Interim report for the first quarter 2019

1 January – 31 March 2019

Kancera AB (publ.), org.nr. 556806-8851

kancera

Contents

This is Kancera

Kancera develops drugs against inflammatory diseases and cancer. Demonstrated effect on the Fractalkine system in humans has strengthened the basis for continued clinical development in a Phase II study.

Kancera develops drugs that counteract damage during acute and chronic inflammation. The Fractalkine blocker KAND567 has primarily been developed to effectively and selectively reduce inflammation of the heart and vessels following a heart attack and is expected to enter the clinical phase II study in 2019. Since scientific studies have shown elevated levels of Fractalkine not only in heart attacks, but also in inflammatory diseases and some forms of cancer, there are several possible development opportunities for a Fractalkine inhibitor such as KAND567.

Kancera AB conducts research and development 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 March 28, 2019 was approximately 7400. FNCA Sweden AB is the company's Certified Adviser. FNCA can be reached at 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 on signing and milestones in product development (typically when initiating clinical phase I, II, III and when registering) and royalty income.

History

In 2006, Pharmacia's and Biovitrum's unit for the development of drug candidates was spun off to form the company iNovacia. In 2008, iNovacia initiated 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 injection of capital and two drug projects in 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.

First quarter in brief

1 January – 31 March 2019

- Net sales for the period (January to March) amounted to SEK 0.0 million (SEK 0.0 million)
- R&D costs for the period amounted to SEK 10,2 million (SEK 11,8 million).
- Operating profit for the period amounted to SEK -7.9 million (SEK -12.7 million).
- Profit after financial items for the period amounted to SEK -8.0 million (SEK -12.5 million).
- Earnings per share for the period amounted to SEK -0.04 (SEK -0.07).
- Cash flow from operating activities for the period amounted to SEK -5.8 million (SEK -9.8 million).
- Shareholders' equity as of March 31, 2019 amounted to SEK 25.4 million (SEK 26.2 million) or SEK 0.13 (SEK 0.14) per share.
- The equity/assets ratio as of March 31, 2019 was 60 percent (65 percent).
- Cash and cash equivalents on March 31, 2019 amounted to SEK 15.2 million (SEK 18.0 million).

Significant events during the first quarter

- Kancera announced that two milestones were achieved prior to the planned start of clinical studies with the drug candidate KAND567, with the aim of showing reduced tissue damage in connection with heart attack. In a recently completed preclinical toxicological study, KAND567 has demonstrated a favorable safety profile for intravenous administration, while significant progress was made in the development of a large-scale production method.
- Kancera announced that the results of a study of lymphoma patients' immune cells show that the Fractalkine system is activated in the cancers of chronic lymphocytic leukemia, diffuse large cell B cell lymphoma and Hodgkin's lymphoma. In view of this discovery, the company will now extend studies of how drug candidates, such as KAND567, that interact with the Fractalkine system may play a role in future treatments of these diseases.
- Kancera announced that the agreement with US Global Corporate Finance (GCF) is capitalized in accordance with authorization from the Extraordinary General Meeting on December 13, 2018. The activation is made by Kancera paying a fee in the form of shares corresponding to SEK 2.1 million, after which Kancera has the right to call for investments in exchange for shares up to a total of SEK 60 million.

Significant events after the end of the first quarter

- Kancera has announced that the Medical Products Agency and the Ethics Committee have approved the application for a Phase Ib study with the drug candidate KAND567. A supplement has been submitted to the Medical Products Agency regarding additional information on a standardized method for intravenous administration of KAND567. The study can start after approval of this supplement, which is expected to occur in June.
- Kancera has reported that the company's project portfolio was further strengthened by nominating the drug candidate KAND145. Together with the clinical drug candidate KAND567, KAND145 is covered by a patent application from July 2018 and forms the basis of a new concept for the treatment of acute and chronic inflammation.

