xspray
PHARMA

Xspray Pharma Annual Report 2019

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Xspray Pharma

Xspray Pharma AB (publ) is a product development company with several product candidates in clinical development. Xspray uses its innovative, patented RightSize™ technology to develop improved and generic versions of marketed drugs, primarily protein kinase inhibitors (PKIs) for treating cancer. The segment is the second largest in oncology, and drug prices are very high.

The company's innovative technology allows Xspray Pharma to gain entry as the first competitor to current original drugs before secondary patents expire. Xspray's goal is to become the leader in the development of improved drugs or generic versions of PKIs already marketed for treating cancer, of which there were 54 in December 2019. The company's leading product candidates, HyNap-Dasa, HyNap-Sora and HyNap-Nilo, are stable amorphous versions of the three blockbuster cancer drugs Sprycel® (dasatinib), Nexavar® (sorafenib) and Tasigna® (nilotinib). An ANDA submission (An application for a US generic drug approval for an existing licensed medication or approved drug) in the US for the company's first product candidate, HyNap-Dasa, is planned for the third quarter of 2020. The substance patent of original drug Sprycel® (dasatinib) expires at the end of 2020, and the secondary patents in 2026, which offers Xspray's HyNap-Dasa a period of five years of semi-exclusivity before other competitors gain access to the market. The company has patented the manufacturing technology, equipment and resulting products.

Xspray has been listed on Nasdaq First North Stockholm since 2017 with Redeye as its Certified Adviser.

Launch under a current patent

- The ability to launch product candidates after the expiration of the original drug's primary substance patent but before the expiration of the secondary product patents
- The original drug's secondary patents also give Xspray protection against the launch of competing products

Low development cost

- Development cost is lower than one third of the normal cost for drug development
- Total development cost is between 7 and 15 million dollar per product candidate

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Limited risk

- Proof-of-concept demonstrated
- Short development process with limited capital investment
- Clear regulatory pathway to approval
- Unique technology and active patent strategy significantly reduces risk of losing patent disputes

Short development time

- Only 2–4 years from development to market launch
- Clinical studies on healthy volunteers sufficient for registration of generics

The year in brief

2019 featured intensive work in several segments that went according to plan. A full-scale manufacturing process for the commercial production of HyNap-Dasa is in place. Regulatory preparations have been conducted to enable submission of Xspray's first ANDA application to the FDA in 2020. A great deal of preparatory work has been completed ahead of Xspray's planned listing on Nasdaq Stockholm during the first half-year 2020.

Q1

- Positive data presented from a bioequivalence pilot study on the product candidate HyNap-Sora
- Xspray's first production line, intended for commercial production of pharmaceuticals formulated with the company's HyNap technology, was installed in Milan, Italy

Q2

- Production start at Xspray's full-scale production facility in Milan, Italy, intended for commercial manufacturing of products based on the company's HyNap technology
- Additional patents for HyNap-Sora and HyNap-Nilo granted in the US
- Gunnar Gårdemyr and Christine Lind elected as Directors and Kerstin Hasselgren appointed CFO

Q3

- Xspray announces change of listing to Nasdaq Stockholm for the first half-year 2020
- Manufacturing process for amorphous material using Xspray's proprietary technology on a commercial scale validated and tested for robustness by the company's Italian manufacturing partner

Q4

- IND application for HyNap-Dasa approved by the FDA
- Private placement completed, raising approximately SEK 122 million before transaction expenses
- First GMP batch of HyNap-Dasa tablet manufactured on a commercial scale

Significant events after the end of the reporting period

- In February 2020, stability studies for the final HyNap-Dasa tablets were initiated and will be a part of the company's ANDA application.
- In February 2020, four new patents for the pharmaceutical composition of the company's primary product candidate, HyNap-Dasa,were granted in the US.

On the way to becoming a world-leading pharmaceutical company for improved and generic PKIs

Xspray was founded in 2003 as a drug delivery company based on the company's patented nozzle for particle engineering and scale-up. In 2011, Xspray realigned its business model from conducting contract research and development for other pharmaceutical companies to focusing on developing proprietary drugs based on its RightSize™ technology. Xspray is now a pharmaceutical company focused on developing improved and generic versions of already marketed drugs, mainly protein kinase inhibitors (PKIs) for targeted cancer treatment, and aims to be world leader in this field. Xspray has announced three product candidates in development, where original drugs have yearly sales of over USD 2 billion in the US alone, and a clear path to launch for its first product, HyNap-Dasa, in the US.

2003-2010

- Xspray Microparticles was founded, based on the development of a new nozzle that enables a unique upscaling of particle technology, RightSize™ technology, with supercritical carbon dioxide
- Scale-up of technology proven in a new pilot plant ten times larger than the lab system
- Evaluation of the technology in collaboration with Roche, Novartis, Lilly and others
- Construction of a GMP facility for the production of clinical trial material

2011

- Xspray switches business model from a drug-delivery company to developing proprietary improved cancer drugs, with a patented product portfolio

2012 - 2014

- Development of the company's hybrid nanoparticle technology (HyNap)
- Focus on protein kinase inhibitors (PKIs)
- Patent applications submitted for 10 of a total of 18 PKIs then marketed
- Clinical proof-of-concept demonstrated for product candidate HyNap-Nilo

2015

- Clinical proof-of-concept demonstrated for product candidate HyNap-Dasa
- Freedom to operate (FTO) for HyNap-Dasa confirmed by Swedish and US patent attorneys

2016

- Results from three clinical studies on the improved and generic versions of product candidate HyNap-Dasa
- FDA confirms that the company's clinical trial program for HyNap-Dasa can be implemented on healthy subjects and that studies in cancer patients will not be required for an approval.

2017

- Xspray listed on Nasdaq First North
- Commercial scale-up begins
- Clinical results show that HyNap-Dasa may have less interaction between dasatinib and other drugs than original drug Sprycel® (dasatinib)

2018

- Production scale-up with the conversion and development of new manufacturing GMP equipment with Italian partner NerPharMa
- Bioequivalence with the product formulation of HyNap-Dasa demonstrated
- HyNap-Dasa demonstrates bioequivalence in clinical study

2019

- Positive results from pilot bioequivalence study on HyNap-Sora
- IND application for HyNap-Dasa approved by the FDA
- First GMP batch of amorphous HyNap-Dasa material manufactured on a commercial scale
- Development and GMP production of final tablet formulation of HyNap-Dasa on a commercial scale with US partner

Ongoing & upcoming activities

- Stability studies on HyNap-Dasa
- Registration studies on HyNap-Dasa
- Listing change to Nasdaq Stockholm
- Submission of the ANDA dossier for FDA market approval of HyNap-Dasa
- Bioequivalence pilot study on HyNap-Nilo and HyNap-Sora to determine product formulation
- FDA market approval and launch of HyNap-Dasa in the US
- Start of registration studies on HyNap-Nilo
- FDA submission for market approval of HyNap-Nilo

Technology platform works - now we are aiming for market approval

2019 was an exciting and productive year for Xspray. One important milestone was reached in June when our production facility in Italy was completed and was able to do a test run. We have now proven that our technology is possible to scale up - and we are the first in the world to manufacture amorphous material in the form of hybrid nanoparticles on a commercial scale. With our technology, we can now develop improved versions of already marketed cancer drugs, especially of the protein kinase inhibitor class, which is a pharmaceutical group with a very high price level.

We continue to reach additional important milestones in the HyNap-Dasa project. Together with our contract manufacturer in the US, we have adapted the manufacturing processes for commercial production of the final HyNap-Dasa product. The first batch of tablets was manufactured this past December and is intended for the recently started regulatory stability studies that will be evaluated after six months. Our production facility in Italy will initially be used for GMP production of amorphous material for the HyNap-Dasa product, but later it can also be used for future products in our project portfolio. We expect official approval of the production facility by the Italian Medicines Agency AIFA within the next few months.

In parallel with the stability studies, the start-up of the registration-based clinical studies for HyNap-Dasa in healthy volunteers was prepared during the year. These are two bioequivalence studies in which Xspray's amorphous version of Sprycel will be compared to the original drug. The studies have received approval from the ethics committee and will be carried out in the coming months. Together with the stability studies, they will form the basis for our ANDA application for HyNap-Dasa, which we intend to submit to the US FDA in the third quarter of this year. We work together with a regulatory partner in the US and overall we have a team with good knowledge of what it takes to get an ANDA application approved. There are many pieces that need to fall into place, but I have great faith in the competencies within the company where several employees previously have successfully developed drugs for approval in the US and other countries

During the year, we strengthened the company's intellectual property rights with two new patents granted in the US for product candidates HyNap-Nilo and HyNap-Sora. The new patents cover the pharmaceutical composition of the products, which we were granted for HyNap-Dasa in 2018. In early 2020, we also received an additional product patent in the US for HyNap-Dasa, also in relation to the pharmaceutical composition. We now have a strong patent position that makes it significantly more difficult for our competitors to copy future products from our unique platform technology and that strengthens our ability to prosper as a business.

In preparation for future activities in the company, last spring we established a financial organization led by CFO Kerstin Hasselgren. Her broad experience from working in listed international companies, including positions such as VP Finance at AstraZeneca and VP Corporate Business Control at SSAB, is very valuable both in the work on the move to the Stockholm stock exchange's main list and in business discussions with global pharmaceutical companies.

