

Xspray Pharma Year-end report

JANUARY–DECEMBER 2018

Following determined efforts, we demonstrated performance in 2018 that has brought us significantly closer to a market launch of HyNap-Dasa and have thus increased Xspray's possibilities of building shareholder value.

Per Andersson, CEO
Xspray Pharma AB (publ)

October–December 2018, parent company

Amounts in brackets refer to the corresponding period for the previous year.

- Net sales amounted to SEK 206 thousand (20)
- Earnings before tax amounted to SEK -10,597 thousand (-4,964)
- Earnings per share before dilution amounted to SEK -0.75 (-0.40)
- Cash flow from operating activities totaled SEK -5,888 thousand (-4,807)
- Cash and cash equivalents at the end of the period totaled SEK 221,216 thousand (115,512)
- Total equity amounted to SEK 301,716 thousand (154,355)
- The total number of shares is 15,076,460

January–December 2018, parent company

Amounts in brackets refer to the corresponding period for the previous year.

- Net sales amounted to SEK 277 thousand (332)
- Earnings before tax amounted to SEK -23,098 thousand (-13,817)
- Earnings per share before dilution amounted to SEK -1.70 (-1.74)
- Cash flow from operating activities totaled SEK -17,747 thousand (-11,658)

The above figures refer to the parent company as the Group was formed first at the end of December 2018 in connection with the company's acquisition of a newly incorporated subsidiary, which is dormant for the time being. The parent company's figures are therefore reported above to make comparisons between the periods easier. Figures for the Group will be reported in 2019. As of the fourth quarter, amounts will be reported in accordance with IFRS, with the exceptions that apply for legal entities (RFR 2). See accounting policies below and also at www.xspraypharma.com





Significant events during the full year 2018

October–December

- The concluding analysis of the complete data from the clinical Phase 1 study with HyNap-Dasa was presented on October 10. The study results confirmed bioequivalence of an optimized formulation of HyNap-Dasa and reinforced the conclusions that could be drawn from the preliminary data.
- Xspray Pharma's Board of Directors resolved to apply for listing of its shares on Nasdaq Stockholm's main list. The change in listing is expected to take place within 12 months and is being carried out to enhancing prospects for a broader shareholder base. As a result, the company will be changing its accounting policies as of the fourth quarter in order to comply with IFRS and RFR 2, and it will also switch to a layout classified by function for the income statement. See below for further information.
- LTI 2018 – an incentive program in Xspray linked to the company's long-term value growth – was adopted in November.
- Another product patent for HyNap-Dasa was granted in the United States.
- The planned pilot study with HyNap-Sora was begun in December.

- In order to expand the product portfolio, Xspray Pharma completed a targeted new share issue in early December totaling 1.37 million shares, raising approximately SEK 92 million before issue expenses.
- Xspray Pharma acquired a newly incorporated subsidiary in December in order to meet a possible future need for an expanded group structure.

January–September

- Xspray Pharma completed a targeted new share issue totaling 1.35 million shares, raising approximately SEK 88 million before issue expenses.
- The company hired Charlotta Liljebris as the new head of R&D.
- Xspray Pharma and NerPharMa delivered testing materials to the clinical HyNap-Dasa study, which was duly initiated. The study was completed according to plan and the promising preliminary results were presented on September 9.

Significant events after the reporting period

There have been no significant events after the reporting period.



A message from the CEO

Following determined efforts, we demonstrated performance in 2018 that has brought us significantly closer to a market launch of HyNap-Dasa and increased Xspray's possibilities of building shareholder value.

The past year has been successful in a number of ways. We've strengthened our organization with very experienced employees, moved into new purpose-built premises and secured continued financing. The results of the bioequivalence study with HyNap-Dasa, as announced in early October, show formal bioequivalence in comparison to Sprycel, and this an essential milestone for Xspray Pharma. This means we can enter the registration-based phase of our development program as planned, and that we are yet another step closer to the market launch of HyNap-Dasa. Thus we were able in the fourth quarter to begin serious work on preparing the registration based clinical study program.

We were also successful when it comes to our patent rights, and at year-end we were granted an additional patent in the USA for HyNap-Dasa. The new HyNap-Dasa patent has the widest scope of all our composition patents in the USA, which makes it much more difficult for other companies to launch a dasatinib product based on amorphous solid dispersion in the USA over the term of patent, i.e. until January 2033. It is Xspray's third product patent in the USA, our strongest market.

Work on scaling up the production process to a commercial level has progressed at NerPharMa, our collaborative partner in Milan. It includes the manufacture and installation of new equipment that will be ready for production in 2019.

