

Corporate governance report

Xspray Pharma AB is a Swedish public limited liability Company whose shares have been traded on Nasdaq First North Stockholm since 2017. At the end of December 2018, Xspray Pharma AB (publ) acquired a newly incorporated subsidiary, dormant for the time being, to prepare the Group for possible future structural needs. No business activity has taken place in the subsidiary; all business is pursued in the parent Company Xspray Pharma AB (publ). Since its listing on First North, the Company's corporate governance is mainly based on Swedish legislation, the Company's articles of incorporation, internal rules and regulations, best securities market practices, and where relevant for the Company, the Swedish corporate governance code (**the Code**).

The Board of Xspray resolved to apply for listing of the Company's shares on Nasdaq Stockholm's main list. Consequently, the Company's accounting policies have changed as of the fourth quarter 2018 in order to meet IFRS and RFR2 regulations. Because there is no requirement for the Code to be applied by companies whose shares are admitted for trading on the First North, the Company has not applied for Code in 2018 other than in parts where it was considered relevant for the Company. The Company intends to apply the Code in full in 2019.

Shareholders

Xspray share is listed on Nasdaq First North. Share capital as of December 31, 2018 amounted to SEK 15,076,460 distributed across 15,076,460 shares with the quota value of SEK 1.00. As of December 31, 2018, Östersjöstiftelsen is the only shareholder with a holding in Xspray that represents at least one tenth of the votes of all shares in the Company. At year-end, Östersjöstiftelsen's shares and votes amounted to 16.6 percent.

All shares are common shares and have equal rights to the Company's profit, and each share entitles the holder to one vote at the AGM. At the AGM, each shareholder is entitled to vote the full number of shares, owned or represented, without limitation to the number of votes.

Shareholders' meeting

Under the Swedish Companies Act (2005:551), the shareholders' meeting is the Company's highest decision-making body. Shareholders exercise their voting rights at the shareholders' meeting. An Annual General Meeting (AGM) must be held within six months of the end of each financial year. In addition to the AGM, extraordinary shareholders' meetings may also be convened. Under Xspray's articles of incorporation, the Company's shareholders' meetings may be held in Stockholm in addition to Solna, where the Company has its registered office.

In accordance with the Company's articles of incorporation, notice convening the AGM is announced through the Official Swedish Gazette (Post- och Inrikes Tidningar) and

by making the notice available on the Company's website. At the same time, an announcement that notice has been given must be placed in the Swedish business daily, Dagens Industri. Under the provisions of the Swedish Companies Act, notice to attend a shareholders' meeting or an extraordinary shareholders' meeting that will address amendments to the articles of incorporation, must be given no earlier than six weeks and no later than four weeks before the meeting. Notice to attend other extraordinary shareholders' meetings must be given at the earliest six weeks and at the latest three weeks before the meeting.

Shareholders who are registered in the shares ledger five days before the shareholders' meeting and who register with the Company no later than the date and time indicated in the notice to attend, are eligible to participate in the meeting. This day may not be a Sunday, public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve and may not fall earlier than five working days before the meeting.

Annual General Meeting 2018

Xspray's AGM for 2018 was held on May 14 in Stockholm. In addition to the usual agenda items, the AGM resolved the following:

- to reelect Michael Wolff Jensen, Hans Arwidsson, Maris Hartmanis, Carl-Johan Spak and Torbjörn Koivisto as board members until the end of the next AGM;
- to reelect Michael Wolff Jensen as Chairman of the Board until the end of the next AGM, and
- to reelect registered auditors Grant Thornton Sweden AB as the Company auditor.
- to establish, prior to the AGM, a nomination committee tasked with preparing resolutions in matters concerning elections and fees and, where appropriate, procedural matters for the next nomination committee, and to establish instructions for said committee's work and ensure that the nomination committee be established before the 2019 AGM and that it comprise the three largest shareholders in terms of votes on September 30, and who wish to participate in the nomination committee's work.
- to authorize the Board before the next AGM to pass on one or more occasions resolutions concerning new share issues equivalent to no more than ten percent of the total number of shares in the Company at the time of the AGM's resolution, and which deviate from the preferential rights of shareholders.