At the end of the year, we strengthened our financial position through a directed share issue that provided the company with approximately SEK 122 million before transaction costs. These were subscribed by a number of Swedish and international institutional investors, including C WorldWide Asset Management, the Fourth Swedish National Pension

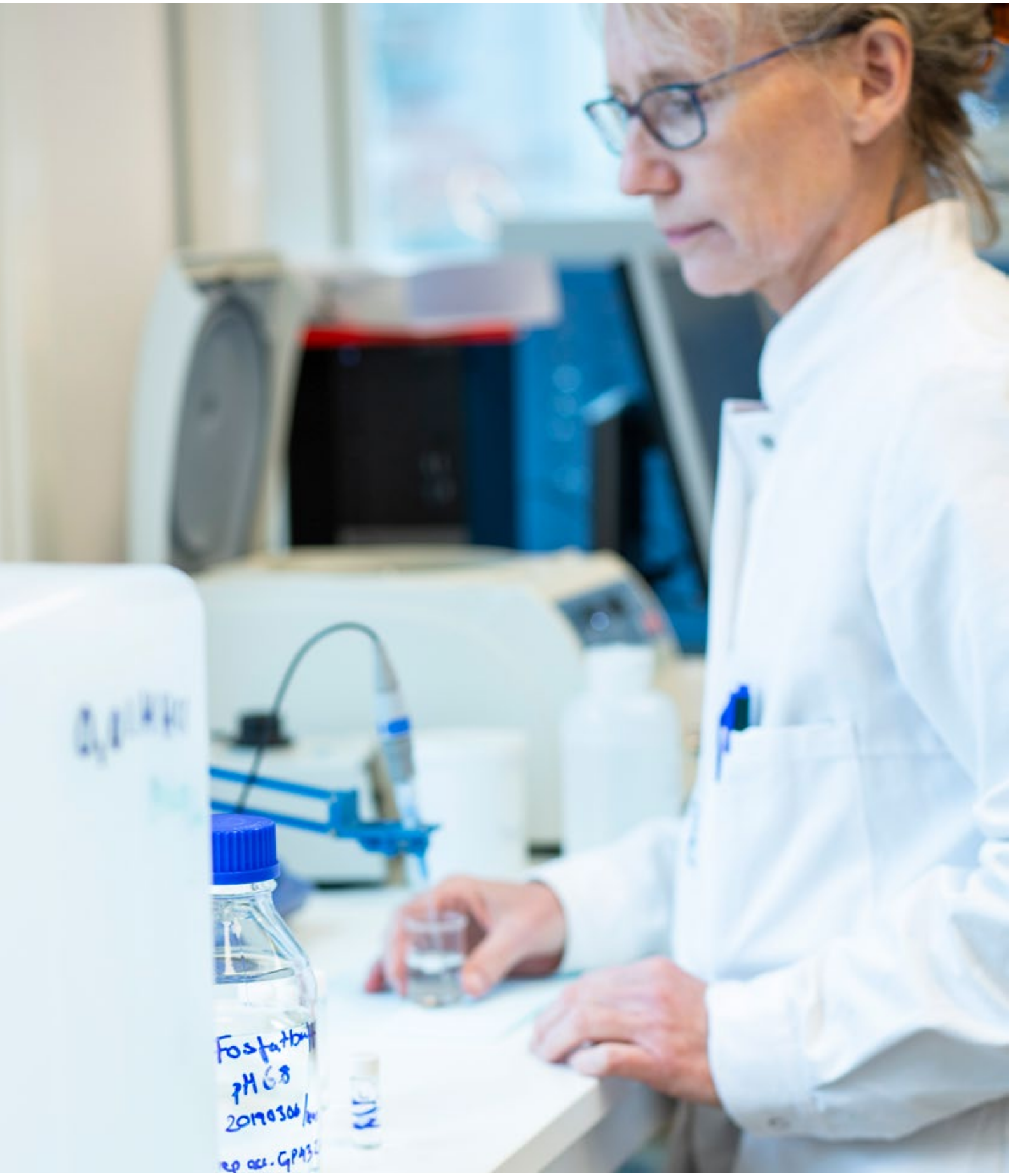
Fund and Swedbank Robur. This year's results for the Group ended at SEK –45.8 million which is in line with our expectations and are attributable to our continued investments in the projects and the increased workforce.

I am very pleased with the company's progress over the past year. Although our technology is the first of its kind in the world, we have managed to carry out our work according to plan. I would particularly like to highlight that we now have a complete supply chain in place for HyNap-Dasa. At the same time, we have carried out extensive preparatory work to be able to submit our ANDA application to the FDA as planned. This progress is of great importance in our ongoing business development work, which will intensify in the spring as we approach market approval.

With an established regulatory plan for HyNap-Dasa, strong cash position, solid owner base and the right organization in place, we are well equipped to pursue business discussions with possible partners and to take our first product towards launch in the US market. It is with great confidence that our dedicated team and I are now looking ahead at 2020 and working purposefully on Xspray's first market approval.

Solna in February 2020

Per Andersson
CEO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A unique business model offering great opportunities

Xspray's goal is to have three products launched by 2024 and the company is aiming to become a profitable leader in the development and commercialization of already marketed PKIs for targeted cancer treatment.

Business concept
Xspray Pharma's business concept is to create value by developing and commercializing proprietary drugs based on well-documented substances that offer significant benefits for patients and significant commercial potential.

Vision
Xspray's vision is to use its unique technology to establish itself as the world's leading company in generic and/or improved versions of established PKIs for targeted cancer therapy that improve patient quality of life and survival. An aggressive pricing and patent strategy will enable Xspray to win market share and create long-term profitability for the company and its shareholders, while improving patient access to what, to date, have been extremely expensive drugs.

Goal
The company's goal is to become the leader in developing improved drugs or generic versions of PKIs already marketed for treating cancer, which numbered 54 in the US in December 2019. This will mainly be achieved using the company's patented technology for improving existing drugs and creating a commercially favorable patent situation.

Xspray's primary business objective is to enable the launch of the company's three announced product candidates in the US market by 2024. Secondary patents of the three corresponding original drugs expire between 2026 and 2029.

Strategy
Xspray's core strategy is to apply the company's technology platform to its product portfolio, which comprises carefully selected product candidates with significant market potential and where Xspray is expected to enjoy competitive advantages.

Xspray's unique technology will enable the launch of products when what is known as a patent window opens, i.e. the time between the expiry date of the primary substance patent for the original drug and relevant secondary patents. Because Xspray's technology and products are based on amorphous formulations (HyNap), and the original drug contains a crystalline drug substance, Xspray's products are immune to secondary patents, which means that launch is possible with the original drug as the only competitor. This offers Xspray a unique position compared to generic drugs that are prevented from launch in the patent window due to the validity of secondary patents.

With attractive pricing, Xspray's products are expected to be able to capture significant market shares from original drugs.

Xspray is actively engaged in seeking new patent windows by analyzing patents and business opportunities in the PKI field. Selected product candidates are scheduled for launch coincident with the opening of each PKI's patent window.

Xspray's operational strategy is to launch the company's products in the US market as a first step and prepare selected product candidates for launch at favorable patent-specific times.

Xspray has two defined product strategies:

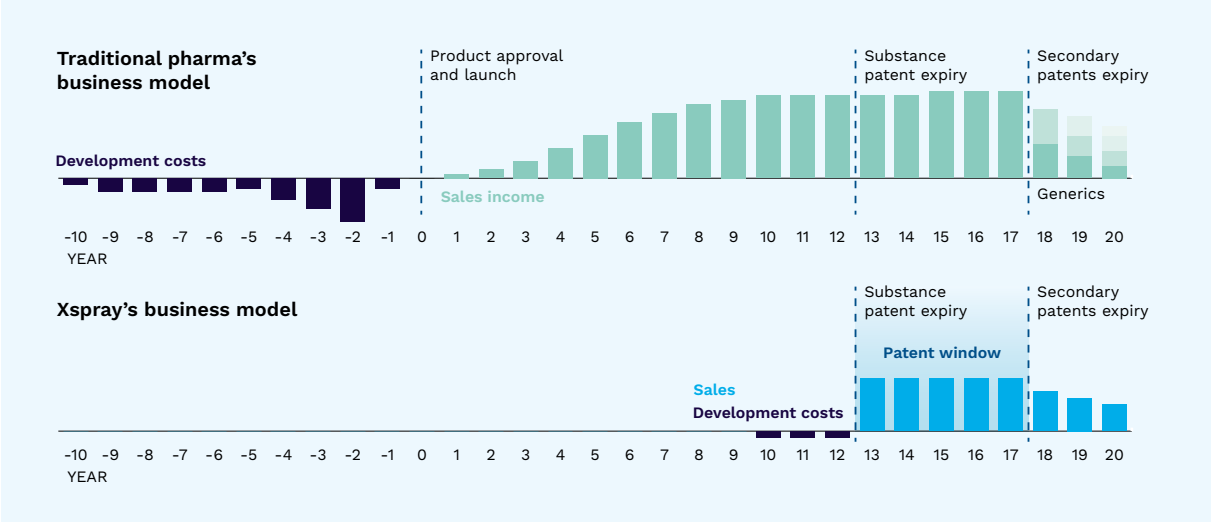
1 The first is to develop generic (pharmaceutically and therapeutically equivalent) versions of previously approved products, which can be sold against limited competition alongside original drugs. In the US, such products can be registered through an Abbreviated New Drug Application (ANDA), pursuant to Section 505(j) of the Federal Food, Drug and Cosmetic Act (FDCA).