Once the scaled-up production has been established, it will pave the way for new products with our unique technology, which enables the production of improved amorphous versions of known substances.

Our HyNap-Sora project also advanced during 2018. HyNap-Sora is a stable amorphous version of Nexavar (sorafenib) used for the treatment of liver, kidney, and

thyroid cancer. The pilot study planned to take place using healthy volunteers began on schedule in December in the UK. The results are expected in February.

On two separate occasions during the year, we were able to secure our financial position through two targeted share issues in the amounts of SEK 88 and 92 million before transaction expenses. These were underwritten mainly by a number of Swedish and international institutional investors, including the Third and Fourth Swedish National Pension Funds and Nyenburgh.

In October, the Board resolved to apply for listing on the Nasdaq Stockholm main list. This is a logical step in our progress toward enhancing prospects for a broader shareholder base. We're ready for the task, and look forward to the change in listing scheduled to take place during 2019.

In November, we adopted an incentive program at Xspray aimed at motivating and retaining the best talents within the company, something which is important for ensuring that Xspray Pharma achieves long-term growth in shareholder value.

I would like to take this opportunity to express my strong confidence in the new, capable organization Xspray now has in place. It's a crucial condition for our success in taking our unique HyNap compositions to market. Together, we feel great enthusiasm for implementing the plans we have established for 2019 and becoming, in due course, a leading player in improved versions of protein kinase inhibitors that address relevant needs and increase the availability of cancer drugs.

Solna, February 14, 2019
Per Andersson, CEO

Comments on the report

Financial overview, parent company

	Oct–Dec 2018	Oct–Dec 2017	Full year 2018	Full year 2017
Operating loss (SEK thousand)	-10,501	-5,044	-23,217	-13,896
Earnings for the period & comprehensive income (SEK thousand)	-10,597	-4,964	-23,098	-13,817
Earnings per share before dilution, SEK	-0.75	-0.40	-1.70	-1.74
Research and development expenses as % of operating expenses	38.5%	32.1%	23.6%	29.0%
Cash and cash equivalents			221,216	115,512
Equity/assets ratio (%)			96.6%	96.4%
Average number of employees	14	6	11	6

The above figures refer to the parent company as the Group was formed first at the end of December 2018 in connection with the company's acquisition of a newly incorporated subsidiary, which is dormant for the time being. The parent company's figures are therefore reported above to make comparisons between the periods easier. Figures for the Group will be reported in 2019. As of the fourth quarter 2018, amounts will be reported in accordance with IFRS, with the exceptions that apply for legal entities (RFR 2) See accounting policies below and at www.xspraypharma.com

Business activities and prospects

Xspray Pharma is a product development company with multiple product candidates in clinical development. Xspray Pharma uses its innovative, patented Rightsize technology to develop improved generic versions of marketed drugs, primarily protein kinase inhibitors (PKIs) for the treatment of cancer. The segment is the second largest in oncology, and drug prices are very high. Thanks to its innovative technology, Xspray Pharma is able, through licensing to suitable pharmaceutical companies, gain entry as the first competitor to today's original drugs before their secondary patents expire. Three PKIs have been identified as the first product candidates – HyNap-Dasa, HyNap-Sora and HyNap-Nilo. Xspray

Pharma's goal is to have up to seven products ready for launch in the US market, with the launch of the first product, HyNap-Dasa, in 2021. The substance patent for Sprycel (dasatinib) expires in December 2020, and the secondary patents in 2026, which offers Xspray Pharma's HyNap-Dasa a period of five years in an exclusive position before other competitors gain access to the market. The company has patented the manufacturing technology, the equipment and the resulting products.

The company's development has proceeded according to plan and prospects for achieving its business plan targets are good.

Revenue and earnings

Net sales in the fourth quarter totaled SEK 206 thousand (20). Net sales for the full year totaled SEK 277 thousand (332). Sales are not expected to increase before 2021, when the company plans to launch the first product on the market under the current business plan.

Total expenses for the fourth quarter amounted to SEK -10,707 thousand (-5,064). Total expenses for the full year amounted to SEK -23,494 thousand (-14,228). The increase is attributable to the planned increase in expenses for the company's clinical program and its stronger organization.

During the fourth quarter, the company reported an operating loss of SEK -10,501 thousand (-5,044). The net loss for the fourth quarter totaled SEK -10,597 thousand (-4,964). Earnings per share amounted to -SEK 0.75 (-0.40) for the fourth quarter of 2018.

For 2018 as a whole, the company reported an operating loss of SEK -23,217 thousand (-13,896). The net loss for 2018 totaled SEK -23,098 thousand (-13,817). Earnings per share amounted to SEK -1.70 (-1.74) for 2018 as a whole.