CEO statement

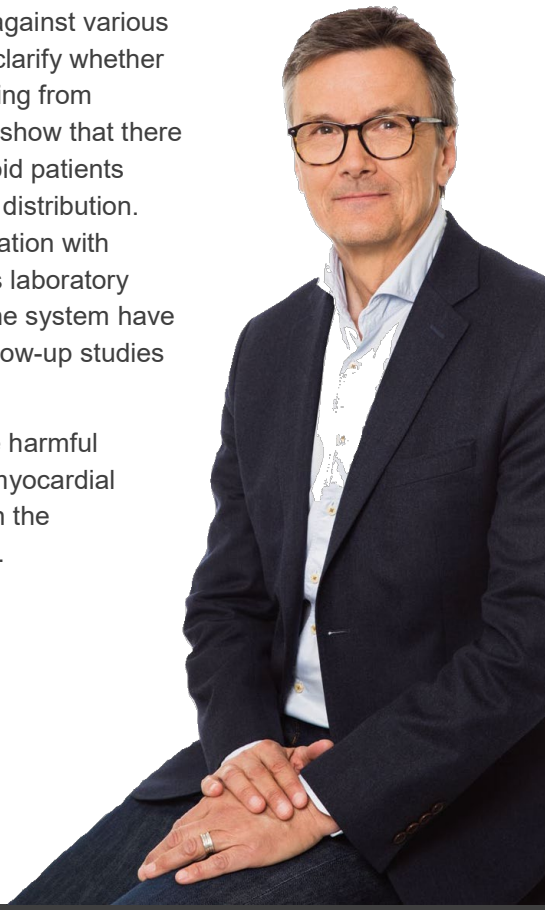
Intensive preparations for clinical trials

The first quarter of the year was characterized by intensive preparations for the clinical trial with our main candidate KAND567 in acute myocardial infarction, which we plan to initiate in 2019. In January, we received the results from a preclinical toxicological study showing that the Fractalkine inhibitor KAND567 also has a favorable safety profile when given intravenously, which is very important in acute treatment. At the same time, we were able to announce that significant progress was made in the development of a large-scale production method for the intravenous dosage form, which made it possible to begin the production of study drugs. There have been good results for safety tests and oral dosing of KAND567 in humans before, but in acute myocardial infarction, KAND567 will need to be given intravenously to rapidly reach effective levels of KAND567 in the blood. During the summer we therefore conduct a complementary phase Ib study in healthy subjects to determine the appropriate intravenous dosage rate for the future patient study. After the end of the reporting period, we were pleased to announce that the Medical Products Agency and the Ethics Committee approved our application to carry out the Phase Ib study, expected to start in June.

The intravenous dosage form of KAND567 is intended to be used in the Phase IIa study in patients treated with acute myocardial infarction. The application to the authorities for a trial permit for that study can only be made later this year when final results are available from the phase Ib study. The results from the patient study are expected to be reported approximately 12 months after the start of the study, and will constitute an important basis for negotiations on the out-licensing of KAND567 to pharmaceutical companies.

We recently nominated another drug candidate in the Fractalkine project, KAND145. With two independent drug candidates covered by separate patent applications, the possibility of developing two independent products in the future increases. Potentially, this may result in a drug for the treatment of inpatient heart attack and another drug targeted at the treatment of inflammatory diseases.

Fractalkine blockers also have the potential to develop into effective drugs against various forms of cancer. During the first quarter of 2019, a study was completed to clarify whether the Fractalkine system is activated and possibly causative in patients suffering from lymphoma. The results, which include blood cell analyzes from 66 patients, show that there is a statistically significant activation of the Fractalkine system in the lymphoid patients compared to a control group consisting of healthy subjects of the same age distribution. The study was carried out by researchers at Karolinska Institutet in collaboration with Kancera. Based on the research results, Kancera has decided to deepen its laboratory studies with the aim of determining whether drugs that control the Fractalkine system have the potential to develop into an improved treatment of lymphoma. These follow-up studies are expected to be completed during the third quarter of this year.



However, our focus remains on the development of KAND567 to reduce the harmful inflammatory process that arises in connection with the treatment of acute myocardial infarction. We are now looking forward to initiating the first clinical study with the intravenous dosage form to be used in the continued development program.

Solna, 24 May 2019

Kancera AB

Thomas Olin, CEO

Pharmaceutical development

Kancera's project portfolio comprises five drug projects. One project is in clinical phase and four in preclinical phase.

The drug candidate KAND567 is now being prepared for a Phase II clinical trial to test a completely new treatment strategy to protect the heart's function after infarction. Although myocardial infarction is still one of the most common causes of life-threatening chronic disease, there has been a real lack of innovation in the area, until now.

