Press release February 21, 2014

Full Year Report for Kancera AB (publ) 2013

January 1 – December 31, 2013

All figures from the first quarter 2013 relate only to Kancera AB as a consequence of the liquidation of the subsidiary iNovacia AB in the beginning of 2013. Therefore there are no consolidated accounts for the Kancera Group produced which was done until the accounting year 2012. In connection with this Kancera has passed from the RFR2 regulations, applicable to companies in groups, to BFN´s complementary regulation K3. The full year report and consolidated accounts fulfill the requirements of Nasdaq OMX First North for the accounting of Kancera AB. The transition to K3 did not affect the income statement or the balance sheet for 2012. The result for the period January 1, 2013 - December 31, 2013 and the balance sheet as of December 31, 2013 correspond to those accounted for according to earlier accounting principles. Comparative figures from the preceding year relate to the mother company Kancera AB.

The period January to December and the fourth quarter 2013 in brief

- R&D expenses for the period totaled SEK 7.6m (SEK 14.7m) of which the fourth quarter constitute SEK 2.1m (SEK 0.4m).
- Operating income for the period totaled SEK -10.4m (SEK -21.2m) of which the fourth quarter constitute SEK -2.1m (SEK -1.7m).
- Income after financial items for the period totaled SEK -7.4m (SEK -23.5m) of which the fourth quarter constitute SEK -2.1m (SEK -4.0m).
- Earnings per share for the period were SEK -0.22 (SEK -1.42) of which the fourth quarter constitute SEK -0.05 (SEK -0.22).
- The preferential rights issue and the directed issue was fully subscribed in December 2013 amounting to SEK 22.1m before issue expenses had brought in SEK 15.3m at year-end, and at the conclusion brings an additional SEK 6.8m.
- The income after financial items and earnings per share was affected by a profit of SEK 3m that occurred when realizing a claim acquired to a value less than the nominal amount. The claim has been recognized as income during the first quarter.
- Cash flow from operating activities for the period totaled SEK -6.6m (SEK -22.5m) of which the fourth quarter constitute SEK -0.4m (SEK -7.2m). As a consequence of the increased focus on one drug project and the decommissioning of iNovacia, a decrease in negative cash flow is noted.
- Equity as of December 31, 2013 totaled SEK 19.0m (SEK 10.2m) or SEK 0.59 (SEK 0.62) per share. The equity/assets ratio as of December 31, 2013 was 74 percent (90 percent).
- Cash and cash equivalents as of December 31, 2013 totaled SEK 14.1m (SEK 5.1m). After the period Kancera invested SEK 500 000 in additional equipment for the pharmaceutical laboratory. EU's Seventh Framework Programme has awarded Kancera´s Epigenetic anti-parasitic project (A-PARADDISE) a non-repayable grant totaling 950,000 Euros. A first payment of 523,655 Euros was paid to Kancera in February after the end of the period and is therefore not part of reported cash on December 31, 2013 or for the period.

Significant events during the period

- Kancera reported through an update of the project portfolio that
  - Publications during the conference “American Society for Hematology” (ASH, December 2012) in Atlanta, USA, from Kancera, its co-founder Professor Håkan Mellstedt at the Karolinska Institutet, and researchers at University of California, San Diego, showed the importance of ROR in the development of new pharmaceuticals against the most common forms of chronic and acute leukemia (CLL and AML, respectively).
  - Further patent protection investments in the ROR project were made by the registration of an international patent application (PCT/EP2013/051772) during January 2013. During the third quarter this application was revoked and replaced with a new patent application EP13180941.0. Further, Kancera

acquired exclusive rights to a patent application on human monoclonal antibodies (WO 2012/076727). The acquisition of the patent rights is based on an agreement with Bioinvent that does not involve any financial burden for Kancera (except future patent expenses) before revenues are generated.

- Complementing analyses of Kancera´s earlier results showed that the level of inhibition of the PFKFB3 protein within the cancer cell correlates well with the growth inhibition observed in both cancer cells as in a whole tumor. This further strengthens PFKFB3 as a target for cancer treatment.

- Kancera reported in March that agreements have been reached with the purpose to enable Kancera´s new smaller organization access to a state-of-the-art laboratory. The agreements include an agreement with
  - Humlegården Fastigheter AB on the lease of smaller and more cost effective laboratories that are better adapted to the size and budget of the ROR project.
  - Sobi AB to take over Sobi AB´s SEK 5m claim on iNovacia. This claim is secured by for instance iNovacia´s laboratory equipment and instruments via a floating charge on assets. The claim and the floating charge on assets were taken over against a payment to Sobi AB amounting to SEK 2m. The claim has since realized a profit of SEK 3 million as commented above.
- Kancera reported in February that a decision was taken to terminate the reconstruction of iNovacia due to uncertainty regarding the possibilities to create external revenues that would allow the continued operation of iNovacia. Against this background, the iNovacia Board applied for bankruptcy and was declared bankrupt on February 21. Kancera has not provided financial guarantees relating to iNovacia.
- Kancera reported in March that the company has finalized a new and more effective organization. A complete arsenal of instruments and an internationally competitive library of drug prototypes have been acquired from the iNovacia bankrupt´s estate. In parallel key persons have been recruited for the further development of a ROR-targeted drug against cancer. This combined resource is now operational in specially equipped laboratories at Karolinska Institutet Science Park.
- Kancera announced that a collaboration has been initiated with Professor Thomas Kipps and his research team at the University of California, San Diego. During the collaboration Kancera will provide its diagnostic antibodies that constitute a tool for Professor Kipps´group in order to demonstrate how activation of ROR1 correlates with the properties of aggressive cancer forms.
- Kancera together with an international research team reported progress in the development of a drug against a serious parasitic disease. Kancera owns together with its partners in the project, the rights to jointly developed drugs against schistosomiasis.
- Kancera announced the initiation of a collaboration with Professor Thomas Helleday and his research group at Karolinska Institutet and the Science for Life Laboratory (SciLifeLab) in order to advance unique research on energy metabolism in cancer and Kancera´s PFKFB3 project. Within the collaboration Kancera retains exclusive ownership of its PFKFB inhibitors. An agreement has been reached between Kancera and the researchers providing Kancera exclusive rights to acquire inventions that may arise within the framework of the collaboration. Professor Thomas Helleday is a highly regarded expert in the area of intractable cancer. He leads an interdisciplinary research team that conducts translational research aimed at understanding the fundamental questions about the occurrence of cancer and the development of new drugs for cancer treatment.
- On May 28, 2012 the Annual General Meeting approved the Board's proposal to authorize the Board, on one or several occasions until the next Annual General Meeting, to issue new shares against payment in cash and or in kind or by set-off. The total number of shares which may be issued under this authority shall not exceed 25 percent of the total number of shares. The authorization has not yet been used.
- Kancera announced that the company has been awarded a grant of SEK 500,000 and with the possibility of an additional SEK 1,000,000 for further development of the ROR project. The grant was awarded by the Swedish Innovation Agency VINNOVA which had identified Kancera as a young, innovative company with growth potential. Kancera´s ROR project attacks cancer via a novel mechanism and is considered highly innovative.
- Kancera reported progress in the development of a ROR-inhibiting cancer drug.

  - The compound KAN0439365 has been shown to be effective against cancer cells from patients that are treatment-resistant today and has shown good metabolic stability in human liver cells and blood. KAN0439365 is the first in a new generation of ROR inhibitors to meet the requirements that the company places on a candidate drug in these respects

  - Kancera continues development of a compound to be used in efficacy and safety studies in animals.

  - Kancera has registered a new patent application EP13180941.0 for small molecule ROR inhibitors and registered national applications for human monoclonal antibodies against ROR in the U.S., Europe, India and China.

