

# INTERIM REPORT FOR KANCERA AB (publ)

1st January – 31st December 2018



1st January – 31<sup>st</sup> December 2018

# THIS IS KANCERA

Kancera AB develops drugs for cancer and inflammatory diseases in laboratories at Karolinska Institutet Science Park in Stockholm and employs about 15 people.

The share is traded on NASDAQ First North Premier. The number of shareholders as of December 28, 2018 was approximately 7400. FNCA Sweden AB is the company's Certified Adviser. FNCA can be reached at [info@fnca.se](mailto:info@fnca.se) and on 08-528 00 399. MD PhD Charlotte Edenius, MD PhD Anders Gabrielsen, Professor Carl-Henrik Heldin and Professor Håkan Mellstedt are all scientific advisors and board members of Kancera AB.

## Business model

To develop patent-protected drugs, which can extend life and reduce healthcare costs, for sales to the international pharmaceutical industry and further clinical trials.

Out-licensing of drug candidates is expected to take place against partial payments at signature and milestones in product development (typically when initiating clinical phase I, II, III and when registering) as well as royalty income.

## History

In 2006, Pharmacia's and Biovitrum's unit for the development of drug candidates was spun-off to the company iNovacia. In 2008, iNovacia started drug development in collaboration with researchers at Karolinska Institutet. In May 2010, researchers from the cancer center Karolinska, iNovacia AB and a group of private investors formed Kancera AB through the addition of capital and two drug projects within cancer.

NASDAQ approved Kancera AB for admission to trading on First North with the first trading day on February 25, 2011. In March 2013, Kancera AB acquired a complete development laboratory for pharmaceuticals from its now discontinued subsidiary, iNovacia AB, and now runs its own drug development at Karolinska Institutet Science Park, Stockholm. Prior to the change of segment for listing from Nasdaq First North to Nasdaq First North Premier, which took place on 28 October 2016, the subsidiary Kancera Förvaltning AB was formed, after which Kancera, as of the second quarter of 2016, changed to accounting in accordance with IFRS in the Group and RFR2 in the Parent Company and in accordance with the Annual Accounts Act.



# STATEMENT FROM THE CEO

Currently, there is a lack of effective drugs to minimize the acute tissue damage that occurs in the heart during a heart attack. Relatively new knowledge shows that a large part of the injury is caused by an inflammatory process in connection with the blood beginning to flow into the heart's blood vessels again after the patient has undergone life-saving balloon expansion. This knowledge provides completely new opportunities to develop drugs that protect the heart tissue. The goal is to save lives and reduce the long-term damage that contributes to both new infarcts and chronic heart failure.

Kancera's Fractalkine blocker KAND567 is developed to effectively and selectively reduce the inflammation of the heart and vessels after a heart attack. In several animal studies we have also been able to show that KAND567 reduces the injury area by up to 50 percent, and during the past year we have completed a phase I study in which the drug candidate showed a good safety profile at dose levels that are considered sufficient to achieve a pharmacological effect. In addition, we have achieved significant progress in the development of a large-scale production method. The international interest in our project is increasing, and in conjunction with the annual JP Morgan Congress in San Francisco in January, we had the opportunity to meet a number of global pharmaceutical companies that wanted to know more about KAND567 and our plans for the future.



The progress of recent years in the Fractalkine project, with KAND567 at the forefront, has led to the company for some time allocating virtually all its internal resources to this area. The next step is to evaluate intravenous dosage in a supplementary phase I study, in healthy subjects, after which the project is expected to enter phase II. In the first patient study, KAND567 will be administered intravenously to myocardial infarction patients. Results are expected to be available in the second half of 2020. In the long term, we see great opportunities for also developing the drug candidate against chronic inflammatory diseases and certain types of cancer. The cancer area is considered increasingly interesting. Recently we presented results from analyses of lymphoma patients' immune cells that show that the Fractalkine system is activated in chronic lymphocytic leukemia, diffuse large cell B cell lymphoma and Hodgkin's lymphoma.

The development of Kancera's other pipeline projects will depend on external collaborations. In December, we announced that Grünenthal - a leading pharmaceutical company in pain management - is taking over the responsibility for preclinical research on our HDAC inhibitors. Grünenthal is entitled to later acquire the HDAC substances, with the aim of developing one or more new and potentially disease-modified drugs for neuropathic pain. The total contract value amounts to approximately SEK 340 million. In addition, Kancera is entitled to sales-based royalties.

Our financial position was strengthened in 2018 through a new share issue and through an agreement with the American investor Global Corporate Finance (GCF) on future targeted new issues to a maximum amount of SEK 60 million. We believe that the agreement, which is free from stock loans and warrants, offers a cost-effective alternative to traditional issues. Capital contributions from GCF are intended to be used for clinical studies and for the company's operations.

The global market for drugs in acute myocardial infarction is estimated by Zion Market Research to be approximately SEK 12 billion, with an estimated growth of 40% by 2022, but currently there are no drugs that can counteract the inflammation-related damage to the heart in the acute phase. Such a drug would have the potential to significantly further expand the market. We look forward to launching a Phase II study of KAND567 in the second half of 2019 in myocardial infarction patients and the results are expected to be available about one year later. Positive study results would be transforming for Kancera. Not only for the continued development of our most advanced drug candidate in the heart attack area, but also for development in other commercially attractive areas where the need for improved treatments is great.