Financial position

Total equity amounted to SEK 301,716 thousand (154,355) as of December 31, 2018. As of December 31, 2018, the number of shares totaled 15,076,460.

The equity/assets ratio was 97% (96%) on December 31, 2018.

The company's operations are financed chiefly through equity and its financial position is deemed to be good in relation to the company's future development plans.

Given that the business is currently in a pre-commercial stage without sales revenues, the Board resolved to propose to the AGM that no dividend be paid to shareholders in 2019.

Cash flow and investments

Total cash flow for the fourth quarter amounted to SEK 63,294 thousand (-22,167). Cash flow from operating activities totaled SEK -5,888 thousand (-5,888). The effect from working capital amounted to SEK 2,265 (-320).

Total cash flow for 2018 resulted in a net inflow of SEK 105,704 thousand (86,709). Cash flow from operating activities totaled SEK -17,747 thousand (-11,658). The effect from working capital totaled SEK 1,251 thousand (993).

Cash flow from investment activities, of which capitalized development expenses comprise the largest part, amounted to SEK -47,007 thousand (-24,016).

Cash flow from financing activities totaled SEK 170,458 thousand (122,384).

Xspray had SEK 221,216 thousand (115,512) in cash and cash equivalents as of December 31, 2018.

Intangible assets

Ongoing development expenses have been capitalized according to plan. Activated development expenses during the last quarter amounted to SEK 9,520 thousand (6,874), and for the full year to SEK 31,964 thousand (21,247). As of December 31, 2018, capitalized expenditures for development and similar works amounted to SEK 71,850 thousand (39,885). This is where the greatest effect associated with switching accounting policies to IFRS occurs, as certain indirect expenses previously capitalized are now reported as an expense. However, the adjustments do not constitute significant amounts; see below for further info.

Parent company

At the end of 2018, the parent company acquired a newly incorporated subsidiary, dormant for the time being, to prepare the Group for possible future structural needs. No business activity took place in the subsidiary during the year; all business is pursued in the parent company Xspray Pharma AB (publ).

Accounting and valuation principles

*General information, a change in accounting policies and compliance with IAS 34.
This is the first time an interim report has been prepared according to IAS34 Interim Financial Reporting.*

During the fourth quarter, the company switched to applying IFRS with the adjustments required by RFR2 Accounting for Legal Entities. The company will also switch to an income statement layout classified by function.

The effects of these changes are described in more detail following the calculations in Note 1.

During previous periods, financial statements were prepared in accordance with the Swedish Annual Accounts Act and K3.

For further information regarding the changes in accounting policies in conjunction with the transition to IFRS, refer to the company's website at www.xspray-pharma.com.

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). Accordingly, Xspray is presenting consolidated financial statements for the first time. Because the acquisition date is at the end of 2018 and no business activities have been pursued in the subsidiary, no consolidated income statement is presented for 2018. This provides a more accurate picture of the operations as the number of transactions is limited and 2018 operations as a whole are reported in the parent company's statements. The consolidated

balance sheet will be prepared as per the closing date 12/31/2018.

Key ratios, definitions

Earnings per share is calculated as net income divided by the average number of shares during the period. The equity/assets ratio is equity, and where applicable untaxed reserves (less deferred tax), in relation to total assets.

Research and development expenses as a percentage of operating expenses comprise the former divided by the latter, which include selling and administrative expenses and other operating expenses.

Significant estimates and assumptions

When preparing interim reports, the Board and the CEO must, in accordance with the applicable accounting and valuation principles, make certain estimates, assessments and assumptions that affect the recognition and valuation of assets, provisions, liabilities, income and expenses. The outcome may deviate from these estimates and assessments and will very rarely amount to the same sum as the estimated outcome.

The estimates and assessments made in the year-end report, including the assessment of the main causes of uncertainty, are the same as those applied in the 2017 Annual Report and in connection with the listing on First North on September 28, 2017.

Annual General Meeting

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.

Nominating committee

The nomination committee for the 2019 AGM consists of:

Gillis Cullin, appointed by Östersjöstiftelsen

Anders Bladh, appointed by Ribbskottet AB

Niclas Eriksson, appointed by the Niclas Eriksson family with companies

Michael Wolff Jensen (Chairman of the Board)

Before the 2019 AGM, the nomination committee must prepare proposals regarding the election of the chairman and other members of the Board, the election of the chairman for the AGM, the election of auditors, and resolutions on fees and related matters. Shareholders who wish to submit proposals to the nomination committee before the AGM of May 23, 2019, may do so via email to karin.krylborn@xspray.com. Proposals must be submitted to the nomination committee before March 28, 2019.