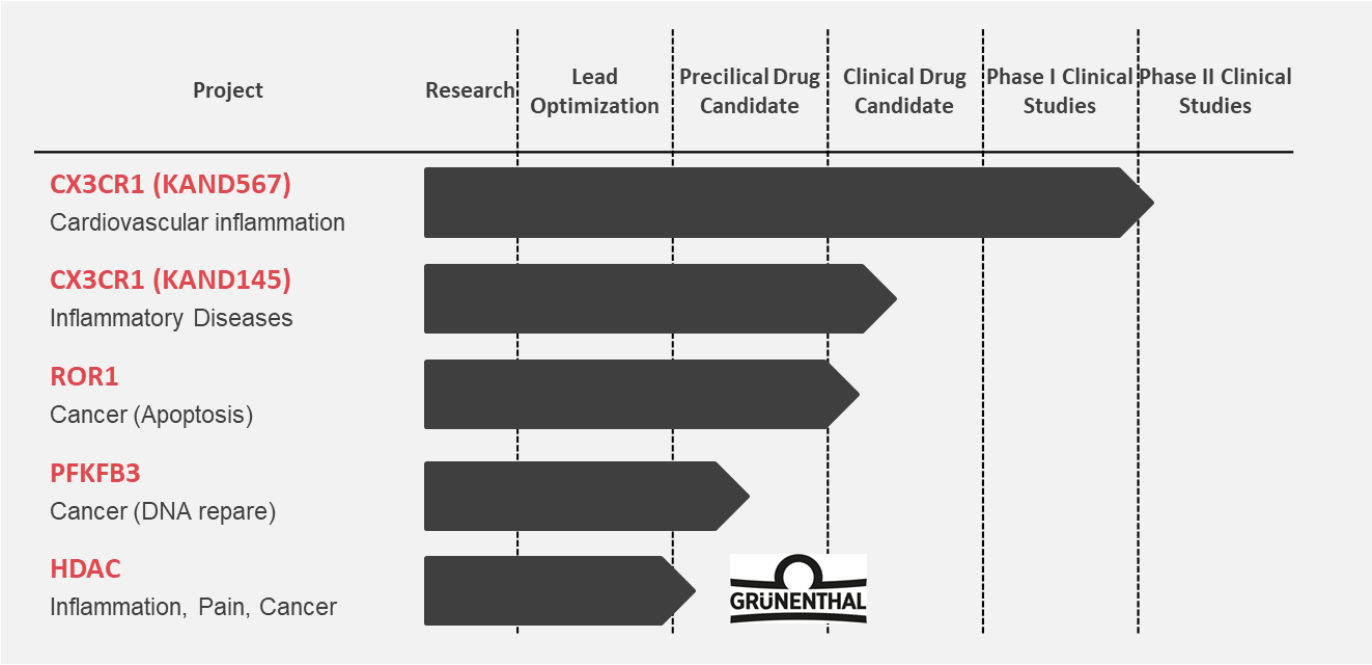
New knowledge suggests that an overreaction by the immune system is behind several types of cardiovascular diseases and that KAND567 can block this disease process. Since scientific studies have also shown that similar immunologic overreactions lie behind several forms of inflammatory diseases and certain cancers, there is significant potential for expansion of Kancera's Fractalkine-inhibiting drug candidates.

The year 2018 began with the reporting of Kancera's first clinical study with KAND567 in healthy subjects. In addition, an agreement was entered into between Kancera and the pharmaceutical company Grünenthal on the further development of Kancera's HDAC project in the field of neuritis.

During the first half of 2019, the second Phase I study with KAND567 is planned to establish an intravenous dosing strategy prior to the planned Phase IIa study in myocardial infarction patients heart attack patients.

The goals for the development of Kancera's product portfolio over the next 12-24 months are to:

- conduct a clinical Phase IIa study with KAND567 against inflammatory damage in myocardial infarction.
- advance Kancera's second drug candidate KAND145 through clinical preparatory steps.
- evaluate opportunities to expand the indication area for KAND567 and KAND145 in inflammatory niche diseases and cancer.



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

Projects in clinical phase

- Inhibitors of the Fractalkine receptor CX3CR1. Kancera is developing the small molecule drug candidates KAND567 and KAND145, both of which block the receptor for Fractalkine and thus specific parts of the immune system. The first indication for Kancera's Fractalkine inhibitor is treatment for heart injury after myocardial infarction. Expansion possibilities for the inhibitors of the Fractalkine system are also being evaluated in inflammatory diseases and cancer.

Projects in pre-clinical phase

- Kancera's HDAC project is being evaluated and developed in partnership with Grünenthal for nerve inflammation and pain.
- ROR inhibitors for the treatment of cancer. Inhibitors of ROR re-program cancer cells to destroy themselves. In the laboratory, ROR inhibitors 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 throttle the energy supply to solid tumors,and reduce the ability of cancer cells to repair their DNA, which together can increase the tumor's sensitivity to other cancer therapies.

