translation adjustment	0	0	(11,853)	0	0	(11,853)
Total other comprehensive income	0	0	(11,853)	0	0	(11,853)
Loss for the period	0	0	0	0	(60,428,524)	(60,428,524)
Total comprehensive income	0	0	(11,853)	0	(60,428,524)	(60,440,377)
Shareholders' contributions	0	0	0	0	479,387 ¹	479,387
Total transactions with owners of the Company	0	0	0	0	479,387	479,387
Balance as of 30.9.2016	20,785,350	28,784,665	2,169,008	168,451	(47,185,727)	4,721,747

¹ See Note 15.3.

Consolidated cash flow statement¹⁾

	Note	Year ended September 30, 2016	Year ended September 30, 2015
Advisory fees paid	12	(352,683)	(544,795)
Payments for general and administrative expenses		(460,891)	(348,807)
Cash used in operating activities		(813,574)	(893,602)
Purchase of venture capital investments / notes rec.	8.3/8.4	0	(2,003,621)
Proceeds on disposal of venture capital investments	7/8.3/8.4	307,982	7,864,256
Dividends received (net of tax)		697,561	0
Cash provided by investing activities		1,005,543	5,860,635
Redemption of bank loans	6.2	0	(2,617,530)
Increase of loans payable to related parties	15.3	0	1,569,859
Interest paid		(909,148)	(832,459)
Cash (used in) / financing activities		(909,148)	(1,880,130)
Exchange effect on cash and cash equivalents		10,585	4,420
Net change in cash and cash equivalents		(706,594)	3,091,323
Cash and cash equivalents at beginning of year	6.1	4,287,464	1,196,141
Cash and cash equivalents at end of period	6.1	3,580,870	4,287,464

¹⁾ For significant non-cash transactions refer to Note 14.

Notes to the consolidated financial statements for the year ended September 30, 2016

Basis of the consolidated financial statements

1 Principal activities

New Venturetec Ltd., Steinhausen ("the Company", "the Parent Company") was formed on July 16, 1997 and incorporated on August 8, 1997 for the purpose of direct and indirect investments in Swiss and foreign companies, especially in high risk venture capital companies in the industries of Biotechnology and Technology. The Company is domiciled in Zug.

The consolidated financial statements as at and for the year ended September 30, 2016, include the Company and its wholly-owned subsidiary Venturetec, Inc., Tortola, British Virgin Islands ("the Subsidiary") (together referred to as the "Group"). The Subsidiary was incorporated on September 11, 1996 with a share capital of USD 20 million. As of September 30, 2016, the Company's venture capital investments are held via this subsidiary.

2 Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law and the special provisions for investment companies according to the Listing Rules and the Directive of Financial Reporting of the SIX Swiss Exchange.

3 Judgement involved in the application of accounting policies, management assumptions and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

New Venturetec Ltd. has adopted "Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27" with a date of initial application of 1 October 2013.

Management concluded that New Venturetec Ltd. meets the definition of an investment entity, as the following conditions are met:

- New Venturetec holds multiple investments;
- New Venturetec's business purpose is to invest in securities of any form of Swiss or foreign corporations taking advantage of particular corporate circumstances with the goal to achieve returns from capital appreciation and investment income;
- The performance of these investments is measured and evaluated on a fair value basis.

New Venturetec Ltd. holds, through its wholly-owned subsidiary Venturetec Inc., multiple investments and ownership interests in the form of shares.

As described in Notes 1 and 5a), New Venturetec Ltd. consolidates its wholly-owned subsidiary Venturetec, Inc. Venturetec, Inc. provides services that relate to the investment activities and therefore does not meet the requirements for the investment entity exemption. Consequently, Venturetec, Inc. is consolidated.

Key sources of estimation uncertainty

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 5c). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also note 9.1.

4 Basis of presentation

The consolidated financial statements are presented in USD. They are prepared on a fair value basis for venture capital investments. Other financial assets and liabilities are stated at amortized cost.

4 Basis of presentation (continued)

4.1 New and revised standards adopted

The accounting policies adopted are consistent with those of the previous financial year. There are no IFRS standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning October 1, 2015 that have a material impact on the Group.

4.2 New standards and interpretations issued but not yet adopted

A number of new and revised Standards and Interpretations are effective for annual period beginning after January 1, 2016, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Group, except the following set out below:

- Investment Entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (effective January 1, 2016). The amended standard basically requires an investment entity to measure its subsidiary that is also an investment entity at fair value rather than to consolidate such subsidiary. Significant judgement will be required to assess whether all of the characteristics of an investment entity are met at the level of the subsidiary and hence exemption from consolidation applies. The Group will need to consider the implications of the new amendment with regards to its subsidiary starting from October 1, 2016.

In the financial year 2016/17 and afterwards, the Group will adopt the following new and amended standards:

Standard and Interpretation	Effective date	Planned application by New Venturetec Ltd. in reporting year
– IFRS 9, Financial instruments	January 1, 2018	Reporting year 2018/19
Revisions and amendments of Standards and Interpretations		
– Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) ⁷	January 1, 2016	Reporting year 2016/17
– Equity Method in Separate Financial Statements (Amendments to IAS 27)	January 1, 2016	Reporting year 2016/17
– Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016	Reporting year 2016/17
– Disclosure Initiative (Amendments to IAS 1)	January 1, 2016	Reporting year 2016/17
– Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	January 1, 2017	Reporting year 2017/18
– Disclosure Initiative (Amendments to IAS 7)	January 1, 2017	Reporting year 2017/18

The Group has not yet determined the potential effects of these new and amended standards on the consolidated financial statements and the performance of the Group.

5 Summary of significant accounting policies

a) Basis of consolidation

The consolidated financial statements include the Company and its subsidiary (see for further discussion note 3 above). All intercompany transactions and balances are eliminated.

The Company controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

b) Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the foreign exchange rate at the balance sheet date. Foreign exchange differences arising on translation are recognized in profit or loss.

Notes to the consolidated financial statements for the year ended September 30, 2016

5 Summary of significant accounting policies (continued)

b) Foreign currency translation (continued)

The functional currency of the Parent Company is CHF. Assets and liabilities of the Parent Company are translated to the presentation currency (USD) at the foreign exchange rates at the balance sheet date. The revenues and expenses are translated to USD at average rates. Foreign exchange differences arising on this translation are recognized directly in other comprehensive income (equity) within the translation reserve.

If a loan is granted by the Parent Company to the Subsidiary and the loan in substance forms part of the investment in the Subsidiary, foreign exchange differences arising from the loan are also recognized in the translation reserve. On a disposal of the Subsidiary, exchange differences recognized in equity would be recognized in profit or loss as part of the gain or loss on disposal.

Foreign exchange differences on cash and cash equivalents are presented separately in the cash flow statement.

The following exchange rates were applied:

	Spot rate at balance sheet date		Average rate for the twelve months ended	
	30.09.16	30.09.15	30.09.16	30.09.15
1 USD to CHF	0.9704	0.9733	0.9826	0.9555

c) Venture capital investments

The Group's investments relate to U.S. venture capital companies.

All venture capital investments are classified as financial assets at fair value through profit or loss. The venture capital investments are initially measured at fair value on the trade date, excluding transaction costs. Upon initial recognition attributable transaction costs are recognized in profit or loss when incurred. These investments are subsequently measured at fair value, with changes in the fair value recognized in profit or loss.

The venture capital investments are stated at fair value on an item by item basis, as determined by the Investment Advisor and approved by the Board of Directors. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. Options and similar rights attached to the investments are also considered in determining fair value.

The basis for the fair valuation is the following:

Valuation of investments in public companies

The fair value of public companies equals the closing bid price on the reporting date as reported by the exchange where the shares are quoted and traded. Estimated future selling costs are not deducted. The following aspects are excluded from the determination of fair value:

- Investments may be subject to lock-up agreements during a certain period.
- The reliability of the fair value depends on whether one or more buyers would be willing to acquire the entire share held in the investee at the publicly listed price.

Valuation of investments in private companies

The fair value of private companies, for which no quoted market price is available, is estimated using valuation techniques including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow (DCF) techniques and other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

The original cost or the price of any subsequent capital increase is considered as an approximation of fair value at the time of the transaction.

5 Summary of significant accounting policies (continued)

c) Venture capital investments (continued)

The following factors determine the price paid for an investment (the fair value):

- Start-up capital: Technology assessment, negotiations with management, industry comparables, or competitors' bids.
- Capital increase: Re-evaluation of the original technology assessment, negotiations with management, industry comparables, competitors' bids, or achievement of milestones and business plan guidelines. The investment valuation may include a reduction of 10–20% from the price of the capital increase if considered necessary based on the valuation factors listed below.

Subsequent estimates of fair values take into account the following aspects:

- An increase in fair value is recognized when a significant event occurs, such as the issuing of a patent, corporate partnering / private placement, achievement of a milestone (e.g., in research and development) or an increased profitability.
- A decrease in fair value is recognized if the performance subsequent to the acquisition is significantly below the business plan, or if any other circumstances exist that indicates that the fair value of the investment has decreased.

Other factors considered include:

- nature of the business and history of the investee, and related risks
- economic and industry outlook, and related risks
- financial condition and earnings capacity of the investee, and related risks
- incremental value of goodwill and other intangible assets
- sale of shares and the volume of shares to be valued
- market price of shares of public enterprises engaged in the same or a similar business
- fair value of the investee as a whole, taking into account:
 - cost based considerations: replacement values of the underlying net assets on both a going concern and a liquidation basis, etc.
 - earnings-based considerations: discounted earnings, price earnings ratios, multiples, etc.
 - market-based considerations: market values of shares, adjusted market value, etc.

The fair value of the investments in private companies is subject to a re-assessment by the Investment Advisor whenever the Company's net asset value is published (normally on a bi-weekly basis). No independent external valuations of the investments are conducted. There are inherent difficulties in determining the fair value of such investments and, as a consequence, the net asset value of the Company.

From time to time, the Group grants promissory notes to its venture capital investments. The Group measures these notes at fair value with gains and losses recognized in profit or loss. The notes and the venture capital investments are looked at as group and both are managed and their performance is evaluated on a fair value basis, in accordance with the Group's risk management and investment strategy.

Most of the investees are in the development stage, disclosing accumulated deficits and little or no revenues. The investments involve a high degree of business and financial risk, that can result in a 100% loss of the investment.

d) Loans payable

Interest-bearing borrowings are recognized initially at fair value, less any attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortized cost using the effective interest method.

e) Cash and cash equivalents

Cash and cash equivalents include cash at banks, call money and fixed term deposits with a term of three months or less from the date of acquisition. They are stated at their amortized cost.

Notes to the consolidated financial statements for the year ended September 30, 2016

5 Summary of significant accounting policies (continued)

f) Income taxes

New Venturetec Ltd. has the status of a holding company and as such, benefits from the participation exemption at federal level and from the complete exemption at cantonal and communal level. The theoretical maximum applicable income tax rate is 8.5%. Venturetec, Inc. is not subject to any income taxes. Current income taxes are, to the extent unpaid, provided for at the enacted tax rate based on current and past earnings of New Venturetec Ltd.

Deferred income taxes are recognized at the expected applicable tax rates on any temporary differences, both taxable and deductible, between the carrying amount and the tax base of assets and liabilities, including the taxable temporary differences of the Subsidiary since they might result in dividend income of New Venturetec Ltd. In measuring the deferred tax assets or liabilities, the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities is taken into account.

g) Derecognition of financial assets and liabilities

The Group derecognizes a financial asset when contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

h) Convertible bonds

Compound financial instruments issued by the Group comprise convertible bonds denominated in CHF that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

i) Segmental reporting

IFRS 8 requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. The Investment Manager is considered to be the chief operating decision-maker. An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments. The Group invests in venture capital investments.

The investment strategy and the Group's performance is evaluated on an overall basis and the Group only invests in companies domiciled in the United States. Thus the sole operating segment of the Group is investing in venture capital investments. See also note 8 for detailed disclosures.

j) Other accounts receivable

Receivables from the sale of investments and other receivables are stated at amortized cost, which equals nominal value for shortterm receivables less any allowance for doubtful debt. Allowances are made for specific known doubtful receivables.

k) Dividend income

Dividend income is recognized in profit or loss on the date the Company's right to receive payments is established. If a foreign withholding tax is deducted, such amount is recorded separately and shown as income tax expense. For quoted equity securities, the date of recognition usually equals to the ex-dividend date.

Notes to the consolidated balance sheet

6 Cash and cash equivalents and bank loans payable

6.1 Cash and cash equivalents

	30.09.2016	30.09.2015
	USD	USD
Cash at banks	3,580,870	4,287,464
Cash and cash equivalents	3,580,870	4,287,464

As of September 30, 2016, cash and cash equivalents are mainly held in CHF and USD.

6.2 Bank loans payable

On June 26, 2015, Venturetec reduced its credit facility from USD 4,500,000 to USD 1,500,000. Within this new credit facility and as of September 30, 2016, the total amount of USD 1.5 million is utilized, consisting of the following draw downs:

Draw down date	Amount	Int. Rate %	Maturity	Carrying amount USD
16.09.16	USD 1,500,000	1.5039	16.12.16	1,500,940
Bank loans payable incl. accrued interests a.o. 30.09.2016				1,500,940

The credit facility is structured as a 3 month roll over credit and secured with the assets of the Company.

7 Other accounts receivable

	30.09.16	30.09.15
	USD	USD
VAT Receivable	11,362	5,057
Other accounts receivable from related parties	135,806	0
Escrow ETEX	202,018	350,000
Escrow mPortal	1,110,781	1,110,781
Impairment of Escrow mPortal	(555,391)	0
Total other accounts receivable	904,576	1,465,838

The escrow amounts (ETEX and mPortal) relate to the unpaid portion of the sales price receivable resulting from the sale of the investments in ETEX (October 2014) and mPortal (June 2015). Any potential additional payments from these sales (related to an earn out clause) are considered highly uncertain and are therefore not recognized as at September 30, 2016. The payout of the escrow amounts are subject to indemnifications and warranties which are part of the merger agreements from the disinvestments of ETEX and mPortal which in certain circumstances even go beyond the unpaid amounts.

Escrow ETEX: An amount of USD 147,982 from the ETEX escrow account was paid in October 2015. The remaining amount of USD 202,018 is due and expected to be paid in October 2016.

Escrow mPortal: The amount of USD 1,110,781 was due for payment as of September 5, 2016. Since there was a claim demanded on September 3, 2016, this amount was not paid out. The valuation adjustment of 50% of the outstanding receivable reflects New Venturetec's estimated impact of this claim on the amount which will finally be paid, including costs incurred for defending the claim.

	30.09.2016	30.09.2015
	USD	USD
Not past due	349,186	1,465,838
Past due 1–30 days (specific impaired 50%)	555,390	0
Total other accounts receivable	904,576	1,465,838

Notes to the consolidated financial statements for the year ended September 30, 2016

8 Venture capital investments

8.1 Summary

	Note	30.09.2016 USD	30.09.2015 USD
Venture capital investments (original cost)	8.3/8.4	45,041,524	45,041,524
Cumulative fair value adjustments	8.3/8.4	(20,573,151)	38,742,445
Total venture capital investments at fair value	8.3/8.4	24,468,373	83,783,969

As of September 30, 2016 and September 30, 2015, the Group's venture capital investments in early stage companies are primarily in the form of common or preferred shares.