Thomas Olin,  
CEO Kancera AB (publ)

# FOURTH QUARTER 1st OCTOBER – 31st DECEMBER IN BRIEF

- Net sales for the period (January to December) amounted to SEK 0.4 million (SEK 0.1 million), of which the fourth quarter amounted to SEK 0.3 million (SEK 0.0 million).
- R&D expenses for the period amounted to SEK 45.2 million (SEK 55.8 million), of which the fourth quarter amounted to SEK 14.0 million (SEK 16.0 million).
- Operating profit for the period amounted to SEK -45.9 million (SEK -56.1 million), of which the fourth quarter amounted to SEK -12.4 million (SEK -11.9 million).
- Profit after financial items for the period amounted to SEK -45.9 million (SEK -56.2 million), of which the fourth quarter amounted to SEK -12.1 million (SEK -12.0 million).
- Earnings per share for the period amounted to SEK -0.26 (SEK -0.39), of which the fourth quarter amounted to SEK -0.06 (SEK -0.09).
- Cash flow from operating activities for the period amounted to SEK -47.3 million (SEK -53.5 million), of which the fourth quarter amounted to SEK -13.8 million (SEK -18.6 million).
- Shareholders' equity at December 31, 2018 amounted to SEK 33.4 million (SEK 38.7 million) or SEK 0.18 (SEK 0.26) per share.
- The equity/assets ratio as of December 31, 2018 was 73 percent (76 percent).
- Cash and cash equivalents amounted to SEK 21.0 M (27.8) on December 31, 2018. Cash and cash equivalents exclude payment from Grünenthal of EUR 324 164 according to the agreement on the HDAC project. This payment was made in January 2019.

# SIGNIFICANT EVENTS DURING THE FOURTH QUARTER

- Kancera reported that the company has registered a patent application (EP18205819.8) for a third series of new substances that selectively inhibit the enzyme HDAC6 for the treatment of inflammation and cancer.
- Kancera was awarded a research grant, within the framework of the EU research program Horizon 2020, totaling approximately 260,000 Euro for the funding of a doctoral student in order to explore the role of the Fractalkine system in the emergence of pain during joint inflammation.
- Kancera announced the intention to enter into agreement with Global Corporate Finance (GCF), New York for an investment of a maximum of SEK 60 million. Authorization to conclude this agreement and new issue of shares for cash payment was approved by the Extraordinary General Meeting on December 13, 2018. The purpose of the authorization is to enable Kancera to raise working capital for the development of the Fractalkine project.
- Kancera reported that a new efficacy study in animal model of myocardial infarction showed that lower doses than expected give a significant cardioprotective effect.
- Kancera AB announced that the company has entered into a research and option agreement with Grünenthal, a leading pharmaceutical company within pain research and treatment. According to this agreement, Grünenthal is responsible for all preclinical research to develop drug candidates from Kancera's series of HDAC inhibitors and is entitled to acquire these substances. According to the agreement, Kancera receives an advance payment of approximately SEK 3 million. In the implementation of development and commercialization, milestone payments amounting to a total of approximately SEK 340 million are made, and in addition payment in the form of sales-related royalties.



## SIGNIFICANT EVENTS AFTER THE END OF THE FOURTH QUARTER

- Kancera has announced that two interim goals have been achieved prior to the planned start of clinical studies with the drug candidate KAND567 to show reduced tissue damage in connection with myocardial infarction. In a recent preclinical toxicological study, KAND567 has demonstrated a favorable safety profile for intravenous administration, while significant progress has been made in the development of a large-scale production method.
- Kancera has reported that the results of a study of lymphoma patients' immune cells show that the Fractalkine system is activated in the cancers forms chronic lymphocytic leukemia, diffuse large cell B cell lymphoma and Hodgkin's lymphoma. In view of this discovery, the company will now deepen the studies of how drug candidates that interact with the Fractalkine system, such as KAND567, may play a role in future treatments of these diseases.
- Kancera has now announced that the previously announced financing agreement with US Global Corporate Finance (GCF) has been signed - this in accordance with authorization from an extraordinary general meeting on December 13, 2018. The agreement gives Kancera the right to receive up to SEK 60 million over 30 months in exchange against newly issued shares. In connection with the signing, Kancera pays a one-time payment through a directed new issue of shares to GCF at a value corresponding to 3.5% of the investment range (SEK 2.1 million).

# PHARMACEUTICAL DEVELOPMENT

The company has five drug development projects in the portfolio. The company's main resources are invested in the two Fractalkine projects. The further development of the HDAC project is externally financed through agreements with the pharmaceutical company Grünenthal. The PFKFB3 project is funded through an EU Horizon2020 project and ROR1 mainly through academic collaborations.

## Project in clinical phase

- **Antagonist of the Fractalkine receptor CX3CR1.** Kancera is developing the small-molecule drug candidate KAND567, which blocks the receptor for Fractalkine and, therefore, specific parts of the immune system, for treatment of heart damage after myocardial infarction. Expansion possibilities for the blockers of the Fractalkine system are also being evaluated in inflammatory diseases and cancer.