Read more about the project portfolio, the current project status and the patent portfolio in the Project Report which can be downloaded from our website www.kancera.com

Financial development in brief

Financial development, summary

SEK 000´s (unless otherwise specified)

Kancera Group	1 Jan-31 March 2019	1 Jan-31 March 2018	1 Jan-31 Dec 2018
Net turnover	0	0	358
Other operating revenues	3 515	44	4 472
Operating expenses	-11 416	-12 766	-50 679
R&D expenses	-10 162	-11 839	-45 240
Operating Income	-7 901	-12 722	-45 921
Income after financial items	-7 956	-12 472	-45 935
Net income	-7 956	-12 472	-45 935
Cash-flow from operating activities	-5 830	-9 817	-47 334
Cash on hand at closing date	15 193	17 958	21 023
Equity at closing date	25 401	26 239	33 357
Key ratios			
Return on equity, %	neg	neg	neg
Return on capital employed, %	neg	neg	neg
Earnings by share, before and after dilution	-0,04	-0,07	-0,26
Cash-Flow from operating activities by share, kr	-0,03	-0,05	-0,27
Solvency ratio	60%	65%	73%
Equity by share, kr	0,13	0,14	0,18
No. of employees	18	18	18

Comments on the financial development

Increased operating income for the period compared with the corresponding period in 2018 is mainly attributable to a one-time payment received in connection with the agreement entered into concerning the HDAC project with Grünenthal. Reduced costs for the period compared to the corresponding period in 2018 are mainly due to the fact that the clinical Phase I study was completed during the first quarter of 2018, after which research and development costs are mainly attributable to preparation for clinical studies in 2019. These preparations include GLP toxicology and large-scale technical batches of intravenous preparations of KAND567. After the acquisition of the subsidiary Kancera Förvaltning AB, interim reports are prepared as of Q2, 2016 in accordance with IAS 34 and the Annual Accounts Act.

Income and results

First quarter, January – March 2019

- Kancera AB's activities were mainly drug development.
- Net sales during the quarter amounted to SEK 0.0 million (SEK 0.0 million)
- Expenses during the quarter amounted to SEK 11.4 million (SEK 12.8 million), divided between costs for R&D SEK 10.2 million (SEK 11.8 million), and other sales and administration expenses SEK 1.2 million (SEK 1.0 million).
- Earnings per share for the quarter amounted to SEK -0.04 (SEK -0.07), based on a weighted average number of shares outstanding.
- Profit after financial items amounted to SEK -8.0 million (SEK -12.5 million) during the quarter.

Financial position and liquidity

Balance sheet and cash flow

Total equity as of March 31, 2019 amounted to SEK 25.4 million (SEK 26.2 million).

Kancera AB's solvency as of March 31, 2019 was 60 percent (65 percent). Equity per share was SEK 0.13 (SEK 0.14).

Cash flow amounted to SEK -5.8 million (SEK -9.8 million) during the first quarter. Cash flow from operating activities amounted to SEK -5.8 million (SEK -9.8 million) or SEK -0.03 per share (SEK -0.05) and from financing activities it amounted to SEK 0.0 million (SEK 0.0 million).

Kancera AB's cash and cash equivalents as of March 31, 2019 amounted to SEK 15.2 million (SEK 18.0 million).

Employees

Kancera AB had about 19 employees as of March 31, 2019 (of which 15 were full-time), including 2 EU-funded doctoral students, and of which 8 are men and 7 are women.