- Kancera announced that the European Union Seventh Framework Programme has awarded Kancera € 950,000 for the development of drugs to treat severe parasitic diseases. From February 2014, Kancera together with international research groups in the project A-PARADDISE, will develop drugs against malaria, schistosomiasis, leishmaniasis and Chagas disease. The total budget for the three-year project is 6 M€ of which Kancera´s part of ca € 950,000, is the largest. The grant provides opportunities to generate new revenue-generating drug candidates as well as a sharing of costs for laboratories and administration between the EU project and Kancera´s other drug development projects.
- Kancera announced the initiation of a collaboration with Professor Rolf Lewensohn and his research group at Cancer Centre Karolinska (CCK) in order to develop therapies that will increase the sensitivity of tumors for chemo- and radiotherapy for several solid tumors. During the collaboration Kancera´s researchers will, on behalf of the research team at CCK, assist with analysis and evaluation of drug properties of active substances which affect the ability of tumors to resist chemo- and radiotherapy induced DNA damage.

- Kancera announces in the Q3 report that the required stability of ROR inhibitors in liver cells of mice has been reached allowing the start of animal studies to investigate how ROR inhibitors are distributed in the body and tolerated before the start of efficacy studies in animal models of various human cancers.

- Kancera announced the discovery of a new class of compounds that inhibits the epigenetic enzyme histone deacetylase 6 (HDAC6) and thereby controls the activity of the cancer cell genes. Kancera´s discovery of selective HDAC6 inhibitors may provide a solution to how physicians could take advantage of HDAC inhibitors in the treatment of cancer without causing the patient severe side effects. Kancera now intends to file patent applications for these inhibitors and to further evaluate the potential of them in the treatment of cancer, including multiple myeloma, in order to decide on further development of a candidate drug.

- Kancera AB announced the decision, authorized by the Extraordinary General Meeting on October 30, to conduct a rights issue of approximately SEK 16.1m with preferential rights for existing shareholders as well as SEK 6m without preferential rights. The issue included the subscription of units in Kancera AB containing one (1) share and one (1) warrant where two warrants entitle the holder to subscribe for one (1) new share at SEK 0.75 per share. The term of the warrants ranges from May 1 until May 31, 2014. The share issue was fully subscribed and gave the company SEK 22.1m before issue costs. After the issue, Kancera AB's share capital amounts to 6 377 945.66 SEK, divided into 76,535,348 shares, each share with a nominal value of 0.083 (1/12) SEK. The issued shares were released for trading in parallel with the lisiting of the warrant in January 2014.

Significant events after the end of the reporting period

- Kancera reported that the company has initiated the development of a vaccine directed against ROR. This initiative is motivated by the residual disease in the form of a small number of cancer cells that remain in some patients despite treatment. These cancer cells are difficult to detect and are expected to contribute to relapse of cancer disease. In the most common form of leukemia (CLL) these remaining cancer cells often express ROR. A vaccine can teach the patient's own immune system to recognize and destroy these ROR-expressing cancer cells. Thus it is expected that a vaccine will add to the suppression of the disease leading to a longer and healthier life for the patient compared to what is possible today. Kancera´s strategy is to use its future small-molecule ROR inhibitors as a first line treatment for the disease to remove the main part of the tumor and the symptoms, and thereafter follow with a prophylactic ROR vaccine to prevent relapse. Thus, there are possible synergies between Kancera´s small molecule products and the vaccine against ROR.

- In August 2013 Kancera announced that the company together with international research groups in the project A-PARADDISE had been awarded a grant from the European Union Seventh Framework Programme to develop drugs to combat severe parasitic diseases including malaria, schistosomiasis, leishmaniasis and Chagas disease. The total three-year project budget is 6 M € where the Kancera part of about € 950,000 is the largest. Kancera has in February 2014 received a first payment of € 523,655 from the EU for the performance of A-PARADDISE project and thereby the project has started.

Statement from the CEO

2013 shows a growing demand for the type of products Kancera develops which is reflected in an increasing number of acquisitions of innovative drug projects from biotech companies and universities. In parallel, the European and U.S. authorities have been streamlined to increase the number of new approved drugs to needing patients. During the past year the European and the American Medicines Agency (EMA and FDA) approved 38 and 27 new drugs respectively, which represent a continued steady annual increase from 2010. Of these new drugs, the vast majority are designed synthetic small molecules, which is the type of drugs that Kancera focus on, while only two were biologicals. The cancer indication still dominates by constituting 37% of these newly approved drugs.

For Kancera 2013 ended with a well-received share issue of SEK 22.1m before transaction costs. The share issue was subscribed to 330%, giving the company extra power to achieve the business objectives in 2014, including the delivery of a drug candidate in the ROR project. Also, Vinnova's grant to the ROR project against cancer and EU's new investment in Kancera´s drug development against parasitic diseases showed that Kancera´s product development compares favorably with many other biotech companies applying for grants.

The EU project has now resumed in February and in parallel our newly invented HDAC6 inhibitors are optimized. Our HDAC6 inhibitors have already demonstrated competitive performance in the internationally acclaimed field "epigenetically acting drugs", i.e. drugs that are active against the disease by indirectly affecting the genome of the sick cells.

During fall 2013 we reported that ROR inhibitors have been identified that effectively kills cancer cells from patients who have relapsed and are insensitive to the newest anticancer drugs such as Ibrutinib and Idelalisib. We have also worked on getting the ROR inhibitors stable in liver cells and in blood from humans and animals. This is now resolved. Thus, we have initiated studies in animals and decided to first clarify the safety of the ROR inhibitors, given that we are working with patent pending compounds that the world has not seen before and therefore know little about.

As a part of this effort, we have tested ROR inhibitors against over 450 enzymes that belong to the same protein family as ROR (kinases) and an additional 80 independent physiological mechanisms, all in order to understand the effect profile and safety of the ROR inhibitors. The results from these studies support that Kancera´s ROR inhibitors are potent, drug-like with a good safety. Ongoing animal studies are designed to further strengthen the characteristics of the substances that allow a buildup of a high concentration of ROR inhibitor in the vicinity of the tumor. A careful implementation of this part of the project will save time later in the drug development why we have chosen to spend additional time in this part. This means that the selection of a drug candidate is expected to occur over the next 3-6 months in 2014.

With the knowledge that Kancera has built up in collaboration with Professor Håkan Mellstedt´s group at the Karolinska Institute, we now see an opportunity to develop a unique treatment strategy to counter relapse of cancer by combining small-molecule inhibitors of ROR with a ROR vaccine. The aim is to use small-molecule ROR-inhibitors to remove the bulk of the tumor mass that shows resistance towards currently available drugs and then to immunize against ROR to control and suppress any remaining tumor cells. This has proved particularly important since the cancer cells are able to hide in e.g. lymph nodes and then, at a later time, enter into circulation and grow in number. When that happens, a ROR vaccine should have stimulated memory cells in the patient's own immune system to recognize the cancer cells and destroy them.

Facing an eventful 2014 we now welcome an additional 3,000 part-owner of Kancera (total 4800) that joined in connection with the successful share issue in December.

Thomas Olin
CEO, Kancera

About Kancera AB (publ)

Kancera develops the basis for new therapeutics, starting with new treatment concepts and ending with the sale of a drug candidate to international pharmaceutical companies. Kancera is currently primarily developing drugs for the treatment of leukemia and solid tumors, based partly on blocking survival signals in the cancer cell and partly on metabolic strangulation. Kancera's operations are based in the Karolinska Institutet Science Park in Stockholm and the company employs around 7 people. The Kancera shares are traded on NASDAQ OMX First North and the number of share holders is ca 4,800 as of January 31, 2014. Remium Nordic AB is Kancera's Certified Adviser. Professor Carl-Henrik Heldin and Professor Håkan Mellstedt are Kancera´s scientific advisors.

Kancera's history

In 2006, Pharmacia's and Biovitrum's unit for the development of drug candidates was spun-out to create iNovacia AB. In 2008, iNovacia started the development of the ROR project in collaboration with the Karolinska Institute. In May 2010, Kancera AB was formed by scientists from Cancer Center Karolinska, iNovacia AB and a group of private investors through capital contributions and two developed drug projects focusing on cancer: the ROR project and the PFKFB-project, the latter had been initiated by Biovitrum AB. NASDAQ OMX approved Kancera's listing on First North with the first day of trading being February 25, 2011. In March 2013 Kancera acquired a complete drug development laboratory from its former subsidiary iNovacia AB and the drug development is since then performed within Kancera AB at the Karolinska Institutet Science Park, Stockholm.