As of September 30, 2016 and September 30, 2015, the Company did not hold any notes receivable.

8.2 List of venture capital investments

	Place of business	Approximate paid-in capital ¹		Approximate percentage held ¹	
		30.09.2016 USD million	30.09.2015 USD million	30.09.2016 %	30.09.2015 %
Biotechnology					
Osiris Therapeutics	USA	291.1	290.0	12.2	12.7
Myriad Genetics	USA	830.1	745.4	0.2	0.2
Prolexys Pharmaceuticals	USA	n/a	2.8	n/a	14.6

¹ Paid-in capital includes common and preferred share capital and any additional paid-in capital, as of the date of the most recent financial statements. The numbers represent the structure of a typical early stage company. There may be immediate changes, events which will change the structure and dilute the percentage and voting rights held in the companies. There is no relationship between changes of such numbers and the value of the investment. No assurance can be given that any development will be in favor of the investment value. The approximate percentage held includes effects of potential dilution.

8 Venture capital investments (continued)

8.3 Movements of cost and changes in fair value, prior year

	Cost 01.10.2014 USD	Additions USD	Disposals USD	Cost 30.09.2015 USD	Fair value 30.09.2015 USD
Biotechnology					
Osiris Therapeutics	24,173,023	0	0	24,173,023	75,787,969
Myriad Genetics	5,214,880	653,621	0	5,214,880	7,496,000
Prolexys Pharmaceuticals	15,000,000	0	0	15,000,000	500,000
Etex	2,664,248	0	(2,664,248)	0	0
Technology					
Reverb Networks	1,000,000	1,350,000	(2,350,000)	0	0
mPortal	10,370,000	0	(10,370,000)	0	0
Total investments	58,422,151	2,003,621	(15,384,248)	45,041,524	83,783,969

	Cumulative fair value adjustments 01.10.2014 USD	Gains USD	Losses USD	Increase due to disposals ¹ USD	Cumulative fair value adjustments 30.09.2015 USD
Biotechnology					
Osiris Therapeutics	27,487,536	24,127,410 ²	0	0	51,614,946
Myriad Genetics	1,743,148	0	(115,649) ³	0	1,627,499
Prolexys Pharmaceuticals	(14,500,000)	0	0	0	(14,500,000)
Etex	(1,321,460)	92,859	0	1,228,601	0
Technology					
Reverb Networks	0	0	(2,350,000) ⁴	2,350,000	0
mPortal	2,542,500	0	(5,023,110)	2,480,610	0
Total investments	15,951,724	24,220,269	(7,488,759)	6,059,211	38,742,445

¹ Generally, a positive amount reflects cumulative loss on disposal of an investment, a negative amount a cumulative realized gain on disposal of an investment.

² Based on quoted price of the Osiris Therapeutics shares on NASDAQ (OSIR).

³ Based on quoted price of the Myriad Genetics shares on NASDAQ (MYGN).

⁴ The investment in Reverb was written off due to bankruptcy of the company.

Notes to the consolidated financial statements for the year ended September 30, 2016

8 Venture capital investments (continued)

8.4 Movements of cost and changes in fair value, current year

	Cost 01.10.2015 USD	Additions USD	Disposals USD	Cost 30.09.2016 USD	Fair value 30.09.2016 USD
Biotechnology					
Osiris Therapeutics	24,173,023	0	0	24,173,023	20,352,373
Myriad Genetics	5,868,501	0	0	5,868,501	4,116,000
Prolexys Pharmaceuticals	15,000,000	0	0	15,000,000	0
Technology					
Reverb Networks	0	0	0	0	0
Total investments	45,041,524	0	0	45,041,524	24,468,373
	Cumulative fair value adjustments 01.10.2015 USD	Gains USD	Losses USD	Decrease due to disposals ¹ USD	Cumulative fair value adjustments 30.09.2016 USD
Biotechnology					
Osiris Therapeutics	51,614,946	0	(55,435,596) ²	0	(3,820,650)
Myriad Genetics	1,627,499	0	(3,380,000) ³	0	(1,752,501)
Prolexys Pharmaceuticals	(14,500,000)	0	(500,000) ⁴	0	(15,000,000)
Technology					
Reverb Networks	0	160,000 ⁵	0	(160,000)	0
Total investments	38,742,445	160,000	(59,315,596)	(160,000)	(20,573,151)

9 Financial instruments and fair value

9.1 Fair value information

Valuation of financial instruments

Fair values are measured using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

¹ Generally, a positive amount reflects cumulative loss on disposal of an investment, a negative amount a cumulative realized gain on disposal of an investment.

² Based on quoted price of the Osiris Therapeutics shares on NASDAQ (OSIR).

³ Based on quoted price of the Myriad Genetics shares on NASDAQ (MYGN).

⁴ Prolexys was not able to find a partner for the further development of its product nor was it able to sell the company over the last years. The company has to pay for the renewal of the license for its lead product and does not have the necessary cash to do so. Consequently, the investment was fully written off.

⁵ The investment in Reverb Networks was fully written off in the previous period due to insolvency of the company and has paid an unexpected liquidation dividend in current period of USD 160,000.

9 Financial instruments and fair value (continued)

9.1 Fair value information (continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, fair values are determined using valuation techniques.

Valuation techniques to estimate the fair values include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist if applicable, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and risk adjusted interest rates and other premia used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Fair value of venture capital investments:

Venture capital investments for which fair values were:

	30.09.2016		30.09.2015	
	USD	%	USD	%
– determined directly by reference to published price quotations	24,468,373	100%	83,283,969	99%
– determined using valuation techniques ¹	0	0%	500,000	1%
Total carrying amount	24,468,373	100%	83,783,969	100%

The total amount of the change in fair value estimated using a valuation technique that was recognized in the statement of comprehensive income in the current period amounted to a net loss of USD 340,000 (see note 9.3) (prior period: net loss of USD 7,280,251).

Additional information regarding investments with published price quotations:

Osiris Therapeutics: Osiris Therapeutics, Inc. ("Osiris"), Venturetec Inc.'s major investment, identified accounting errors during the course of its ongoing review of its accounting for revenue recognition. This fact was previously disclosed in November 2015 in Osiris' Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and its Report on Form 8-K filed with the SEC on November 20, 2015. In those reports, Osiris disclosed its intention to restate its previously issued interim financial statements for the first and second quarter of 2015 and to make modifications to its audited financial statements for the year ended December 31, 2014.

Osiris is working diligently to complete its previously announced restatements of prior period financial statements and transition to a new independent registered public accounting firm for the 2015 audit so that it is in a position to bring its SEC filings up to date.

The Audit Committee of the Board of Directors of Osiris has completed an independent review of the accounting matters with the assistance of outside professionals. Osiris, under the direction of the Audit Committee, is working diligently with its former independent registered accounting firm to complete the restatement of its 2014 audited and interim financial statements as soon as possible. Once that process is complete, Osiris expects to transition to a new independent registered accounting firm and begin work on the 2015 financial statements.

As a result of these matters, Osiris has delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"), its Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 ("Q1 2016 Form 10-Q"), and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 ("Q2 2016 Form 10-Q"). As a result, Osiris is currently out of compliance with NASDAQ Stock Market Listing Rule 5250(c)(1).

¹ This value was determined using valuation techniques that are not supported by observable market prices or rates.

Notes to the consolidated financial statements for the year ended September 30, 2016

9 Financial instruments and fair value (continued)

9.1 Fair value information (continued)

Osiris submitted to the NASDAQ listing qualifications staff (the "Staff") a plan to regain compliance with NASDAQ's continued listing requirements. On May 24, 2016, NASDAQ granted an exemption to the NASDAQ Listing Rule, extending the deadline until September 12, 2016 for Osiris to file all delinquent reports with the SEC, including the 2015 Form 10-K, Q1 2016 Form 10-Q, and Q2 2016 Form 10-Q. Although Osiris is working diligently to finalize these reports, Osiris was unable to bring its SEC filings up to date by the September 12, 2016 deadline.

Consequently, on September 14, 2016, Osiris received an anticipated letter from NASDAQ, stating that unless Osiris requests a hearing before a NASDAQ Listing Qualifications Panel (a "Hearings Panel") by September 21, 2016, Osiris's common stock will be delisted. Under NASDAQ's rules and procedures, in general, a company's request for such a hearing automatically stays any delisting for 15 calendar days from the deadline to request a hearing. The letter states that the hearing would be expected to occur 30–45 days from the date of the hearing request.

If the Hearings Panel grants the Osiris's request for a further stay (which is discretionary on the part of the Hearings Panel and therefore not assured), any final delisting will be stayed until further Hearings Panel proceedings. The NASDAQ Rules also permit Osiris to appeal decisions from the Hearings Department to the NASDAQ Listing Council.

On September 21, 2016, Osiris requested an appeal of the NASDAQ Staff determination, and also requested a further stay of delisting.

On October 6, 2016, Osiris received a letter from NASDAQ's Office of General Counsel stating that a NASDAQ Hearings Panel had granted the Osiris's request for a stay of the delisting of Osiris's common stock until such time as the NASDAQ Hearings Panel makes a decision on the merits following a hearing, which hearing has been scheduled for November 10, 2016. The letter further states that, accordingly, Osiris's common stock will continue to trade on the NASDAQ Stock Market pending the November 10, 2016 hearing and the issuance of a final decision by the NASDAQ Hearings Panel thereafter.

While Osiris is continuing to work diligently to complete its previously announced restatements of prior period financial statements and bring its SEC filings up to date, there can be no assurance regarding the timing or ultimate outcome of this process or the ability of the Osiris to successfully maintain its NASDAQ listing.

Since September 30, 2016, the stock price of Osiris has decreased from USD 4.96 to USD 4.05 as of the date when these consolidated financial statements were approved. Given the stake Venturetec holds in Osiris, this results in a non-adjusting negative effect in the amount of USD 3,734,004 million. The impact of the decision of the NASDAQ hearings panel – irrespective of the outcome – on the valuation of Venturetec Inc.'s investment in Osiris is uncertain and cannot be foreseen.

The carrying amounts of the Group's other financial assets and liabilities at the balance sheet date approximated their fair values.

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized:

Financial assets at fair value through profit or loss	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Equity securities	24,468,373	0	0	24,468,373
Total as of September 30, 2016	24,468,373	0	0	24,468,373
Equity securities	83,283,969	0	500,000	83,783,969
Total as of September 30, 2015	83,283,969	0	500,000	83,783,969

9 Financial instruments and fair value (continued)

9.2 Categories of financial instruments and fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

30.09.2016	Carrying amount USD	Fair value			Total USD
		Level 1 USD	Level 2 USD	Level 3 USD	
Cash and cash equivalents	3,580,870				
Other account receivables	904,576				
Total loans and receivables	4,485,446				
Venture capital investments	24,468,373	24,468,373	0	0	24,468,373
Total designated at fair value through profit or loss	24,468,373				
Accrued advisory fees	16,231				
Other accrued expenses	211,511				
Loans payable to related parties	6,634,399	0	0	6,634,399	6,634,399
Bank loan payable	1,500,940				
Convertible bonds	15,868,991 ¹	0	0	14,517,985	14,517,985
Total financial liabilities at amortized cost	24,232,072				
30.09.2015	Carrying amount USD	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Cash and cash equivalents	4,287,464				
Other account receivables	1,465,838				
Total loans and receivables	5,753,302				
Venture capital investments	83,783,969	83,283,969	0	500,000	83,783,969
Total designated at fair value through profit or loss	83,783,969				
Accrued advisory fees	175,238				
Other accrued expenses	216,531 ²				
Loans payable to related parties	6,847,961	0	0	6,847,961	6,847,961
Bank loan payable	1,500,740				
Convertible bonds	15,767,875 ³	0	0	15,889,886	15,889,886
Total financial liabilities at amortized cost	24,508,345				

¹ Accrued interests amounting to USD 425,779 included.

² The difference to the amount stated in the balance sheet relates to accruals for taxes.

³ Accrued interests amounting to USD 424,510 included.

Notes to the consolidated financial statements for the year ended September 30, 2016

9 Financial instruments and fair value (continued)

9.2 Categories of financial instruments and fair value (continued)

Basis for determination of the fair values:

The carrying amounts of cash equivalents, bank loans payable, accounts receivable, accounts payable and accrued expenses due to the short maturity approximate fair value.

For the determination of the fair value of the venture capital investments refer to notes 5c) and 8.

The fair value of the loans payable to related party and convertible bonds is determined by discounting the future contractual cash flows. For loans payable to related party and the convertible bonds in the fiscal year 2015/16, the applied discount factor of 11.9% is determined based on the Capital Asset Pricing Model (CAPM). For the previous period, for convertible bonds and loans payable to related party, the applied discount factor of 4.0% is the USD government yield curve plus a credit spread for a BB rated investment.

9.3 Equity investment Level 3

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Unlisted equity investment Level 3

	Year ended September 30, 2016 USD	Year ended September 30, 2015 USD
Total as of October 1	500,000	15,755,288
Total gains and losses recognised in profit or loss included in		
– Gains on venture capital investments	160,000	92,859
– Losses on venture capital investments	(500,000)	(7,373,110)
Purchases	0	1,350,000
Redemption	0	0
Disposals	(160,000)	(9,325,037)
Transfers from Level 1 to Level 3	0	0
Total as of the end of the period	0	500,000

During the year ended September 30, 2016, there occurred no transfers between the Levels. Gains on venture capital investments (USD 160,000) and disposals (USD 160,000) relates to received liquidation dividend of fully written off investment in Reverb Networks. USD 500,000 of the losses on venture capital investments disclosed above refer to the fully written off investment in Prolexys.

During the year ended September 30, 2015, there occurred no transfers between the Levels. USD 92,859 of the gains and USD 7,373,110 of the losses on venture capital investments disclosed above referred to investments were still held at the balance sheet date.

10 Convertible Bonds

	Year ended September 30, 2016 USD	Year ended September 30, 2015 USD
Carrying amount of liability carried forward a.o. October 1	15,767,875	16,013,579
Interest expenses for the current period	666,161	684,985
Interests paid out	(612,838)	(630,246)
FX Adjustments	47,793	(300,443)
Carrying amount of liability as of the end of the period	15,868,991	15,767,875
Thereof current (accrued interest)	425,779	424,510
Thereof non-current	15,443,212	15,343,365

In January 23, 2014, New Venturetec issued convertible bonds with the following terms:

Date of issuance	January 23, 2014
Aggregated principal amount	CHF 15,055,000
Interest rate	4% per annum
Life	4 years / until January 23, 2018
Principal amount	CHF 5,000
Conversion	Each Bond of CHF 5,000 principal amount is voluntarily convertible into shares of the Company.
Conversion price	CHF 9.50 per share

Peter Friedli, the chairman of New Venturetec Ltd. subscribed to CHF 12,000,000 of the Convertible Bonds which have not been subscribed by existing shareholders.

Andreas von Sprecher, member of the Board of New Venturetec Ltd. subscribed to CHF 50,000 of the Convertible Bonds which have not been subscribed by existing shareholders.

In accordance with the terms and conditions of the convertible bond, Peter Friedli, Chairman of the Board of New Venturetec Ltd. has the right to voluntarily convert his holdings in the convertible bond into 1,263,157 shares of New Venturetec Ltd.