Share information

The share has been traded on Nasdaq First North under the name XSPRAY since September 28, 2017. It was introduced at a price of SEK 22.00 per share. On 31 December, 2018, the number of shares in the company totaled 15,076,460.

The share forms part of the following index: OMX Stockholm Pharma & Biotech PI

New share issues

During the first quarter of 2018, the company carried out a targeted new issue of 1,350,000 new shares at an issue price of SEK 65 per share, which resulted in a share capital increase of SEK 1,350,000. The new share issue was aimed at a limited number of strategic and institutional investors and provided the company with around SEK 88 million before transaction expenses.

In the beginning of December 2018, an additional targeted issue of 1,370,000 new shares was carried out at an issue price of SEK 67 per share, which meant a share capital increase of SEK 1,370,000. This new issue was also aimed at a limited number of strategic and institutional investors. The new issue provided the company with around SEK 92 million before transaction expenses.

Incentive program

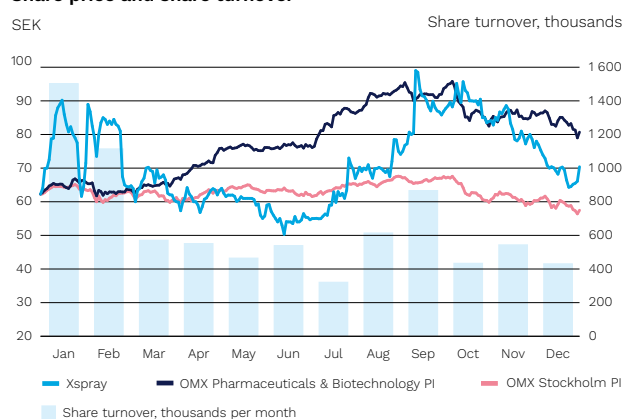
The company has previously issued share options in two series, made out to senior executives.

The first share option program comprises 255,000 options at an exercise price of SEK 25.00 per share. These may be exercised no later than January 21, 2021. Fully exercised, the options result in a maximum dilution of 1.69 percent based on the current number of shares. The second option program comprises 199,591 share options that may be exercised no later than August 2020 at an issue price of SEK 49.30. The program will result in a maximum dilution effect of 1.30 percent based on the current number of shares. The second program is conditional upon the holder remaining an employee of the company. Both programs were subscribed on market terms determined on the basis of estimated market value.

At an extraordinary shareholders' meeting of November 28, it was resolved to introduce an incentive program (LTI 2018) comprising a maximum of 234,505 share options linked to the company's value growth with the purpose of creating a stronger link between the interests of key employees and those of shareholders. LTI 2018 comprises 17 persons. LTI 2018 does not apply to the company's Board of Directors. The right to subscribe share options must, in the case of deviation from shareholders' preferential rights, fall to the CEO, senior executives and other company employees or persons who during the underwriting period have concluded an employment contract with Xspray Pharma. The share options must be subscribed on market terms to a price (premium) determined on the basis of estimated market value for the options with the application of Black & Scholes valuation model and calculated by an independent valuation institute. The value is provisionally estimated at SEK 5.83 per option based on a price per share of SEK 116.50. The company will subsidize participants' premiums by an amount corresponding to premiums earned.

Given the full exercise of the options already issued during incentive programs previously adopted, LTI 2018 is equivalent to a maximum of around 1.5 percent of the share capital and votes after dilution (subject to any translation according to the option terms).

Share price and share turnover



Owners as of December 31, 2018	Number of shares	Number of shares & votes
Östersjöstiftelsen	2,500,826	16.6%
Ribbskottet AB	1,382,399	9.2%
Niclas Eriksson family	1,342,082	8.9%
Swedbank Robur Fonder	1,250,000	8.3%
Catella Fonder	1,141,904	7.6%
Avanza Pension	695,035	4.6%
Fjärde AP-fonden	670,000	4.4%
Unionen-Svenska	520,000	3.5%
Danica Pension	363,227	2.4%
Kåre Gilstring	310,000	2.1%
Total, ten largest owners	10,175,473	67.5%
Total, other shareholders	4,900,987	32.5%
Total number of shares	15,076,460	100.0%

Financial calendar	Date
Interim Report Q1, Jan–March 2019	May 16, 2019
Annual Report 2018 to be published	May 2, 2019
Annual General Meeting 2019	May 23, 2019
Interim Report Q2, Apr–Jun 2019	August 29, 2019
Interim Report Q3, Jul–Sep 2019	November 28, 2019

Analysts monitoring the company:

Mathias Spinnars, Redeye

Significant risks and uncertainties

Xspray Pharma's operations are associated with both industry-related risks, and company-specific risks.