Financial development, summary

Financial development, summary

SEK 000´s (if otherwise not specified)

Kancera AB	1 Oct-31 Dec		1 Jan-31 Dec	
	2013	2012	2013	2012
Net turnover	1 354	-	1 813	-
R&D expenses	-2 148	-354	-7 533	-14 723
Operating Income	-2 083	-1 705	-10 404	-21 245
Income after financial items	-2 096	-4 025	-7 418	-23 502
Net income	-2 096	-4 025	-7 418	-23 502
Cash-flow from operating activities	363	-7 187	-6 641	-22 535
Earnings per share, before and after dilution	-0,05	-0,22	-0,22	-1,42
Cash on hand at closing date	14 118	5 107	14 118	5 107
Solvency ratio	74%	90%	74%	90%
Key ratios				
Return on equity, %	neg	neg	neg	neg
Return on capital employed, %	neg	neg	neg	neg
Solvency ratio	74%	90%	74%	90%
Net investments in tangible assets	-	-	2 000	-
in relation to net turnover, %	-	-	110,3%	-
No. of employees	7,5	-	7,5	-
Earnings per share, before dilution	-0,05	-0,22	-0,22	-1,42
Earnings per share, after dilution	-0,05	-0,22	-0,22	-1,42
Equity by share, kr	0,59	0,62	0,59	0,62
Cash-Flow by share, kr	0,31	-0,13	0,27	-0,57

Comments on the financial development

The reduced costs and decreased negative cash flow for the period compared to the same period in 2012 can be attributed to the concentration of operations and the liquidation of the subsidiary conducted in the first quarter of 2013. This has resulted in an increased financial flexibility while at the same time maintaining the company's technical resources through the acquisition of the subsidiary's drug development laboratory. The income after financial items and earnings per share were affected by a profit of SEK 3 million arising from the realization of a claim that was acquired for a value less than the nominal amount. The claim has been recognized as income during the period. Comparative figures from the preceding year relate to the mother company Kancera AB.

Net sales

Kancera´s activities have mainly covered internal drug development projects alongside smaller consultancy projects which raised net sales during the period of SEK 1.8m (SEK 0m).

Expenses

Expenses in the fourth quarter totaled SEK 3.4m (SEK 1.7m), which breaks down into costs of services sold of SEK 0.2m (SEK 0m), research and development expenses of SEK 2.1m (SEK 0.4m) and other sales and administrative expenses of SEK 1.1m (SEK 1.3m). Expenses during the period January 1 to December 31, 2013 totaled SEK 12.2m (SEK 21.2m), which breaks down into costs of services sold of SEK 0.5m (SEK 0m), research and development expenses of SEK 7.5m (SEK 14.7m) and other sales and administrative expenses of SEK 4.2m (SEK 6.5m).

Earnings
Income after financial items for the fourth quarter totaled SEK -2.1m (SEK -4.0m) and for the period SEK -7.4m (SEK -23.5m).

Cash flow and liquidity
Cash flow totaled SEK 12.1m (SEK -2.3m) in the fourth quarter. Cash flow from operating activities for the fourth quarter totaled SEK 0.4m (SEK -7.2m). Cash flow from financing activities for the fourth quarter amounted to SEK 11.7m (SEK 4.9m) which mainly can be attributed to a share issue.

Cash flow for the period totaled SEK 9.0m (SEK -9.5m). Cash flow from operating activities for the period totaled SEK -6.6m (SEK -22.5m). Cash flow from financing activities for the period amounted to SEK 17.7m (SEK 13.1m).

In connection with the acquisition of iNovacia´s assets, the requirements for an interest free and installment free loan from Humlegården Fastigheter AB to Kancera were fulfilled. The loan amounts to SEK 1.5m and does not expire as long as Kancera runs its laboratory activities in the current premises. This loan was disbursed to Kancera during the second quarter and is therefore part of the accounted cash and cash equivalents.

The Swedish Innovation Agency VINNOVA awarded Kancera´s ROR project a grant of SEK 1.0m (not to be repaid).

Kancera´s cash and cash equivalents as of December 31, 2013 totaled SEK 14.1m (SEK 5.1m).

The assessment of the Board is that additional capital needs to be procured in order to implement planned projects in 2014. Kancera AB has announced the decision, with the authorization of the Extraordinary General Meeting on October 30, to conduct a share issue of approximately SEK 16.1m with preferential rights for existing shareholders and with the possibility of an over-allotment space of about SEK 6m through a directed issue. The preferential rights issue includes the subscription of units in Kancera AB with the condition that each old share gives the holder the right to subscribe for one (1) unit à 0.50 SEK/unit. Each unit contains one (1) new share and one (1) warrant where two warrants entitle the holder to subscribe for one (1) new share at SEK 0.75/share. The term of the warrant is scheduled to extend until May 31, 2014. On December 18, 2013, it was announced that the the preferential rights issue, including the over-allotment space, was fully subscribed thus bringing the company SEK 22.1m before issue costs.
In January 2014, the warrant was listed in parallel with the share.

Investments
Investments in property, plant and equipment in the fourth quarter totaled SEK 0m (SEK 0m) and for the period net SEK 2.0m (SEK 0m) as instruments and the library of prototype drugs were acquired from the iNovacia bankrupt´s estate to a price assessed by the Board to be favorable.

Investments in intangible assets in the fourth quarter 2013 totaled SEK 0m (SEK 0m).

The company continuously invests in research projects that increase the company's technology knowledge and intellectual property. In the accounts these investments including patent costs are entered as costs since the time of activation of projects costs is based on the time for commercialization of projects. R & D costs, which therefore are entered as R & D costs, amounted to SEK 2.1m (SEK 0.4m) for the fourth quarter.
After the period Kancera acquired instruments previously leased by iNovacia AB from Handelsbanken Finans AB for SEK 500,000 considered by the company to be an estimated market price.

Equity and share data
Total equity as of December 31, 2013 was SEK 19.0m (SEK 10.2m).

Share capital as of December 31, 2013 amounted to SEK 2 688 973 spread over 32 267 674 shares with a quotient value (rounded off) of SEK 0.0833 per share.

Earnings per share for the quarter, based on a weighted average of the number of outstanding shares, were SEK -0.05 (SEK -0.22). In connection with the share issue a bonus element was identified, which means that the weighted average number of shares used to calculate earnings per share has been adjusted. Prior periods have been recalculated to reflect the bonus element.

Kancera's equity/assets ratio as of December 31, 2013 was 74 percent (90 percent). Equity per share was SEK 0.59 (SEK 0.62), based on equity divided by the number of shares outstanding at the balance sheet date at the end of the quarter.

Deficits for tax purposes
Kancera's present operations are expected to initially result in negative earnings and deficits for tax purposes. There are no sufficiently convincing evidence at present that tax surpluses will exist in the future that may justify capitalization of the value of the deficit, and no deferred tax claim has therefore been reported. In the event a drug candidate is sold, profits will be reported which may be offset for tax purposes against the deficits. This signifies a low tax burden for the company when a project is sold. The tax losses amount to SEK 59.2m following deduction of taxable extraordinary income of SEK 3m arising in connection with the acquisition of priority claim from SOBI AB in 2013.

Personnel
Kancera AB had 7.5 employees (0) as of December 31, 2013 of which 6 are men and 2 are women.