In accordance with the terms and conditions of the convertible bond, Andreas von Sprecher, member of the Board of New Venturetec Ltd. has the right to voluntarily convert his holdings in the convertible bond into 5,263 shares of New Venturetec Ltd.

Notes to the consolidated financial statements for the year ended September 30, 2016

11 Share capital and capital management

11.1 History of changes in share capital

The share capital as of September 30, 2016 of CHF 30,000,000 (USD 20,785,350) consisted of 5,000,000 bearer shares with a par value of CHF 6.00 each fully paid in.

The conversion options / own equity instruments comprise the amount allocated to the equity component for the convertible bonds issued by New Venturetec Ltd. in January 2014 (see note 10).

Conditional share capital: The share capital could be increased by an amount not exceeding CHF 10,200,000 through the issue of a maximum of 1,700,000 registered shares to be fully paid-in with a nominal value of CHF 6.00 each through the exercise of conversion or option rights in connection with bonds or similar instruments that are or may be issued by the Company or its subsidiary.

On November 25, 2014, the ordinary shareholder meeting of New Venturetec Ltd. approved the creation of authorized capital with nominal value of up to CHF 15,000,000 through the issuance of up to 2,500,000 bearer shares with a nominal value of CHF 6.00 per share by November 25, 2016 the latest.

11.2 Significant shareholders

As of September 30, 2016 the following shareholders filed a holding of 3% or more of the total outstanding shares to the Company to SIX Swiss Exchange:

Between 5% and 10%	Reinhard und Rosa Siegrist Alexander und Chantal Biner, through 4iS Four Eyes AG, St.Gallen
Between 3% and 5%	RM Strategic Fund HERCULIS Partners "Aries" Fund, Liechtenstein

11.3 Capital management

The objective of the Group is to achieve long term capital appreciation through equity and debt investments in start-up, emerging and growth companies which the Group believes offer significant growth opportunities. The Group identifies successful and promising companies and then actively work with management over a five to ten year time horizon.

The investment decisions will be based upon (i) the Group's ability to identify companies which can successfully utilize capital at an early stage in their life cycle, (ii) carefully selected or assessed management teams, (iii) strategic advice for positioning such companies in high growth markets promising to generate public interest at a future date and (iv) an influence on the portfolio companies.

The Group measures its performance based on the development of its Net Asset Value (NAV). The NAV per share is a figure which is calculated on a regular, consistent basis to approximately reflect the intrinsic value of one share of the Company. The NAV is expected to serve as an indicator for the price of the shares of the Company. The NAV per share is calculated on a bi-weekly basis by dividing the value of the net assets of the Group (the value of its assets less its liabilities) by the total number of shares outstanding.

It is not the aim of the Group to leverage its equity for the purpose of making investments. Nevertheless, the Group may carry some debt in order to balance the availability of liquidity and to avoid dilution of its investments. The Group's debt financing is primarily provided by Mr. Peter Friedli through accrued management fees and accrued performance fees that were converted into loans payable (see note 15.3) and convertible bond (see note 10) as well as bank loans (see note 6.2).

It is not the Group's policy to pay out any dividends.

Notes to the consolidated cash flow statement

12 Advisory fees

The fully owned subsidiary Venturetec, Inc. entered into an investment advisory agreement with Madison Investment Advisor, Inc., which is fully owned by Peter Friedli, the Chairman of the board of directors of New Venturetec Ltd., on October 1, 2014. In accordance with the investment advisory agreement, the fee is determined to an all inclusive fee of 1% per annum on the group's net asset value as estimated based on the valuation guidelines of the Company on a monthly basis. The advisory fee is payable to the investment advisor quarterly by the end of each quarter.

Of the 1% all inclusive advisory fee, the lower of USD 50,000 or 10% of the annual advisory fee will directly be paid to a third party for administrative services. The advisory fees for the fiscal year 2015/16 paid or payable to Madison Investment Advisor are USD 174,308 (prior period advisory fee: USD 586,254).

The investment advisory agreement can be terminated with one year written notice.

The advisory fee is subject to the retrospectively yearly approval by the annual shareholder meeting in accordance with OaEC and the by-laws of the Company.

Accrued advisory fees are as follows:

	Year ended 30.09.2016 USD	Year ended 30.09.2015 USD
Accrued advisory fees as of October 1,	175,238	83,779
Advisory fees for the current period	193,676	636,254
Advisory fees paid out	(352,683)	(544,795)
Total advisory fees accrued as of end of period	16,231	175,238

The Investment advisor is permitted to offer to, and perform services, if and when needed and approved by the investees, to the benefit of, the Company's investees and get compensated for such services accordingly.

13 Income taxes

For the year ended September 30, 2016 and 2015, no current tax expenses or provisions were recognized due to the accumulated deficits incurred by the Parent Company. The tax effect of the tax loss carry forward amounts to USD 6.3 million and is calculated at a tax rate of 7.83% of the tax loss carry forward of USD 80.9 million. No tax asset on the tax loss carry forward was recognized due to the uncertainty related to the current economic environment and the high risk related to the venture capital business. The tax loss carry forward will expire in 2018 (USD 7.9 Mio), 2021 (USD 13.7 Mio) and 2023 (USD 59.3 Mio).

Deferred taxes arise only on the revaluation of investments and on the undistributed earnings of the Subsidiary. The related deferred tax liability and any changes thereto are debited or credited to deferred tax expense. They are calculated at 0.5%, which is the estimated tax rate on dividend income applicable to the Parent Company. A deferred tax income of USD 220,850 was recognized in profit or loss in the current period, resulting from the change in positive cumulative fair value adjustments, as disclosed in note 8.3 and 8.4 (prior period: deferred tax expense USD 107,347). No deferred taxes are calculated on translation adjustments resulting from the translation of the parent company's financial statements, as the parent company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the consolidated financial statements for the year ended September 30, 2016

Notes to the consolidated cash flow statement

14 Additional information on the cash flow statement

Significant non-cash transactions:

Related to the year ended September 30, 2016

- none

Related to the year ended September 30, 2015

- none

Other notes

15 Related parties

15.1 Investment Advisor

Since January 1, 2013, Madison Investment Advisor, Inc., Panama is the investment advisor of Venturetec, Inc. The investment advisor supports and advises the Board on specific duties with regards to the selection, purchase, sale, structure and disposal of the Group's investments. Starting October 1, 2014, the Board of Directors and the Investment Advisor agreed to an all inclusive fee of 1.00% of the net asset value per annum without any additional costs to be reimbursed by the Company.

Mr. Peter Friedli is the President and owner of Madison Investment Advisor, Inc., Panama and at the same time is the Chairman of the Board of Directors of New Venturetec Ltd. Furthermore, he is also a member of the Board of Directors of certain investees. As Chairman of the Board of Directors of the Investment Advisor of Venturetec Inc. and other investment companies, he may be able to exercise significant influence or control over the Company's investees.

15.2 Board of Directors

USD 50,883 were accrued as fees to the Board Directors for the period under review and USD 50,883 were paid out related to accrued fees for prior periods (2015: USD 52,328 accrued and USD 52,328 paid out). These fees are included in the general and administrative expenses.

15 Related parties (continued)**15.3 Loans and convertible bonds payable to related parties**

All loans payable to related parties are entered into with Mr. Peter Friedli.

Loans payable to related parties a.o. 30.09.2016

	Principal USD	Accrued Interests USD	Total USD
4% secured promissory note ^{1) 3)}	4,874,290	249,844	5,124,134
4% secured promissory note ^{2) 3)}	1,436,626	73,639	1,510,265
Total	6,310,916	323,483	6,634,399

Loans payable to related parties a.o. 30.09.2015

	Principal USD	Accrued Interests USD	Total USD
4% secured promissory note ¹⁾	5,228,922	52,289	5,281,211
4% secured promissory note ²⁾	1,541,149	25,601	1,566,750
Total	6,770,071	77,890	6,847,961

Loans payable to related parties a.o. 30.09.2016

	Principal USD	Accrued Interests USD	Total USD
4% convertible bonds payable to Mr. Friedli	12,309,435	339,379	12,648,814
4% convertible bonds payable to Mr. von Sprecher	51,289	1,414	52,703

Loans payable to related parties a.o. 30.09.2015

	Principal USD	Accrued Interests USD	Total USD
4% convertible bonds payable to Mr. Friedli	12,229,849	338,367	12,568,216
4% convertible bonds payable to Mr. von Sprecher	50,958	1,410	52,368

- 1) On May 2, 2014, outstanding promissory notes of CHF 2,816,269 and CHF 2,273,041 due to Mr. Friedli were combined and replaced by a 4% secured promissory note due to Mr. Friedli in the total amount of CHF 5,089,310, due on December 31, 2014. The term of the note will be automatically extended by six month on each consecutive maturity date and the current due date is June 30, 2017. The note can be terminated on each maturity date by either party upon a 3 month written notice.
- 2) On April 23, 2015, New Venturetec Ltd. issued a 4% secured promissory note due to Mr. Friedli in the amount of CHF 1,500,000, due on December 31, 2015. The term of the note will be automatically extended by six month on each consecutive maturity date and the current date is June 30, 2017. The note can be terminated on each maturity date by either party upon a 3 month written notice.
- 3) Given the current situation of the company, the market interest rate used to value the loans at the last extension date amounted to 11.9%. The more favorable terms resulting from the difference between the agreed interest rate reflects an equity contribution from shareholders.

The notes are secured by all tangible and intangible assets of New Venturetec Ltd. However, the notes due to Mr. Friedli are covered by the subordination agreement with regards to the capital loss in the statutory financial statements of New Venturetec Ltd. in accordance with Art. 725 para. 1 CO. Therefore, Mr. Friedli has no right to demand satisfaction from these collaterals for the duration of the subordination agreement. The subordination agreement is only terminated if New Venturetec Ltd. is not in the situation of a capital loss in accordance with Art. 725 para. 1 CO.

Notes to the consolidated financial statements for the year ended September 30, 2016

15 Related parties (continued)

15.4 Interests on loans and convertible bonds payable to related parties

During the reporting period under review, interests on loans and bonds convertible payable to related parties were recorded in profit or loss as follows:

Interests on loans and bonds convertible payable to related parties	Year ended 30.09.2016 USD	Year ended 30.09.2015 USD
4% secured promissory notes to Mr. Friedli ¹	386,510	240,613
4% convertible bonds to Mr. Friedli	530,980	545,986
4% convertible bonds to Mr. von Sprecher	2,212	2,275
Total interests on loans from related parties	919,702	788,874

15.5 Related party transactions

- Advisory fees in the amount of USD 174,308 were recognized for the investment advisor for the year ended September 30, 2016 (previous period: USD 586,254).
- Interest on loans and bonds to related parties in the amount of USD 919,702 (previous period: USD 788,874) were recognized in the reporting period.
- In previous period, the Company entered into a new loan agreement with a related party at which the related party borrowed USD 1,569,859 to the Company.
- USD 50,883 were accrued as fees to the Board Directors for the period under review and USD 50,883 were paid out related to accrued fees for prior periods (2015: USD 52,328 accrued and USD 52,328 paid out).
- USD 135,806 relate to other receivables from related parties.

16 Financial risk management

The Group's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests:

- market risk, includes currency risk, interest rate risk and equity price risk.
- credit risk and
- liquidity risk

This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. All investment decisions for the Company as well as the Net Asset Value computation are made unilaterally by the Investment Manager. The Board of Directors is responsible for ensuring that the Investment Manager follows the investment policy set by the Company. However, it should be noted that Peter Friedli is Chairman of the Board of Directors and acting on behalf of the Investment Manager and that between him and the Company conflicts of interests may arise.

In order for the Company to be successful in investing in start-up and emerging companies, it must identify potentially profitable enterprises at an early stage in their development, a process which is very difficult even for people with considerable experience in the venture capital field. Furthermore, the Company is competing for investment opportunities with a number of other venture capital firms. The Company may also invest in businesses which are not start-up or emerging companies, but which are for various reasons seeking to raise additional capital without making a public offering of securities. These reasons can include adverse conditions in the public securities markets, or a record of earnings and/or growth, which is less than adequate for a successful public offering of securities.

¹ See note 15.3.

16 Financial risk management (continued)

16.1 Market risk

Market risk embodies the potential for both loss and gains and includes market price risk, currency risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The objective of Venturetec, Inc. is to achieve long-term capital appreciation through investments in venture companies which the Investment Manager believes offer significant growth opportunities. Venturetec Inc. invests in venture companies. Many of the investments relate to privately held companies. Although the risk of market fluctuation is balanced through the long term investment horizon the risk of venture capital investments is 100%. The Investment Manager monitors the capital market and adjusts the Net Asset Value of the portfolio on a bi-weekly basis.

16.1.1 Equity price risk

Equity price risk is the risk that the fair value of an equity investment will fluctuate as a result of changes in equity prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As all of the Company's equity investments are carried at fair value with fair value changes recognized in the income statement, all changes in market conditions will directly affect profit or loss.

Most of the investees are in a development stage, disclosing accumulated deficits and little or no revenues. Their ability to continue as a going concern may depend on additional funding. These investments offer the opportunity of significant capital gains, but involve a high degree of business and financial risks that can result in substantial losses, including the risk of a total unrecoverability of an investment. The financial risk management objectives and policy of New Venturetec Ltd. are to minimize dilution by structuring the initial investment accordingly. Other protective measures such as liquidation preferences are also part of the Company's policy. However, the operational risk remains. Furthermore, the Company does not hedge any foreign currencies or interest rate risk exposure. The risks of venture capital investments are 100%.

Sensitivity analysis

If for Osiris Therapeutics the price quoted as of September 30, 2016 at the NASDAQ would have increased/decreased by 10% with all other variables held constant profit or loss and equity would have been USD 2,035,000 higher/lower (as of September 30, 2015: USD 7,578,000).

If for Myriad Genetics the price quoted as of September 30, 2016 at the NASDAQ would have increased/decreased by 10% with all other variables held constant profit or loss and equity would have been USD 411,000 higher/lower (as of September 30, 2015: 750,000).

For not publicly listed investments a quantitative sensitivity analysis is not meaningful as the performance is linked to fundamental data (technology, management, milestones, etc.). For a detailed overview of the investment portfolio and its exposure refer to note 8.

Notes to the consolidated financial statements for the year ended September 30, 2016

16 Financial risk management (continued)

16.1.2 Currency risk

The Company's subsidiary is investing in its functional currency USD and the Net Asset Value per share is also published in US Dollars. Any investment in other currencies than the US Dollar might lead to positive or negative impacts on the Company's performance in its annual financial statements, including its statement of comprehensive income. The parent's company functional currency is the CHF.

As of September 30, 2016 only the following monetary financial assets and liabilities are denominated in currencies other than the functional currency of the group companies holding the assets and liabilities:

All amounts shown in USD

	USD	CHF
September 30, 2016		
Cash and cash equivalents	7,016	21,364
Intercompany loans	0	(20,492,167)
Net exposure as of September 30, 2016	7,016	(20,470,803)
September 30, 2015		
Cash and cash equivalents	7,098	45,859
Intercompany loans	0	(20,877,260)
Net exposure as of September 30, 2015	7,098	(20,831,401)

Sensitivity analysis

As of September 30, 2016, a 10 percent strengthening of the USD against the CHF would have increased net profit and equity by USD 1,861,000 (as of September 30, 2015: USD 1,894,000). A decrease by 10 percent would have had the same but opposite impact on net profit and equity. This analysis assumes that all other variables, in particular interest rates, remain constant.