The company develops drug candidates and there will always be regulatory, market and financial risks in the business. There have been no significant changes in the risks and uncertainties during the period compared to those published by the company in connection with its listing on First North, September 28, 2017.

Consolidated balance sheet

Amount in SEK thousands	Dec 31, 2018
ASSETS	
Fixed assets	
Intangible assets	
Capitalized development costs	71,850
Patent	43
Total intangible assets	71,893
Property, plant and equipment	
Machinery and other technical facilities	12,447
Inventories, tools and installations	1,283
Total property, plant and equipment	13,730
Financial fixed assets	
Other non-current securities holdings	1
Total financial fixed assets	1
Total fixed assets	85,624
Current assets	
Other current receivables	1,675
Prepaid expenses and accrued income	3,920
Cash and cash equivalents	221,266
Total current assets	226,861
TOTAL ASSETS	312,485
Amount in SEK thousands	Dec 31, 2018
EQUITY AND LIABILITIES	
Equity	
Share capital	15,076
Other contributed capital	336,991
Reserves	976
Other equity (including loss for the year)	-51,327
Total equity attributable to the parent company's shareholders	301,716
Current liabilities	
Trade accounts payable	7,780
Other current receivables	1,301
Accrued expenses and deferred income	1,688
Total current liabilities	10,769
TOTAL EQUITY AND LIABILITIES	312,485

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). Accordingly, Xspray is presenting consolidated financial statements for the first time. Because the acquisition date is at the end of 2018 and no business activities have been pursued in the subsidiary, no consolidated income statement is presented for 2018, only a consolidated balance sheet on the closing date 12/31/2018. This provides a more accurate picture of the operations as the number of transactions is limited and 2018 operations as a whole are reported in the parent company's statements.

Parent company income statement

Amount in SEK thousands	Oct–Dec 2018	Oct–Dec 2017	Full-year 2018	Full-year 2017
Operating income etc.				
Net sales	206	20	277	332
Total operating income	206	20	277	332
Sales and administration expenses	-6,512	-4,128	-16,967	-10,779
Research and development expenses	-4,121	-1,624	-5,536	-4,132
Other operating income	42	806	86	824
Other operating expenses	-116	-118	-1,077	-141
Operating loss	-10,501	-5,044	-23,217	-13,896
Earnings from financial items				
Other interest income and similar items	0	80	150	80
Interest expenses and similar items	-96	0	-31	-1
Earnings from financial items	-96	80	119	79
Loss before income tax	-10,597	-4,964	-23,098	-13,817
Tax	0	0	0	0
Loss for the year	-10,597	-4,964	-23,098	-13,817

Parent company statement of comprehensive income

Amount in SEK thousands	Oct–Dec 2018	Oct–Dec 2017	Full-year 2018	Full-year 2017
Loss for the year	-10,597	-4,964	-23,098	-13,817
Other comprehensive income	0	0	0	0
Comprehensive income for the year	-10,597	-4,964	-23,098	-13,817
Average number of shares before dilution	14,078,743	12,356,460	13,593,172	7,945,622
Average number of shares after dilution	14,563,921	12,811,051	14,055,472	8,400,213
Earnings per share for the period before dilution, SEK	-0.75	-0.40	-1.70	-1.74
Earnings per share for the period after dilution, SEK	-0.73	-0.39	-1.64	-1.64

Parent company balance sheet

Amount in SEK thousands	Dec 31, 2018	Dec 31, 2017
ASSETS		
Fixed assets		
Intangible assets		
Capitalized development costs	71,850	39,885
Patent	43	420
Total intangible assets	71,893	40,305
Property, plant and equipment		
Machinery and other technical facilities	12,447	2,180
Inventories, tools and installations	1,283	281
Total property, plant and equipment	13,730	2,461
Financial fixed assets		
Shares in subsidiaries	50	0
Other non-current securities holdings	1	1
Total financial fixed assets	51	1
Total fixed assets	85,674	42,767
Current assets		
Current receivables		
Accounts receivable	0	23
Current tax asset	0	201
Other current receivables	1,675	825
Prepaid expenses and accrued income	3,920	781
Total current receivables	5,595	1,830
Cash and bank	221,216	115,512
Total current assets	226,811	117,342
TOTAL ASSETS	312,485	160,109