2 The second is to develop improved versions of previously approved products where the product can be sold semi-exclusively alongside the original drug. Although development lead-times of improved versions are longer, they give Xspray an opportunity to compete not only on price, but with a differentiated product. In the US market, such product may be registered pursuant to Section 505(b)(2) of the FDCA.

Business model and commercialization

Xspray's technology enables the company's products to gain entry as the first competitor to today's original medicines before secondary patents expire. Accordingly, these products can be marketed semi-exclusively on selected markets alongside original drugs, but priced attractively, enabling rapid market penetration and high market shares. The technology also creates relevant medical benefits for patients.

Xspray is endeavoring to generate revenues by taking its product candidates to approval independently, to then enter licensing agreements with external partners that deal with marketing and sales, or sell the product candidates. Out-licensing is anticipated just prior to, or after, product candidate approval, bringing Xspray initial payments as well as royalties on sales after commercialization.



Xspray's business model differs significantly from traditional pharmaceutical companies. In general, drug development involves a very substantial initial investment in development to be recovered from high sales during the remaining years of patent protection. This is a high-risk modes, in contrast to Xspray's, which significantly reduces development costs while ensuring sales for a number of years known in advance.

The company believes that there are three categories of potential licensee for its product candidates:

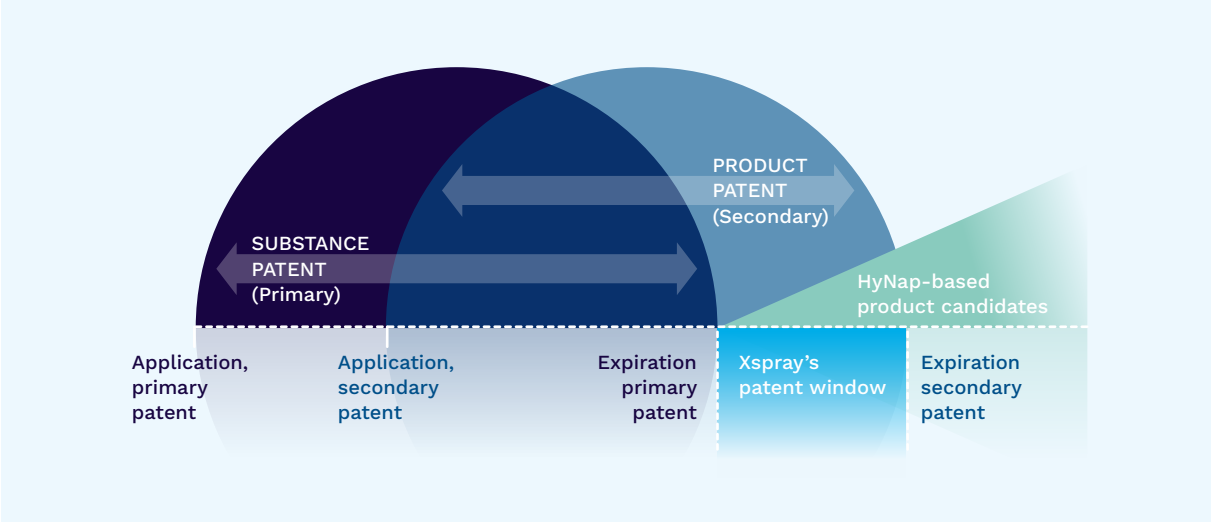
1 Original pharmaceutical companies that can both prevent significant loss of revenue and launch improved versions of their drugs (Lifecycle Management). The original company would then be in a stronger position with a patented version of the product.

2 Generic companies that can launch a product directly after expiry of the primary patent and sell it without competition from other generic companies, thereby creating a strong competitive position before other generic companies enter the market.

3 Other pharmaceutical companies active in the oncology field that need to expand their product portfolios and can launch products ahead of competition from other generics.

Primarily, Xspray intends to address markets where the company's technology and patent situation create the aforementioned patent window. Initially, the company intends to focus on the US market and, by extension, Europe. The strategy of focusing on one market at a time is mainly aimed at reducing the total capital requirement. Profit margins are expected to be higher in the US than the rest of the world as PKIs command very high pricing levels in the US.

Xspray also intends to investigate the possibility of commercializing selected products with orphan drug designation in the US and intended for specialist treatment itself.



Because Xspray's technology results in amorphous products, while original drugs contain crystalline drug substances, a patent window is created between the expiration of the original drug's primary substance patent and the relevant secondary product patents. Within the patent window, Xspray can launch its products on a semi-exclusive basis alongside the original drug without infringing upon the original substance's secondary product patents.

Patented technology and commercial-scale production capacity

Xspray's product candidates are based on the company's patented RightSizeTM technology that enables development of amorphous versions of existing drugs. During 2019, Xspray has established full-scale production capacity and the first batch of HyNap tablets on a commercial scale have been manufactured.

Amorphous products

Xspray's product candidates are amorphous versions of already marketed drugs that are based on crystalline forms of the active substances. One frequent problem with crystalline drug substances is low solubility, which can present a challenge in formulation development and result in a product with low absorption. One response is to use an amorphous form of the active substance, as it has higher energy and dissolution rate than the crystalline form. The crystalline form is defined by a specific three-dimensional ordered structure, while the amorphous form is defined as the absence of such order.

The most important aspect of developing an amorphous product is stability in storage. Amorphous products tend to return to a more stable crystalline state during storage, which can lead to lower solubility, and thus absorption.

To date, Xspray's products have proved completely amorphous during long-term storage. Stability data for several substances confirm that the company's HyNap particles remain amorphous without any trace of crystallinity for over two years at room temperature. This is crucial for Xspray's business model as amorphous material differs from the crystalline in both legal and scientific contexts, so does not infringe on original products' secondary patents. In addition, the amorphous version offers superior pharmacokinetic properties that may result in a product with a more favorable therapeutic profile.

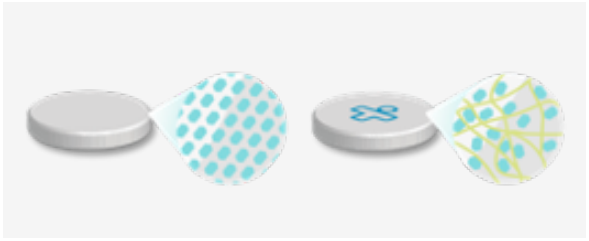
Xspray's RightSize™ technology

In time, pure amorphous substances tend to adopt a crystalline form. Xspray has developed RightSize™ technology, a particle technology that forms an amorphous solid dispersion of a drug's active substance. Stability data for several substances confirm that the company's HyNap material remains amorphous without traces of crystallinity for over two years at room temperature, so the resulting products will have long shelf-life.

Several major pharmaceutical industry players attempted to develop methods for SCF technology during the 1990s. Despite major investments in SCF facilities, the technology could not be commercialized due to difficulties in scale-up. Xspray has overcome these problems with its patented innovation, the RightSize™ nozzle. In come case, Xspray has achieved 100 times higher productivity than previously published results using other production methods. The patented design keeps mixing conditions constant regardless of nozzle dimensions. This enables scaling up quantities from laboratory to production scale for clinical trials and commercial scale manufacture.

The production facilities in Milan, Italy, manufactures amorphous drug substance for clinical trials and future commercial use.

Final tablets are manufactured by Xspray's contract manufacturer in the US.



A crystalline form of a drug substance is defined by a specific ordered structure while an amorphous form is defined as the lack of such structure.

Manufacture in Italy and the US

Xspray has contracted NerPharMa to manufacture materials for Xspray's clinical programs and finished products for future commercial sale. NerPharMa is an FDA approved and established CDMO (Contract Development & Manufacturing Organization) based near Milan, Italy. The company believes that NerPharMa's focus on cancer drugs makes it well suited as a partner.

Xspray's HyNap commercial-scale facilities are located on NerPharMa's premises. The production of amorphous HyNap-Dasa material for the registration clinical studies and the stability studies has been completed and the plant has been inspected of the Italian pharmaceutical authority, the AIFA.

Stable amorphous solid dispersion of the drug substance is achieved in NerPharMa's facilities and HyNap-Dasa material is shipped to a CMO (Contract Manufacturing Organization) in the US for manufacture of final tablets. Within this collaboration, NerPharMa has delivered clinical trial material for Xspray's pharmacokinetic studies on HyNap-Dasa and HyNap-Sora.

First product candidate heading for launch

Xspray's product portfolio comprises previously announced product candidates based on the company's HyNap platform. All three are generic or improved versions of marketed cancer drugs whose secondary patents expire in 2026-2029. Xspray plans to submit registration application (ANDA applications) for its first product candidate, HyNap-Dasa for launch in the US market in the third quarter of 2020.