16.1.3 Interest rate risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was as follows:

	Note	30.09.2016 USD	30.09.2015 USD
Fixed rate instruments			
Loans payable to related parties	15.3	(6,310,916)	(6,770,071)
Convertible bonds	10	(15,443,212)	(15,343,365)
Variable rate			
Cash and cash equivalents	6	3,580,870	4,287,464
Bank loans payable	6	(1,500,940)	(1,500,740)

Fair value sensitivity analysis for fixed rate instruments

The group's loans payable and liability portion of the convertible bond are carried at amortized cost. They are therefore not subject to interest rate risk, given that neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have decreased profit and loss by USD 15,000 (prior year: decreased USD 28,000). A decrease by 100 basis points would have had the same but opposite impact on profit and loss. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

16 Financial risk management (continued)

16.2 Credit risk

Credit risk is the risk that a counterparty will fail to discharge an obligation or commitment that it has entered into with the Company.

As at September 30, 2016, only cash and cash equivalents as disclosed in note 6 and other accounts receivables as disclosed in note 7 were exposed to credit risks. The carrying amounts of these assets represent their maximum credit risk exposure.

Cash and cash equivalents are deposited in banks and financial institution with a rating equivalent to "A" or higher on S&P ratings.

16.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Currently most of the liabilities are due to Mr. Peter Friedli and it is not expected that they will be called upon prior to the successful settlement of venture capital investments. Osiris and Myriad as the publicly traded companies could be liquidated if required. Nevertheless, Peter Friedli is Chairman and a member of the Board of Directors of Osiris Therapeutics and therefore subject to certain trading restrictions. These trading restrictions are also applicable to New Venturetec Ltd. and may have a negative impact on the liquidity of the Group.

The following table shows an analysis of the remaining contractual maturities of financial liabilities:

30.09.2016 USD	Carrying amount	Undiscoun- ted amount	Less than 3 months	3 months to a year	1 year to 2 years	More than 2 years
Accrued advisory fees	16,231	16,231	16,231	0	0	0
Other accrued expenses	211,511	211,511	211,511	0	0	0
Loans payable to related parties	6,634,399	7,197,721	0	7,197,721	0	0
Bank loans payable	1,500,940	1,505,702	1,505,702	0	0	0
Convertible bonds	15,868,991 ¹	16,749,794	0	620,363	16,129,431	0
Total	24,232,072	25,680,959	1,733,444	7,818,084	16,129,431	0

30.09.2015 USD	Carrying amount	Undiscoun- ted amount	Less than 3 months	3 months to a year	1 year to 2 years	More than 2 years
Accrued advisory fees	175,238	175,238	175,238	0	0	0
Other accrued expenses	216,531 ²	216,531	216,531	0	0	0
Loans payable to related parties	6,847,961	6,914,734	0	6,914,734	0	0
Bank loans payable	1,500,740	1,503,948	1,503,948	0	0	0
Convertible bonds	15,767,875 ³	17,318,401	0	618,514	618,514	16,081,373
Total	24,508,345	26,128,852	1,895,717	7,533,248	618,514	16,081,373

¹ Accrued interests amounting to USD 425,779 included.

² The difference to the amount stated in the balance sheet relates to accruals for taxes.

³ Accrued interests amounting to USD 424,510 included.

Notes to the consolidated financial statements for the year ended September 30, 2016

17 Earnings per Share

The calculation of diluted earnings per share has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	Year ended 30.09.2016 USD	Year ended 30.09.2015 USD
Profit attributable to ordinary shareholders (basic)	(60,428,524)	14,998,112
Interest expenses on convertible bonds, net of tax	666,161	684,985
Profit attributable to ordinary shareholders (diluted)	(59,762,363)	15,683,097
Weighted-average number of ordinary shares		
– outstanding a.o. September 30 (basic)	5,000,000	5,000,000
– that would be issued at conversion	1,584,737	1,584,737
Total weighted-average number of ordinary shares (diluted)	6,584,737	6,584,737
Earnings per share (basic)	(12.09)	3.00
Earnings per share (diluted)	(12.09)	2.38

Due to the loss incurred for the period, the diluted earnings per share corresponds to the basic earnings per share.

18 Subsequent events

The consolidated financial statements were authorized for issue by the Board of Directors on November 4, 2016.

The Board of Directors is not aware of any further events between September 30, 2016 and November 4, 2016, which would require adjustment to the carrying amounts of the Group's assets and liabilities as of September 30, 2016 or would require disclosure under this heading.



Report of the Statutory Auditor to the General Meeting of Shareholders of New Venturetec Ltd., Steinhausen

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements of New Venturetec Ltd., which comprise the balance sheet, income statement and notes (pages 69 to 75) for the year ended September 30, 2016.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended September 30, 2016 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter

We draw attention to note 5.2 to the financial statements which describes the uncertainty related to the potential delisting of New Venturetec's major investment in Osiris Therapeutics Inc. by NASDAQ and the potential corresponding impact of such decision on the valuation of the investment in and receivables from New Venturetec AG's subsidiary, Venturetec Inc., respectively. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We recommend that the financial statements submitted to you be approved.

Furthermore, we draw attention to the fact that half of the share capital and legal reserves is no longer covered (article 725 para. 1 CO). Due to the fact that the company's creditors subordinated their claims amounting to CHF 19.1 million, the Board of Directors has refrained from informing the general meeting about the loss of more than half of the share capital and legal reserves and to propose restructuring measures.

KPMG AG



Christoph Gröbli
Licensed Audit Expert
Auditor in Charge



Alexander Fähndrich
Licensed Audit Expert

Zurich, November 4, 2016

Balance sheet

	Note	September 30, 2016 CHF	September 30, 2015 CHF
Assets			
Cash and cash equivalents		21,845	124,227
Other account receivable	3	142,811	4,923
Accounts receivable from subsidiary		17,840,726	17,930,769
Current assets		18,005,382	18,059,919
Financial assets	4	4,150,000	11,589,310
Investments	5	5,000,000	55,000,000
Non-current assets		9,150,000	66,589,310
Total assets		27,155,382	84,649,229
Liabilities and equity			
Loan payable to related party, interest bearing	9/14	6,589,310	6,589,310
Accrued expenses and deferred income	6	816,105	777,577
Short term liabilities		7,405,415	7,366,887
Convertible bonds, interest bearing	7/14	15,055,000	15,055,000
Long term liabilities		15,055,000	15,055,000
Total liabilities		22,460,415	22,421,887
Share capital	8	30,000,000	30,000,000
Legal capital reserves			
Reserves from capital contributions		32,500,000	32,500,000
Accumulated losses			
Accumulated losses brought forward		(272,658)	(15,119,761)
Net (loss) / profit for the year		(57,532,375)	14,847,103
Shareholders' equity		4,694,967	62,227,342
Total liabilities and equity shareholders' equity		27,155,382	84,649,229

Income statement

	Note	Year ended September 30, 2016 CHF	Year ended September 30, 2015 CHF
Interest income from subsidiary		1,165,742	920,412
Foreign exchange profits		0	172,018
Reversal of impairment losses on investments	5	0	15,000,000
Total income		1,165,742	16,092,430
Interest expenses	10	(865,772)	(832,106)
Foreign exchange losses		(32,120)	0
General and administrative expenses		(435,802)	(411,421)
Impairment losses on investments	5	(50,000,000)	0
Impairment losses on financial assets	4	(7,439,310)	0
Total expenses		(58,773,004)	(1,243,527)
(Loss) / Profit before tax		(57,607,262)	14,848,903
Direct taxes		74,887	(1,800)
(Loss) / Profit after tax		(57,532,375)	14,847,103

Notes to the financial statements for the year ended September 30, 2016

1. Principles and Organisation

New Venturetec Ltd., Steinhausen ("the Company") was formed on July 16, 1997 and incorporated on August 8, 1997 for the purpose of direct and indirect investments in Swiss and foreign companies, especially in high risk venture capital companies in the industries of Biotechnology and Technology. The Company has its domicile in the canton of Zug since December 2008.

Foregoing a cash flow statement and additional disclosures in the notes

As New Venturetec Ltd. has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing liabilities and audit fees in the notes as well as a cash flow statement in accordance with the law.

2. Accounting principles

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations).

Information on balance sheet and income statement items

3. Other accounts receivable

	September 30, 2016 CHF	September 30, 2015 CHF
VAT Receivable	11,025	4,922
Other accounts receivable from related parties	131,786	0
Other accounts receivable	142,811	4,922

4. Financial assets

	September 30, 2016 CHF	September 30, 2015 CHF
Loan to Venturetec Inc. (subsidiary)	11,589,310	11,589,310
Impairment losses	(7,439,310)	0
Financial assets	4,150,000	11,589,310

The loan to Venturetec Inc. was subject to a valuation adjustment to reflect the changes in the fair value of the underlying portfolio companies held by the subsidiary.

5. Investments

5.1. General information

The company owns as sole investment 100% of the shares in Venturetec, Inc., Tortola, British Virgin Islands, incorporated on September 11, 1996, with a share capital of USD 20 million. As of September 30, 2016 and September 30, 2015, the Company's venture capital investments are held via this subsidiary. A list and further details of these investments are set out in note 8 to the consolidated financial statements of New Venturetec Ltd. as of September 30, 2016.

The historical costs of the investment in Venturetec Inc. amounting to CHF 125 million were subject to several valuation adjustments in the past and in the actual period to reflect the changes in the fair value of the underlying portfolio companies held by the subsidiary.

5.2. Additional information on investments held by the subsidiary

Osiris Therapeutics:

Osiris Therapeutics, Inc. ("Osiris"), Venturetec Inc.'s major investment, identified accounting errors during the course of its ongoing review of its accounting for revenue recognition. This fact was previously disclosed in November 2015 in Osiris' Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and its Report on Form 8-K filed with the SEC on November 20, 2015. In those reports, Osiris disclosed its intention to restate its previously issued interim financial statements for the first and second quarter of 2015 and to make modifications to its audited financial statements for the year ended December 31, 2014.

Osiris is working diligently to complete its previously announced restatements of prior period financial statements and transition to a new independent registered public accounting firm for the 2015 audit so that it is in a position to bring its SEC filings up to date.

The Audit Committee of the Board of Directors of Osiris has completed an independent review of the accounting matters with the assistance of outside professionals. Osiris, under the direction of the Audit Committee, is working diligently with its former independent registered accounting firm to complete the restatement of its 2014 audited and interim financial statements as soon as possible. Once that process is complete, Osiris expects to transition to a new independent registered accounting firm and begin work on the 2015 financial statements.

As a result of these matters, Osiris has delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Form 10-K"), its Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 ("Q1 2016 Form 10-Q"), and its Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 ("Q2 2016 Form 10-Q"). As a result, Osiris is currently out of compliance with NASDAQ Stock Market Listing Rule 5250(c)(1).

Osiris submitted to the NASDAQ listing qualifications staff (the "Staff") a plan to regain compliance with NASDAQ's continued listing requirements. On May 24, 2016, NASDAQ granted an exemption to the NASDAQ Listing Rule, extending the deadline until September 12, 2016 for Osiris to file all delinquent reports with the SEC, including the 2015 Form 10-K, Q1 2016 Form 10-Q, and Q2 2016 Form 10-Q. Although Osiris is working diligently to finalize these reports, Osiris was unable to bring its SEC filings up to date by the September 12, 2016 deadline.

Consequently, on September 14, 2016, Osiris received an anticipated letter from NASDAQ, stating that unless Osiris requests a hearing before a NASDAQ Listing Qualifications Panel (a "Hearings Panel") by September 21, 2016, Osiris's common stock will be delisted. Under NASDAQ's rules and procedures, in general, a company's request for such a hearing automatically stays any delisting for 15 calendar days from the deadline to request a hearing. The letter states that the hearing would be expected to occur 30–45 days from the date of the hearing request.

If the Hearings Panel grants the Osiris's request for a further stay (which is discretionary on the part of the Hearings Panel and therefore not assured), any final delisting will be stayed until further Hearings Panel proceedings. The NASDAQ Rules also permit Osiris to appeal decisions from the Hearings Department to the NASDAQ Listing Council.

On September 21, 2016, Osiris requested an appeal of the NASDAQ Staff determination, and also requested a further stay of delisting.

On October 6, 2016, Osiris received a letter from NASDAQ's Office of General Counsel stating that a NASDAQ Hearings Panel had granted the Osiris's request for a stay of the delisting of Osiris's common stock until such time as the NASDAQ Hearings Panel makes a decision on the merits following a hearing, which hearing has been scheduled for November 10, 2016. The letter further states that, accordingly, Osiris's common stock will continue to trade on the NASDAQ Stock Market pending the November 10, 2016 hearing and the issuance of a final decision by the NASDAQ Hearings Panel thereafter.

While Osiris is continuing to work diligently to complete its previously announced restatements of prior period financial statements and bring its SEC filings up to date, there can be no assurance regarding the timing or ultimate outcome of this process or the ability of Osiris to successfully maintain its NASDAQ listing.

Since September 30, 2016, the stock price of Osiris has decreased from USD 4.96 to USD 4.05 as of the date when the consolidated financial statements were approved. Given the stake Venturetec Inc. holds in Osiris, this results in a non-adjusting negative effect in the amount of USD 3,734,004 million. The impact of the decision of the NASDAQ hearings panel – irrespective of the outcome – on the valuation of Osiris and the corresponding effect on the valuation of the investment in and loans and receivables from New Venturetec AG's subsidiary, Venturetec Inc., respectively, is uncertain and cannot be foreseen at this stage.

6. Accrued expenses and deferred income

	Year ended September 30, 2016 CHF	Year ended September 30, 2015 CHF
Accrued expenses	205,250 ¹	210,750 ¹
Accrued interests	610,855 ²	488,986 ²
Provision for taxes	0	77,841
Accrued expenses and deferred income	816,105	777,577
¹ thereof payable to bodies	105,000	120,000
² thereof payable to related parties	528,385	406,516

7. Convertible bonds, interest bearing

On January 23, 2014, New Venturetec Ltd. issued convertible bonds with the following terms:

– Aggregated principal amount	CHF 15,055,000
– Interest rate	4% per annum
– Life	4 years / until January 23, 2018
– Principal amount	CHF 5,000
– Conversion	Each Bond of CHF 5,000 principal amount is voluntarily convertible into shares of the Company.
– Conversion price	CHF 9.50 per share

8. Share capital and authorized capital

The share capital as of September 30, 2016 in the amount of CHF 30,000,000 consisted of 5,000,000 bearer shares with a par value of CHF 6.00 each fully paid in (previous year 5,000,000 bearer shares with a par value of CHF 6.00 each, fully paid in).

Conditional share capital: The share capital could be increased by an amount not exceeding CHF 10,200,000 through the issue of a maximum of 1,700,000 registered shares to be fully paid-in with a nominal value of CHF 6 each through the exercise of conversion or option right in connection with bonds or similar instruments that are or may be issued by the Company or its subsidiary.

On November 25, 2014, the ordinary shareholder meeting of New Venturetec Ltd. approved the creation of authorized capital with nominal value of up to CHF 15,000,000 through the issuance of up to 2,500,000 shares with a nominal value of CHF 6.00 per share by November 25, 2016 the latest.