Parent company balance sheet *cont.*

Amount in SEK thousands	Dec 31, 2018	Dec 31, 2017
EQUITY AND LIABILITIES		
Equity		
Restricted equity		
Share capital	15,076	12,356
Fund for development costs	71,850	39,886
Statutory reserve	976	976
Total restricted equity	87,902	53,218
Non-restricted equity		
Accumulated earnings	236,912	114,954
Loss for the period & the year	-23,098	-13,817
Total non-restricted equity	213,814	101,137
Total equity	301,716	154,355
Current liabilities		
Trade accounts payable	7,780	2,890
Other current receivables	1,301	253
Accrued expenses and deferred income	1,688	2,611
Total current liabilities	10,769	5,754
TOTAL EQUITY AND LIABILITIES	312,485	160,109

Statement of changes in equity in the parent company

Amount in SEK thousands	Share capital	Share premium reserve	Accumulated earnings	Loss for the period & the year	Total equity
Opening balance as of January 1, 2018	6,356	52,869	-8,654	-4,097	46,474
Adjustment for transition to IFRS	0	0	0	-686	-686
Adjusted balance as of January 1, 2017	6,356	52,869	-8,654	-4,783	45,788
New share issue	6,000	116,384	0		122,384
Transfer of loss for the period & the year			-4,783	4,783	0
Earnings for the period				-13,199	-13,199
Adjustment for transition to IFRS	0	0	0	-618	-618
Adjusted balance as of December 31, 2017	12,356	169,253	-13,437	-13,817	154,355

Amount in SEK thousands	Share capital	Share premium reserve	Accumulated earnings	Loss for the period & the year	Total equity
Adjusted balance as of January 1, 2018	12,356	162,253	-13,437	-13,817	154,355
New share issue	2,720	167,738	0		170,458
Transfer of loss for the period & the year			-13,817	13,817	0
Earnings for the period				-23,098	-23,098
Closing balance as of December 31, 2018	15,076	336,991	-27,254	-23,098	301,715

Conditional shareholder contributions amount to

50,000

Parent company statement of cash flows

Amount in SEK thousands	Oct–Dec 2018	Oct–Dec 2017	Full year 2018	Full year 2017
Operating activities				
Operating loss before financial items	-10,501	-5,044	-23,217	-13,896
Non-cash adjustments				0
Depreciation	2,444	595	4,101	1,166
Received interest	0	80	150	80
Interest paid	-96	-118	-31	-1
Cash flow from operating activities before changes to working capital	-8,153	-4,487	-18,997	-12,651
Changes in working capital				
Change in operating receivables	-3,462	-439	-3,765	628
Change in operating liabilities	5,727	119	5,016	365
Cash flow from operating activities	-5,888	-4,807	-17,747	-11,658
Investment activities				
Investments in intangible assets	-9,520	-6,874	-31,964	-21,247
Capital expenditures in property, plant and equipment	-8,884	-870	-14,993	-2,769
Investments in other financial assets	-50	0	-50	0
Cash flow from investment activities	-18,454	-7,744	-47,007	-24,016
Financing activities				
New share issue	87,636	-9,616	170,458	122,384
Cash flow from investment activities	87,636	-9,616	170,458	122,384
Cash flow for the period	63,294	-22,167	105,704	86,709
Cash and cash equivalents at the beginning of the period	157,922	137,679	115,512	28,803
Cash and cash equivalents at the end of the period	221,216	115,512	221,216	115,512

Note 1. Effects of changes in accounting policies

During the year, Xspray Pharma changed its accounting policies. The company switched to applying IFRS with the adjustments required by RFR 2 Accounting for Legal Entities. Because the company has also switched its accounting to reflect functions instead of the type of expense, a function-based income statement is presented. This is the first time an interim report has been prepared according to IAS 34 Interim Financial Reporting. At the end of December, Xspray Pharma AB (publ) acquired a newly incorporated subsidiary, dormant for the time

being, and thus reports as a group. In addition to IFRS, the Group also complies with Swedish Financial Reporting Board recommendations, RFR 1. During previous periods, financial statements were prepared in accordance with the Swedish Annual Accounts Act and K3.

The Group uses cost for balance sheet item valuation unless otherwise stated.

The consequences of the switch to the new accounting standard are shown below. The left column shows the outcome following the switch.