New versions of approved drugs

Xspray develops generic and improved amorphous versions of approved drugs, which generates a number of significant benefits. Since the active substance has already been clinically evaluated by the original pharmaceutical company, the development path toward the approved drug is considerably less complex than a new chemical entity. A product candidate that is identical to the original drug does not need to be evaluated in large Phase 2 and 3 studies, but is only required to show bioequivalence and similar food interaction as the original drug in healthy subjects. The product candidate can then transfer directly to registration and thus has a faster, easier and more cost-effective route to the market.

Xspray regards its product development risk as significantly lower than traditional pharmaceutical companies because all the product candidates in the company's portfolio have demonstrated clinical proof of concept, are based on the same technology platform, and have a clear regulatory path to registration.

The company intends to invest primarily in drugs with orphan designation as these often command high prices, so attractive pricing can be expected to have a big effect on market share and the speed of market penetration.

Orphan drugs

Orphan drugs are products used to treat diseases that are so uncommon that pharmaceutical companies are reluctant to develop them, as their limited markets mean revenue will not cover their high R&D costs. Since orphan drugs are used to treat rare and often life-threatening diseases, they are generally priced higher than drugs without orphan status. In recent years, the average annual cost per patient has been almost four times higher than drugs without orphan designation.

Improved product properties

PKIs are remarkably effective at treating various forms of cancer, but unfortunately, many patients do experience side effects. Xspray's technology platform has the potential to fully or partly eliminate some of the problems associated with PKIs such as toxicity, which in extreme cases can cause significant side-effects, even with fatal outcomes. PKIs are associated with variable bioavailability, increasing the risk of insufficient therapeutic efficacy at low absorption, and the risk of side-effects at high absorption. Many PKIs have

Announced product candidates

Product				Intellectual Property		Development Phase				
Project	Com-pound	Brand Originator	Indication key	Subtance IP Expiry Date	Secondary IP Expiry Date	New Candidate Evaluation	Formulation Development	Pilot clinical trial	Pivotal clinical trial	Registration
HyNap-Dasa	Dasatinib	Sprycel BMS	Leukemia (CML, ALL)	Dec 2020	Sep 2026					
HyNap-Nilo	Nilotinib	Tasigna Novartis	Leukemia (CML)	Jan 2024	Feb 2029					
HyNap-Sora	Sorafenib	Nexavar Bayer, Onyx	Liver Cancer (HCC)	Jan 2020	Dec 2027					
HyNap-New										

US FDA product approval pathways.

505(j)/ ANDA 505(b)(2)/ NDA Regulatory strategy not defined

significant absorption variability between patients, and over time. Food and drug interactions are another problem with PKI therapy. PKI absorption is usually affected by gastric pH level (i.e. acidity), which in turn is dependent on patient food intake and concomitant medication. These factors can adversely affect drug safety profiles and efficacy, so patients are advised not to eat or take other medication for periods before and after taking PKIs.

Xspray's technology platform generates products that can bring significant clinical benefits by:

- Increasing water solubility and thus bioavailability
- Reducing absorption variability
- Reducing or eliminating pH-dependent absorption
- Decreasing or eliminating drug-food interaction, i.e. the food's effect on drug absorption
- Minimizing interaction with other drugs taken concomitantly

Xspray's three announced product candidates

Xspray's product portfolio is continuously evolving and to date, has three product candidates based on the company's HyNap platform: HyNap-Dasa, HyNap-Sora and HyNap-Nilo. All are generic or improved versions of established and marketed PKIs for treating cancer, with orphan drug status. The original drugs have secondary patents that expire in 2026–2029 and their total annual US sales exceeded USD 2 billion in 2018. In December 2019, there were 54 approved PKIs in the US market, and Xspray has successfully tested its technology on up to 20 of them.

HyNap-Dasa

HyNap-Dasa is based on BMS's Sprycel® (dasatinib) for treating chronic myeloid leukemia (CML) and acute lymphoblastic leukemia (ALL). HyNap-Dasa is Xspray's lead product candidate with planned market launch in 2021. The validity of the primary patent for Sprycel expires in December 2020 and of the secondary patent in 2026, which may offer HyNap-Dasa five years of semi-exclusivity before other competitors gain market access. In 2018, Sprycel's global sales exceeded USD 2 billion, with the US accounting for USD 1,091 million. Sprycel's substance patent expires in December 2020, and its secondary patent in September 2026.

HyNap-Dasa has been tested in six clinical trials on 104 healthy volunteers. In 2018, Xspray demonstrated formal bioequivalence of HyNap-Dasa and Sprycel – the clinical results showed that Xspray could create a bioequivalent version of Sprycel. The outcome of this study forms the basis for the design of registration studies and the Abbreviated New Drug Application (ANDA) application, the simplified application procedure for generic drugs in the US.

Clinical program on healthy volunteers only

Xspray's clinical program for HyNap-Dasa includes healthy volunteers only, and was found adequate by the FDA – crucial as it means lower development costs and a shorter development lead-time. The company's opinion is that clinical programs for its other product candidates can also be based solely on healthy volunteers. Clinical trials in patients are significantly more expensive and take considerably longer. Xspray estimates that the development cost per product candidate is between USD 7–15 million and that the average development lead-time is 2–3 years.

HyNap-Nilo

Xspray is developing HyNap-Nilo as an improved version of Tasigna® (nilotinib) for treating chronic myeloid leukemia (KCL). Tasigna is used to treat patients with the same type of leukemia as Sprycel, but it has the active substance nilotinib. In 2018, global sales of Tasigna were USD 1,874 million, of which

Potential to expand the product portfolio

Over the past two years, we've built a strong organization with professionals who have long experience of drug development, and several have also participated in the development of drugs subsequently approved in the US and other countries. With our established technology platform as a base, and the opportunity to manufacture on a commercial scale, we are working to develop Xspray's portfolio of PKIs for commercialization on selected markets.

HyNap-Dasa is our first product, where we have now secured the entire supply chain from amorphous material to finished tablet, according to GMP standards. The production plant of our Italian manufacturing partner NerPharMa manufactures amorphous material according to the company's patented technology and we can now continue development of our next PKI product candidates, HyNap-Nilo and HyNap-Sora, using the same facilities.

In total, there are 54 approved PKIs on the US market, and Xspray has successfully tested its technology on about 20, so we see good potential to expand our product portfolio within the framework of our established technology platform and manufacturing process.

As Xspray is working on improved and generic versions of already approved and documented drugs, development lead-times are much shorter than when developing drugs with new active substances. Together with our US regulatory partner, we have been communicating with the FDA's Office of Generic Drugs (ODG) in order to prepare an ANDA application for HyNap-Dasa. Both the amorphous HyNap material and the HyNap technology have unique properties, and we now have good knowledge of what's needed to obtain FDA's regulatory approval. We will greatly benefit from this knowledge in future registration processes for our other product candidates.

USD 806 million in the US. Tasigna's substance patent expires in January 2024, and the secondary patent in February 2029.

Xspray has conducted a clinical trial investigating pharmacokinetic properties and food interaction of HyNap-Nilo in 18 healthy volunteers. The study showed that HyNap-Nilo significantly reduces food interaction compared to Tasigna after high-fat meals, while HyNap-Nilo also has 2.4 times the bioavailability of Tasigna. Like to Xspray's other product candidates, HyNap-Nilo also showed lower absorption variability than Tasigna.

The next step in HyNap-Nilo's development is commercial-scale formulation development and production of clinical trial material. Clinical trials are then planned on healthy subjects, after which a 505(b)(2) NDA application may be submitted.

HyNap-Sora

Xspray is developing HyNap-Sora as an improved version of Nexavar® (sorafenib) for treating kidney, liver, and several forms of thyroid cancer. Global sales of Nexavar in 2018 totaled USD 712 million, of which the US market accounted for USD 216 million. Nexavar's primary substance patent expires in January 2020, and the secondary patent in the US in December 2027.

A pharmacokinetic study comparing 100 mg of HyNap-Sora with 200 mg of Nexavar was conducted in 14 healthy subjects. The study showed the bioavailability of HyNap-Sora as almost twice as high as Nexavar. The variability in both AUC and Cmax between subjects also reduced by about half.

The next step in HyNap-Sora's development is commercial-scale formulation development, production of clinical trial material and conducting registration clinical studies.

A significant market with limited competition

Xspray develops improved generic versions of patented cancer drugs based on protein kinase inhibitors (PKIs). This segment is the second largest in oncology with more than 300 drug candidates in clinical development and 54 approved drugs on the US market. Xspray's technology has the potential for application to the majority of these drugs.

Continuous need for improved cancer treatments

Although significant improvements in the diagnosis and development of various compounds to treat cancer have been made, cancer remains a major healthcare challenge worldwide. Around 14 million new cases of cancer are diagnosed globally every year, which corresponds to an incidence (i.e. new cases) of 182 per every 100,000 individuals and year. The number of annual cancer cases is expected to increase in the future, mainly driven by the world's growing and ageing population. By 2035, the number of newly diagnosed cancer cases is expected to have increased to round 24 million, equivalent to an annual average increase of 2.3 percent.