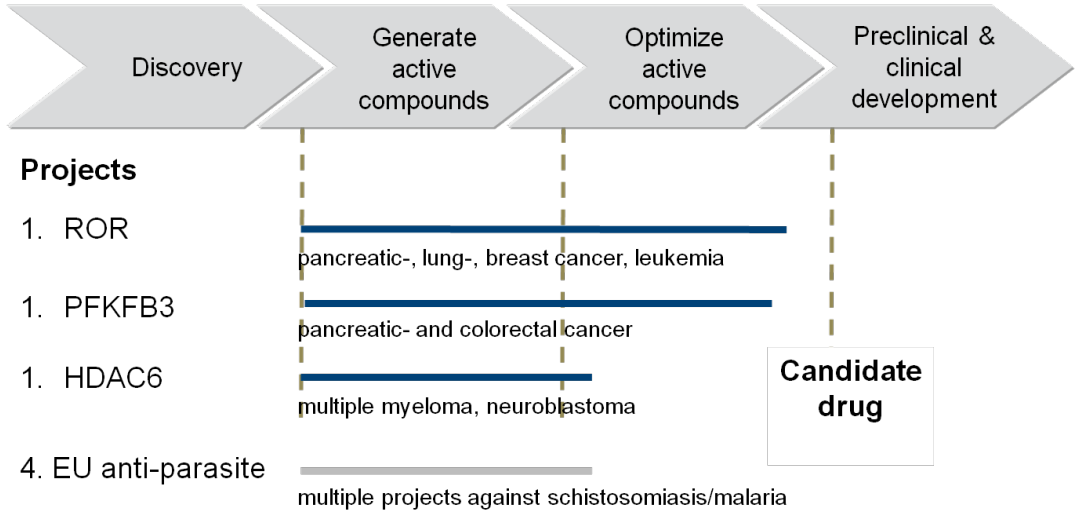
Pharmaceutical Development

Kancera develops cancer drugs, starting with a new treatment concept and ending with a patent-pending drug candidate that is offered for sale to larger pharmaceutical and biotech companies before it has reached the clinical phase in the product development chain.

The company has four drug development projects in the portfolio.

- **ROR inhibitors** that reprogram the cancer so that it destroys itself. In the laboratory, the ROR technology has been shown to work in both solid tumors and leukemia.
- **PFKB inhibitors** that strangle the energy supply from glucose to solid tumors, thereby increasing tumor sensitivity to other anticancer drugs.
- **HDAC6 inhibitors** that primarily aim to neutralize blood cancer by controlling the cancer cell genome and ability to move.
- **Inhibitors of epigenetic processes in parasites** to develop new treatments against e.g. malaria and schistosomiasis (snail fever)

Figure 1. Kancera´s product portfolio



The product development in the ROR project has advanced so far that the company now sets the goal to deliver a drug candidate during the next 3-6 months with the potential to treat refractory solid cancers as well as hematologic cancers. This means that also the commercialization of this project will commence in 2014. A successful commercialization may involve a sale probably with a stepwise compensation at signing of the agreement and when the project reaches milestones, or a partnership that yields net income and funding of a continued drug development.

In line with the Board's goal to increase the financial flexibility of the company and at the same time keep sufficient capacity to deliver a drug candidate it was decided to mainly focus the activities on the ROR project and the EU-financed epigenetically directed anti-parasite project.

For the EU-project, Kancera has been awarded funding of € 950,000 for research and product development. This funding covers 75% of the project costs, including "overhead" such as rent and administration which means that the project also bears a part of Kancera´s administrative costs.

The company's product development of epigenetically acting drugs against parasites also makes it possible for Kancera to efficiciently develop epigenetically acting drugs against cancer, including HDAC6 inhibitors, since a similar technical expertise and capacity are needed for both types of epigenetic projects.

Kancera has developed inhibitors of PFKFB3 which in the laboratory have been shown to potentiate other cancer treatments and single-handedly slow the growth of pancreatic cancer in an experimental model. The PFKFB3 project is now developed in collaboration with Professor Thomas Helleday´s research group at the Science for Life Laboratory at the Karolinska Institute. The goal of this collaboration is to identify how Kancera´s PFKFB3 inhibitors most effectively can be combined with other drugs to achieve the best clinical outcome. Based on the results from this research Kancera will decide how the further optimization of the company´s PFKFB3 inhibitors towards the selection of a candidate drug is to be done. This product development depends on that adequate funding for the project is secured. The PFKFB3 project has been valued to SEK 3m in the balance sheet which was the original purchase value of the project. It is the opinion of the Board that the value, based on the currently known results of Kancera´s research, can be defended on the basis of currently prevailing prices of comparable projects and the potential to further develop the project in the future.

Kancera's Board of Directors has decided not to communicate financial goals for the pharmaceutical development because Kancera's projects are in the early phases of development, which means the risk is high and the overall financial goals are difficult to assess.

ROR technology – candidate drug is developed for the treatment of leukemia and solid tumors

Since ROR is present in higher amounts in cancer cells from refractory patients and is selectively found in cancer cells and not in the surrounding healthy tissue, the Kancera project offers good possibilities to develop effective drugs with fewer side effects that may contribute to increased quality of life for patients and lower costs for society.

Kancera is developing synthetic compounds that enter the tumor cell and work on the part of the ROR-1 receptor that is inside the tumor cell, with the aim of blocking the cell's survival signal and thus re-program the cancer so that it destroys itself. In addition, Kancera develops a vaccine based on the part of ROR situated on the outside of the cancer cell. Vaccines are able to stimulate the patient's own immune system to recognize cancer cells and destroy them by means of antibodies and white blood cells (for more information about the ROR vaccine, see below under Events after the end of the reporting period).

A comparative study has been performed with four successful drugs (Dasatinib, Gefitinib, Sorafinib, Sunitinib) in order to examine the competitiveness of ROR inhibitors. The results show that these four drugs are unable to efficiently inhibit ROR1 and that they kill cancer cells from leukemia patients less selectively compared to ROR inhibitors. Further, the study shows that these drugs also kill healthy white blood cells, which cause the patient to become more susceptible to infections. According to the study Kancera´s ROR inhibitors spare the healthy white blood cells. Thus a future patient receiving this drug may withstand severe infections better compared to those receiving today´s medications.

Kancera has also shown that the company´s ROR-inhibiting substances are capable of killing leukemia cells from circa 50% of the patients that are no longer helped by Fludarabine, the drug primarily prescribed for the treatment of chronic lymphocytic leukemia. This opens the way for a possible breakthrough in the treatment of the most common form of chronic leukemia. Independent of Kancera, Professor Thomas Kipps at University of California San Diego has shown that ROR inhibition may be an important treatment for the severe cancer form Acute Myeloid Leukemia (AML). Along with Kancera´s own studies this shows that substances that block ROR have the potential to combat both the most widespread chronic form as well as the acute form of leukemia (CLL and AML, respectively).

Studies of ROR1 directed antibodies, developed by Professor Håkan Mellstedt and his research group at Karolinska Institutet, show that they have the ability to kill cancer cells in an animal model for chronic lymphocytic leukemia (CLL) with an efficacy comparable to the effect of Rituxan. Rituxan is the most commonly used antibody drug against CLL today. Although the ROR1 antibody does not demonstrate a direct benefit compared to Rituxan for CLL, the potential use of ROR inhibitors against solid cancers speaks for the development of a ROR-targeted drug. In addition, ROR represents a new mechanism that can break the resistance in advanced stages of CLL.

International research shows that many types of solid tumor cells can be ROR dependent. Kancera, in collaboration with Professor Håkan Mellstedt´s and Professor Matthias Löhr´s research groups at Karolinska Institutet, has found that Kancera´s substances effectively kill pancreatic cancer cells. Pancreatic cancer affects more than 100 000 patients anually in Europe and USA. The survival rate among these patients is less than two per cent five years after diagnosis. As with leukemia it has been demonstrated also for pancreatic cancer that ROR1 levels increase in tumor cells of

patients with progressive (aggressive) cancer.

In parallel, independent researchers from the U.S. and Japan have shown that ROR is a promising target for development of drugs also against breast cancer and lung cancer (Yamaguchi et al, Cancer Cell 2012, Zhang et al, PLoS One 2012), indicating a potentially wide range of use for a future ROR inhibiting drug.