9. Loan payable to related party, interest bearing

	September 30, 2016 CHF	September 30, 2015 CHF
4% secured promissory note	5,089,310	5,089,310
4% secured promissory note	1,500,000	1,500,000
Loan payable to related party	6,589,310	6,589,310

The 4% secured promissory notes are both payable to Mr. Peter Friedli. The term of the notes will be automatically extended by six months on each consecutive maturity date and the current due date is June 30, 2017. The notes can be terminated on each maturity date by either party upon a 3 month written notice.

The notes are secured by all tangible and intangible assets of New Venturetec Ltd. However, the notes due to Mr. Friedli are covered by the subordination agreement with regards to the capital loss in accordance with Art. 725 para. 1 CO. Therefore, Mr. Friedli has no right to demand satisfaction from these collaterals for the duration of the subordination agreement. The subordination agreement is only terminated if New Venturetec Ltd. is not in the situation of a capital loss in accordance with Art. 725 para. 1 CO.

10. Interest expenses

	September 30, 2016 CHF	September 30, 2015 CHF
Interest expenses on loans to related party	(263,572)	(229,906)
Interest expenses on convertible bonds	(602,200) ¹	(602,200) ¹
Interest expenses	(865,772)	(832,106)
¹ thereof payable to related parties	(482,000)	(482,000)

Other information

11. Full time employees

As of September 30, 2016 and September 30, 2015, the Company does not have any employees.

12. Significant shareholders

At balance sheet date the following shareholders filed a holding of 3% or more of the total outstanding shares to the Company to SIX Swiss Exchange:

As at September 30, 2016

Between 5% and 10%

- Reinhard und Rosa Siegrist
- Alexander und Chantal Biner, through 4iS Four Eyes AG, St.Gallen

Between 3% and 5%

- RM Strategic Fund
- HERCULIS Partners "Aries" Fund, Liechtenstein

As at September 30, 2015

Between 5% and 10%

- Reinhard und Rosa Siegrist
- Alexander und Chantal Biner, through 4iS Four Eyes AG, St.Gallen

Between 3% and 5%

- RM Strategic Fund

13. Remuneration of, and shares held by the Board of Directors

CHF 50,000 were accrued as fees to the Board Directors for the year under review and CHF 50,000 were paid out related to accrued fees for prior periods (2015: CHF 50,000 accrued and CHF 50,000 paid). Such fees are due in equal portions to Mr. Hans Lerch, Member of the Board of New Venturetec Ltd., and Mr. Andreas von Sprecher, Member of the Board of New Venturetec Ltd.. Mr. Peter Friedli, Chairman of the Board of New Venturetec Ltd., was not remunerated for serving on the Board.

Mr. Peter Friedli, Chairman of the Board of New Venturetec Ltd., was not remunerated for serving on the Board. Mr. Peter Friedli held 103,381 shares, Mr. Hans Lerch 20,000 shares and Mr. Andreas von Sprecher 3,000 shares of the Company as of September 30, 2016. No transactions in such shares took place during the year under review.

Peter Friedli, the chairman of New Venturetec Ltd. subscribed to CHF 12,000,000 of the Convertible Bonds which have not been subscribed by existing shareholders. In accordance with the terms and conditions of the convertible bond, Peter Friedli, Chairman of the Board of New Venturetec Ltd. has the right to voluntarily convert his holdings in the convertible bond into 1,263,157 shares of New Venturetec Ltd.

Andreas von Sprecher, member of the Board of New Venturetec Ltd. subscribed to CHF 50,000 of the Convertible Bonds which have not been subscribed by existing shareholders. In accordance with the terms and conditions of the convertible bond, Andreas von Sprecher, member of the Board of New Venturetec Ltd. has the right to voluntarily convert his holdings in the convertible bond into 5,263 shares of New Venturetec Ltd.

Further information with regard to related party transactions are disclosed in notes 11 and 15 to the consolidated financial statements of New Venturetec Ltd. as of September 30, 2016.

14. Capital loss according to Art. 725 para. 1 CO

The balance sheet of the New Venturetec Ltd. as of September 30, 2016 shows that one-half of the share capital and the legal reserves as per Art. 725 para. 1 CO are no longer covered. The Board of Directors analyzed and discussed the situation and deemed it as in the best interest of the Company and its shareholders to take the following action to address the capital loss:

On May 9, 2016, Peter Friedli and the Company signed a subordination agreement to address the capital loss of the company in accordance with Art 725 para. 1 CO. The total subordinated claim under this agreement of CHF 19,116,322 per September 30, 2016 is deferred and cannot be repaid as long as a balance sheet or interim balance sheet audited in accordance with Swiss Auditing Standards shows that the Company is not in a situation of a capital loss in accordance with Art 725 para. 1 CO anymore.

15. Events after the balance sheet date

The financial statements were authorized for issue by the Board of Directors on November 4, 2016.

The Board of Directors is not aware of any further events between September 30, 2016 and November 4, 2016, which would require adjustment to the carrying amounts of the Company's assets and liabilities as of September 30, 2016 or would require disclosure under this heading.

Risk factors of Osiris Therapeutics as per the Osiris Therapeutics annual report 2014

Risk Factors.

Risks Related To Our Business

We have a history of operating losses and may not achieve or sustain profitability.

Until fiscal 2009, we incurred losses in each year since our inception, and may incur additional losses over the next several years. As of December 31, 2014, we had an accumulated deficit of \$203.5 million. These losses resulted principally from costs incurred in our research and development programs and from our general and administrative expenses. These losses, among other things, have had and will continue to have an adverse effect on our stockholders' equity, total assets and working capital.

We expect to continue to incur significant operating expenses in the foreseeable future as we seek to:

- Complete our confirmatory Phase III quality random clinical trial with Grafix for complex diabetic foot wounds with exposed tendon or bone;
- continue other studies and initiate and pursue additional studies and possible clinical trials for our Biosurgery products, including Grafix for venus leg ulcers, which we have begun, and possibly other potential indications;
- manage regulatory issues and requirements related to the marketing and distribution of our products and product candidates, including issues related to FDA approval and third party payor reimbursement;
- maintain, expand and protect our intellectual property; and
- continue to add sales, operational, financial, accounting, facilities engineering and information systems personnel, consistent with expanding our operations.

The extent of our future operating losses or profits is highly uncertain, and we may not achieve or sustain profitability. If we are unable to achieve and then maintain profitability, the market value of our common stock will decline and you could lose part or all of your investment.

The current credit and financial market conditions may exacerbate certain risk affecting our business.

We rely upon third parties for certain aspects of our business, including collaboration partners, wholesale distributors, contract clinical trial providers, contract manufacturers and third-party suppliers. Because of the tightened global credit and continuing volatility in the financial markets, there may be a delay or disruption in the performance or satisfaction of commitments to us by these third parties, which could adversely affect our business.

We depend on key personnel.

Our future success depends to a significant extent on the skills, experience and efforts of our scientific, management, and sales personnel. These include Lode Debrabandere Ph.D., Alla Danilkovitch, Ph.D., Philip R. Jacoby, Jr., and Frank Czworka. We also rely upon the guidance and experience of Peter Friedli, the Chairman of our Board of Directors. The loss of any or all of these individuals could harm our business and might significantly delay or prevent the achievement of research, development or business objectives. We are party to an employment agreement with Dr. Debrabandere. The existence of an employment agreement does not, however, guarantee retention of any officer or employee, and we may not be able to retain any of these individuals, whether or not we have an employment agreement with them. Except for Dr. Debrabandere, none of our employees is employed for a specified term. Competition for personnel is intense. We may be unable to retain our current personnel or attract or integrate other qualified management and scientific personnel in the future.

The potential of our Biosurgery products and products under development to treat conditions may not be realized.

We are continually evaluating the potential of our Biosurgery products and products under development. Our products are susceptible to various risks, including undesirable and unintended side effects, unintended immune system responses, inadequate efficacy or other characteristics that may prevent or limit their commercial use, or if required, marketing approval. If the treatment potential of our products is not realized, the value of our technology, our development programs and our products could be significantly reduced. Because our Biosurgery products are comprised of human tissue, any negative developments regarding the therapeutic potential or side effects of human tissue products could have a material adverse effect on our business, financial condition and results of operations.

Our product development programs are based on novel technologies and are inherently risky.

We are subject to the risks of failure inherent in the development of products based on new technologies. The novel nature of our products and product candidates creates significant challenges in regards to product development and optimization, processing and manufacturing, government regulation, third-party reimbursement and market acceptance. For example, questions persist with regard to the necessity of FDA approval for some cell-based products, and therefore, the pathway to commercialization of our Biosurgery products may be more complex and lengthy. Additionally, cell-based products are subject to donor-to-donor variability, which can make standardization more difficult. As a result, the development and commercialization pathway for our products may be subject to increased uncertainty, as compared to the pathway for conventional products.

Our Biosurgery products represent new classes of therapy that the marketplace may not understand or accept.

The market may not understand or accept our products. We are developing products that represent novel treatments or therapies and which will compete with a number of more conventional products and therapies manufactured and marketed by others, including major pharmaceutical companies. The novel nature of our Biosurgery products creates significant challenges in regards to product development and optimization, manufacturing, government regulation, and third-party reimbursement. As a result, the development pathway for our Biosurgery products may be subject to increased scrutiny, as compared to the pathway for more conventional products.

The degree of market acceptance of any of our developed or potential products will depend on a number of factors, including:

- the clinical safety and effectiveness of our products and their perceived advantage over alternative treatment methods;
- our ability to convince health care providers that the use of our products in a particular procedure is more beneficial than the standard of care or other available methods;
- our ability to explain clearly and educate others on the use of human placental tissue, to avoid potential confusion with and differentiate ourselves from the ethical controversies associated with human fetal tissue;
- ethical controversies that may arise regarding the use of human tissue of any kind, including tissues derived from deceased donor, and distribution for profit of our deceased donor products;
- adverse reactions involving our biosurgery products or the products or product candidates of others that are human tissue based;
- our ability to supply a sufficient amount of our product to meet regular and repeated demand in order to develop a core group of medical professionals familiar with and committed to the use of our products; and
- the cost of our products and the reimbursement policies of government and third-party payors.

If the health care community does not accept our potential products for any of the foregoing reasons, or for any other reason, it could affect our sales, having a material adverse effect on our business, financial condition and results of operations.

The successful commercialization and distribution of our Biosurgery products will depend on obtaining reimbursement from third-party payors.

We distribute our Biosurgery products in the United States. We may expand our distribution to other countries in the future. In the United States and elsewhere, the market for any pharmaceutical or therapeutic product is affected by the availability of reimbursement from third-party payors, such as government health administration authorities, private health insurers, health maintenance organizations and pharmacy benefit management companies. Biosurgery products like Grafix, Cartiform and BIO⁴ may have higher costs or fees associated with them compared with more traditional products, due to the higher cost and complexity associated with their research, development and production, and the complexity associated with their distribution – which requires special handling, storage and shipment procedures and protocols. This, in turn, may make it more difficult for us to obtain adequate reimbursement from third-party payors, particularly if we cannot demonstrate a favorable cost-benefit relationship. Third-party payors may also deny coverage or offer inadequate levels of reimbursement for our products if they determine that the product has not received appropriate clearances from the FDA or other government regulators or is experimental, unnecessary or inappropriate.

In the countries of Europe and in some other countries, the pricing of prescription and therapeutic products and services, and reimbursement, are subject to increased governmental control. In addition, many other countries require pre-marketing approval for human tissue based products, or otherwise more extensively regulate human tissue based products than does the United States.

Regardless of whether we are required to conduct a successful clinical trial in order to market a product in the United States or a foreign country, we may nevertheless be required to conduct one or more clinical trials, and to publish one or more peer reviewed journal articles supporting the product, before we are able to obtain third party reimbursement. We may also be required to conduct additional clinical trials that compare the cost effectiveness of our products to other available therapies before third party payors will provide reimbursement. Conducting clinical trials is expensive and will result in delays in wide scale commercialization and reimbursement. Publishing of peer reviewed journal articles may also be costly and result in delays. In addition, even if our products otherwise meet the requirements for reimbursement, pricing negotiations with third party payers may take months and result in significant delay in obtaining approval for reimbursement.

Reimbursement policies also sometimes differ depending upon the setting in which the product is to be used. The use of our Biosurgery products in a hospital setting as part of a surgical or other more extensive procedure may have a reimbursement pathway that differs from a use in an outpatient setting for a more narrowly defined procedure. Thus, for example, the reimbursement pathway for Grafix – which we expect to be used more often in an outpatient setting – may differ from that for BIO – which we expect to be used more often in an in-patient hospital setting as part of a surgical procedure.

These differences may limit or make reimbursement more difficult for some products as compared to others, and influence our product development and marketing efforts in ways that may ultimately prove to be detrimental to us or our business.

Managing and reducing health care costs has been a general concern of federal and state governments in the United States and of foreign governments. Although we do not believe that any recently enacted or presently proposed U.S. legislation should impact our business specifically and negatively as compared to other health care product businesses generally, we might nevertheless be subject to future regulations or other cost-control initiatives that materially restrict the price we receive for our products. In addition, third-party payors are increasingly challenging the price and cost-effectiveness of medical products and services, and many limit reimbursement for newly approved health care products. In particular, third-party payors may limit the indications for which they will reimburse patients who use any products that we may develop. Cost control initiatives could decrease the price for products that we may develop, which would result in lower product revenues to us.

Our dependence upon human tissue necessary to produce our Biosurgery products may impact our ability to produce these products on a large scale.

Our Biosurgery products consist of human tissue. This tissue is obtained by us from not-for-profit donor procurement agencies. Grafix is processed from human placental tissue. BIO⁴ is processed from deceased donor bone. Cartiform is processed from deceased donor cartilage. While we are not aware of significant supply issues, and placental tissue and deceased donor bone and cartilage is generally available to us, the supplier agencies may not be able to provide us with sufficient amounts of tissue to meet the demand. In addition, the use of human tissue as a treatment for human disease and medical conditions has increased over recent years and continues to increase, creating greater and continually increasing competition and demand for donated human tissue. Even if we are successful in our efforts to expand our compliment of Biosurgery products, we may not be able to secure quantities of human tissue sufficient to meet the demand.

Our Biosurgery products are derived from human tissue and therefore have the potential for disease transmission.

The utilization of human tissue creates the potential for transmission of communicable disease, including but not limited to human immunodeficiency virus (HIV) viral hepatitis, syphilis, Creutzfeldt-Jakob disease, or the human form of “mad cow” disease, and other viral, fungal or bacterial pathogens. Although we are required to comply with federal and state regulations intended to prevent communicable disease transmission, and our suppliers of adult human bone, cartilage and placental tissue are also required to comply with such regulations in connection with their collection, storage and supply to us:

- we or our suppliers may fail to comply with such regulations;
- even with compliance, our products might nevertheless be viewed by the public as being associated with transmission of disease; and
- a patient that contracts an infectious disease might assert that the use of our products resulted in disease transmission, even if the patient became infected through another source.

Any actual or alleged transmission of communicable disease could result in patient claims, litigation, distraction of management’s attention and potentially increased expenses. Further, any failure in screening, whether by us or other manufacturers of similar products, could adversely affect our reputation, the support we receive from the medical community and overall demand for our products. As a result, such actions or claims, whether or not directed at us, could have a material adverse effect on our reputation with our customers and our ability to distribute our products, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to process our Biosurgery products in sufficient quantities to expand our market for the products.