With around 8 million deaths per year, equivalent to 102 deaths per 100,000 individuals and year, today cancer is one of the most common causes of death. In 2012, close to 9 million people in the world were living with cancer diagnosed during the previous year, and close to 33 million people were living with cancer that was diagnosed up to five years earlier.

Global sales of cancer drugs amounted to USD 124 billion in 2018 with close to half of the sales occurring in the North American market. During the last half decade, the market for cancer drugs increased by an average of 7.4 percent per annum. It is estimated that the market value of anticancer drugs will achieve USD 245 billion in 2024.

The market for protein kinase inhibitors

All Xspray's product candidates in development are protein kinase inhibitors (PKIs). PKIs are primarily used in the oncology segment, and after immunotherapy, are the second-largest pharmaceutical segment of targeted cancer therapy. In 2018, sales of PKIs on the US market were some USD 15 billion, with continued expansion forecast despite the introduction and expansion of immunotherapy.

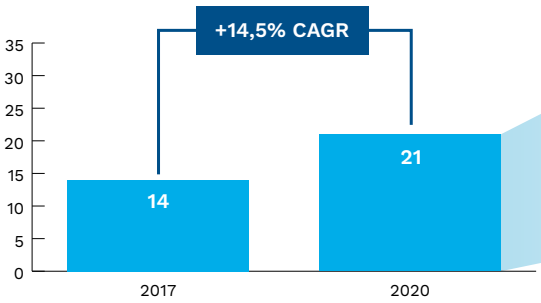
PKIs are a growth segment with over 300 drug candidates in clinical development, of which some 250 in late clinical Phases (Phases 2 or 3). By late-2019, there were 54 PKIs marketed in the cancer segment in the US, of which 23 have US substance patent expiry by 2030. The expiring substance patents include the original pharmaceutical drugs that Xspray's product candidates are based on.

Market potential and patent windows determine product selection

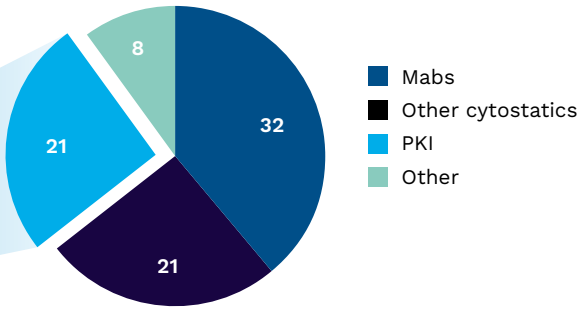
Xspray is a product development company with several product candidates in clinical development. Although Xspray's RightSize™ technology has proven applicable to most low-solubility formulations, inhaled compounds and biomolecules needing bioavailability improvement, the company has decided to focus on PKIs because of their significant market potential and attractive patent situations that create semi-exclusive patent windows for the company's product candidates.

Just like the market for PKIs, Xspray's product portfolio is evolving continuously. Its view is that its technology platform can be applied to most existing PKIs, as well as new ones in development. Xspray has tested its HyNap technology on laboratory scale on some 20 PKIs with successful results. Xspray designates product candidates for ongoing development and future potential by thoroughly reviewing factors including the original drug's patent situation, pricing, scale of market and competitive situation. More specifically, Xspray seeks situations where potential product candidates can gain some form of exclusivity for the period between the original drug's primary and secondary patent expiries. This window is created by

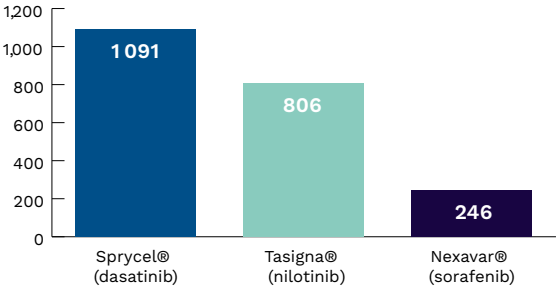
U.S. PKI Sales Forecast
Year 2017–2020 (USD billion)



U.S Oncology Product Sales Forecast
2020 by type of drug (billions USD)



US Sales 2018
(MUSD)



Source: Evaluate Pharma.

the original drug company accumulating strong patent protection that keeps generic competition out to the market for a further number of years after primary substance patent expiry.

Xspray is also interested in product candidates where the pricing of the original product and scale of the market has been, and is forecast to remain, high due to low competition and continued high demand. Primarily, the company focuses on blockbusters – products with yearly sales of over USD 1 billion.

Market potential of Xspray's product candidates

Xspray's lead product candidates that have been announced to date are HyNap-Dasa, HyNap-Nilo and HyNap-Sora, which are stable, amorphous versions of the original drugs Sprycel, Tasigna and Nexavar. These original drugs had aggregate sales of over USD 2 billion in the US alone in 2018, and are approved as orphan drugs for treating unusual diseases whose annual cost of therapy is very high. These candidates have been selected because pricing remains high, but also because the company thinks that the original drug companies' patent protection creates an attractive exclusivity window for Xspray against generic competition when the original drugs' primary substance patents expire.

Globe Life Sciences Ltd., an independent, reputable UK market researcher, has researched current

market values, forecasts based on analysts' estimates and future competitive situations for the three product candidates the company has announced so far. Its report indicates that evidence-based evaluation of HyNap-Dasa suggests sales potential in peak year – the final year of the patent window – of SEK 2.8–3.3 billion. Xspray's share of future sales will be dependent on contracted royalty levels.

This report is based on data from the launch and sale of a generic PKI with competition from the original drug, Gleevec (imatinib) only, with the same cancer indication – chronic myeloid leukemia (CML) – that HyNap-Dasa targets. Novartis's PKI Gleevec went generic in February 2016, when Sun Pharma was able to launch its generic product with 180 days' exclusivity, and generate sales of some USD 300 million with a price reduction of about 30%. Accordingly, the generic took an estimated market share of over 50% during its exclusivity period.

Competitors

Xspray intends to launch its product candidates on the market in parallel with the original drugs, and accordingly, assuming market approval, will compete primarily with them.

Other feasible competitors include products that could be introduced in the patent window between the original product's primary and secondary patents, and accordingly, has appointed reputable Swedish and US patent attorneys to conduct rigorous competitive analysis. The outcome of this research indicates that there are only a few technologies that could result in the development of similar products, so the company thinks such a scenario is less likely. The company is not aware of any other current development projects intended for the same purpose as the company's own product candidates. Competition may also arise from product candidates based on other active substances, but that are produced to treat the same type of indication.

Sector trends

There are several trends impacting Xspray's business. Demographics, with an ageing population due to better living conditions, is causing a growing cancer patient population, and accordingly, more people that need cancer therapy and drugs.

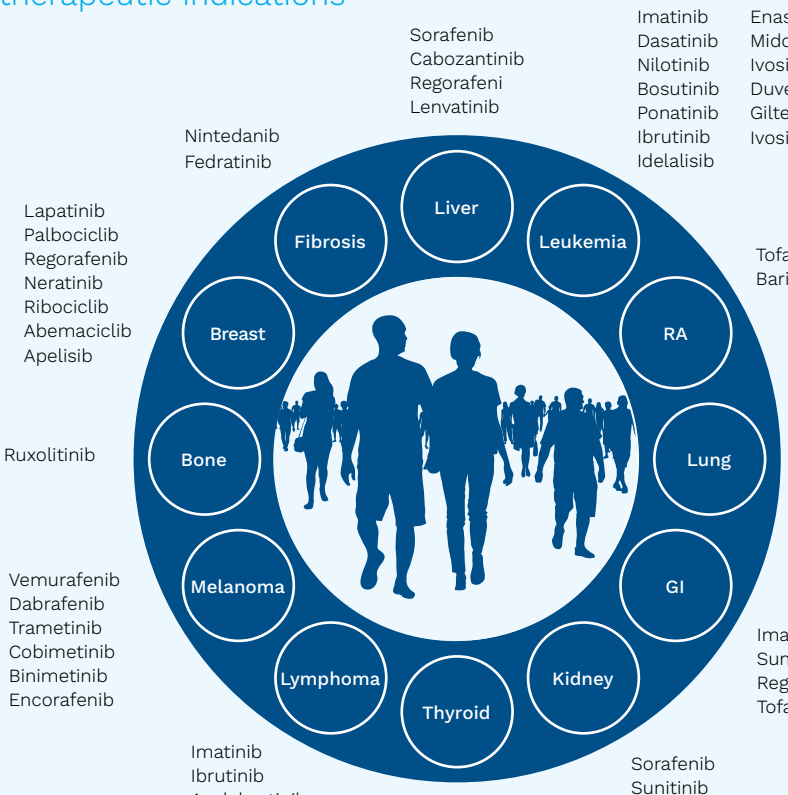
A sharper focus on reducing the social cost of pharmaceuticals. New drugs are often costly due to significant investments made during their lengthy development processes. Political pressure to reduce the social cost of pharmaceuticals is increasing, and current systems to fund, subsidize and price pharmaceuticals may be reformed.

A growing focus on drug lifecycle management. An estimated over USD 267 billion of original drug sales will encounter generic competition in the coming years. The pharmaceutical industry is facing difficulties in developing new drugs at the rate the patents of many major pharmaceuticals expire. This accentuates the demand for effective lifecycle management of successful products and access to external projects, resulting in more licensing agreements and acquisitions.