Extraordinary shareholders' meeting, 2018

Xspray held two extraordinary shareholders' meetings in 2018.

In accordance with the Board's proposal concerning a targeted new share issue of no more than 1,350,000 new shares, the extraordinary shareholders' meeting of February

20, 2018 resolved to increase share capital by no more than SEK 1,350,000. For further information about the new issue, see page 24 in the Report of the Board of Directors.

In accordance with the Board's proposal to introduce an incentive program (LTI 2018), Xspray's extraordinary shareholders' meeting of November 28, 2018 resolved to issue no more than 234,505 warrants involving, when fully exercised, an increase in share capital of no more than SEK 234,505. For further information about the incentive program (LTI 2018), see page 24 in the Report of the Board of Directors.

Annual General Meeting 2019

The Annual General Meeting (AGM) will take place in Stockholm on Thursday, May 23, 2019. Notice to attend will be announced by press release and publication in the Official Gazette, the Svenska Dagbladet newspaper and on the Xspray website.

Shareholders who would like an issue addressed at the AGM must submit a written request to the Board in good time before the AGM. The Board can be contacted by letter addressed to The Board of Directors, Xspray Pharma AB, Råsundavägen 12, SE 169 67 Solna, Sweden or by email to generalmeeting@xspray.com

Nomination committee

The 2018 AGM resolved to establish a nomination committee tasked with preparing resolutions prior to AGMs on matters concerning elections and fees and, where appropriate, procedural matters for the next nomination committee, and to establish instructions for said committee's work. The nomination committee must comprise the three largest shareholders as of September 30 in terms of votes, and who wish to participate in the nomination committee's work.

Instruction concerning the nomination committee's composition and work.

The Chairman of the Board must contact the Company's three largest shareholders in terms of votes according to a transcript of Euroclear Sweden AB's shares ledger on September 30, and allow each to appoint a representative, who together with the Chairman of the Board, will constitute the nomination committee. Should any of them not exercise the right to appoint a member, the right to appoint such a member will be transferred to the next biggest shareholder in terms of votes who does not already have the right to appoint a member to the nomination committee. This procedure must continue until the nomination committee comprises three members excluding the Chairman of the Board. Unless otherwise agreed, the member representing the biggest shareholder in terms of votes must be appointed chairman of the nomination committee. The Chairman of the Board may not be chairman of the nomination committee.

The Chairman of the Board must convene the nomination committee's first meeting and also, as part of the nomination committee's work, present the conditions regarding the work of the Board and the requirement for special skills etc. that may be of importance for the nomination committee's work.

The names of nomination committee members must be published as soon as the nomination committee is appointed, but no later than six months before the next AGM. The nomination committee's term of office runs from the date when its composition is made public until such time as a new nomination committee is appointed.

If any change in the Company's ownership structure takes place after September 30 but before the nomination committee's complete motions have been made public, and if a shareholder, who following this change has become one of the Company's three biggest shareholders in terms of votes, expresses a wish to the nominating committee chairman to become a member of said committee, the shareholder has the right to appoint an additional member to the nomination committee. Furthermore, the nomination committee may resolve that a member, who in terms of votes has become significantly smaller than the third biggest Company shareholder in terms of votes, must resign from the nomination committee if this is deemed appropriate.

If a member of the nomination committee resigns during the term of office or if said member is prevented from fulfilling the assignment, the nomination committee must urge the shareholder who appointed the member to appoint a new member within a reasonable time.

Should any shareholder not exercise the right to appoint a new member, the right to appoint such a member will be transferred to the next biggest shareholder in terms of votes who has not already appointed, or who has declined the right to appoint, a member to the nomination committee. Changes to the composition of the nomination committee must be made public as soon as they take place.