We may encounter difficulties in the production of our Biosurgery products due to our limited manufacturing capabilities. This difficulty could reduce redistribution efforts of our products, increase our distribution costs or cause production delays, any of which could damage our reputation and effect our operations. Even if we have access to quantities of human tissue sufficient to allow us otherwise to expand our manufacturing capabilities, we may not be able to produce sufficient quantities of the product at an acceptable cost, or at all.

We use or may use third-party collaborators to help us develop and commercialize our products, and our ability to commercialize such products may be impaired or delayed if collaborations are unsuccessful.

We have arrangements in place with third-party collaborators as a means to help us with research and development efforts or marketing and distribution. We are subject to a number of risks associated with our dependence upon our collaborative relationships, including:

- our collaborators may not cooperate with us or perform their obligations under our agreements with them;
- we cannot control the quality, amount and timing of our collaborators’ resources that will be devoted to performing their responsibilities under our agreements with them, and our collaborators may choose to pursue alternative technologies in preference to those being developed or commercialized in collaboration with us;

- refusal to or failure of our collaborators to perform their responsibilities in a timely manner, including breach;
- the right of the collaborator to terminate its collaboration agreement with us for reasons outside our control, and in some cases on limited notice;
- business combinations and changes in a collaborator’s business strategy may adversely affect the party’s willingness or ability to complete its obligations;
- loss of significant rights to our collaborative parties if we fail to meet our obligations;
- disagreements as to ownership of clinical trial results or regulatory approvals;
- the ability of a collaborator to successfully market and promote our products;
- withdrawal of support by a collaborator following development or acquisition by the collaborator of competing products; and
- disagreements with a collaborator regarding the collaboration agreement or ownership of intellectual property or other proprietary rights.

Due to these factors and other possible events, we could suffer delays in the research, development or commercialization of our products or we may become involved in litigation or arbitration, which would be time consuming and expensive.

Our most significant collaborative arrangement is with a subsidiary of Stryker Corporation, and our success may depend upon performance on the part of Stryker and the success of this collaboration. We are also dependent upon our exclusive partnership with Arthrex, Inc. for the commercial distribution of Cartiform, and may enter into and become dependent upon additional collaborations in the future.

We are party to an Exclusive Service Agreement with Howmedica Osteonics Corp., also referred to as Stryker Orthopaedics, a subsidiary of Stryker Corporation (“Stryker”), for the commercialization of our viable bone matrix allograft under the name BIO⁴. Pursuant to the agreement, Stryker is the exclusive worldwide marketer and promoter of allograft services for BIO⁴ for use in surgical applications, including spine, trauma, extremity, cranial, and foot and ankle surgery. This collaboration is subject to all of the risks and uncertainties applicable to collaborative arrangements generally, including those described above. In addition, this collaboration is subject to a number of risks and uncertainties specific to the transaction and the parties.

The agreement with Stryker provides for an initial four year exclusive term, commencing on the date of Stryker’s initial commercial sale. The term may be extended by Stryker for an additional exclusive period of four years or an additional non-exclusive period of two years. If Stryker extends the term on an exclusive basis, it has the option to further extend the term on an exclusive basis for two years. Osiris is entitled to receive an initial exclusivity fee of \$5,000,000 and additional fees upon any exercise by Stryker of its right to extend the initial term, whether on an exclusive or non-exclusive basis. These additional fees are reduced on a sliding scale if Stryker meets certain revenue thresholds during the initial term, or if revenue goals are not met as a result of Osiris not fulfilling its supply obligations. Stryker is entitled to a certain percentage of sales of allograft services for BIO⁴ and has limited early termination rights. The success of this collaboration for us will in part be dependent upon Stryker, including its success in marketing and promoting BIO⁴.

Stryker has significantly greater resources that we do, and this collaboration is not as core to its business as it is to ours. We are dependent upon Stryker’s continued performance under this collaboration, and any determination by Stryker not to proceed or perform, or any material adverse event that affects Stryker’s ability or desire to perform may have a material adverse effect on our business.

We are also dependent upon our exclusive commercial and development partnership with Arthrex, Inc., to which we have granted exclusive commercial distribution rights for Cartiform, and any determination by Stryker not to proceed or perform, or any material adverse event that affects Stryker’s ability or desire to perform may have a material adverse effect on our business.

We may also enter into additional collaborations in the future. We are dependent upon our current collaborators, and will be dependent upon any future collaborators, in performing their responsibilities in connection with the relevant

collaboration. If we fail to maintain our existing or any future collaborative relationships for any reason, we would need to undertake on our own and at our own expense, or find other collaborators, to perform the activities we currently anticipate will be performed by our collaborators. This may substantially increase our cash requirements. We may not have the capability or financial capacity to undertake these activities on our own, or we may not be able to find other collaborators on acceptable terms, or at all. This may limit the programs we are able to pursue and result in significant delays in the development, sale and manufacture of our products, and may have a material adverse effect on our business.

We distribute products through distribution arrangements that sometimes involve the consignment of inventory to third parties, which results in additional risk and uncertainty as to the viability of consigned inventory and as to inventory accounting.

We have historically distributed our Biosurgery products either ourselves or through third party distributors who sometimes take possession of our inventory on a consignment basis, or through a combination of both methods. In some situations, we store consigned inventory on site in freezers at hospital or clinic facilities. We commercialize Grafix through the efforts of our own focused direct distribution and marketing staff, as well as through a network of specialty distributors for certain target markets. Like Ovation and OvationOS, BIO⁴ will sometimes be commercialized through a consignment arrangement, and our agreement with Stryker includes consignment terms, as does our agreement with Arthrex for Cartiform. Because our consigned inventory must be stored at -80 C, it is at risk of thawing, resulting in the loss of that inventory. That risk of loss of is borne by us, although we believe that we maintain adequate insurance to cover the risk. Inventory management is complicated by a consignment arrangement, as is revenue recognition and inventory and receivables accounting. Thus, for example, no revenue is recognized upon the placement of inventory into consignment, as we retain title and maintain the inventory on our balance sheet. For these products, revenue is recognized when we receive appropriate notification that the product has been used in a surgical procedure. This may not occur in a timely manner, meaning that our financial statements may not always reflect our actual inventory and receivables balances as of the end of a fiscal period. We monitor and verify the condition and status of all consigned inventory on at least a quarterly basis, at additional expense to us. In addition, FDA, AATB and other accrediting agency rules, regulations or standards require that we monitor our consigned inventory, and require tracking of human tissue and inventory as it moves through the supply chain. Moreover, as is the case with all of our inventory, should the FDA or any other regulatory authority determine that we are unable for any reason to continue to distribute consigned inventory, either on account of the viability of that inventory or because of the withdraw of necessary approvals or other qualifications allowing for the distribution and sale of that inventory, the value of that inventory may have to be written off and our balance sheet adjusted accordingly. The complexity of our inventory management, or the application of rules, regulations and standards to our product inventory, or the occurrence of any of these negative events, could have an adverse effect on our business, financial condition and results of operations.

We are currently dependent upon third-parties for services and raw materials needed for the processing of our Biosurgery products, and for distribution.

In order to produce our Biosurgery products we require biological media, reagents and other highly specialized materials. This is in addition to the human tissue donations used to manufacture our biosurgery products. These items must be manufactured and supplied to us in sufficient quantities and in compliance with cGMP. To meet these requirements, we have entered into supply agreements with firms that manufacture these components to cGMP standards.

We expect to continue to rely on third parties to sell or redistribute our biosurgery products. Proper shipping and distribution requires compliance with specific storage and shipment procedures. Failure to comply with these procedures or the occurrence of inadvertent damage to the shipping container will necessitate return and replacement, potentially resulting in additional cost and causing us to fail to meet supply requirements. If any of these third parties fail or are unable to perform in a timely manner, our ability to manufacture and deliver could be compromised, and our business would be harmed.

Our dependence on third parties may increase the risk that we will not have adequate quantities of our biosurgery products.

Our Biosurgery product supply chain and processing infrastructure depends on the performance of a number of complex contracts between us on the one hand and our suppliers and redistributors on the other. If any of our suppliers, distributors or other business partners cannot or do not perform their contractual obligations, then our production efforts may suffer. If we cannot or do not perform our contractual obligations, then we may be subject to arbitration, mediation or litigation that could have a material adverse effect on us.

Reliance on third-parties entails risks to which we would not be subject if we manufactured such components ourselves, including:

- reliance on the third party for regulatory compliance and quality assurance;
- the possible breach of the manufacturing agreement by the third party; and
- the possible termination or nonrenewal of the agreement by the third party, based on its own business priorities, at a time that is costly or inconvenient for us.

Our suppliers, distributors and other third parties with which we contract are subject to many or all of the risks and uncertainties that we are subject to. Similar to us, they are subject to ongoing, periodic, unannounced inspection by the FDA and corresponding state and foreign agencies or their designees to ensure strict compliance with cGMP regulations and other governmental regulations and corresponding foreign standards. However, we do not control compliance with these regulations and standards by our suppliers, distributors and other third parties with which we contract. They might not be able to comply with these regulatory requirements. If they fail to comply with applicable regulations, the FDA or other regulatory authorities could impose sanctions on us, including fines, injunctions, civil penalties, denial of any required marketing approval, delays, suspension or withdrawal of approvals, license revocation, product seizures or recalls, operating restrictions and criminal prosecutions. Any of these actions could significantly and adversely affect the supply of our products and could have a material adverse effect on our business, financial condition and results of operations.

If our processing and storage facility is damaged or destroyed, our business and prospects would be negatively affected.

If our processing and storage facility or the equipment in the facility were to be significantly damaged or destroyed, we could suffer a loss of some or all of the stored product, raw and other materials, and work in process.

We lease approximately 61,203 square feet of space in Columbia, Maryland that houses essentially all of our corporate operations. Currently, we maintain insurance coverage totaling \$22.8 million against damage to our property and equipment, an additional \$5.0 million to cover business interruption and extra expenses, and \$7.3 million to cover R&D restoration expenses. If we have underestimated our insurance needs, we will not have sufficient insurance to cover losses above and beyond the limits on our policies.

Ethical, legal and other concerns surrounding the use of human tissue may negatively affect public perception of us or our products, or may result in increased scrutiny of our products and product candidates from a regulatory approval perspective, thereby reducing demand for our products, restricting our ability to market our products, or adversely affecting the market price for our common stock.

The commercial success of our Biosurgery products depends in part on general public acceptance of the use of human tissue for the treatment of human diseases and other conditions. While not as controversial as the use of embryonic stem cells and fetal tissue, the use of placental tissue and adult tissue has been the subject of substantial debate regarding related ethical, legal and social issues. We do not use embryonic stem cells or fetal tissue, but the public may not be able to, or may fail to, differentiate our use of placental or adult tissue from the use by others of embryonic stem cells or fetal tissue. Ethical concerns have been raised by some about the use of donated human tissue in a for-profit setting. This could result in a negative perception of our company or our products.

Future adverse events in the field of cellular based therapy or changes in public policy could also result in greater governmental regulation of our products and potential regulatory uncertainty or delay relating to any required testing or approval.

Many of our competitors have greater resources or capabilities than we have, or may succeed in developing better products or in developing products more quickly than we do.

In the marketplace, we compete with other companies and organizations that are marketing or developing products competitive with Grafix and our other Biosurgery products and products under development. In many cases, the competing product or candidate is based on traditional pharmaceutical, medical device or other therapies and technologies. Competitors competing with our Biosurgery products include, but are not limited to: Organogenesis, the manufacturer of Apligraf and Dermagraft and MiMedx, the manufacturer of EpiFix which competes with Grafix. BIO⁴ competes with bone tissue products such as Osteocele[®] and Trinity[®], while Cartiform competes with cartilage allografts. In addition to those listed above, we have other existing and potential competitors developing a variety of treatments and therapies for the same conditions for which we market our products.

We also face competition in the cellular regenerative field from academic institutions and governmental agencies. Many of our current and potential competitors have greater financial and human resources than we have, including more experience in research and development and more established marketing and distribution capabilities.

We anticipate that competition in our industry will increase. In addition, the health care industry is characterized by rapid technological change, resulting in new product introductions and other technological advancements. Our competitors may develop and market products that render products now or in the future under development by us, or any products manufactured or marketed by us, non-competitive or otherwise obsolete.

The use of our Biosurgery products in human subjects may expose us to product liability claims, and we may not be able to obtain adequate insurance.

We face an inherent risk of product liability claims. None of our products have been widely used over an extended period of time, and therefore our safety data is limited. We derive the raw materials for our products from human donor sources, the production process is complex, and the handling requirements are specific, all of which increase the likelihood of quality failures and subsequent product liability claims. We may not be able to obtain or maintain product liability insurance on acceptable terms with adequate coverage or at all. If we are unable to obtain insurance, or if claims against us substantially exceed our coverage, then our business could be adversely impacted. Whether or not we are ultimately successful in any product liability litigation, such litigation could consume substantial amounts of our financial and managerial resources and could result in, among other things:

- significant awards against us;
- substantial litigation costs;
- recall of the product;
- injury to our reputation;
- withdrawal of clinical trial participants; or
- adverse regulatory action.

Any of these results could have a material adverse effect on our business, financial condition and results of operations.

In addition to costs incurred in product development and management of the regulatory approval and reimbursement processes, we will incur additional operating expenses in connection with the expansion of our Biosurgery business.

We expect to continue to incur significant operating expenses in connection with our planned expansion of our biosurgery business, as we seek to:

- continue to develop, expand and support our distribution network of third party distributors and independent sales professionals for the distribution of Grafix, BIO 4 and other Biosurgery products;

- continue to expand and support our internal sales force and marketing capabilities, through the hiring of sales and marketing professionals and building an internal sales and marketing organization;
- hire additional manufacturing, quality control, and quality assurance, and management personnel as necessary to expand our processing operations;
- expand our processing capacity for our Biosurgery products, which will require that we maintain a portion of our space as an FDA compliant and validated product manufacturing facility; and
- expand and protect our intellectual property portfolio for our Biosurgery products.

Our redistribution fees from our Biosurgery products have been limited to date. Our ability to scale up our production capabilities for larger quantities of these products remains to be proven. Our costs in marketing and distributing these products will also increase as production increases.

Risks Related to Regulatory Approval and Other Government Regulations

Should the FDA determine that any of our products do not meet regulatory requirements that permit qualifying human cells, tissues and cellular and tissue-based products to be processed, stored, labeled and distributed without pre-marketing approval, we may be required to stop processing and distributing such products, or to narrow the indications for which those products are marketed.