Income statement and report of comprehensive income

Amount in SEK thousands	Restated 1/1/2016– 12/31/2016	Reclassifi- cation	1/1/2016 12/31/2016
Operating income etc.			
Net sales	792		792
Capitalized work on own account	-	-19,324	19,324
Total operating income etc.	792	-19,324	20,116
Operating expenses			
Sales & administration expenses	-4,078		-4,078
Research and development expenses	-2,531	18,638	-21,169
Other operating income	1,078		1,078
Other operating expenses	-6		-6
Total operating expenses	-5,537	18,638	-24,175
Operating loss	-4,745	-686	-4,059
Earnings from financial items	-37		-37
Earnings after financial items	-4,782	-686	-4,096
Loss before income tax	-4,782	-686	-4,096
Earnings for the year & comprehensive income	-4,782	-686	-4,096

Note 1. *cont.*

Income statement and report of comprehensive income *cont.*

Amount in SEK thousands	Restated 1/1/2017– 12/31/2017	Reclassifi- cation	1/1/2017 12/31/2017
Operating income etc.			
Net sales	332		332
Capitalized work on own account	-	-21,865	21,865
Total operating income etc.	332	-21,865	22,197
Operating expenses			
Sales & administration expenses	-10,779		-10,779
Research and development expenses	-4,132	21,247	-25,379
Other operating income	824		824
Other operating expenses	-141		-141
Total operating expenses	-14,228	21,247	-35,475
Operating loss	-13,896	-618	-13,278
Earnings from financial items	79		79
Earnings after financial items	-13,817	-618	-13,199
Loss before income tax	-13,817	-618	-13,199
Earnings for the year & comprehensive income	-13,817	-618	-13,199

The adjustments also have an impact on earnings per share

	Restated 1/1/2017 12/31/2017	Reclassifi- cation	1/1/2017 12/31/2017
Number of shares before dilution	12,356,460		12,356,460
Number of shares after dilution	12,811,051		12,811,051
Average number of shares before dilution	7,945,622	-4,410,838	12,356,460
Average number of shares after dilution	8,400,213	-4,410,838	12,811,051
Earnings per share before dilution, SEK	-1.74	-0.61	-1.07
Earnings per share after dilution, SEK	-1.64	-0.56	-1.03

Note 1. *cont.*

The company has also switched from a cost-based to a function-based income statement. The way the converted income statement, following adjustment due to the change in accounting policies, has affected the income

statement is shown below. In all, 99% of the depreciations are reported under the item Research and development expenses during 2017 (100% 2016).

Income statement and report of comprehensive income.

Amount in SEK thousands	Restated 10/1/2017 12/31/2017	Reclassifi- cation	10/1/2017 12/31/2017
Operating income etc.			
Net sales	20		20
Capitalized work on own account	-	-6,992	6,992
Other operating income	-	-806	806
Total operating income etc.	20	-7,798	7,818
Operating expenses			
Goods for sale	-	6,190	-6,190
Other external expenses	-	2,475	-2,475
Employee expenses	-	3,484	-3,484
Amortization & impairment of tangible and intangible fixed assets	-	595	-595
Sales & administration expenses	-4,128	-4,128	-
Research and development expenses	-1,624	-1,624	-
Other operating income	806	806	-
Other operating expenses	-118	-118	-
Total operating expenses	-5,064	7,680	-12,744
Operating loss	-5,044	-118	-4,926
Earnings from financial items	80	118	-38
Earnings after financial items	-4,964	0	-4,964
Loss before income tax	-4,964	0	-4,964
Earnings for the year & comprehensive income	-4,964	0	-4,964

Note 1. *cont.*

Income statement and report of comprehensive income *cont.*

Amount in SEK thousands	Restated 1/1/2017 12/31/2017	Reclassifi- cation	1/1/2017 12/31/2017
Operating income etc.			
Net sales	332		332
Capitalized work on own account	-	-21,247	21,247
Other operating income	-	-824	824
Total operating income etc.	332	-22,071	22,403
Operating expenses			
Goods for sale	-	17,731	-17,731
Other external expenses	-	8,618	-8,618
Employee expenses	-	8,785	-8,785
Amortization & impairment of tangible and intangible fixed assets	-	1,165	-1,165
Sales & administration expenses	-10,779	-10,779	-
Research and development expenses	-4,132	-4,132	-
Other operating income	824	824	-
Other operating expenses	-141	-141	-
Total operating expenses	-14,228	22,071	-36,299
Operating loss	-13,896	0	-13,896
Earnings from financial items	79	0	79
Earnings after financial items	-13,817	0	-13,817
Loss before income tax	-13,817	0	-13,817
Earnings for the year & comprehensive income	-13,817	0	-13,817

Note 1. *cont.*

Balance sheet and financial position

Amount in SEK thousands	Restated 12/31/2016	Adjustment	12/31/2016
ASSETS			
Fixed assets			
Intangible assets			
Capitalized development costs	18,638	-686	19,324
Patent	797		797
	19,435	-686	20,121
Property, plant and equipment			
Machinery & other technical facilities	399		399
Equipment, tools & installations	81		81
	480	0	480
Financial fixed assets			
Other non-current securities holdings	1		1
	1	0	1
Total fixed assets	19,916	-686	20,602
Current assets			
Current receivables			
Accounts receivable	19		19
Current tax asset	201		201
Other receivables	2,075		2,075
Prepaid expenses & accrued income	162		162
	2,457	0	2,457
Cash and bank balances			
Cash and bank balances	28,803		28,803
	28,803	0	28,803
Total current assets	31,260	0	31,260
TOTAL ASSETS	51,176	-686	51,862