Kancera has developed a first generation of diagnostic antibodies that allow the identification of patients who may benefit from Kancera´s future cancer treatment directed against ROR. This will guide future clinical studies and demonstrate the commercial value of the ROR-inhibiting drug.

Events during the period

Kancera reported that Kancera´s most recently developed ROR1 inhibitors now are more effective and more selective in killing cancer cells from leukemia patients than two classes of comparable reversible cancer drugs that inhibit the kinases PI3K and Syk, both in clinical development. In comparison with a drug that is expected to revolutionize the market for blood cancer, Ibrutinib which permanently binds its target BTK, Kancera´s ROR inhibitors are less potent but, according to our study, more selective against cancer cells.

In collaboration with Professor Håkan Mellstedt and his research group at Karolinska Institutet, Kancera also studied how effective these competing candidate drugs kill cancer cells derived from CLL patients whose cancer is no longer sensitive to today's most widely used small molecule drug (Fludarabine). This study included leukemia cells from 7 patients and compared the killing effect of Kancera´s ROR inhibitor KAN0439363 with the effect of four competing drugs that are now being tested in clinical development, including Ibrutinib (PCI-32765). The competing kinase inhibitors reach maximum ca 15-50% killed cancer cells at a concentration of about 5 μM while *Kancera´s ROR inhibitor show higher effect at a lower concentration* (70% killing of cancer cells at about 3 μM). The maximum killing effect on cancer cells is negligible after 24 hours for the BTK inhibitor (Ibrutinib) and the PI3K inhibitors. It should, however, be emphasized that the study does not indicate whether the competing substances have an improved effect over a longer time course, but Kancera´s negative result for Ibrutinib agrees with recently published findings showing that the cancer can develop resistance against Ibrutinib (Chang et al. ASCO 2013). The results thus point to that Kancera´s ROR-inhibiting drug will have a clear and important place in the treatment of severely ill cancer patients.

Kancera announced that a collaboration has been initiated with Professor Thomas Kipps and his research team at the University of California, San Diego. During the collaboration Kancera will provide its diagnostic antibodies in order to facilitate for Professor Kipps´group to demonstrate how activation of ROR1 correlates with the properties of aggressive cancer forms. Since Professor Kipps research group has published leading research on the significance of ROR in breast cancer and acute myeloid leukemia, the collaboration is expected to increase the knowledge of how Kancera´s ROR inhibitors can be used to treat an increasing number of severe cancer forms.

Kancera also reported progress in the development of the substance KAN0439365 which is effective against cancer cells from patients and shows good metabolic stability in human liver cells and blood and thus meets the requirements that the company places on a candidate drug in these respects. In addition, in vitro laboratory methods have shown that KAN0439365 meet the company's requirements regarding a low risk for adverse drug-drug interaction (CYP inhibition) and cardiac side effects (hERG activation). After 24 hours in vitro, KAN0439365 shows a significantly higher killing effect against cancer cells from treatment-resistant patients than the new and groundbreaking drug Ibrutinib * which is now on the market. The studies were performed in blood samples derived from patients with an advanced stage of the cancer disease CLL at which today's most widely used drug for this disease, Fludarabine, lacks clinical efficacy.

During the period, Kancera also developed ROR inhibitors that meet the company's requirements for stability in the liver of both humans and the type of rodent that is studied in human cancer models. Thus, pharmacokinetic studies and tolerance studies have started to select the appropriate ROR inhibitor for efficacy studies and selection of a candidate drug.

During the period, Kancera has taken actions to strengthen its patent portfolio in the ROR project. In order to extend the time during which Kancera can protect new inventions related to its ROR inhibitors, the company's first patent application (EP12153357) has been revoked and replaced by a new application EP13180941.0 with stronger coverage.

Kancera also announced that the company, by an agreement with Bioinvent AB, has secured exclusive rights to the patent application WO 2012/076727 which includes human monoclonal antibodies against ROR1. The acquisition of the patent rights is based on an agreement with Bioinvent that does not involve any financial burden for Kancera (except future patent expenses) before revenues are generated. Kancera, through the company's co-founder Professor Håkan Mellstedt, has been involved in the development of these human monoclonal antibodies directed against ROR. These

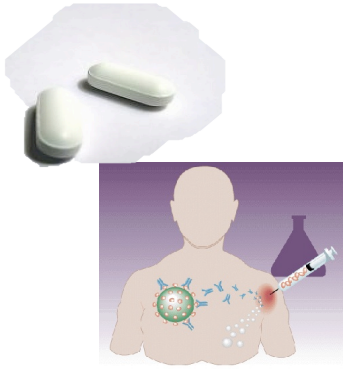
antibodies are currently used primarily to identify and validate new indications for future ROR-inhibiting drugs. Any further development of the ROR-targeted monoclonal antibodies for therapeutic purposes will only be done in a partnership that provides funding and access to expertise in development of antibody-based drugs. During the period, the patent application for human monoclonal antibodies against ROR (WO 2012/076727) has been registered in the final national phase in the U.S., Europe, India and China.

Events after the end of the reporting period

Kancera reports that the company is initiating the development of a vaccine directed against ROR. This initiative is motivated by the residual disease in the form of a small number of cancer cells that remain in some patients despite treatment. These cancer cells are difficult to detect and are expected to contribute to relapse of cancer disease. In the most common form of leukemia (CLL) these remaining cancer cells often express ROR. A vaccine can teach the patient's own immune system to recognize and destroy these ROR-expressing cancer cells. Thus it is expected that a vaccine will add to the suppression of the disease leading to a longer and healthier life for the patient.

Kancera considers it possible that, by the means of a vaccine, act in synergy with pharmaceutical intervention, surgery and radiation to create a long lasting effect of the treatment given initially. It is Kancera´s strategy to use its future small-molecule ROR inhibitors as a first line treatment for the disease and thereafter follow with a prophylactic ROR vaccine to prevent relapse. Thus, there are possible synergies between Kancera´s small molecule products and the vaccine against ROR.

Figure 2. Kancera´s treatment strategy to reduce the risk of relapse.

Small molecules and vaccine against ROR 1. Kancera´s small molecule ROR inhibitor is used to remove the main part of the tumor and the symptoms of the disease. and thereafter follow with a prophylactic ROR vaccine to prevent relapse. 2. Prophylactic treatment with a ROR vaccine that activates the patient´s immune defense against remaining ROR-containing tumor cells.	

Current research on ROR has led to the discovery of surface elements on the ROR molecule suitable for the development of an effective vaccine. Kancera now takes these findings further to develop a proprietary product for prophylactic treatment that will improve the situation for patients with a cancer known to relapse. The development of this product is accelerated by Kancera´s existing knowledge of ROR and the close collaboration with Professor Håkan Mellstedt, at the Karolinska Institute, who is an internationally recognized expert in the development of cancer vaccines. The principle to use a ROR vaccine for treatment is also supported by a preclinical study published by Professor Thomas Kipps at the University of California, San Diego.

In 2014, studies are planned to demonstrate both the immune stimulating performance of the vaccine and its therapeutic effect. A vaccine drug candidate is expected to be delivered in 2015. The vaccine development costs during 2014 are accommodated within the existing budget, due to the synergies between the company's development of small molecules and vaccines.

The PFKFB3 project – a candidate that blocks glycolysis in solid tumors

The project aims to develop PFKFB3 enzyme inhibitors to strangulate the energy metabolism in cancer cells, thereby rendering the cancer cells more sensitive to chemotherapy and radiotherapy. Kancera has through extensive crystallography studies been established as an international leader in structure-based design of drugs targeting the PFKFB family of enzymes. Kancera has also reported a synergistic inhibitory effect on cancer cells of PFKFB3 inhibitors in combination with cisplatin (a commonly used cytostatic) in the laboratory and reported an inhibitory effect of Kancera´s PFKFB3 inhibitors on tumor growth in an animal study of pancreatic cancer. Two independent patent applications are registered in order to protect Kancera´s PFKFB3 inhibitors. The next step in the project is to improve the ability of the PFKFB3 inhibitors to penetrate the tumor.