## Pre-clinical phase projects

- **Partnership with Grünenthal on evaluation and further development of Kancera's HDAC projects in inflammation, pain and cancer.**
- **ROR inhibitors for the treatment of cancer.** Inhibitors of ROR reprogram cancer cells to destroy themselves. ROR inhibitors in the laboratory have been shown to work on cells from both solid tumors and blood cancer (leukemia and lymphoma).
- **PFKFB3 inhibitor for the treatment of cancer.** Inhibitors of PFKFB3 inhibit the energy supply to solid tumors, and reduce the ability of cancer cells to repair their DNA, together, these effects can increase the tumor's sensitivity to other cancer therapies.

Kancera's project portfolio:

Project	Research	Lead Optimization	Preclinical Drug Candidate	Clinical Drug Candidate	Clinical Ph I	Clinical Ph II
CX3CR1 (KAND567) Cardiovascular inflammation						
CX3CR1 (2nd generation blocker) Chronic disease						
ROR1 (Apoptosis /Cell death) Cancer						
PFKFB3 (DNA repair) Cancer						
HDAC6 (Cytoskeleton/Epigenetics) Inflammation, Pain, Cancer						



Read more about the project portfolio, current project status and patent portfolio in the Project Report on our website: <http://www.kancera.com>

# FINANCIAL DEVELOPMENT SUMMARY

## Financial development, summary

SEK 000's (unless otherwise specified)

Kancera Group

	Oct-Dec		Jan-Dec	
	2018	2017	2018	2017
Net turnover	295	27	358	113
Other operating revenues	4 068	4 998	4 472	4 998
Operating expenses	-16 758	-16 895	-50 679	-61 180
R&D expenses	-13 982	-15 976	-45 240	-55 804
Operating Income	-12 426	-11 915	-45 921	-56 143
Income after financial items	-12 100	-12 047	-45 935	-56 198
Net income	-12 100	-12 047	-45 935	56 198
Cash-flow from operating activities	-13 815	-18 642	-47 334	-53 541
Cash on hand at closing date	21 023	27 775	21 023	27 775
Equity at closing date	33 357	38 711	33 357	38 711
<b>Key ratios</b>				
Return on equity, %	neg	neg	neg	neg
Return on capital employed, %	neg	neg	neg	neg
Earnings by share, before and after dilution, kr	-0,06	-0,09	-0,26	-0,39
Cash-Flow from operating activities by share, kr	-0,06	-0,09	-0,26	-0,39
Solvency ratio	-0,07	0,14	0,27	-0,37
Equity by share, kr	73%	76%	73%	76%
No. of employees	0,18	0,26	0,18	0,26
Antal anställda vid periodens slut	15	20	15	20



# COMMENTS ON THE FINANCIAL DEVELOPMENT

Reduced costs for the period compared with the corresponding period in 2017 are mainly due to the fact that the clinical study Fas I study initiated during the second quarter of 2017 is now completed. During the fourth quarter, the costs will increase again in comparison with the corresponding period in 2017, which is mainly attributable to preparations for clinical studies in 2019. These preparations include GLP toxicology and large-scale technical batches of intravenous preparation of KAND567. After the acquisition of the subsidiary Kancera Förvaltning AB, interim reports are prepared as from Q2, 2016, in accordance with IAS 34 and the Annual Accounts Act.

## REVENUES AND EARNINGS

### Fourth quarter, October - December 2018

- Kancera AB's activities were mainly drug development.
- Net sales during the quarter amounted to SEK 0.3 million (SEK 0.0 million)
- Expenses during the quarter amounted to SEK 16.8 million (SEK 16.9 million), divided between costs for research and development costs SEK 14.0 million (SEK 16.0 million), and other sales and administrative expenses SEK 2.8 million (SEK 0.9 million).
- Earnings per share for the quarter amounted to SEK -0.06 (SEK -0.09), based on a weighted average number of shares outstanding.
- Profit after financial items amounted to SEK -12.1 million (-12.0) during the quarter.

### Period January – December 2018

- Net sales during the financial year amounted to SEK 0.4 million (SEK 0.1 million)
- Expenses during the period amounted to SEK 50.7 million (SEK 61.2 million), divided between costs for research and development costs SEK 45.2 million (SEK 55.8 million), and other sales and administrative expenses SEK 5.5 million (SEK 5.4 million).
- Earnings per share for the period amounted to SEK -0.26 (SEK 0.39) based on a weighted average number of shares outstanding.
- Profit after financial items amounted to SEK -45.9 million (SEK -56.2 million).

# FINANCIAL POSITION AND LIQUIDITY

## BALANCE SHEET AND CASH FLOW

Total equity as of December 31, 2018 amounted to SEK 33.4 million (SEK 38.7 million).

Kancera AB's equity ratio at December 31, 2018 was 73 percent (76 percent). Equity per share was SEK 0.18 (SEK 0.26).

Cash flow amounted to SEK -13.8 million (SEK -18.3 million) during the fourth quarter. Cash flow from operating activities amounted to SEK -13.8 million (SEK -18.6 million) or SEK -0.07 per share (SEK -0.14) and from financing activities it amounted to SEK 0.0 million (SEK 0.0 million).

Kancera AB's cash and cash equivalents as of December 31, 2018 amounted to SEK 21.0 million (SEK 27.8 million). Cash and cash equivalents exclude payment made from Grünenthal of EUR 324 164 according to the agreement on the HDAC project.