The nomination committee must put forth proposals on the matters listed below for presentation to the AGM for resolution:

- proposed Chairman of the meeting,
- proposed Board of Directors,
- proposed Chairman of the Board,
- proposal for Board fees and their distribution between the Chairman and other members of the Board,
- proposals for fees to members of the remuneration and audit committees (where applicable)
- proposal for auditors,
- proposal for auditor's fee, and
- to the extent considered necessary, proposals for amendments in current nomination committee regulations.

There are no special provisions in the articles of incorporation concerning the appointment and removal of Board members or changes to the articles of incorporation.

No fees will be paid to members of the nomination committee.

The nomination committee for the 2019 AGM

The Company's nomination committee for the 2019 AGM consists of: Gillis Cullin, appointed by Östersjöstiftelsen, Anders Bladh, appointed by Ribbskottet AB, Niclas Eriksson, appointed by Niclas Eriksson family with companies, and Michael Wolff Jensen (Chairman of the Board).

Board of Directors

The Board's assignments

Behind the shareholders' meeting, the Board of Directors is the Company's highest decision-making body and its highest executive body. The responsibilities of Xspray's board are governed by the Swedish Companies Act and the articles of incorporation. The Board is responsible for the Company's organization and the administration of its affairs. The Board must continually assess the Company's financial situation and ensure that its organization is designed such that the Company's accounting, asset management and its financial circumstances in general are satisfactorily controlled.

The work of the Board includes setting goals and strategies for the Company's activities, endeavoring to ensure that the organization and operation of the Company's activities are characterized by internal governance and control. Furthermore, the Board is tasked with appointing the CEO, adopting instructions for the work of the CEO and monitoring the CEO's performance.

The composition of the Board

According to its articles of incorporation, Xspray's Board must consist of no fewer than three and no more than seven members with between nil and no more than two alternates, all appointed by the shareholders' meeting. The Board currently consists of five members and no alternates. All members were elected at the AGM held on May 14, 2018 for a term until the end of the 2019 AGM. Profiles of Board members are given on pages 30–31.

Chairman of the Board

The Chairman of the Board must ensure that the work of the Board is conducted efficiently and that the Board fulfills its obligations. The Chairman of the Board is also responsible for ensuring that the Board is provided with satisfactory documentation in support of its work, and that its work is reviewed annually. The Chairman of the Board is responsible for contacts with shareholders on ownership matters and for conveying the views of the owners to the Board. The Chairman of the Board is elected by the shareholders' meeting.

Board procedures

The Board follows written rules of procedure that are reviewed annually and adopted by the statutory board meeting held in connection with the AGM. Among other things, the rules of procedure govern the Board's functions,

assignments, decision-making process and procedures, and the Chairman's assignments and the allocation of work between the Board and the CEO. Instructions regarding financial reporting and the CEO instructions are also set forth in connection with the statutory board meeting.

Board committees

The Board had no committees during 2018.

Compensation to Board members

Compensation to Xspray's board members is resolved by the shareholders' meeting. The AGM of May 14, 2018 resolved that a fee be paid in the amount of SEK 182,000 to the Chairman of the Board and SEK 91,000 to each of the other Board members who are not employees of the Company.

The work of the Board, 2018

The Board held 18 minutes meetings in 2018. The attendance of individual members at meetings is shown in the table below. All of the meetings during the year followed approved agendas that were provided, together with documentation for each agenda item, to Board members prior to Board meetings. The CEO participates in the majority of the Board meetings. Each scheduled Board meeting includes a review of the current business situation, the Company's economic performance and financial position and the outlook for the rest of the year. During the year, the Board's work focused mainly on:

- Developing the project portfolio.
- The Company's clinical Phase I study with HyNap-Dasa and the start of the pilot study with HyNap-Sora.
- Strategy and business intelligence analysis.
- Financial development and the procurement of capital.
- Interim reports, year-end report and Annual Report.
- The upcoming application for listing of the Company's share on Nasdaq Stockholm's main list.