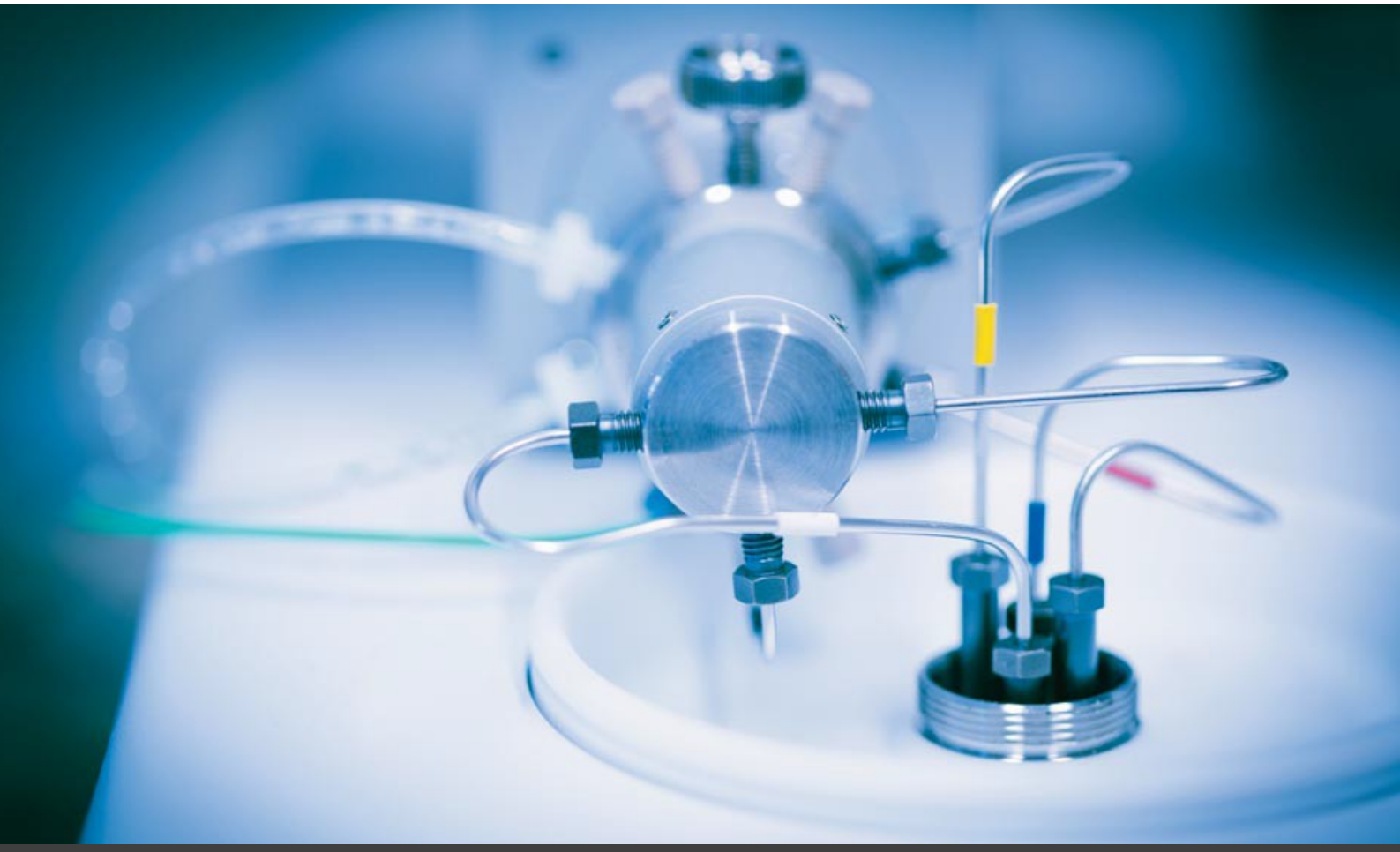
Investments and depreciation

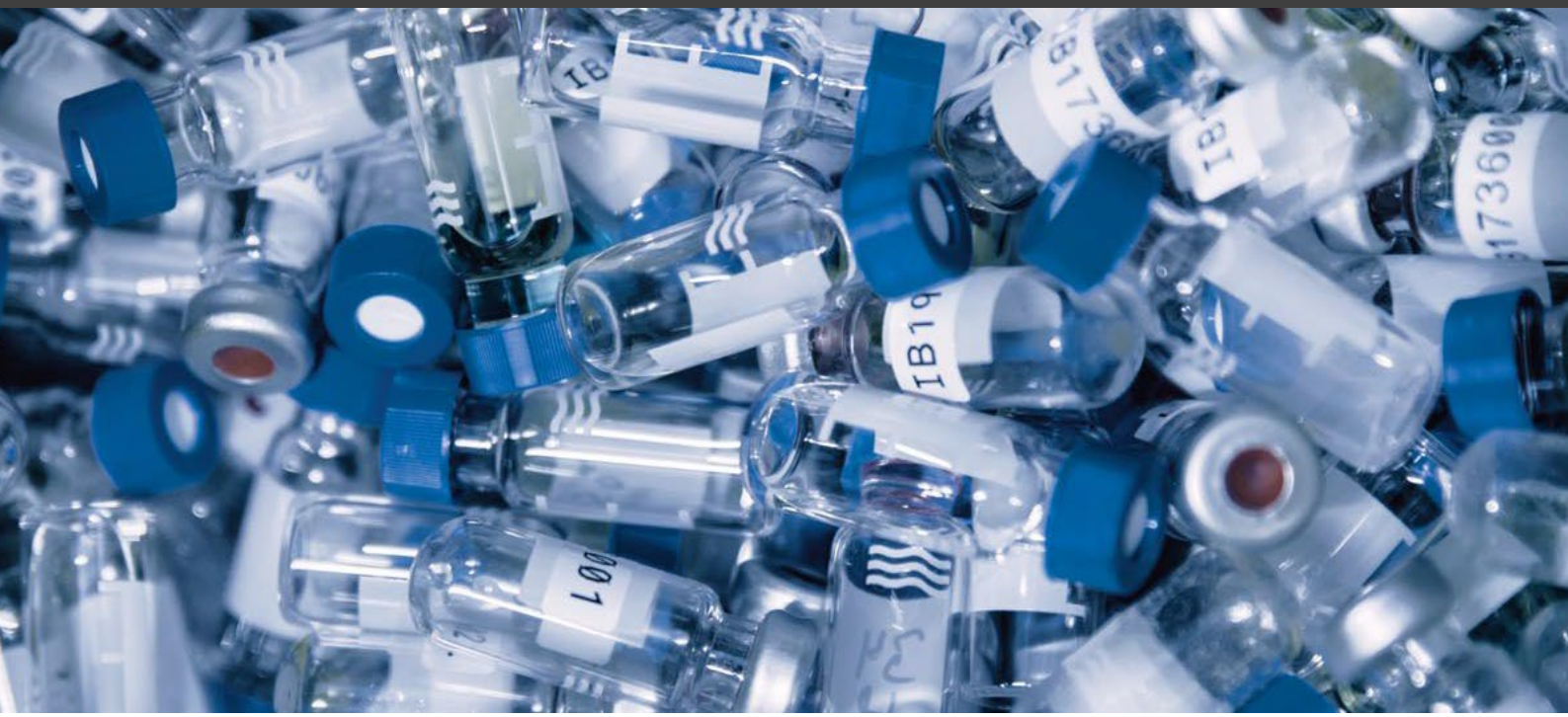
Intangible assets in the balance sheet total SEK 18 million, which is divided into SEK 3 million for the ROR1 project, SEK 3 million for the PFKFB3 project and SEK 12 million for the Fractalkine project. The entries for the ROR1 and PFKFB3 projects arose as a result of a non-cash issue in the formation 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 values of Fractalkine, ROR1 and PFKFB3 projects meet the respective value assigned to the projects in the balance sheet.