The FDA has developed a tiered, risk-based regulatory framework, which includes criteria for facility management, quality assurance, donor selection, and processing of human cells, tissues, and cellular and tissue based products. We believe that commercial sale of Grafix as a wound allograft for the treatment of acute and chronic wounds, including diabetic foot ulcers, does not require pre-market approval by the FDA because we believe that this product meets the regulatory definition of human cells, tissue, and cellular and tissue-based products, or so-called Part 361 HCT/Ps (meaning that they comply with section 361 of the Public Health Service Act (PHSA) and 21 CFR 1271). We received an “untitled letter” dated September 26, 2013 from the FDA stating, among other things, that both Grafix and Ovation do not meet these regulatory requirements because they are dependent upon the metabolic activity of living cells for their primary function and are not intended for autologous use or allergenic use in a first or second degree relative; and that Ovation does not meet the minimal manipulation criterion. After discussions with, and providing additional information to, the FDA, we reached an agreement with the FDA confirming the regulatory status of Grafix and allowing the product to remain on the market as an HCT/P and without FDA pre-marketing approval, as a wound allograft for the treatment of acute and chronic wounds. We further committed to the FDA that, before marketing Grafix for certain expanded indications, we would submit a Biologics License Application (BLA) to the FDA and seek pre-marketing approval for any such additional indication. We also agreed to continue to transition our Ovation product line over to OvationOS (now branded as BIO⁴) by no later than the second half of 2014, which we did. In August 2014, we stopped distributing promotional materials for Ovation and ceased manufacturing the product. In October 2014, we stopped shipping Ovation from our Columbia, MD facilities. At December 31, 2014, we owned some units of Ovation located in the field for use in procedures by the end users. We believe that commercial distribution of BIO⁴, a viable bone matrix for bone growth, and Cartiform, a viable chondral allograft, does not require pre-market approval by the FDA because we believe that these products meet the regulatory definition of HCT/Ps.

We engage in ongoing discussion and communication with FDA representatives regarding the applicable regulatory requirements and pathways for our products and product candidates. The analysis and determination of compliance of a product with these regulatory requirements and pathways is complex and dependent upon numerous factors, and is readily subject to varying interpretations and conclusions. The FDA may not agree with our views on these matters. Should the FDA decide that Grafix, BIO⁴ or any of our other Biosurgery products do not meet the regulatory definition of HCT/Ps, we will not be able to produce and redistribute these products unless and until we submit a BLA and obtain pre-marketing approval from the FDA, which would require clinical trials and could take years to obtain, at significant expense. This or any other determination by the FDA that adversely affects our ability to produce or to market any of our products or product candidates would have a material adverse effect on our business, financial condition and results of operations.

Our ability to expand the marketing claims for Grafix and BIO 4 is limited by Federal regulations, and will likely require the submission to the FDA of a biologics license application, or BLA, and the receipt of pre-marketing approval from the FDA, for the particular indication.

We cannot process, market or distribute our Biosurgery products without compliance with the United States Food Drug and Cosmetics Act, and comparable laws in foreign countries. Part 361 HCT/Ps may be processed, stored and distributed in the United States without FDA approval, provided that the product complies with the requirements of Part 361 of the PHS Act and 21 CFR 1271. Absent such compliance, a BLA is required as a condition to marketing and sale of the product. In order to obtain a BLA we would be required to conduct extensive preclinical studies and clinical trials to demonstrate that the product is safe and effective and obtain required regulatory approvals. This process is costly and the product may fail to perform as we expect. Moreover, a product may ultimately fail to show the desired safety and efficacy traits despite having progressed successfully through preclinical or initial clinical testing. We would need to devote significant additional research and development, financial resources and personnel to obtain the necessary regulatory approvals, if required.

We have initiated efforts to obtain a BLA for Grafix. For the current label indications, for Grafix and BIO⁴, we rely upon the exception to the BLA limits requirement afforded Part 361 HCT/Ps. However, compliance with these requirements our activities in respect of these products. For example, we will not be able to enhance tissue based products in a manner which would result in the product being more than "minimally manipulated" within the meaning of 21 CFR 1271. These and other limitations applicable to HCT/Ps limit the indications for which these products may be marketed. Moreover, the FDA continues to review and inspect marketed products, manufacturers and manufacturing facilities, and even if a BLA is not required initially, the FDA or its foreign equivalents may create additional regulatory burdens in the future or may reevaluate or modify current regulatory frameworks in a manner adverse to us. Later discovery of previously unknown problems with a product, manufacturer or facility – including those of or associated with a competitor or competing product – may result in the imposition of additional restrictions on us or our products, including a withdrawal of the product from the market. This would have a material adverse effect on our business, financial condition and results of operations.

If we are not able to conduct clinical trials properly and on schedule, or if any such clinical trials prove to be unsuccessful, we would be unable to secure sought after, or any required, regulatory approvals.

We are currently pursuing and in the future may pursue additional clinical trials for our Biosurgery products to enhance our ability to successfully market these products, or to obtain pre-marketing approval if required by the FDA for us to market certain products, or to market our products for expanded indications. Clinical trials are costly and time consuming. The completion of clinical trials may be delayed or terminated, or the costs may be increased, for many reasons, including, but not limited to, if:

- the FDA does not grant permission to proceed and places the trial on clinical hold;
- subjects do not enroll in our trials at the rate we expect;
- subjects experience an unacceptable rate or severity of adverse side effects;
- third-party clinical investigators do not perform our clinical trials on our anticipated schedule or consistent with the clinical trial protocol, Good Clinical Practice and regulatory requirements, or other third parties do not perform data collection and analysis in a timely or accurate manner;
- inspections of clinical trial sites by the FDA or Institutional Review Boards (IRBs) of research institutions participating in our clinical trials find regulatory violations that require us to undertake corrective action, suspend or terminate one or more sites, or prohibit us from using some or all of the data in support of our marketing applications; or
- one or more IRBs suspends or terminates the trial at an investigational site, precludes enrollment of additional subjects, or withdraws its approval of the trial.

If we are unable to conduct clinical trials properly and on schedule, any potential marketing benefit may be lost, the reputation of the product could be damaged, and any required marketing approval may be delayed or denied by the FDA.

Tissue based products are generally subjected to greater regulatory scrutiny in many other countries as compared to the United States. These requirements may be costly and result in delay or otherwise preclude the distribution of our Biosurgery products in some foreign countries, any of which would adversely affect our ability to generate operating revenues.

Tissue based products are regulated differently in different countries. We believe that commercial distribution of Grafix as a wound allograft for the treatment of acute and chronic wounds, including diabetic foot ulcers, and the commercial distribution of BIO⁴, a viable bone matrix for bone growth, do not require pre-market approval by the FDA in the United States because we believe that these products meet the regulatory definition of human cells, tissue, and cellular and tissue-based products, and qualify as Part 361 HCT/Ps. Many foreign jurisdictions have a different and more difficult regulatory pathway for human tissue based products, which may prohibit the distribution of these products until the applicable regulatory agencies grant marketing approval, or licensure. The process of obtaining regulatory approval is lengthy, expensive and uncertain, and we may never seek such approvals, or if we do, we may never gain those approvals. Any sought after or required approvals in Europe will likely require that we conduct clinical trials, which are themselves are costly and time consuming, and subject to risk and uncertainty, and may prove to be unsuccessful. Any adverse events in our clinical trials for one of our products could negatively impact our other products.

If we seek regulatory approval in the United States or elsewhere for our Biosurgery products, whether to enhance our ability to successfully market these products, or if we are required to do so by the FDA or equivalent foreign regulatory agencies, we may not be successful.

Should we decide to seek regulatory approval in the United States or elsewhere for our Biosurgery products, or should we be required to obtain such approvals before we can market a product generally or for a specific indication, any of the following factors may cause marketing approval to be delayed, limited or denied:

- our products will require significant pre-clinical and clinical development before applications for marketing approval can be filed with the FDA;
- data obtained from preclinical and nonclinical animal testing and clinical trials can be interpreted in different ways, and the FDA or its foreign counterpart may not agree with our interpretations;
- it may take many years to complete the testing of our products, and failure can occur at any stage of the process;
- negative or inconclusive results or adverse side effects during a clinical trial could cause us to delay or terminate development efforts for product;
- approval may be delayed if the FDA or its foreign counterpart requires us to expand the size and scope of the clinical trials; or
- negative results from clinical trials or failure to obtain pre-marketing approval of a HCP/T product not otherwise requiring such approval may result in a negative public perception of the product and loss of market share and revenue.

If we seek marketing approval – whether or not then necessary to market a particular product – and that approval marketing approval is delayed, limited or denied, our ability to market products, and our ability to generate product sales, would be adversely affected.

We and our business are subject to rules and regulations regarding organ donation and transplantation.

Compliance with the issued operating standards established by The American Association of Tissue Banks (“AATB”) is a requirement in order to become a licensed tissue bank. In addition, some states have their own tissue banking regulations. We are licensed to have permits as a tissue bank in Maryland, California, New York and Florida.

In addition, procurement of certain human organs and tissue for transplantation is subject to the restrictions of the National Organ Transplant Act (“NOTA”), which prohibits the transfer of certain human organs, including skin and related tissue, for valuable consideration, but permits the reasonable payment associated with the removal, transportation, implantation, processing, preservation, quality control and storage of human tissue and skin. We reimburse tissue banks for their expenses associated with the recovery, storage and transportation of donated human tissue that they provide to us for processing. We include in our pricing structure amounts paid to tissue banks to reimburse them for their expenses associated

with the recovery and transportation of the tissue, in addition to certain costs associated with processing, preservation, quality control and storage of the tissue, marketing and medical education expenses, and costs associated with the development of tissue processing technologies. NOTA payment allowances may be interpreted to limit the amount of costs and expenses that we can recover in our pricing for our products, thereby reducing our future revenue and profitability. If we were to be found to have violated NOTA's prohibition on the sale or transfer of human tissue for valuable consideration, we would potentially be subject to criminal enforcement sanctions, which could materially and adversely affect our results of operations.

In Europe, regulations, if applicable, differ from one country to the next. Because of the absence of a harmonized regulatory framework and proposed regulation for advanced therapy medicinal products in Europe, as well as for other countries, the approval process for human derived cell or tissue based medical products could be extensive, lengthy, expensive, and unpredictable. Our Biosurgery products are subject to the country's regulations that govern the donation, procurement, testing, coding, traceability, processing, preservation, storage, and distribution of human tissues and cells and cellular or tissue-based products. These regulations include requirements for registration, listing, labeling, adverse-event reporting, and inspection and enforcement. Some countries have their own tissue banking regulations.

Our business involves the use of hazardous materials that could expose us to environmental and other liability.

We have facilities in Maryland that are subject to various local, state and federal laws and regulations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances, including chemicals, micro-organisms and various radioactive compounds used in connection with our research and development activities. In the United States, these laws include the Occupational Safety and Health Act, the Toxic Test Substances Control Act and the Resource Conservation and Recovery Act. We cannot assure you that accidental contamination or injury to our employees and third parties from hazardous materials will not occur. We do not have insurance to cover claims arising from our use and disposal of these hazardous substances other than limited clean-up expense coverage for environmental contamination due to an otherwise insured peril, such as fire.

Risks Related to Intellectual Property

Given our patent position in regard to our Biosurgery products, if we are unable to protect the confidentiality of our proprietary information and know-how related to these products, our competitive position would be impaired and our business, financial condition and results of operations could be adversely affected.

A significant amount of our technology, including our teaching regarding the processing of our Biosurgery products, is unpatented and is maintained by us as trade secrets or confidential know-how. In an effort to protect this proprietary information, we require our employees, consultants, collaborators and advisors to execute confidentiality agreements upon the commencement of their relationships with us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements, however, may not provide us with adequate protection against improper use or disclosure of trade secrets or confidential information, and these agreements may be breached. For example, a portion of the processing methodology and know-how for Graftix is protected by trade secret or through confidentiality arrangements. A breach of confidentiality could affect our competitive position. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants, collaborators or advisors have previous employment or consulting relationships.

Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets or know-how.

Because FDA approval is generally not required for tissue based products which are not more than minimally manipulated, competitors might choose to enter this market and produce a substantially similar product, and we may not be able to prevent the marketing and distribution of any such similar products by others. Should others produce a substantially

similar product, we will be subject to increased competition and our potential revenues from redistribution of these Biosurgery products may be limited.

Moreover, if our Biosurgery products infringe or are alleged to infringe intellectual property rights of third parties, these third parties could bring claims against us that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay research, development, manufacturing or redistribution of the product that is the subject of the suit.

Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information. The disclosure of our trade secrets or know-how would impair our competitive position and could have a material adverse effect on our business, financial condition and results of operations.

If our patent position does not adequately protect our products, others could compete against us more directly, which would harm our business and have a material adverse effect on our financial condition and results of operations.

The patent position of biotechnology companies is generally highly uncertain, involves complex legal and factual questions and has been the subject of much litigation. Neither the U.S. Patent and Trademark Office nor the courts has a consistent policy regarding the breadth of claims allowed or the degree of protection afforded under many biotechnology patents.

The claims of our existing U.S. patents and those that may issue in the future, or those licensed to us, may not confer on us significant commercial protection against competing products. Even if we hold patents or have patent rights through licenses or otherwise with respect to a particular product, third parties may challenge, narrow, invalidate, design around, or circumvent any patents now or hereafter owned, assigned or licensed to us. Patents with broader claims tend to be more vulnerable to challenge by other parties than patents with extremely narrow claims. Also, our pending patent applications may not issue, may issue with substantially narrower claims than currently pending claims, or we may not receive any additional patents. Further, the laws of foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States. Our patents might not contain claims that are sufficiently broad to prevent others from utilizing our technologies. Consequently, our competitors may independently develop competing products that do not infringe our patents or other intellectual property.

Because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our products can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantages of the patent. A significant amount of our technology, including our teaching regarding the production processes for our Biosurgery products, is unpatented and is maintained by us as trade secrets. The lack of patent protection for our Biosurgery products reduces the barrier for entry by others and makes these products susceptible to increased competition, which could be harmful to our business.

If we are unable to protect the confidentiality of our proprietary information, trade secrets and know-how, our competitive position would be impaired and our business, financial condition and results of operations could be adversely affected.

Significant aspects of our Biosurgery product technology, especially the teaching regarding the manufacturing processes for these products, are unpatented and maintained by us as trade secrets or proprietary know-how. In an effort to protect these trade secrets and know-how, we require our employees, consultants, collaborators and advisors to execute confidential disclosure agreements before the commencement of their relationships with us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. These agreements, however, may not provide us with adequate protection against improper use or disclosure of confidential information, and these agreements may be breached. A breach of confidentiality could affect our competitive position. In addition, in some situations, these agreements may conflict with, or be subject to, the rights of third parties with whom our employees, consultants, collaborators or advisors have previous employment or consulting relationships. Also, others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

Adequate remedies may not exist in the event of unauthorized use or disclosure of our confidential information. The disclosure of our trade secrets or know-how would impair our competitive position and could have a material adverse effect on our business, financial condition and results of operations.

If we infringe or are alleged to infringe intellectual property rights of third parties, it will adversely affect our business, financial condition and results of operations.

Our research, development and commercialization activities, and the manufacture or distribution of our Biosurgery products, may infringe or be alleged to infringe patents owned by third parties and to which we do not hold licenses or other rights. There may be applications that have been filed but not published that, when issued, could be asserted against us. These third parties could bring claims against us that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be enjoined from certain activities including a stop or delay in research, development, manufacturing or sales activities related to the product or biologic drug candidate that is the subject of the suit.

As a result of patent infringement claims, or in order to avoid potential claims, we may choose or be required to seek a license from the third party. These licenses may not be available on acceptable terms, or at all. Even if we are able to obtain a license, the license would likely obligate us to pay license fees or royalties or both, and the rights granted to us might be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and biotechnology industries. In addition to infringement claims against us, we may become a party to other patent litigation and other proceedings, including interference and reexamination proceedings declared by the United States Patent and Trademark Office and opposition proceedings before the patent offices for other countries (e.g. the European Patent Office) or similar adversarial proceedings, regarding intellectual property rights with respect to our products and technology. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Patent litigation and other proceedings may also absorb significant management time. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace and, as a result, on our business, financial condition and results of operations. To the extent that our employees, consultants or contractors use intellectual property owned by others, disputes may arise as to the rights related to or resulting from the use of such intellectual property.