Global access to drugs is expected to increase, driven by more widespread usage of more costly, patented original drugs in developing countries, broader usage of lower-priced alternatives on patent expiries, and more extensive access to drugs in developing countries.

An increased focus on orphan drug indications as interest in developing effective therapies for orphan drug indications grows among pharmaceutical companies and regulators.

Protein kinase inhibitors[1] marketed today and their therapeutic indications



Liver: Sorafenib, Cabozantinib, Regorafeni, Lenvatinib

Leukemia: Imatinib, Dasatinib, Nilotinib, Bosutinib, Ponatinib, Ibrutinib, Idelalisib, Enasidenib, Midostaurin, Ivosidenib, Duvelisib, Gilteritini, Ivosidenib

RA: Tofacitinib, Baricitinib

Lung: Afatinib, Erlotinib, Gefitinib, Dabrafenib, Crizotinib, Ceritinib, Icotinib, Nintedanib, Alectinib, Osimertinib, Brigatinib, Dacomitinib, Lorlatinib, Entrectnibi

GI: Imatinib, Sunitinib, Regorafenib, Tofacitinib

Kidney: Sorafenib, Sunitinib, Pazopanib, Axitinib, Cabozantinib, Lenvatinib

Thyroid: Vandetanib, Cabozantinib, Lenvatinib

Lymphoma: Imatinib, Ibrutinib, Acalabrutinib, Duvelisib

Melanoma: Vemurafenib, Dabrafenib, Trametinib, Cobimetinib, Binimetinib, Encorafenib

Bone: Ruxolitinib

Breast: Lapatinib, Palbociclib, Regorafenib, Neratinib, Ribociclib, Abemaciclib, Apelisib

Fibrosis: Nintedanib, Fedratinib

Other: Larotrectinib, Fostamatinib, Erdafitinib, Pexadartinib

[1] Substance name

An active patent strategy and thorough preparations reduce risk

Xspray works actively to minimize the intellectual property risk on all its projects. It protects its intellectual property by conducting an active patent strategy with rigorous preparatory work ensuring that the company is well-prepared if subject to lawsuits in tandem with filing a new drug application for one of its product candidates.

Xspray conducts a patent strategy that is critical to its operations designed to safeguard its ownership status by applying for international patents on the company's proprietary technology platform, inventions and improvements that are crucial for developing its business operations.

Xspray examines the original drug's patent protection thoroughly before launching a new product candidate, because there is a risk of lawsuits from original drug companies when a new drug application for the product candidate is filed. Xspray commences product development with this legal process in mind by closely evaluating the original drug's patent situation. To bring the product candidate to development, it should be possible to create a patent portfolio to enable patent-protected commercialization. Xspray creates several layers of patent protection during the development phase to achieve the optimal protection for all types of invention, including those not directly related to creating the product.

Xspray's protects its intellectual property mainly through patents and patent applications. The company's patent portfolio has five patent families of patents granted and pending. The granted patents offer protection until 2024–2033, with extension potential. At year-end 2019, the company held at total of 41 approved patents in major commercial regions and had 22 registered patent filings. Xspray's patent portfolio includes manufacturing technology, production processes and HyNap PKI compositions. At present, the company is not dependent on licenses, but uses its proprietary patent and patent-pending technologies and products.

Orange Book

When new drug applications are based on studies conducted on previously approved pharmaceutical products, as is the case for Xspray's product candidates, the applicant needs to certify the original product in terms of any patents on the approved pharmaceutical. Such patents are listed in the FDA's publication "Approved Drug Products with Therapeutic Equivalence Evaluations," known generally as the Orange Book. Applicants can designate one of four types of certification, depending on their specific situation, known as Paragraph I, II, III or IV certifications respectively. For Xspray's product candidates, Paragraphs III and IV certifications apply. Paragraph III for the substance patent, which means that Xspray does not intend to launch a product candidate before that patent expires, and Paragraph IV for the secondary patent, which means that Xspray does not intend the launch of its product to infringe on the secondary patent, or that such patent should not be considered valid.

The patentee, or original producer, then has 45 days to file a lawsuit against the company. Such suit from the patentee automatically prevents the FDA from approving the application for the earliest of timeframes of either 30 months until patent expiry, or until the applicant secures a court ruling in its favor.

Planned listing on Nasdaq Stockholm

Xspray was founded in 2003, and its share has been quoted on Nasdaq First North Growth Market since September 2017. To improve the potential for a broader ownership base, Xspray's Board of Directors decided to apply for quotation of the company's shares on Nasdaq Stockholm's Main List in the first half-year 2020.

Share information
Xspray Pharma's share has been trading on Nasdaq First North Growth Market since 28 September 2017, with the ticker XSPRAY and ISIN code SE0009973563. The share's IPO price was SEK 22.00. As of 31 December 2019 there were 16,751,622 shares of the company. The share is a constituent of the following index: OMX Stockholm Pharma & Biotech PI.

Xspray intends to apply for quotation of the company's share on Nasdaq Stockholm's Main List in the first half-year 2020.

Share price performance and turnover
Xspray's share price increased by 18.2% in 2019, from SEK 70.4 (opening price on 2 January 2019) to SEK 83.20 (closing price on 30 December 2019).
At year-end 2019, Xspray's market capitalization was SEK 1,394 million, based on the closing price for the year of SEK 83.20. In 2019, 3,925,204 shares were traded on Nasdaq First North Growth Market, with a total value of SEK 274 million.

Specific entitlements associated with shares
The company has one share class, and the entitlements associated with the company's shares, including the rights ensuing from the Articles of Association, may only be amended pursuant to provisions of the Swedish Companies Act (2005:551). Each share of the company entitles its holder to one vote at AGMs. All parties entitled to vote at AGMs may vote for the full number of shares held.

Certified Adviser
Companies listed on Nasdaq First North Growth Market must have a Certified Adviser, whose duties include conducting specific financial supervision. Redeye AB is Xspray's Certified Adviser.

New share issues
In 2019, Xspray executed a private placement of 1,675,162 new shares at the subscription price of SEK 73 per share, implying the share capital increasing by SEK 1,675,162. This new share issue raised the company approximately SEK 122 million before transaction expenses, and was for a limited group of Swedish and international institutional investors, including C WorldWide Asset Management, the Fourth National Swedish Pension Fund, Swedbank Robur, TIN Fonder, the Third National Swedish Pension Fund and Unionen.

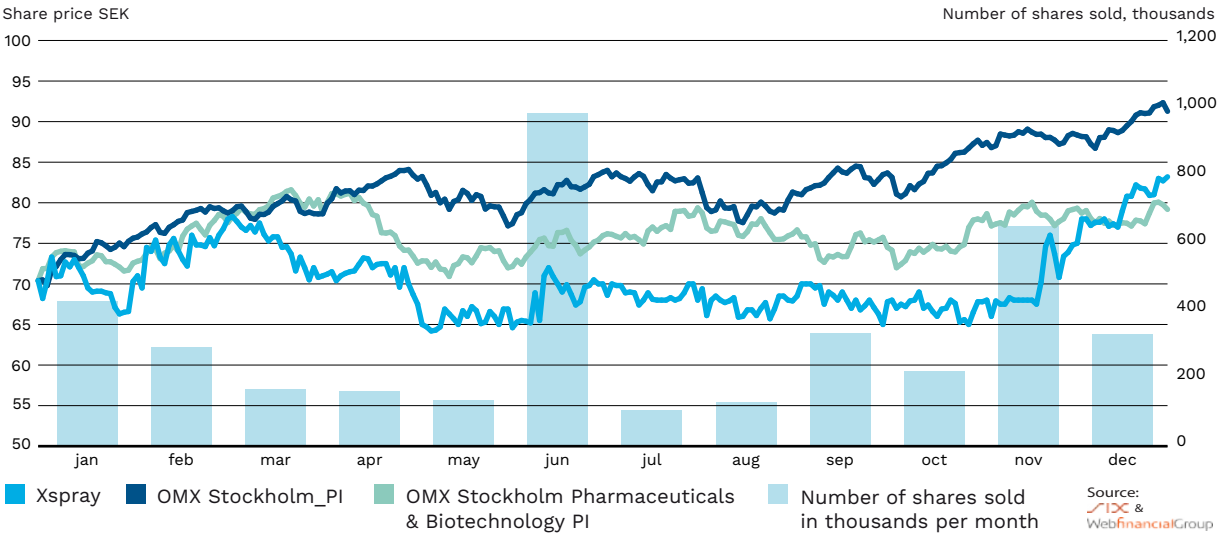
Share-based remuneration programs
The company has issued three incentive programs in the form of share warrants to employees and key individuals. For more information, see p 30 of the Report of the Board of Directors.

Financial analysts monitoring the company
Jacob Svensson, Redeye.