## PERSONNEL

Kancera AB had 15 (20) full-time employees, including 2 EU-funded doctoral students on 31<sup>st</sup> December 2018, of which 9 are men and 6 are women.

## INVESTMENTS AND DEPRECIATIONS

Intangible assets in the balance sheet total a total of SEK 18 million, which is divided into SEK 3 million for the ROR1 project, SEK 3 million for the PFKFB3 project and SEK 12 million for the Fractalkine project.

## CURRENT INCENTIVE SCHEME

With the approval of the Extraordinary Meeting of 28<sup>th</sup> September 2017, a decision has been taken regarding the issue of warrants, which means that Kancera issues no more than 4 million warrants to a wholly owned subsidiary. The warrants shall serve as the basis for the issuance of a maximum of 3 million employee stock options to employees and executives. Each option shall entitle the holder to acquire one share at a price corresponding to 130 per cent of the volume-weighted share price of the company's share on Nasdaq First North during the period 22<sup>nd</sup> September to 5<sup>th</sup> October 2017, which corresponds to approximately 3 kr. They are then awarded free of charge and are not transferable. The stock options shall have a maturity of three years. Kancera retains 1 million warrants to cover the company's obligation to pay social security benefits on the exercise of employee stock options. If all 4 million warrants are exercised for subscription of new shares, the newly subscribed shares will amount to approximately 2.7 percent of the share capital.

The entries for the ROR1 and PFKFB3 projects arose as a result of a non-cash issue in the formation of Kancera AB. The item for the Fractalkine project is the sum of two off-set issues carried out according to the acquisition agreement.

In accordance with the annual impairment test, the Board assesses that the value of Fractalkine, ROR1 and PFKFB3 projects meets the respective value assigned to the projects in the balance sheet.

Investments in fixed assets during the fourth quarter amounted to SEK 0.0 million (SEK 0.0 million).

## THE SHARE CAPITAL AND THE SHARE

The share capital at December 31, 2018 amounted to SEK 15,878,574 divided between 190,542,892 shares with a quota value of, rounded off, SEK 0.08 per share. This includes registration of a new share issue with preferential rights in May 2018, which brought in SEK 48 million.



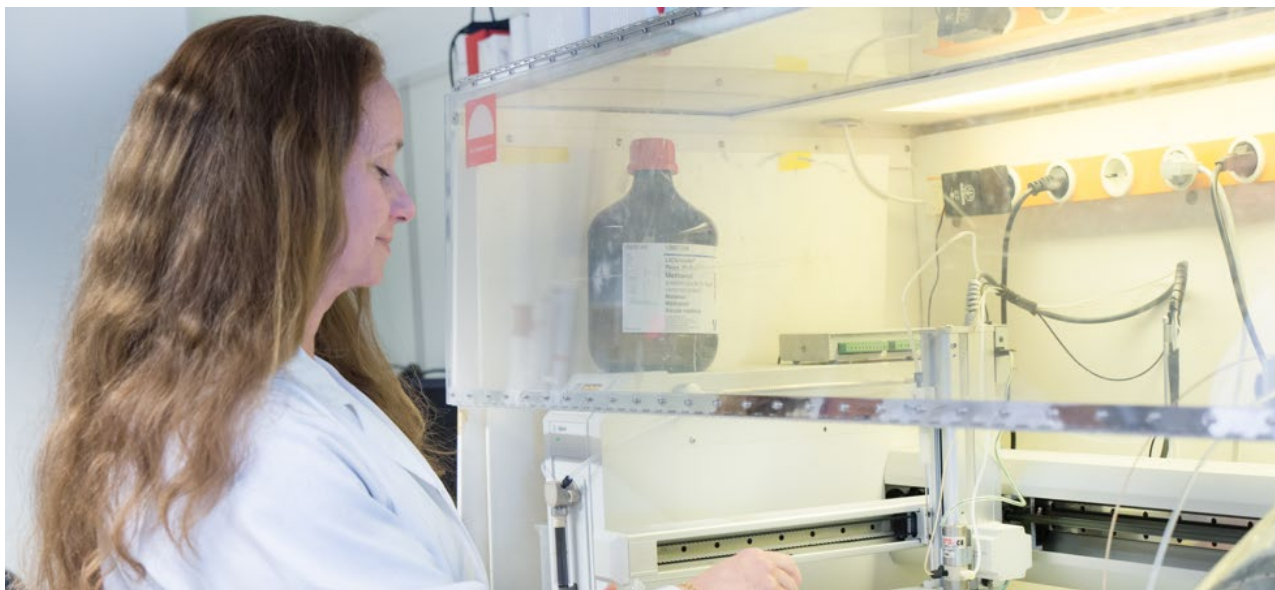
## DEFICITS FOR TAX PURPOSES

Kancera AB's current operations are initially expected to result in negative results and tax losses. There are currently not enough convincing reasons that indicate that taxable surpluses will exist in the future that can defend an activation of the value of the deficits, and no deferred tax assets have been reported.

In the case of a sale of a drug candidate, profits are expected to be reported which are currently deemed to be tax deductible against previous years' tax losses, which would mean a low tax burden for the Company when a project is sold. The tax deficits at December 31, 2018 amounted to SEK 219 million.