Events during the period

Kancera announced the initiation of a collaboration with Professor Thomas Helleday and his research group at Karolinska Institutet and the Science for Life Laboratory (SciLifeLab) in order to advance unique research on energy metabolism in cancer and Kancera´s PFKFB3 project. During the collaboration Professor Helleday and Kancera combine their strengths in research on disease mechanisms and product development in order to deliver a new treatment against cancer with the goal to break down the resistance of the cancer to existing drugs. The partnership means that Kancera contribute know-how and drug-like PFKFB3 inhibitors while Professor Helleday´s research team invest their own resources in the project to investigate the best combination with other drugs, mechanisms of how PFKFB3 inhibitors act, as well as markers that show how and when a future drug is best used. In a future out-licensing or sale of the project Kancera shall compensate the scientists in proportion to the work performed. Within the collaboration Kancera retains exclusive ownership of its PFKFB inhibitors. An agreement has been reached between Kancera and the researchers providing Kancera exclusive rights to acquire inventions that may arise within the framework of the collaboration.

However, for the time being there will be no significant additional investments in the chemical development part of the PFKFB3 project until adequate funding has been secured.

The HDAC project - a candidate acting against cancer by controlling the cancer cell's genome and mobility
Histone deacetylases (HDACs) are primarily involved in removing the acetyl groups from the so-called histones that are an essential part of how our genome is stored in the cell nucleus. Some HDACs also affect cell function outside the cell nucleus. HDAC6 belongs to that group of HDACs with its major biological role as regulator of the cytoskeleton and mechanical properties of the cell which are closely linked to the formation of tumors and metastases.

The link to tumor formation is partly explained by the fact that several so-called "oncogenes" such as "Ras" are dependent on a functional HDAC6 which allows the cancer cell to divide freely without being part of a tissue. Active HDAC6 also affects the tumor's ability to invade surrounding healthy tissue and metastasize. Larger amounts of active HDAC6 lead to an increased division of the cancer cells and increased metastasis. This property of HDAC6 is attributed partly to that the enzyme contributes to the growth of circulating cancer cells in e.g. blood, and partly to that high HDAC6 activity increases the cancer cell´s ability to move and to resist mechanical stress. HDAC6 has also been shown to be a valuable marker indicating how difficult the cancer in an individual patient will be to treat. Taken together, these observations point to that HDAC6 contributes to cell changes that lead to tumor formation and invasion of tumor cells into healthy tissue and therefore is an attractive target for development of new effective drugs against cancer.

The use of HDAC inhibitors in the treatment of cancer patients has so far shown promising results, but has been limited due to severe side effects. For this reason, the pharmaceutical industry is now looking for HDAC inhibitors displaying a higher level of selectivity within this family of enzymes. Kancera´s discovery of selective HDAC6 inhibitors may provide a solution to how physicians could take advantage of HDAC inhibitors in the treatment of cancer without causing the patient severe side effects.
There are currently two HDAC inhibitors on the market for the treatment of various forms of T-cell lymphoma. These inhibitors are active against several members of the HDAC family of enzymes leading to severe side effects on e.g. stomach and intestine. Also, the risk of significant negative impact on cardiac function is considered to be large. Selective inhibition of HDAC6 is expected to reduce these side effects, while activity against cancer cells is maintained.

Laboratory tests have shown that Kancera’s substances are able to kill cancer cells and they have a higher level of selectivity against the HDAC6 enzyme as compared to a competing inhibitor, ACY-1215, developed by the Boston based Acetylon Pharmaceuticals, see Table 1.

Table 1. Comparison between one of Kancera´s HDAC6 inhibitors and Acetylon´s candidate drug ACY-1215.

Kancera´s HDAC inhibitor shows a high potency against HDAC6 compared to other HDAC enzymes on which impact is undesirable.

The candidate drug from Acetylon Inc., ACY-1215, however, is at present (Kancera´s substances are still being optimized) more potent against HDAC6.

Several of Kancera´s HDAC6 inhibitors show a higher selectivity compared to ACY-1215 which could provide a clinical benefit with fewer side effects.

HDAC	IC50 (µM) KAN0439230	Selectivity vs HDAC6 KAN0439230	IC50 (µM) ACY-1215	Selectivity vs HDAC6 ACY-1215
HDAC6	**0.069**	**1**	**0.0067**	**1**
HDAC1	>10	>145	0.11	16
HDAC2	>10	>145	0.20	30
HDAC3	8.2	119	0.033	5
HDAC8	>10	>145	2.3	342

All HDAC assay data from NanoSyn Inc.

In collaboration with Professor Håkan Mellstedt´s group at Karolinska Institutet, Kancera has demonstrated lethal effect of Kancera´s HDAC6 inhibitors on cells from the following three different cancers: multiple myeloma, osteosarcoma and pancreatic cancer. During the first quarter of 2014 Kancera commences further development of the company´s HDAC6 inhibitors with the goal of delivering a competitive candidate drug.

Anti Parasite Project - an EU-funded international cooperation against deadly diseases

In February 2014, Kancera along with international research groups in the project A-PARADDISE (Anti-Parasitic Drug Discovery in Epigenetics), will launch the next phase in the development of these drugs. This phase will run for three years and result in one or more lead substances and drug candidates.

The project focus on target proteins in the following diseases (parasites): Malaria (*Plasmodium falciparum*), Schistosomiasis (*Schistosoma mansoni*), Leishmaniasis (*Leishmania*) and Chagas disease (*Trypanosoma cruzi*).

The A-PARADDISE project builds on the recently completed and highly successful SEtTReND project in which Kancera together with international research teams reported success in the development of drugs against Schistosomiasis.

Kancera is the only pharmaceutical development company in the A PARADDISE consortium and is well positioned to commercialize the drug candidates that the company develops and owns together with its partners. For clinical development and commercialization of drugs for neglected diseases, it is likely that Kancera will seek cooperation with internationally established pharmaceutical companies and nonprofit organizations that have chosen to take social responsibility by investing in the development therapies against diseases that primarily affect poor countries in tropical and subtropical areas.

In addition to parasitic diseases, analyses at Kancera show that some of the lead substances now being developed against targets in the parasite also inhibit similar human target proteins that are linked to cancer.

Overall, the project's potential application in cancer and the fact that countries that currently suffer from serious parasitic diseases have an increasing financial capacity to invest in drugs, show that the project´s future drug candidates have a good commercial potential.

Events after the end of the reporting period

Since the project has received new funding from the EU, the project has been restarted in February. The project is coordinated by the Institut Pasteur and includes collaboration with epigenetic experts from Germany, France, Great Britain, Italy, Australia and Brazil. Kancera´s primary focus in the first phase of the project is to optimize the pharmaceutical properties of the anti-parasitic substances.

Market outlook for Kancera's development projects

In 2013, the European Medicines Agency EMA approved 38 new drugs which represent a steady increase in numbers

from the 10 new approved drugs in 2010. EMA now approves more new drugs than the corresponding American authority (FDA) which approved 27 new drugs in 2013. Of these, the vast majority were synthetic drugs, which is Kancera´s focus, while only two were biologics. The cancer indication still dominates by constituting 37% of these new approved drugs (Source: EMA and FDA).

Kancera primary market is based on business-to-business sales of drug candidates for further clinical development and marketing by internationally established pharmaceutical companies.

The prioritized deal is based on an option model where Kancera sign agreements in the preclinical phase, before regulatory studies have been initiated, with a selected international partner possessing the resources and capacity for effective clinical development and marketing internationally. The option model provides Kancera with a cash flow during the more expensive parts of the project's development, and at the same time the cooperation gives partners the opportunity to influence the direction of the project during the critical phase between preclinical and clinic. This also increases the possibility of a rapid start of a clinical program. A quick and successful transition from Kancera´s preclinical to the partner´s further clinical development also increases the likelihood that the schedule for milestone payments to Kancera is kept.