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

As of January 1, 2019, usage rights of SEK 6.3 million (SEK 0.0 million) are reported as an effect of IFRS 16 Leases.





The share capital and the share

The share capital on March 31, 2019 amounted to SEK 15 878 574 divided between 190 542 892 shares with a quota value of, rounded off, SEK 0.08 per share. An ongoing issue to GCF comprises a further 2 282 600 shares.

Current incentive scheme

With the approval of the Extraordinary Meeting of 28th 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 22nd September to 5th 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.

Tax deficits

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 entail 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 research and product development takes place and the wholly-owned subsidiary Kancera Förvaltnings AB in which warrants are placed. The parent company of the Group is the Swedish public limited company Kancera AB (publ.) whose shares are listed on Nasdaq First North, the Premier Segment as of October 28, 2016.

Report on comprehensive income

Consolidated Statement of Comprehensive Income

SEK 000´s (unless otherwise specified)	1 Jan-31 March 2019	1 Jan-31 March 2018	1 Jan-31 Dec 2018
Kancera Group			
Revenues			
Net sales	**0**	**0**	**358**
Other operating revenues	3 515	44	4 472
Cost of sales & services	0	0	-72
Gross profit	**3 515**	**44**	**4 758**
Operating Expenses			
General & administrative expenses	-873	-639	-4 307
Selling expenses	-381	-288	-1 132
Research & development expenses	-10 162	-11 839	-45 240
Total operating expenses	**-11 416**	**-12 766**	**-50 679**
Operating income	**-7 901**	**-12 722**	**-45 921**
Income from Financial Investments			
Financial net	-55	250	-14
Income after financial items	**-7 956**	**-12 472**	**-45 935**
Taxation	0	0	0
Net income	**-7 956**	**-12 472**	**-45 935**
Net income attributable to the shareholder´s of the parent company	-7 956	-12 472	-45 935
Average number of shares (thousands), before and after dilution	190 543	190 543	173 355
Number of shares at closing date (thousands)	190 543	190 543	190 543
Earnings per share, before and after dilution	-0,04	-0,07	-0,26

Comprehensive Income for the Period

SEK 000´s (if otherwise not specified)	1 Jan-31 March 2019	1 Jan-31 March 2018	1 Jan-31 Dec 2018
Net income for the period	-7 956	-12 472	-45 935
Other comprehensive income, net before tax	0	0	0
Total comprehensive income for the period	-7 956	-12 472	-45 935
Attributable to the shareholder´s of the parent company	-7 956	-12 472	-45 935