## THE GROUP

Kancera consists of two companies, the parent company Kancera AB (publ), in which all product development takes place and the wholly owned subsidiary Kancera Förvaltnings AB, in which warrants are placed. The parent company in the group is the Swedish public limited liability company Kancera AB (publ.) whose shares have been listed on the Nasdaq First North Premier Segment since October 28th, 2016.



## Consolidated Statement of Comprehensive Income

SEK 000's (unless otherwise specified)

	Oct-Dec		Jan-Dec	
	2018	2017	2018	2017
<b>Kancera Group</b>				
<i>Revenues</i>				
<b>Net sales</b>	<b>295</b>	<b>27</b>	<b>358</b>	<b>113</b>
Other income	4 068	4 998	4 472	4 998
Cost of sales & services	-31	-45	-72	-74
<b>Gross profit</b>	<b>4 332</b>	<b>4 980</b>	<b>4 758</b>	<b>5 037</b>
<i>Operating Expenses</i>				
General & administrative expenses	-2 506	-710	-4 307	-3 930
Selling expenses	-270	-209	-1 132	-1 446
Research & development expenses	-13 982	-15 976	-45 240	-55 804
<b>Total operating expenses</b>	<b>-16 758</b>	<b>-16 895</b>	<b>-50 679</b>	<b>-61 180</b>
<b>Operating income</b>	<b>-12 426</b>	<b>-11 915</b>	<b>-45 921</b>	<b>-56 143</b>
<i>Income from Financial Investments</i>				
<b>Financial net</b>	<b>326</b>	<b>-132</b>	<b>-14</b>	<b>-55</b>
<b>Income after financial items</b>	<b>-12 100</b>	<b>-12 047</b>	<b>-45 935</b>	<b>-56 198</b>
Taxation	0	0	0	0
<b>Net income</b>	<b>-12 100</b>	<b>-12 047</b>	<b>-45 935</b>	<b>-56 198</b>
Net income attributable to the shareholder's of the parent company	-12 100	-12 047	-45 935	-56 198
Non-controlling interests	0	0	0	0
Average number of shares (thousands), before and after dilution	190 543	138 084	173 355	144 101
Number of shares at closing date (thousands)	190 543	145 951	190 543	148 635
Earnings per share, before and after dilution	-0,06	-0,09	-0,26	-0,39

### Comprehensive Income for the Period

SEK 000's (if otherwise not specified)

	Oct-Dec		Jan-Dec	
	2018	2017	2018	2017
<b>Net income for the period</b>	<b>-12 100</b>	<b>-12 047</b>	<b>-45 935</b>	<b>-56 198</b>
Other comprehensive income, net before tax	0	0	0	0
<b>Total comprehensive income for the period</b>	<b>-12 100</b>	<b>-12 047</b>	<b>-45 935</b>	<b>-56 198</b>
Attributable to the shareholder's of the parent company	-12 100	-12 047	-45 935	-56 198
Non-controlling interests	0	0	0	0

## Condensed Consolidated Statement of Financial Position

SEK 000's (unless otherwise specified)

### Kancera Group

	31 Dec	
	2018	2017
<b>Assets</b>		
<b>Non-current Assets</b>		
<i>Intangible assets</i>		
Capitalized R&D	18 000	18 000
<i>Tangible assets</i>		
Equipment and chemical library	111	632
<b>Total non-current assets</b>	<b>18 111</b>	<b>18 632</b>
<b>Current Assets</b>		
Work in progress	0	1 580
Trade receivables and other receivables	6 399	3 238
Cash and cash equivalents	21 023	27 775
<b>Total current assets</b>	<b>27 422</b>	<b>32 593</b>
<b>TOTAL ASSETS</b>	<b>45 533</b>	<b>51 225</b>
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Equity	33 357	38 711
<b>Provisions and Liabilities</b>		
Long-term liabilities	655	2 946
Short-term liabilities	11 521	9 568
<b>Total provisions and liabilities</b>	<b>12 176</b>	<b>12 514</b>
<b>TOTAL EQUITY and LIABILITIES</b>	<b>45 533</b>	<b>51 225</b>



## Consolidated Statement of Changes in Equity

SEK 000's (unless otherwise specified)