Deals in preclinical development dominated over deals in the clinical phase in 2012 and represented 46% of global partnering agreements regarding rights related to pharmaceuticals according to the analyst Burrill & Company (Source: http://www.burrillandco.com/). Thus it can be concluded that the trend in 2009-2011, with a significant number of deals in the same early phase as the Kancera projects, continues.

There are several examples of license sales in the oncology area in preclinical phase amounting to several hundred million USD. Two of the most influential deals between biotech companies and pharmaceutical companies during the period 2010-2011 were made by companies whose projects had been partially developed by Kancera´s former subsidiary iNovacia AB, including Agios Inc. contracts with Celegene which included a payment upon signature of 130 million USD (however, this deal is regarded as an exception with respect to the size of the payment).

Another recent example is AstraZeneca´s subsidiary MedImmune´s acquisition of Amplimmune, a company with preparations in late preclinical phase, for the initial purchase price of 225 million USD, which may be increased later. J & J paid 150 million USD to Pharmacyclics for a BTK inhibitor Ibrutinib in clinical phase II, in addition to future installments of 825 million USD.

In April 2012 an agreement was announced between Boston-based Epizyme and Celgene regarding a preclinical drug development project directed against epigenetic targets in cancer, i.e. drugs active against the same target group as Kancera´s HDAC inhibitors. The agreement involved an upfront payment of 90 million USD including equity. Epizyme is a biotech company that has been a frontrunner for a new cancer treatment concept and has managed to close a series of preclinical deals in the cancer area since early 2011 with GSK and Esai.

Another example of the interest in this type of inhibitors is that Celgene in July 2013 for 100 million USD in cash acquired an option to purchase the Boston-based Acetylon Pharmaceuticals. The other conditions for the option mean that a completion of the deal gives the sellers a minimum of 1.7 billion USD. Acetylon´s leading drug candidate is an HDAC6 inhibitor and the most advanced project is in Phase Ib for a potential treatment of leukemia.

There are several reasons for preclinical projects to be met with increased interest from large pharmaceutical companies. The development departments at pharmaceutical companies want to influence the selection and design of an active substance themselves. It could be disastrous if a substance that has reached phase II or phase III proves to be suboptimal or insufficiently suited to its task. Time and money will be lost if a clinical trial needs to be redone from the beginning. Historically, there are many examples of projects that need to be corrected and where the clinical trial needs to be repeated from the start. Sometimes pharmaceutical companies also choose to run several parallel phase I and phase II studies to ensure that they cover several different patient populations and diseases, as well as schedules for treatment, and thereby position the product optimally for the costly phase III clinical trials.

The underlying demand for Kancera´s drug candidates is driven by the medical need to make the combat against cancer more efficient.

The trend is towards

- diagnostic methods that provide genetic information about exactly what factors in the individual patient's cancer drive the disease and whether there are mutations that render a traditional drug inactive

- drugs that attack the driving mechanisms of the cancer, that overcome causes of resistance and act selectively against cancer to reduce the side effects that would otherwise contribute to increased mortality and high medical costs

Consequently, more patients will be offered a personalized cancer treatment resulting in a longer and better life. The number of drug development projects within the cancer area has steadily increased, but many of them follow the same path as others (Source : lifescivc.com/2012/06/cancer-drug-targets-the-march-of-the-lemmings /) why pharmaceutical companies now focus their search for drug candidates that distinguish themselves from the mainstream and have the potential to fundamentally change the conditions for the treatment of life-threatening diseases. Drugs targeting ROR1 qualify for such an interest from the pharmaceutical industry and Kancera as a biotech company leads this development.

Kancera´s focus is on target molecules in the cancer that opens opportunities to break the resilience of life-threatening cancer forms as well as the development of diagnostics that allow early identification of patients who benefit from the new treatment.

Currently Kancera evaluates applications of future drugs against ROR, PFKFB and HDAC6 in

- Solid tumors in the pancreas, lung, bowel and breast. The three first mentioned forms of cancer are among the four types of cancer that causes most deaths in both men and women. Breast cancer is with the exception of lung cancer the form of cancer that causes most deaths in women.

- Chronic lymphocytic leukemia (CLL) and acute myeloid leukemia (AML), which are the most common chronic and acute form of leukemia in adults, as well as multiple myeloma (MM).

These cancer indications each represent a world market in the range of 3.5 to >10 billion SEK annually (Source : GlobalData). A drug able to contribute to a 6-months prolonged life at a cost of less than about 1 million SEK is today regarded by the price authorities such as TVL to represent a significant value for patients and society.

Kancera´s own published results, as well as publications from independent research groups in the ROR and PFKFB area (see sources in each project section) support that future drugs acting through ROR and PFKFB have the potential to improve treatment of the aforementioned cancers. How well this potential can be translated into clinical practice remains to be proven in clinical studies.

In addition, the industry's interest in rare diseases, so-called Orphan diseases, has increased in recent time given that they represent significant unmet medical need and that the patient group often is clearly defined thus facilitating clinical studies. This has led the authorities to facilitate the development of, and the protection of products against these diseases. The European Medicines Agency EMA has steadily increased the number of approved drugs for the treatment of rare diseases from four approved products in 2011 to eight in 2012 and eleven in 2013. Kancera´s projects have in preclinical studies been shown to be a possible way to treat several forms of cancer that meet the requirements for designation as an Orphan disease (in the U.S. fewer than 200,000 affected individuals) *. The need for improved treatments is exemplified below for two of the cancer forms that Kancera addresses with its drug projects and that qualify as Orphan diseases.

Cancer of the pancreas annually affects more than 100 000 patients in Europe and the U.S. The survival of these patients is less than two percent five years after diagnosis. A combination of chemotherapy and radiotherapy is used to enable removal of the tumor by surgery. The life sustaining drug treatment mainly consists of various types of cell poisons (Gemcitabine and FOLFIRINOX which contain combinations of Fluorouracil, Irinotecan, and Oxaliplatin). Today, there is no recommended drug targeting pancreatic cancer. The market for pancreatic cancer in the United States in 2009 totaled 781 million USD and the expected growth was -4 to +8% in 2017, (Source : Global Data Healthcare).

Chronic lymphocytic leukemia (CLL) annually affects approximately 30 000 patients in Europe and the U.S., which makes CLL to the most common chronic form of leukemia. The traditional treatment of cancers such as CLL is currently not sufficiently effective and selective. The most common type of treatment of CLL is a combination of the antibody Rituximab and chemotherapy such as Fludarabine and Cyclophosphamid. This combination of drugs is used in 19 percent of the treatments in the seven countries that represent the largest pharmaceutical markets. Following the initial treatment of patients approximately 50 percent are symptom free, but already after four years about 80 percent regained clear symptoms of cancer disease. New, increasingly tougher treatments are required in this phase of the disease, but the treatment results become progressively worse. New drugs with other effects on refractory CLL is now being introduced, such as ibrutinib and idelalisib. The market for CLL is estimated at 800 million USD in 2017 (Source:

Global Data Healthcare 2013). Kancera also expects that there are good opportunities to expand into other cancers, given that ROR-1 is found in at least eight other blood cancers.

* Professor Mellstedt , along with independent researchers, have shown that the presence of ROR is higher in the aggressive stages of Chronic Lymphocytic Leukemia , pancreatic cancer, breast cancer and lung cancer.