The CEO and other senior executives

The CEO's and Company management's assignments

The CEO reports to the Board and is responsible for the Company's day-to-day operations. The allocation of work between the Board and the CEO is set forth in the Board's rules of procedure and the CEO's instructions. The CEO is also responsible for preparing reports and compiling

Name	Position	Elected	Independent in relation to		Attendance, Board meetings
			The Company and Company management	Major shareholders	
Michael Wolff Jensen	Chairman of the Board	2013	No	Yes	18 (18)
Hans Arwidsson	Board member	2016	Yes	Yes	18 (18)
Maris Hartmanis	Board member	2015	Yes	Yes	18 (18)
Carl-Johan Spak	Board member	2015	Yes	Yes	17 (18)
Torbjörn Koivisto	Board member	2017	Yes	Yes	18 (18)

information from Company management prior to Board meetings. The CEO must keep the Board continually informed about the development of the Company's operations, its economic performance and financial position, important business events and every other event, circumstance or condition that can be considered to have material importance for the Company's shareholders. Company management, under the leadership of Company CEO Per Andersson, consists of individuals responsible for important areas of activity within Xspray. The CEO and other senior executive are profiled in more detail on page 32.

The CEO's employment conditions

When termination is on the part of the CEO, the period of notice is six months. When termination of the CEO is on the part of the Company, the period of notice is nine months. If the CEO is relieved of his duties during the period of notice, he is not eligible for variable compensation; other regular compensation will be paid during the period of notice. The CEO is not entitled to severance pay.

Compensation to the CEO and senior executives

Xspray must offer levels of compensation and employment conditions on market terms to enable the recruitment and retention of senior executives and key expertise. There are currently no agreements regarding severance pay for senior executives.

Compensation to senior executives consists of basic salary, share-related compensation, pension provisions and other benefits. For further information concerning compensation to the CEO and senior executives, see note 7.

Other information about Board members and the CEO

All members of the board and the CEO can be contacted at the Company's address, Råsundavägen 12, SE 169 67 Solna, or by telephone on +46 8 730 37 00.

Stock-related compensation program

The Company has conducted a total of three incentive programs in the form of share warrants to senior executives and key individuals. For further information, see page 24 in the Report of the Board of Directors.

Audit and control

External audits

The auditor must examine the Company's annual report, its accounts and the Board of Directors' and the Chief Executive Officer's administration. Following each financial year, the auditor must submit an auditor's report to the AGM. According to the Company's articles of incorporation, it must have one or no more than two auditors and no more than two alternate auditors.

The AGM of May 14, 2018 resolved to reelect registered auditors Grant Thornton Sweden AB as auditor for the period until the end of the next AGM. Thomas Lindgren is auditor-in-charge. The Company's auditor is presented in more detail on page 31.

Compensation to auditors

Resolutions concerning compensation to auditors are passed by the shareholders' meeting. The AGM of May 14, 2018 resolved that the auditor's fee be paid against approved invoice. For further information regarding compensation to auditors, see note 6.

Internal audits and control

The overall objective of the internal control is to reasonably ensure that the Company's operational strategies and goals are followed up and that the owners' investment is protected. The internal controls must also ensure that external financial reporting is with reasonable certainty reliable and prepared in compliance with good accounting practice, that applicable legislation and regulations are followed and that the requirements for listed companies are abided by. The Board of Directors bears overall responsibility for internal controls. Provisions in the Swedish Companies Act and the Swedish Annual Accounts Act require the inclusion of information about the most important features in Xspray's system for internal control and risk management in the Company's Corporate Governance Report. In order to maintain good internal control, the Board has established a number of policy documents such as the Board's rules of procedure, the CEO instruction, instructions for financial reporting and information policy.

Each year, the Board evaluates the need to establish a special internal audit department. Based on analyses in 2018, the Board has resolved not to establish such a department. The day-to-day responsibility for internal control and risk management has been delegated to the Company's CEO, who must regularly report to the Board in accordance with instructions. Internal controls and risk management is monitored and evaluated on an ongoing basis through internal and external checks and evaluations of the Company's policy documents.

The Corporate Governance Report is available on the Company's website.