<b>Kancera Group</b>	Share capital	Other capital contributions	Accumulated deficit	Total equity
<b>Kancera group 1 Jan 2017-31 Dec 2017</b>				
<b>Fourth quarter Oct-Dec 2017</b>				
	12 219	133 989	-101 437	44 771
<b>Opening balance 2017-10-01</b>				
<i>Comprehensive income</i>			-12 047	-12 047
Net income for the period				
<i>Transactions with shareholders</i>	167	5 833		6 000
Capital injections		-26		-26
Costs related to issue of shares			13	13
<b>Closing balance 2017-12-31</b>	<b>12 386</b>	<b>139 796</b>	<b>-113 471</b>	<b>38 711</b>
<b>Period januari-June 2017</b>				
<b>Opening balance 2017-01-01</b>	10 957	106 032	-57 464	59 525
<i>Comprehensive income</i>				
Net income for the period			-56 198	-56 198
<i>Transactions with shareholders</i>				
Capital injections	1 429	34 227		35 656
Costs related to issue of shares		-463		-463
Employee stock option programme			191	191
<b>Closing balance 2017-12-31</b>	<b>12 386</b>	<b>139 796</b>	<b>-113 471</b>	<b>38 711</b>
<b>Kancera group 1 Jan 2018-31 Dec 2018</b>	Share capital	Other capital contributions	Accumulated deficit	Total equity
<b>Fourth quarter Oct-Dec 2018</b>				
<b>Opening balance 2018-10-01</b>	15 879	177 321	-147 743	45 457
<i>Comprehensive income</i>				
Net income for the period			-12 100	-12 100
<i>Transactions with shareholders</i>				
Capital injections				0
Costs related to issue of shares				0
<b>Closing balance 2018-12-31</b>	<b>15 879</b>	<b>177 321</b>	<b>-159 843</b>	<b>33 357</b>
<b>Period Jan-Dec 2018</b>				
<b>Opening balance 2018-01-01</b>	12 386	140 232	-113 908	38 710
<i>Comprehensive income</i>				0
Net income for the period			-45 935	-45 935
<i>Transactions with shareholders</i>				0
Capital injections	3 493	46 798		50 291
Costs related to issue of shares		-9 709		-9 709
<b>Closing balance 2018-12-31</b>	<b>15 879</b>	<b>177 321</b>	<b>-159 843</b>	<b>33 357</b>



## Condensed Consolidated Statement of Cash-Flow

	Oct-Dec		Jan-Dec	
SEK 000's (unless otherwise specified)	2018	2017	2018	2017
<b>Kancera Group</b>				
<i>Cash-flow from operating activities</i>				
Operating income after financial items	-12 100	-12 047	-45 935	-56 198
Depreciation	101	288	520	1 168
Taxes paid	148	-132	-36	-258
Other non-cash-flow affecting items	-171	-39	0	139
<b>Cash-flow from operating activities before working capital change</b>	<b>-12 022</b>	<b>-11 930</b>	<b>-45 451</b>	<b>-55 149</b>
Change in working capital	-1 793	-6 712	-1 883	1 608
<b>Cash-flow from operating activities</b>	<b>-13 815</b>	<b>-18 642</b>	<b>-47 334</b>	<b>-53 541</b>
<i>Investment activities</i>				
Sale of tangible assets	1	364	1	364
<b>Cash-flow from investment activities</b>	<b>1</b>	<b>364</b>	<b>1</b>	<b>364</b>
<b>FREE CASH-FLOW available to INVESTORS</b>	<b>-13 815</b>	<b>-18 278</b>	<b>-47 334</b>	<b>-53 177</b>
<i>Financing activities</i>				
Issue of shares/other capital infusions	0	-26	40 582	23 193
<b>Cash-flow from financing activities</b>	<b>0</b>	<b>-26</b>	<b>40 582</b>	<b>23 193</b>
<b>CASH-FLOW for the PERIOD</b>	<b>-13 815</b>	<b>-18 304</b>	<b>-6 752</b>	<b>-29 984</b>
Cash and cash equivalents at the beginning of the period	34 838	46 079	27 775	57 759
Cash and cash equivalents at the end of the period	21 023	27 775	21 023	27 775

## Condensed Parent Company Income Statement

SEK 000's (unless otherwise specified)	Oct-Dec		Jan-Dec	
	2018	2017	2018	2017
<b>The Parent Company Kancera AB</b>				
<i>Revenues</i>				
<b>Net sales</b>	<b>295</b>	<b>27</b>	<b>358</b>	<b>113</b>
Other income	4 068	4 998	4 472	4 998
Cost of sales & services	<b>-31</b>	-45	-72	-74
<b>Gross profit</b>	<b>4 332</b>	<b>4 980</b>	<b>4 758</b>	<b>5 037</b>
<i>Operating Expenses</i>				
General & administrative expenses	-2 504	-709	-4 305	-3 929
Selling expenses	-270	-209	-1 132	-1 446
Research & development expenses	-13 982	-15 976	-45 240	-55 804
<b>Total expenses</b>	<b>-16 756</b>	<b>-16 894</b>	<b>-50 677</b>	<b>-61 179</b>
<b>Operating income</b>	<b>-12 424</b>	<b>-11 914</b>	<b>-45 919</b>	<b>-56 142</b>
<i>Income from Financial Investments</i>				
<b>Financial net</b>	326	-132	-14	-55
<b>Income after financial items</b>	<b>-12 098</b>	<b>-12 046</b>	<b>-45 933</b>	<b>-56 197</b>
Taxation	0	0	0	0
<b>Net income</b>	<b>-12 098</b>	<b>-12 046</b>	<b>-45 933</b>	<b>-56 197</b>