Condensed Consolidated Statement of Financial Position

SEK 000´s

Kancera Group

	31 March		31 Dec
Assets	2019	2018	2018
Non-current Assets			
Intangible assets			
Capitalized R&D	18 000	18 000	18 000
Tangible assets			
Equipment and chemical library	78	375	111
Financial assets			
Lease assets	6 320	0	0
Total non-current assets	**24 398**	**18 375**	**18 111**
Current Assets			
Work in progress	0	1 945	0
Trade receivables and other receivables	2 860	2 360	6 399
Cash and cash equivalents	15 193	17 958	21 023
Total current assets	**18 053**	**22 263**	**27 422**
TOTAL ASSETS	**42 451**	**40 638**	**45 533**
Equity and Liabilities			
Equity			
Equity	**25 401**	**26 239**	**33 357**
Provisions and Liabilities			
Long-term liabilities	8 482	3 079	655
Short-term liabilities	8 568	11 320	11 521
Total provisions and liabilities	**17 050**	**14 399**	**12 176**
TOTAL EQUITY and LIABILITIES	**42 451**	**40 638**	**45 533**

Consolidated Statement of Changes in Equity

SEK 000´s

Kancera Group **Period January-March 2018**	Share capital	Other capital contributions	Accumulated deficit	Total equity
Opening balance 2018-01-01	12 386	81 458	-55 133	38 711
Comprehensive income				
Net income for the period			-12 472	-12 472
Total comprehensive income	0	0	-12 472	-12 472
Transactions with shareholders				
Capital injections	0	0		0
Total transactions with shareholders	0	0	0	0
Closing balance 2018-03-31	**12 386**	**81 458**	**-67 605**	**26 239**

Period January-December 2018 **Opening balance 2018-01-01**	Share capital	Other capital contributions	Accumulated deficit	Total equity
Comprehensive income				
Net income for the period	12 386	81 458	-55 133	38 711
Appropriation of last year´s net income		-55 133	55 133	
Net income for the period			-45 935	-45 935
Total comprehensive income	0	-55 133	9 198	-45 935
Transactions with shareholders				
Capital injections	3 493	46 798		50 291
Costs related to issue of shares		-9 710		-9 710
Total transactions with shareholders	3 493	37 088	0	40 581
Closing balance 2018-12-31	**15 879**	**63 413**	**-45 935**	**33 357**

Period January-March 2019	Share capital	Other capital contributions	Accumulated deficit	Total equity
Opening balance 2019-01-01	15 879	63 413	-45 935	33 357
Comprehensive income				
Net income for the period			-7 956	-7 956
Total comprehensive income	0	0	-7 956	-7 956
Transactions with shareholders				
Capital injections	0	0		0
Total transactions with shareholders	0	0	0	0
Closing balance 2019-03-31	**15 879**	**63 413**	**-53 891**	**25 401**

Condensed Consolidated Statement of Cash-Flow

	1 Jan-31 March		1 Jan-31 Dec
SEK 000´s	2019	2018	2018
Kancera Group			
Cash-flow from operating activities			
Operating income after financial items	-7 956	-12 472	-45 935
Depreciation	34	257	520
Taxes paid	-174	-117	-36
Other non-cash-flow affecting items	17	0	0
Cash-flow from operating activities before working capital change	**-8 079**	**-12 332**	**-45 451**
Change in working capital	2 249	2 515	-1 883
Cash-flow from operating activities	**-5 830**	**-9 817**	**-47 334**
Investment activities			
Investments in tangible assets	0	0	0
Cash-flow from investment activities	**0**	**0**	**0**
FREE CASH-FLOW available to INVESTORS	**-5 830**	**-9 817**	**-47 334**
Financing activities			
Issue of shares/other capital infusions	0	0	40 582
Financing from the EU/Vinnova	0	0	0
Cash-flow from financing activities	**0**	**0**	**40 582**
CASH-FLOW for the PERIOD	**-5 830**	**-9 817**	**-6 752**
Cash and cash equivalents at the beginning of the period	21 023	27 775	27 775
Cash and cash equivalents at the end of the period	15 193	17 958	21 023

Condensed Parent Company Income Statement

SEK 000´s	1 Jan-31 March 2019	1 Jan-31 March 2018	1 Jan-31 Dec 2018
The Parent Company Kancera AB			
Revenues			
Net sales	**0**	**0**	**358**
Other income	3 515	44	4 472
Cost of sales & services	0	0	-72
Gross profit	**3 515**	**44**	**4 758**
Operating Expenses			
General & administrative expenses	-899	-638	-4 305
Selling expenses	-394	-288	-1 132
Research & development expenses	-10 139	-11 839	-45 240
Total expenses	**-11 432**	**-12 765**	**-50 677**
Operating income	**-7 917**	**-12 721**	**-45 919**
Income from Financial Investments			
Financial net	-22	250	**-14**
Income after financial items	**-7 939**	**-12 471**	**-45 933**
Taxation	0	0	0
Net income	**-7 939**	**-12 471**	**-45 933**