Owners as of December 31, 2019	Number of shares	Percentage of shares & votes
Östersjöstiftelsen	2,500,826	14.93%
Ribbskottet	1,750,000	10.45%
Swedbank Robur Fonder	1,390,000	8.30%
Fjärde AP-fonden	1,090,000	6.51%
Catella Fonder	820,091	4.90%
Avanza Pension	765,497	4.57%
Unionen	666,000	3.98%
Länsförsäkringar Fonder	600,585	3.59%
TIN Fonder	500,000	2.98%
Tredje AP-fonden	469,500	2.80%
Total, ten largest owners	10,552,499	62.99%
Total, other shareholders	6,199,123	37.01%
Total numbers of shares	**16,751,622**	**100.00%**

Year	Events	Increase in number of shares	Total number of shares	Change in Capital (SEK)	Capital after increase (SEK)	Quota value
2014	New share issue	104,768	1,243,783	104,768	1,243,783	1.00
2014	New share issue	80,323	1,324,106	80,323	1,324,106	1.00
2015	New share issue	43,354	1,367,460	43,354	1,367,460	1.00
2015	New share issue	1,849,000	3,216,460	1,849,000	3,216,460	1.00
2015	New share issue	100,000	3,316,460	100,000	3,316,460	1.00
2016	New share issue	660,000	3,976,460	660,000	3,976,460	1.00
2016	New share issue	2,380,000	6,356,460	2,380,000	6,356,460	1.00
2017	New share issue	6,000,000	12,356,460	6,000,000	12,356,460	1.00
2018	New share issue	1,350,000	13,706,460	1,350,000	13,706,460	1.00
2018	New share issue	1,370,000	15,076,460	1,370,000	15,076,460	1.00
2019	New share issue	1,675,162	16,751,622	1,675,162	16,751,622	1.00

Share price and number of shares sold



Report of the Board of Directors

The Board of Directors and Chief Executive Officer of Xspray Pharma AB (publ), with registered office in Solna, Sweden, hereby present the annual accounts for the financial year 2019. These annual accounts have been prepared in Swedish currency (SEK), and rounded to the nearest thousand unless otherwise stated. Figures in brackets are for the corresponding period of the previous financial year.

Group structure

The group structure consists of the parent company Xspray Pharma AB (publ), corp. ID no. 556649–3671, and its wholly owned subsidiary, Xspray Pharma Futurum AB, corp. ID no. 559178–7642, both with registered offices in Solna. The address of the head office is Råsundavägen 12, 169 67 Solna, Sweden. Figures in the following section apply to the parent company unless otherwise stated, because all operations are conducted by the parent company.

Operations – general

Xspray Pharma AB (publ) is a product development company with several product candidates in clinical development. Utilizing the company's innovative RightSize™ technology, Xspray develops improved and generic versions of already marketed pharmaceuticals, primarily protein kinase inhibitors for treating cancer. Protein kinase inhibitors are the second-largest segment within cancer drugs, and continued high growth is forecast for them over the coming years. There were 54 approved protein kinase inhibitors on the US market in December 2019. Xspray's technology has the potential for application on the majority of these pharmaceuticals.

The business model is based on Xspray out-licensing its product candidates to larger companies, who have original drugs on the market, or to generic drug companies to market the company's products. Out-licensing will be just before or after the product candidate is approved as a pharmaceutical.

Xspray has been listed on Nasdaq First North Growth Market, Stockholm since 2017, with Redeye as its certified advisor.

Significant events in the year

- Positive data from a clinical phase 1 pilot study on product candidate HyNap-Sora presented in February.
- Gunnar Gårdemyr and Christine Lind were elected as new Directors of Xspray Pharma in May.
- Kerstin Hasselgren was appointed CFO of Xspray Pharma in May.
- In June, Xspray Pharma reported a successful production start of HyNap-Dasa in the company's unique, full-scale production facility with the company's manufacturing partner in Italy.
- In the third quarter, Xspray Pharma reported that the company is aiming to change listing to Nasdaq Stockholm in the first half-year 2020.
- In the third quarter, Xspray reported that the manufacturing process of amorphous material on a commercial scale utilizing its patented technology had been validated and tested for robustness by the company's Italian manufacturing partner.
- In early-December, Xspray Pharma executed the private placement of 1,675,162 shares, raising approximately SEK 122 million before transaction expenses to finance the company's continued development of current projects, and to expand and strengthen its shareholder base in a time and cost-efficient manner.
- The first batch of HyNap-Dasa tablets on a commercial scale were manufactured pursuant to GMP standards in December.

Significant events after the end of the reporting period

- In February 2020, stability studies for HyNap-Dasa tablets according to GMP standard were started.
- In February 2020, four new patents for the product candidate HyNap-Dasa were granted in the US.
- In February 2020, Xspray issued a notice of Extraordinary General Meeting on March 26, 2020, regarding decisions on long-term incentive program 2020 (LTI 2020) and issue of warrants.

No events causing restatements of the Income Statement and Balance Sheet have occurred between the reporting date and the date of approval of this Report.

Research and development activities

In 2011, Xspray realigned its business model from conducting contract research and development for other pharmaceutical companies to focusing on developing proprietary drugs based on its RightSize™ technology. Xspray is now a pharmaceutical company focused on developing improved and generic versions of already marketed drugs, mainly protein kinase inhibitors (PKIs) for targeted cancer treatment, and aims to be a world leader in this field. Xspray has three product candidates in development.

Xspray is constantly seeking new patent windows by analyzing patent and business opportunities within the PKI area. Selected product candidates are planned to be ready for launch in connection to the opening of the respective PKI's patent window.

Xspray's operational first step strategy is to introduce the products in the US market and prepare selected product candidates for launch at favorable patent-specific timings.

For more information, please see section ”GOALS, STRATEGIES & BUSINESS MODEL” above.

Financial overview
In 2019, corrections for previous periods were made due to incorrect classification of the company's current fixed assets and depreciations. For further description, see Note 21.

The Group's numbers are consistent with the Parent Company's, except for the Group adjustments that are submitted in accordance with IFRS. The subsidiary consists solely of equity of SEK 50 thousand and remains dormant during 2019.

Revenue and results of operations (parent company)
Net sales for the full year were SEK – thousand (277). Sales are not expected to increase until 2021, when according to its current business plan, the company intends to launch its first product on the market.

Total expenses for the full year were SEK –46,589 thousand (–21,087*). The cost increase is due to a planned increase to expenses for the company's clinical programs, and a larger organization. For 2019 overall, the company reported an operating loss of SEK –46,589 thousand (–20,810*). The net loss for 2019 was SEK –45,796 thousand (–20,691*). Earnings per share for the full year were SEK –3.01 (–1.52*)

Financial position (parent company)
Total equity amounted to SEK 373,690 thousand (304,537*) as of 31 December 2019, when the equity/asset ratio was 95% (97). The total number of shares as of 31 December 2019 was 16,751,622.

The company's operations are mainly financed by equity and Xspray considers its financial position as healthy in relation to the company's future development plans. Against the background of operations being in a pre-commercial stage without sales revenue, the Board of Directors has decided to propose to the AGM that no dividends are paid to shareholders in 2020.

The group's financial position is largely consistent with the parent company because the subsidiary (Xspray Pharma Futurum AB) has been fully dormant since incorporation in December 2018.

Cash flow and investments (parent company)
Total cash flow for 2019 was an inflow of SEK –11,394 thousand (105,704). Cash flow from operating activities was SEK –33,338 thousand (–17,746). The effect from working capital was SEK 8,890 thousand (1,251). Cash flow from investing activities was SEK –93,005 thousand (–47,008), the largest portion consisting of ongoing development expenditure that has been capitalized according to plan. Capitalized development expenditure in the final quarter was SEK 20,018 thousand (9,520), and SEK 69,564 thousand (31,965) for the full year. Capitalized development expenditure for development work, etc. was SEK 141,414 thousand (71,850) as of 31 December 2019.

Xspray made investments in production machinery, partly completed in the year, and currently under construction.

Cash flow from financing activities was SEK 114,949 thousand (170,458). A private placement to a limited group of strategic and institutional investors was conducted in early-December 2019, raising approx. SEK 122 million for the company before transaction expenses. Xspray had SEK 209,822 thousand (221,216) of cash and cash equivalents as of 31 December 2019.

Parent company
The subsidiary Xspray Pharma Futurum AB, which the parent company acquired in late-2018, remains dormant. Accordingly, all business is conducted by parent company Xspray Pharma AB (publ).

Human resources & remuneration of senior executives
Organizational resources continued to expand in the year, and by the end of the financial year, the group had 18 (15) employees. The average number of employees was 17 (11). The subsidiary had no employees as of the reporting date. Xspray will offer market remuneration levels and employment terms that enable senior executives and core skills to be hired and retained.

All pension obligation should be defined contribution. For more information on remuneration and incentive programs, see below. Market level agreements between the company and board members are in place. More information in note 7.

Nomination Committee
The Nomination Committee for the AGM 2020 has the following members:
- Gillis Cullin, appointed by Östersjöstiftelsen
- Anders Bladh, appointed by Ribbskottet AB
- Jan Dworsky, appointed by Swedbank Robur Fonder
- Michael Wolff Jensen (Chairman of the Board)

In its work for the AGM, the Nomination Committee's goal has been to ensure that as a group, the Board of Directors possesses the necessary skills and experience to lead Xspray Pharma's operations and development successfully. The Nomination Committee applies provision 4.1 of the Swedish Code of Corporate Governance (the “Code”). Accordingly in this context, the Nomination Committee has especially considered the need for diversity in terms of skills, experience and backgrounds, considering factors including the company's strategic development, governance and controls. The Nomination Committee has discussed the diversity perspective based on its opinion that they are essential to the composition of the Board of Directors, and the Nomination Committee intends to attain equal gender balance.