## Condensed Parent Company Balance Sheet

	31 Dec	
SEK 000's (unless otherwise specified)	2018	2017
<b>The Parent Company Kancera AB</b>		
<i>Assets</i>		
<i>Non-current Assets</i>		
<i>Intangible assets</i>		
Capitalized R&D	18 000	18 000
<i>Tangible assets</i>		
Equipment and chemical library	111	632
<i>Financial assets</i>		
Shares in subsidiaries	50	50
<b>Total non-current assets</b>	<b>18 161</b>	<b>18 682</b>
<i>Current Assets</i>		
Work in progress	0	1 580
Intercompany receivables	1	0
Trade receivables and other receivables	6 399	3 237
Cash and cash equivalents	20 976	27 726
<b>Total current assets</b>	<b>27 376</b>	<b>32 543</b>
<b>TOTAL ASSETS</b>	<b>45 537</b>	<b>51 225</b>
<i>Equity and Liabilities</i>		
<i>Equity</i>		
Restricted equity	15 879	12 386
Non-restricted equity	17 482	26 326
<b>Total equity</b>	<b>33 361</b>	<b>38 712</b>
<i>Provisions and Liabilities</i>		
Long-term liabilities	655	2 946
Short-term liabilities	11 521	9 567
<b>Total provisions and liabilities</b>	<b>12 176</b>	<b>12 513</b>
<b>TOTAL EQUITY and LIABILITIES</b>	<b>45 537</b>	<b>51 225</b>

# NOTES

## **Note 1. Accounting and valuation principles**

The interim report has been prepared in accordance with IAS 34 and the Annual Accounts Act. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the Swedish Annual Accounts Act. The parent company's accounts have been prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2, including a number of new or revised standards, interpretations and improvements have been adopted by the EU.

In addition to what is stated below, the Group's and the parent company's accounting principles and calculation bases for the report are unchanged compared with the most recent annual report for the financial year ending December 31, 2017 and should be read together with it.

As of January 1, 2018, Kancera applies IFRS 9 Financial Instruments and IFRS 15 Revenue from agreements with customers. IFRS 15 has not had any significant impact on the Group's financial statements since Kancera AB's commissioned research for customers does not occur to a significant extent.

IFRS 9 has not had any effect on the Group since the Group's financial instruments, which consist of accounts receivable and other receivables and borrowings, which are reported at amortized cost, do not occur to a significant extent.

### **Classification and valuation of financial assets and liabilities**

The financial assets and liabilities, with the exception of accounts receivable, are recognized for the first time at fair value adjusted for transaction costs. Accounts receivable are initially recognized at the transaction price. The types of financial assets and liabilities that are in Kancera and how these are valued are described below. Kancera has classified its financial instruments as follows.

#### **Financial assets**

Financial assets are classified based on both the company's business model for the management of the asset and the properties of the contractual cash flows from the financial asset in the following categories:

- Amortized cost
- Fair value through profit (FVTPL)
- Fair value through other comprehensive income (FVOCI)

The company's financial assets are all classified as valued at amortized cost.

#### *Financial assets valued at amortized cost*

Financial assets are valued at amortized cost if the assets meet the following conditions and are not recognized at fair value through the result:

- they are held within the framework of a business model whose goal is to hold the financial assets and collect contractual cash flows, and
- the contract terms for the financial assets give rise to cash flows that are only payments of principal amounts and interest on the outstanding amount of capital.

After initial recognition, these are valued at amortized cost using the effective interest method. Discounting is omitted if the effect of discounting is immaterial.

All income and expenses relating to financial assets that are reported in profit or loss are classified as financial expenses or financial income, except for expected credit losses in accounts receivable which are classified as operating expenses.

#### *Devaluation of financial assets*

The reporting of expected loan losses is assessed according to the expected credit loss model in IFRS 9. The financial assets covered by the model for expected loan losses are receivables and securities that are valued at amortized cost according to IFRS 9 and accounts receivable that are reported and valued at transaction price according to IFRS 15.

Reporting of loan losses is no longer dependent on the Group first identifying a credit loss event. Instead, the Group takes more extensive information into consideration when assessing credit risk and the valuation of expected credit losses including previous events, current conditions and reasonable and substantiated forecasts that affect the expected possibility of obtaining future cash flows from the asset.

The Group uses the simplified method for accounts receivable and reports expected loan losses for the remaining maturity. In the calculation, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected loan losses.

#### *Accounts receivable*

Accounts receivable, which usually fall due for payment after 30 days, are reported and booked at invoiced amount less deductions for expected loan losses. Since the company has a trustworthy number of receivables that are exposed to credit risk over a short period of time and since the Group has historically not had any significant customer losses, no collective reservation is made. However, the Group makes an individual assessment of expected credit losses on accounts receivable that have fallen due for payment, since this, together with the lack of a payment plan, are indicators that there is no probable expectation to receive full payment.

#### **Financial liabilities**

All financial liabilities are valued after initial recognition at amortized cost using the effective interest method. All interest-related fees are included in financial expenses.

#### **Estimated effects of the transition to IFRS 16 Leases**

As of January 1, 2019, the Group applies the new standard IFRS 16 Leases. IFRS 16 introduces a single accounting method for leasing agreements, which means that the Group's lease agreements for premises and cars that have previously been classified as operating leases according to IAS 17 will be reported in the balance sheet as an asset in the form of a right of use and leasing debt.

The company has chosen to apply the relief rules as lesser leases and agreements that run for shorter periods than 12 months from the transition date are not included. The company has chosen to apply partial retroactivity where comparative years are not recalculated and the accumulated effect is reported as an adjustment of opening equity at the first application date.

According to the company's initial calculation, the assets will increase by SEK 6 303 thousand and the Group's liabilities by SEK 6 303 thousand. The equity ratio at the transition is adversely affected by about 9% units. The report is expected to have a positive effect on operating profit, as the Group will report depreciation on the asset instead of leasing fees.