Income Statement

SEK 000´s (if otherwise not specified)

Kancera AB

	1 Oct-31 Dec		1 Jan-31 Dec	
	2013	2012	2013	2012
Revenues				
Net sales	**1 354**	**-**	**1 813**	**-**
Cost of sales & services	-231	-	-530	-
Gross profit	**1 123**	**-**	**1 283**	**-**
Operating Expenses				
General & administrative expenses	-806	-1 251	-3 375	-4 566
Selling expenses	-252	-100	-779	-1 956
Research & development expenses	-2 148	-354	-7 533	-14 723
	-	-	-	-
Total expenses	**-3 206**	**-1 705**	**-11 687**	**-21 245**
Operating income	**-2 083**	**-1 705**	**-10 404**	**-21 245**
Income from Financial Investments				
Financial income	-	-2	3 001	61
Financial expenses	-13	-2 318	-15	-2 318
Financial net	-13	-2 320	2 986	-2 257
Income after financial items	**-2 096**	**-4 025**	**-7 418**	**-23 502**
Taxation	**-**	**-**	**-**	**-**
Net income	**-2 096**	**-4 025**	**-7 418**	**-23 502**
Earnings per share, before and after dilution	-0,05	-0,22	-0,22	-1,42

Balance Sheet

SEK 000´s (if otherwise not specified)

Kancera AB

	30 Sept		31 Dec	
	2013	2012	2013	2012
Assets				
Non-current Assets				
Intangible assets, activated R&D expenses	6 000	6 000	6 000	6 000
Tangible assets	4 499	-	4 291	-
Financial assets	-	2 320	-	-
Total non-current assets	**10 499**	**8 320**	**10 291**	**6 000**
Current Assets				
Receivables	507	373	1 240	194
Cash and cash equivalents	2 053	2 206	14 118	5 107
Total current asstes	**2 560**	**2 579**	**15 358**	**5 301**
TOTAL ASSETS	**13 059**	**10 899**	**25 649**	**11 301**
Equity and Liabilities				
Equity				
Restricted equity	2 689	1 563	5 239	1 563
Non-restricted equity	6 661	7 658	13 717	8 662
Total equity	**9 350**	**9 221**	**18 956**	**10 225**
Provisions and liabilities				
Long-term liabilities	**1 500**	**-**	1 500	**-**
Short-term liabilities	2 209	1 678	5 193	1 076
Total provisions and liabilities	**3 709**	**1 678**	**6 693**	**1 076**
TOTAL EQUITY and LIABILITIES	**13 059**	**10 899**	**25 649**	**11 301**

Statement of Changes in Equity

SEK 000´s (if otherwise not specified)

Kancera AB

	2013		2012
Total equity, opening balance on the 1st of Jan 2013	**10 225**	**Total equity, opening balance on the 1st of Jan 2012**	**20 643**
Proceeds on issue of shares	4 834	Q1 net income	-7 700
Costs related to issue of shares	-387	**Total equity, closing balance on the 31st of March 2012**	**12 943**
Q1 net income	690	Proceeds on issue of shares	8 299
Total equity, closing balance on the 31st of March 2013	**15 362**	Costs related to issue of shares	-250
Q2 net income	-3 274	Exercise of warrant	4
Total equity, closing balance on the 30th of June 2013	**12 088**	Q2 net income	-8 007
Q3 net income	-2 738	**Total equity, closing balance on the 30th of June 2012**	**12 989**
Total equity, closing balance on the 30th of Sept 2013	**9 350**	Q3 net income	-3 768
Proceeds on issue of shares	15 300	**Total equity, closing balance on the 30th of Sept 2012**	**9 221**
Costs related to issue of shares	-3 598	Ongoing capital infusion	5 031
Q4 net income	-2 096	Q4 net income	-4 027
Total equity, closing balance on the 31st of Dec 2013	**18 956**	**Total equity, closing balance on the 31st of Dec 2012**	**10 225**

Cash-Flow Statement

SEK 000´s (if otherwise not specified)

Kancera AB

	1 Oct-31 Dec		1 Jan-31 Dec	
	2013	2012	2013	2012
Cash-flow from operating activities				
Operating income after financial items	-2 096	-4 025	-7 418	-23 502
Depreciation	429	-	709	-
Other non-cash-flow affecting items	-	2 320	-3 000	2 320
Cash-flow from operating activities before working capital change	**-1 667**	**-1 705**	**-9 709**	**-21 182**
Change in working capital	2 030	-5 482	3 068	-1 353
Cash-flow from operating activities	**363**	**-7 187**	**-6 641**	**-22 535**
Investment activities				
Investment in financial assets	-	-	-2 000	-
Cash-flow from investment activities	**-**	**-**	**-2 000**	**-**
FREE CASH-FLOW available to INVESTORS	**363**	**-7 187**	**-8 641**	**-22 535**
Financing activities				
Issue of shares	11 702	4 878	16 152	13 084
New loans	-	-	1 500	-
Cash-flow from financing activities	**11 702**	**4 878**	**17 652**	**13 084**
CASH-FLOW for the YEAR	**12 065**	**-2 309**	**9 011**	**-9 451**
Cash and cash equivalents at the beginning of the year	2 053	7 416	5 107	14 558
Cash and cash equivalents at the end of the year	14 118	5 107	14 118	5 107

Notes

Note 1. Accounting and valuation principles

This interim report has been prepared in accordance with BFNAR 2007:1, Voluntary interim reporting and adheres to the listing requirements of First North regarding interim report. From 2013 Kancera applies the Swedish Annual Accounts Act and BFN:s supplementary regulations K3, Annual Report and consolidated accounts. The transition to K3 did not affect the income statement or the balance sheet for 2012. The result for the period January 1, 2013 - September 30, 2013 and the balance sheet as of September 30, 2013 correspond to those accounted for according to earlier principles.

The accounting principles of the company are described in the latest published Annual Report.

Unless otherwise indicated, amounts are reported in Swedish kronor and rounded off to the nearest thousand. As a result of the rounding off to the nearest thousand kronor, adding up the amounts stated may not correspond exactly to the total given. Amounts and figures in parentheses are comparison figures for the same period last year.

Note 2. Related party disclosures

During the period, Kancera paid compensation to F:a Mellstedt Medical for scientific consulting and scientific marketing services excluding board fee at an amount of SEK 50 000. Håkan Mellstedt, a Board member at Kancera, is the Managing Director and owner of F:a Mellstedt Medical. No other remuneration was paid to related parties. Board fees have been paid in accordance with the decision at the Annual General Meeting.

Note 3. Incentive schemes

Following a resolution passed by the Annual General Meeting on May 26, 2011 Kancera introduced an incentive scheme for employees of the Group and certain contractors, involving the issue of 400,000 warrants. Within the incentive scheme, Carl-Henrik Heldin, newly appointed Board member of Kancera, has acquired 10 000 options at a price of 4,000 SEK in June 2012. The options have been sold at market price determined by the Black & Scholes valuation model. If all the warrants are exercised to subscribe for 400,000 new shares, the dilution of the share capital will amount to approximately 2.6 percent. All options can be exercised to purchase shares during the period 1 March to 31 May 2014.

Note 4. Financial definitions

Return on equity (ROE)
Net profit for the period as a percentage of average equity.

Return on capital employed (ROCE)
Profit before tax plus financial expenses as a percentage of average capital employed.

Equity per share
Equity divided by the number of shares on the reporting date.

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

Option-based deal
Agreement between two parties giving one party the right through prepayment to later acquire sole rights to the asset concerned.

Earnings per share
Profit for the period divided by average number of shares.

Capital employed
Total assets less non-interest bearing liabilities.

Equity/assets ratio
Equity as a percentage of total assets.

The company's operations and risk factors

The Board of Directors and CEO give an assurance that the interim report provides a true and fair overview of the company's operations, financial position and results, and describes the significant risks and uncertainties faced by the company.

In assessing Kancera's 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 earnings and financial position to varying degrees. For further information regarding company risks, see the company's Annual Report 2012.

Stockholm, February 21, 2014

Erik Nerpin *Chairman of the Board*	Håkan Mellstedt *Director*	Bernt Magnusson *Director*
Carl-Henrik Heldin *Director*	Thomas Olin *CEO/Director*	

This Interim Report has not been reviewed by the company's auditors.

Financial calendar

• Year End Report 2013	May 5, 2014
• Interim report January-March 2014	May 23, 2014
• Annual General Meeting	May 26, 2014
• Interim report January-June 2014	August 22, 2014
• Interim report January-September 2014	November 21, 2014

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