We may become involved in lawsuits to protect or enforce our patents or the patents of our collaborators or licensors, which could be expensive and time consuming.

Litigation may be necessary to enforce patents issued or licensed to us, to protect trade secrets or know-how, or to determine the scope and validity of proprietary rights. Litigation, opposition or interference proceedings could result in substantial additional costs and diversion of management focus. If we are ultimately unable to protect our technology, trade secrets or know-how, we may be unable to operate profitably.

Competitors may infringe our patents or the patents of our collaborators or licensors. As a result, we may be required to file infringement claims to protect our proprietary rights. This can be expensive, particularly for a company of our size, and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is invalid or is unenforceable, or may refuse to enjoin the other party from using the technology at issue. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly. Interference proceedings brought by the U.S. Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications or those of our collaborators or licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction to our management. We may

not be able, alone or with our collaborators and licensors, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

Furthermore, though we would seek protective orders where appropriate, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

The biotechnology industry, including our fields of interest, is highly competitive and subject to significant and rapid technological change. Accordingly, our success will depend, in part, on our ability to respond quickly to such change through the development and introduction of new products. Our ability to compete successfully against currently existing and future alternatives to our products, and against competitors who compete directly with us, will depend, in part, on our ability to: attract and retain skilled scientific and research personnel; develop technologically superior products; develop competitively priced products; obtain patent or required regulatory approvals for our products; and be early entrants to the market; manufacture, market and sell our products, independently or through collaborations. If a third party were to commercialize a competitive product, there is no assurance that we would have a basis for initiating patent infringement proceedings or that, if initiated, we would prevail in such proceedings.

Risk Factors Regarding the Sale of our ceMSC Business

We may not receive all of the payments available to us under the terms of the Purchase Agreement, and accordingly, we may have less cash available to us to fund our operations.

The terms of our Purchase Agreement with Mesoblast for the sale of our ceMSC business provide for payment to us of \$50 million in initial consideration, and up to an additional \$50 million upon the achievement by Mesoblast of certain clinical and regulatory milestones. Additionally, we will be entitled to earn single to low double digit cash royalties on future sales by Mesoblast of Prochymal and other products utilizing the acquired ceMSC technology.

We have received all of the \$50 million in initial consideration, consisting of \$35 million in cash and \$15 million in Mesoblast ordinary shares. Payment of the initial consideration made in Mesoblast ordinary shares (\$15 million) was subject to a one-year holding period that ended in December 2014. We continue to hold these shares and Mesoblast has agreed to purchase the shares for at least \$15 million in cash prior to the middle of 2015. In the event that Mesoblast does not purchase these shares from us as agreed, the value of these shares will remain subject to market and foreign currency exchange risk, and we may be forced to liquidate these shares through other means and on terms materially less favorable to us. Our ability to receive the second \$50 million is subject to satisfaction of a series of milestones, all of which are largely dependent upon the clinical and regulatory success of Mesoblast and other factors not in our control. These include many if not all of the risks and uncertainties that our ceMSC business was subject to prior to its sale to Mesoblast, including product development, efficacy and regulatory risks. We have received no such payments thus far, nor do we have any expectation of receiving any such payments in the foreseeable future. Our ability to earn royalty payments from Mesoblast is subject to these same risks and will require performance by Mesoblast that results in its meeting some or all of the milestones referred to above, and is thereafter also dependent upon the commercial success of Mesoblast's ceMSC business. Royalties, if any, are payable to us in cash. Any portion of the second \$50 million that becomes payable to us will be payable, at the discretion of Mesoblast, in Mesoblast ordinary shares, based on a then current valuation of such shares.

Any portion of the second \$50 million in consideration paid in Mesoblast ordinary shares will also be, is subject to a one year holding period, again with limited downside protection for a drop in the Mesoblast share price over the holding period. Therefore, any such payment, if made, will be are subject to investment risk, and because the Mesoblast ordinary shares are traded on the Australian Stock Exchange (ASX) and the per share price is denominated in Australian Dollars, will also be subject to foreign currency exchange risk.

Accordingly, not only do we have no assurances that any of the second \$50.0 million in consideration will ever be paid to or received by us, but also we may be unable to liquidate on favorable terms any amounts paid to us in Mesoblast ordinary shares. As a result, we may have less cash available to fund our remaining operations and to support the continued development and pursuit of our Biosurgery business, and our financial condition or results of operations could be materially adversely affected.

The Purchase Agreement exposes us to contingent liabilities and other risks that could adversely affect our business or financial condition.

In the Purchase Agreement, we have made customary representations and warranties and the parties have agreed to indemnify each other for breaches of representations, warranties and covenants contained in the Purchase Agreement. Also pursuant to the Purchase Agreement, we have retained a royalty free license to all transferred intellectual property, insofar as necessary for us to continue in our other businesses, including our Biosurgery business, and we have agreed not to compete with Mesoblast in the ceMSC business for a period of eight years. The Purchase Agreement also subjects us to other risks typical in business transactions of this type, including payment and performance risks. Should disputes arise or should we incur liability for breach of any of these representations, warranties or obligations, or should any of these other risks materialize, our business, financial condition or results of operations could be materially adversely affected.

Our long term business prospects will depend on the success of our Biosurgery business.

As a result of the sale of our ceMSC business, including Prochymal, our Biosurgery business is our sole remaining business, and our overall business is less diverse. Our long term business prospects will, therefore, be dependent almost entirely on the success of our Biosurgery business. This business involves significant risks and challenges in regards to product development and optimization, manufacturing, government regulation, intellectual property, third-party reimbursement and market acceptance, among other risks previously disclosed by us.

Payment of a portion of the purchase price for our Therapeutics business through the delivery of Mesoblast ordinary shares as permitted under the Purchase Agreement subjects us to significant additional risks.

Mesoblast ordinary shares delivered to us as payment under our Purchase Agreement with Mesoblast for the sale of our ceMSC business are subject to a one year holding period. Although we are afforded downside price protection for a drop over the holding period in the market price of Mesoblast ordinary shares delivered as payment, this downside protection is limited. To the extent the market price of the shares decreases over the holding period, Mesoblast has agreed to pay us for the decrease. This payment is to be made at least one half in cash and, at the option of Mesoblast, up to one half in additional shares of Mesoblast stock. Any additional Mesoblast stock will also have to be held for one year, for which period there will be no further downside price protection, and therefore the equity price risk will persist in respect of any additional Mesoblast shares issued to us. The Mesoblast ordinary shares are traded on the Australian Securities Exchange (ASX) and the share value is denominated there in Australian Dollars. Hence, there also exists an associated foreign currency exchange rate risk. There is no corresponding mitigation of the foreign currency exchange rate risk, and any devaluation of the Australian Dollar will directly impact the value of the Mesoblast shares to us.

Of the \$50 million in initial consideration, \$15 million has been paid to us in Mesoblast ordinary shares. Although we were initially subject to investment risk and foreign currency exchange risk in respect of our ownership of these shares, Mesoblast has agreed to purchase the shares for no less than \$15 million during the first half of 2015.

Nevertheless, any portion of the second \$50 million in consideration that may become payable to us under the Purchase Agreement (if and only if certain milestones are met by Mesoblast), is also payable to us, at the discretion of Mesoblast, in Mesoblast ordinary shares, based on a then current valuation of such shares. In the event of any negative events with respect to or otherwise affecting Mesoblast or the value of its ordinary shares, the value of any such additional Mesoblast ordinary shares acquired by us would be negatively affected and we could lose, in whole or in part, the value to us of that portion of the consideration paid to us by Mesoblast. If we are unable to liquidate on favorable terms any amounts paid to us in Mesoblast ordinary shares, we will have less cash available to fund our remaining operations and to support the continued development and pursuit of our biosurgery business, and our financial condition or results of operations could be materially adversely affected.

Risks Related to Our Common Stock

Although we have recently remediated a material weakness in our internal control over financial reporting, if we are unable to maintain the effectiveness of our internal controls, then a material misstatement could result in our financial statements.

We previously identified a material weakness in our internal control over financial reporting and, as a result of such weakness, our management, with the participation of our principal executive officer and principal financial officer, concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2013. The material weakness related to the maintenance of effective controls over the application and monitoring of our accounting for income taxes. With respect to our controls over the application and monitoring of our accounting for income taxes, we did not have controls designed and in place to ensure effective oversight of the work performed, and the accuracy of, financial information or professional conclusions provided by, third-party tax advisors. We have since remediated the material weakness through implementation of enhanced controls related to review and oversight of complex transactions and infrequent events. Additionally, we engaged a new third party tax advisor to oversee and prepare the Company's tax provision and other related documents. As a result, our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014 no longer reports this material weakness or any other material weakness over financial reporting, and the audit report of our independent registered public accounting firm no longer expresses an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2014. Nevertheless, we may experience other material weaknesses in our internal control over financial reporting in the future, which could lead to or result in a material misstatement in our financial statements.

The trading price of the shares of our common stock is highly volatile, and purchasers of our common stock could incur substantial losses.

Our stock price is volatile. The stock market in general and the market for biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the price they paid for it. The market price for our common stock may be influenced by many factors, including:

- results of clinical trials or those of our competitors;
- regulatory developments in the United States and foreign countries, both generally or specific to us and our products;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- announcements by us of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- market conditions in the pharmaceutical and biotechnology sectors and issuance of securities analysts' reports or recommendations;
- sales of substantial amounts of our stock by existing stockholders;
- sales of our stock by insiders and 5% stockholders;
- general economic, industry and market conditions;
- additions or departures of key personnel;
- intellectual property, product liability or other litigation against us;
- expiration or termination of our relationships with our collaborators; and
- the other factors described in this "Risk Factors" section.

In addition, in the past, stockholders have initiated class action lawsuits against biotechnology and pharmaceutical companies following periods of volatility in the market prices of these companies' stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources, which could have a material adverse effect on our business, financial condition and results of operations.

Certain provisions of Maryland law and of our charter and bylaws contain provisions that could delay and discourage takeover attempts and any attempts to replace our current management by stockholders.

Certain provisions of Maryland General Corporation Law (MGCL) and of our Maryland charter and Maryland bylaws contain provisions that may make it more difficult for or prevent a third party from acquiring control of us or changing our Board of Directors and management. These include, but are not limited to, the following:

- classification of the board of directors with staggered terms of three years, which prevents a majority of the incumbent directors from being replaced at a single annual stockholders' meeting;
- authorization of the board of directors to issue shares of preferred stock generally without stockholder approval;
- requirements that special meetings of stockholders may only be called by the chairman of the board of directors, upon request of stockholders holding at least 20% of the capital stock issued and outstanding, or upon a resolution adopted by, or an affirmative vote of, a majority of the board of directors; and
- requirements that our stockholders comply with advance notice procedures in order to nominate candidates for election to our Board of Directors or to place stockholders' proposals on the agenda for consideration at meetings of stockholders.

Maryland law also prohibits "business combinations" between us and an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in certain circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Maryland law defines an interested stockholder as any person who beneficially owns 10% or more of the voting power of the corporation's stock, or an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the corporation's then-outstanding voting stock. A person is not an interested stockholder if the board of directors of the corporation approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, such approval may be conditional.

After the five-year prohibition, any business combination between the corporation and an interested stockholder or an affiliate of an interested stockholder generally must be recommended by the board of directors and approved by the affirmative vote of at least 80% of the votes entitled to be cast by holders of the then-outstanding shares of voting stock, and two-thirds of the votes entitled to be cast by holders of the voting stock other than stock held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or stock held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if the holders of the common stock receive a minimum price, as defined under Maryland law, for their stock in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its stock.

The statute permits various exemptions from its provisions, including business combinations that are approved or exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has not exempted us from the business combination statute. Consequently, unless the Board of Directors adopts an exemption from this statute in the future, the statute will be applicable and may affect business combinations between us and other persons. The statute may discourage others from trying to acquire control of us or increase the difficulty of consummating any such acquisition.

Our bylaws also contain a provision exempting us from the "control share acquisition" provisions of the MGCL (Sections 3-701 through 3-709). We can provide no assurance that such provision of our bylaws will not be amended or eliminated in the future. Should this happen, the control share acquisition provisions would become effective and may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Subtitle 8 of Title 3 of the MGCL ("Subtitle 8") permits a Maryland corporation with a class of equity securities registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and with at least three independent directors to elect to be subject to any or all of five provisions:

- a classified board;
- a two-thirds vote requirement to remove a director;
- a requirement that the number of directors be fixed only by the vote of the directors;
- a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred rather than until the next annual meeting of stockholders as would otherwise be the case; and
- a majority requirement for the calling of a special meeting of stockholders.

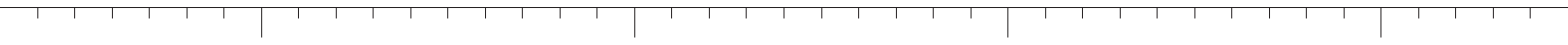
An eligible Maryland corporation like us can elect into this statute by provision in its charter or bylaws or by a resolution of its board of directors, without stockholder approval. Furthermore, we can elect to be subject to the above provisions regardless of any contrary provisions in the charter or bylaws. Pursuant to Subtitle 8, we have elected to provide that vacancies on our Board of Directors may be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we have a classified board, and the number of our directors may be fixed only by the vote of the directors.

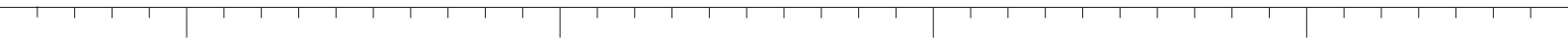
Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent others from influencing significant corporate decisions, and provisions in our charter allowing for a stockholder vote by consent in lieu of a meeting may make it easier for stockholders holding a majority of our common stock to take action.

Our executive officers, directors and beneficial owners of 5% or more of our common stock and their affiliates, in aggregate, beneficially own approximately 54% of our outstanding common stock as of March 1, 2015. Included among this 54%, Peter Friedli, the Chairman of the Board of Directors, and certain entities with which he is affiliated, beneficially own approximately 43% of our outstanding common stock as of March 1, 2015. These persons, acting together, will be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and any merger or other significant corporate transactions. The interests of this group of stockholders may not coincide with our interests or the interests of other stockholders.

Moreover, as permitted by the MGCL, our charter provides that the holders of common stock entitled to vote generally in the election of directors may take action or consent to any action by delivering a consent in writing or by electronic transmission of the stockholders entitled to cast not less than the minimum number of votes (which is generally either a majority of votes cast or a majority of votes entitled to be cast) that would be necessary to authorize or take the action at a stockholders meeting if the corporation gives notice of the action not later than ten (10) days after the effective date of the action to each holder of the class of common stock and to each stockholder who, if the action had been taken at a meeting, would have been entitled to notice of the meeting.

Accordingly, these persons acting together, and Mr. Friedli specifically, currently has, and will continue to have, a significant influence over the outcome of all corporate actions requiring stockholder approval, including any actions that may be taken by stockholder consent in lieu of a meeting.







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