Balance sheet

Condensed Parent Company Balance Sheet

	31 March		31 Dec
SEK 000´s	2019	2018	2018
The Parent Company Kancera AB			
Assets			
Non-current Assets			
Intangible assets			
Capitalized R&D	18 000	18 000	18 000
Tangible assets			
Equipment and chemical library	78	375	111
Financial assets			
Shares in subsidiaries	50	50	50
Total non-current assets	**18 128**	**18 425**	**18 161**
Current Assets			
Work in progress	0	1 945	0
Intercompany receivables	1	0	1
Trade receivables and other receivables	2 860	2 360	6 399
Cash and cash equivalents	15 146	17 909	20 976
Total current assets	**18 007**	**22 214**	**27 376**
TOTAL ASSETS	**36 135**	**40 639**	**45 537**
Equity and Liabilities			
Equity			
Restricted equity	15 879	10 957	15 879
Non-restricted equity	9 541	15 283	17 482
Total equity	**25 420**	**26 240**	**33 361**
Provisions and Liabilities			
Long-term liabilities	3 829	3 079	655
Short-term liabilities	6 886	11 320	11 521
Total provisions and liabilities	**10 715**	**14 399**	**12 176**
TOTAL EQUITY and LIABILITIES	**36 135**	**40 639**	**45 537**

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, 2018 and should be read together with it.

As of January 1, 2018, Kancera AB 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 contract research for customers does not occur to any 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 that 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. Described below are the types of financial assets and liabilities that exist in Kancera AB and how these are valued. Kancera AB 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 reported 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 solely payments of principal amounts and interest on the outstanding amount of capital

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

All income and expenses relating to financial assets that are recognized 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.

Impairment 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 account 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 trusted 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 loan losses on accounts receivable due for payment as 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 Group 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 Group has chosen to apply partial retroactivity where comparative years are not recalculated and the accumulated effect is reported as an adjustment of the opening equity at the first application date. According to the Group's calculation, the assets will increase by SEK 6,320 thousand and the Group's liabilities by SEK 6,320 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 added to expenses, including costs for preclinical and clinical studies as well as patents, since the activation time for projects is based on the time when the project is expected to be commercialized and this timepoint has not yet occurred.

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

Amounts are stated in Swedish kronor, rounded to the nearest thousand unless otherwise stated. Rounding 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 to an amount of SEK 60,000 (90,000), SEK 41,000 (SEK 36,000) to Allmora Life Science 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. 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	Grant awarded, tkr	Amount paid, tkr	Reporting date
EU SYNTRAIN[1]	4986	4 237	Next: April 2020
EU TOBEATPAIN[2]	2637	1 791	Next: Juli 2020
Total	7623	6 028	

1. 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.

2. 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 24 in the company's Annual Report 2018.

Note 6 Definitions

Alternative key ratios
In addition to the financial key ratios prepared in accordance with IFRS, Kancera AB presents financial key ratios that are not defined according to IFRS, such as return on equity, return on capital employed and cash flow per share. These alternative key ratios are considered to be important results and performance indicators for investors and other users of the interim report. The alternative key ratios should be seen as a complement to, but not a replacement for, the financial information prepared in accordance with IFRS. Because not all companies calculate financial measures in the same way, these are not always comparable to measures 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 the 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.

Capital employed
Balance sheet total reduced by non-interest-bearing liabilities.

Solidity
Shareholders' equity as a percentage of total assets

The Board's declaration

The Board of Directors and the CEO assure that the year-end report provides a true and fair view of the company's operations, position and results, and describes the material risks and uncertainties that the company and the Group face.

Stockholm 24 May 2019

Erik Nerpin *Chairman*	Håkan Mellstedt *Board member*	Charlotte Edenius *Board member*
Carl-Henrik Heldin *Board member*	Anders Gabrielsen *Board member*	Thomas Olin *CEO/ Board member*

This report has not been subject to review by the company's auditors.

Upcoming reports and the Annual General Meeting

Annual General Meeting 2019	27 May 2019
Interim report January-June 2019	23 August 2019
Interim report January-September 2019	22 November 2019
Year-end report January-December 2019	21 February 2020

For further information, contact:

Thomas Olin, CEO: +46 73 520 40 01
Erik Nerpin, Chairman of the Board & convenor of the Nomination Committee: +46 70 620 73 59

Kancera AB (publ)
Karolinska Institutet Science Park
Banvaktsvägen 22
SE 171 48 Solna

Visit the company web site at www.kancera.se