Note 1. *cont.*

Balance sheet and financial position *cont.*

Amount in SEK thousands	Restated 12/31/2016	Adjustment	12/31/2016
EQUITY & LIABILITIES			
Equity			
Restricted equity			
Share capital	6,357		6,357
Fund for development costs	18,638	-686	19,324
Statutory reserve	976		976
Total restricted equity	25,971	-686	26,657
Non-restricted equity			
Profit or loss brought forward	24,600	686	23,914
Loss for the period and the year	-4,783	-686	-4,097
Total non-restricted equity	19,817	0	19,817
Total equity	45,788	-686	46,474
Current liabilities			
Trade accounts payable	4,343		4,343
Other liabilities	217		217
Accrued expenses and deferred income	828		828
Total current liabilities	5,388	0	5,388
TOTAL EQUITY & LIABILITIES	51,176	-686	51,862

Note 1. *cont.*

Balance sheet and financial position *cont.*

Amount in SEK thousands	Restated 12/31/2017	Adjustment	12/31/2017
ASSETS			
Fixed assets			
Intangible assets			
Capitalized development costs	39,885	-1,304	41,189
Patent	420		420
	40,305	-1,304	41,609
Property, plant and equipment			
Machinery & other technical facilities	2,180		2,180
Equipment, tools & installations	281		281
	2,461	0	2,461
Financial fixed assets			
Other non-current securities holdings	1		1
	1	0	1
Total fixed assets	42,767	-1,304	44,071
Current assets			
Current receivables			
Accounts receivable	23		23
Current tax asset	201		201
Other receivables	825		825
Prepaid expenses & accrued income	781		781
	1,830	0	1,830
Cash and bank balances			
Cash and bank balances	115,512		115,512
	115,512	0	115,512
Total current assets	117,342	0	117,342
TOTAL ASSETS	160,109	-1,304	161,413

Note 1. *cont.*

Balance sheet and financial position *cont.*

Amount in SEK thousands	Restated 12/31/2017	Adjustment	12/31/2017
EQUITY & LIABILITIES			
Equity			
Restricted equity			
Share capital	12,356		12,356
Fund for development costs	39,886	-1,304	41,190
Statutory reserve	976		976
Total restricted equity	53,218	-1,304	54,522
Non-restricted equity			
Profit or loss brought forward	114,954	618	114,336
Loss for the period and the year	-13,817	-618	-13,199
Total non-restricted equity	101,137	0	101,137
Total equity	154,355	-1,304	155,659
Current liabilities			
Trade accounts payable	2,890		2,890
Other liabilities	253		253
Accrued expenses and deferred income	2,611		2,611
Total current liabilities	5,754	0	5,754
TOTAL EQUITY & LIABILITIES	160,109	-1,304	161,413

Certification by the Board

The Board of Directors and the CEO hereby certify that this interim report provides a true and fair view of the company's operations, position and results and describes significant risks and uncertainties facing the company.

Stockholm, February 14, 2019

Michael Wolff Jensen
Chairman

Hans Arwidsson
Board member

Maris Hartmanis
Board member

Carl-Johan Spak
Board member

Torbjörn Koivisto
Board member

Per Andersson, CEO
Xspray Pharma AB (publ)

Review report

Xspray Pharma AB (publ)

Introduction

We have reviewed the accompanying balance sheet of Xspray Pharma AB (publ) as of December 31, 2018 and the related statements of income, changes in equity and cash flows for the twelve-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently,

this does not enable us to obtain the assurance that we would become aware of regarding significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at December 31, 2018, and of its financial performance and its cash flows for the twelve-month period then ended in accordance with IAS 34 and the Annual Accounts Act.

Uppsala, February 13, 2019

Grant Thornton Sweden AB

Thomas Lindgren
Authorized Public Accountant

This is an in-house translation. In case of any discrepancies between the Swedish original and this translation, the Swedish original shall prevail.

Information

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Email: per.andersson@xspray.com

This information was made available through the offices of the above contact for publication on February 14 at 08:00 CET. This is a translation of Xspray Pharma's Swedish Year-end report which is the original. When in doubt, the Swedish wording prevails.

Xspray Pharma website www.xspraypharma.com

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