The company invests continuously in research and development projects that increase the company's knowledge of technology and where patent applications concerning technology can also be included. In the report, these

investments are expensed, including costs for preclinical and clinical studies, as well as patents when the activation time for projects is based on the time when the project is expected to be commercialized and when this time has not yet entered.

In 2017, capitalization of Capitalized Development expenditures has been made relating to the partial payment for the Fractalkine project. Activation of payments takes place as they become actual in accordance with agreements.

Amounts are stated in Swedish kronor, rounded to the nearest thousand unless otherwise stated. Rounding off to thousands of kronor may mean that the amounts do not match if they are summed up. Amounts and figures stated in parentheses refer to comparative figures for the corresponding period last year.

## Note 2. Transactions with related parties

During the period, Kancera AB paid compensation to Mellstedt Consulting AB for services comprising scientific advice and scientific marketing with an amount of SEK 360 thousand (SEK 480 thousand), SEK 126 thousand (SEK 226 thousand) to Allmora Life Science AB and SEK 52 thousand (SEK 0) to Fomaga AB. Håkan Mellstedt, member of the board of Kancera AB is the CEO and owner of Mellstedt Consulting AB. Charlotte Edenius, member of the board of Kancera AB, is the CEO and owner of Allmora Life Science AB. Anders Gabrielsen, Board member is Deputy CEO of Fomaga AB. No other remuneration has been paid to related parties other than board fees and expenses for expenses.

## Note 3. Options program

See information about employee stock option programs under the heading Financial Position and Liquidity.

## Note 4. Grants awarded, to be reported at a later date

Awarding body	Amount granted, tkr	Amount paid, tkr	Reporting date
EU SYNTRAIN <sup>1</sup>	4 986	2 991	Next: April 2020
EU TOBEATPAIN <sup>2</sup>	2 637	0	Next: July 2020
<b>Total</b>	<b>7 623</b>	<b>2 991</b>	

<sup>1</sup> at a rate of 1 Euro to 10 kr. The paid amount of approximately SEK 2,991,000 corresponds to 60% of the grant. An additional 25% of the grant, corresponding to approximately SEK 1,246 thousand, is payable during the first quarter of 2019 after the approved accounts for period 1 and an additional 15% after the approved final report submitted in October 2020.

<sup>2</sup> at a rate of 1 Euro to 10 kr. Granted amount of about SEK 2,637,000. The corresponding 60% of the grant is expected to be paid during the first quarter of 2019. An additional 25% of the grant is paid out after the approved report for period 1 which is expected to be submitted July-September 2020 and an additional 15% after the approved final report submitted in July 2022.

## Note 5. The company's operations and risk factors

When assessing Kancera future development, it is important to consider risk factors alongside potential growth in earnings. Kancera's operations are affected by a number of risks that may affect Kancera's results and financial position to varying degrees. For a description of the risks associated with the Company, see page 19 in the company's Annual Report 2017.

## Note 6. Definitions

### Alternative key ratios

In addition to the financial ratios drawn up in accordance with IFRS, Kancera presents financial key figures that are not defined in accordance with IFRS, such as return on equity, return on capital employed, cash flow per share. These alternative key ratios are considered to be important result and performance indicators for investors and other readers of the interim report. The alternative key figures should be seen as a supplement to, but not a compensation for, the financial information prepared in accordance with IFRS. Since not all companies calculate financial measurements in the same way, these are not always comparable to measurements used by other companies.

### Return on equity

Profit for the period as a percentage of average equity.

### Return on capital employed

Profit before tax plus financial expenses as a percentage of average capital employed.

### Equity per share

Shareholders' equity divided by the number of shares on the balance sheet date.

### Cash flow per share

Cash flow from operating activities divided by average number of shares.

### Option-based business

Agreement between two parties where one party acquires by prepayment the option of subsequently acquiring exclusive right to the asset in question.

### Earnings per share

Profit for the period divided by the average number of shares.

### Capital employed

Balance sheet total reduced by non-interest bearing liabilities.

### Solidity

Shareholders' equity as a percentage of total assets.



The Board and Chief Executive Officer hereby declare that the interim report gives a true and fair view of the company's business, position and results and describes the significant risks and uncertainties faced by the company and the Group.

Stockholm 22nd February 2019

Erik Nerpin  
*Chairman*

Håkan Mellstedt  
*Director*

Charlotte Edenius  
*Director*

Carl-Henrik Heldin  
*Director*

Anders Gabrielsen  
*Director*

Thomas Olin  
*CEO/Director*

This report has not been subjected to inspection by the company's auditors.

#### **Financial calendar**

Annual Report 2018 <sup>1</sup> :	May 3 <sup>rd</sup> 2019
Interim report January-March 2019:	May 24 <sup>th</sup> , 2019
Annual General Meeting 2019:	May 27 <sup>th</sup> 2019
Interim Report January-June 2019:	August 23 <sup>rd</sup> , 2019
Interim Report January-September 2019:	November 22 <sup>nd</sup> , 2019
Year-end report January-December 2019:	February 21 <sup>st</sup> , 2020

<sup>1</sup>Annual Report is published through press releases sent by an established information distributor (Cision) and made available as soon as possible via Kancera AB's website ([www.kancera.se](http://www.kancera.se)).

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