The Nomination Committee's opinion is that the proposed Board of Directors represents a broad-based and diverse group of qualified individuals that are motivated and well suited for the work necessary. The Nomination Committee also thinks that the Directors are mutual complements in terms of qualifications and experience.

Prior to the AGM 2020, the Nomination Committee should consult on proposals regarding the election of a

** Comparative figures in 2018 have been restated to correct misstatement. For more information see note 21 for effects of this restatement.*

Chairman and other Directors, the election of a Chairman of the AGM, the election of auditors, a decision on fees and other related matters. The remuneration of senior executives is stated in note 7.

Environment
Xspray works actively to alleviate negative environmental impact and to develop as a sustainable company. Because the company has no product sales, this does not impact the environment, but instead, puts its focus on responsible procurement of goods and services, manufacture, and on the consumption of energy and transportation.

Consistent with the company's sustainability work, pure CO_2 is used in its manufacturing process, a residual product of other emission sources, such as brewing products, biogas or fertilizer manufacture.

Work of the Board of Directors
The company's Board of Directors has seven regular members including the Chairman, elected by the AGM for the period until the end of the AGM 2019. The AGM in May 2019 elected Gunnar Gårdemyr and Christine Lind as new Directors. The Board of Directors met 15 times in 2019.

The Board of Directors has duties including formulating goals and strategies, internal controls, ensuring procedures and systems are in place for measuring predetermined goals, continuously evaluating the company's results of operations and financial position, and appraising executive management. The Board of Directors follows written rules and procedures that are revised yearly and adopted at the Board meeting following election each year. The rules of procedure regulate items including the functions of the Board of Directors and segregation of duties between the Board of Directors and CEO, and where appropriate, between the Board of Directors and various Committees.

Action logs record the work of the Board of Directors. The Board of Directors appraises its own, its Committees and the CEO's work yearly, as well as the company's internal controls and financial reporting.

The share and ownership
The share has been trading on Nasdaq First North Growth Market with the ticker XSPRAY since 28 September 2017. The share's IPO price was SEK 22.00. As of 31 December 2019, the company had 16,751,622 shares. The share is a constituent of the following index: OMX Stockholm Pharma & Biotech PI.

All shares are ordinary shares and have equal rights to the company's earnings, and each share carries one vote at the AGM. All shareholders entitled to vote may vote at the AGM for the full number of shares held or represented, without limitation of the number of votes.

Östersjöstiftelsen and Ribbskottet are the shareholders with the highest holdings of shares and votes over 10%. Östersjöstiftelsen's holdings were 14.93%, and Ribbskottet's were 10.45% as of 31 December 2019.

New share issues
In the final quarter of 2019, the company executed the private placement of 1,675,162 new shares at a subscription price of SEK 73 per share, implying the share capital increasing by SEK 1,675,162. This private placement was to a limited group of strategic and institutional investors, and raised the company approx. SEK 122 million before transaction expenses.

The board of directors' proposal for guidelines for executive remuneration
The company's members of the executive management, including the CEO, and board members fall within the provisions of these guidelines. The guidelines are forward-looking, i.e. they are applicable to remuneration agreed, and amendments to remuneration already agreed, after adoption of the guidelines by the annual general meeting 2020. These guidelines do not apply to any remuneration decided or approved by the general meeting.

The guidelines' promotion of the company's business strategy, long-term interests and sustainability

In short, the company's business strategy is the following
Xspray Pharma AB is a product development company with multiple product candidates in clinical development. Xspray uses its innovative, patented RightSize technology to develop improved and 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. The company´s innovative technology allows Xspray Pharma to gain entry as the first competitor to today's original drugs before the secondary patents expire. For more information regarding the company's business strategy, please see page 9–10.

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel. To this end, it is necessary that the company offers competitive remuneration. These guidelines enable the company to offer the executive management a competitive total remuneration.

Long-term share and share-price related incentive plans have been implemented in the company. The plans include among others members of the executive management, including the CEO, employees in the company and certain board members. The performance criteria used to assess the outcome of the plans are distinctly linked to the business strategy and thereby to the company's long-term value creation, including its sustainability. Previous long-term share and share-price related incentive plans have been, and future long-term share and share-price related incentive plans will be, resolved upon by the general meetings and are therefore excluded from these guidelines.

Variable cash remuneration covered by these guidelines shall aim at promoting the company's business strategy and long-term interests, including its sustainability.

Types of remuneration, etc.

The remuneration shall be on market terms and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. Additionally, the general meeting may – irrespective of these guidelines – resolve on, among other things, share-related or share price-related remuneration.

The satisfaction of criteria for awarding variable cash remuneration shall be measured over a period of one year. The variable cash remuneration may amount to not more than 50 per cent of the fixed annual cash salary.

Further variable cash remuneration may be awarded in extraordinary circumstances, provided that such extraordinary arrangements are limited in time and only made on an individual basis, either for the purpose of recruiting or retaining executives, or as remuneration for extraordinary performance beyond the individual's ordinary tasks. Such remuneration may not exceed an amount corresponding to 100 percent of the fixed annual cash salary and may not be paid more than once each year per individual. Any resolution on such remuneration shall be made by the board of directors based on a proposal from the remuneration committee.

For the CEO, pension benefits, including health insurance (Sw. sjukförsäkring), shall be premium defined. Variable cash remuneration shall not qualify for pension benefits. The pension premiums for premium defined pension shall amount to not more than 25 per cent of the fixed annual cash salary. For other executives, pension benefits, including health insurance, shall be premium defined. The pension premiums for premium defined pension shall amount to not more than 35 per cent of the fixed annual cash salary.

Other benefits may include, for example, life insurance, medical insurance (Sw. sjukvårdsförsäkring) and company cars. Such benefits may amount to not more than 15 per cent of the fixed annual cash salary.

Termination of employment

If notice of termination of employment is made by the company, the notice period may not exceed nine months. Severance pay may only be paid in case of certain specific and pre-defined events, whereby the severance pay may not exceed twelve months' fixed salary. If notice of termination of employment is made by the executive, the notice period may not exceed six months and the executive shall not be entitled to severance pay, unless in case of certain specific and pre-defined events in which case the company shall be able to extend the notice period up to nine months and make severance payments up to twelve months' fixed salary.

Additionally, remuneration may be paid for non-compete undertakings. Such remuneration shall compensate for loss of income and shall only be paid in so far as the previously employed executive is not entitled to severance pay. The remuneration shall amount to not more than 60 per cent of the average monthly income during the last twelve months before the termination and be paid during the time the non-compete undertaking applies, however not for more than twelve months following termination of employment.

Criteria for awarding variable cash remuneration, etc.

The variable cash remuneration shall be linked to predetermined and measurable criteria which can be financial or non-financial. The performance criteria are recommended by the remuneration committee and decided by the board on an annual basis. The criteria can be linked to the development of the company's share price and/or the development and progression of the company's product candidates. They may also be individualized, quantitative or qualitative objectives. The criteria shall be designed so as to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development.

To which extent the criteria for awarding variable cash remuneration has been satisfied shall be evaluated/determined when the measurement period has ended. The remuneration committee is responsible for the evaluation of the remuneration to the members of the executive management, including the CEO. For financial objectives, the evaluation shall be based on the latest financial information made public by the company.

Salary and employment conditions for employees

In the preparation of the board of directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the remuneration committee's and the board of directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable. The development of the gap between the remuneration to executives and remuneration to other employees will be disclosed in the remuneration report.

The decision-making process to determine, review and implement the guidelines

The board of directors has established a remuneration committee. The committee's tasks include preparing the board of directors' decision to propose guidelines for executive remuneration. The board of directors shall prepare a proposal for new guidelines at least every fourth year and submit it to the general meeting. The guidelines shall be in force until new guidelines are adopted by the general meeting. The remuneration committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for executive remuneration as well as the current remuneration structures and compensation levels in the company. The members of the remuneration committee are independent of the company and its executive management. The CEO and other members of the executive management do not participate in the board of directors' processing of and resolutions regarding remuneration-related matters in so far as they are affected by such matters.

Derogation from the guidelines

The board of directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the company's long-term interests, including its sustainability, or to ensure the company's financial viability. As set out above, the remuneration committee's tasks include preparing the board of directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

Incentive programs

The company has issued three series of share options to senior executives and other key individuals.

Share option program 2015/2021

The share option program 2015/2021 ("LTIP 2015/2021") was approved by the Board of Directors on 15 December 2015 and involves 255,000 share options. The warrants can be exercised during the periods January 1 through January 21, 2016 or August 1st through August 21st, 2016, January 1st and with January 21, 2017 or August 1 through 21 August 2017, January 1 through January 21, 2018 or August 1 through August 21, 2018, January 1 through and with January 21, 2019 or August 1 through August 21 2019, January 1 through January 21, 2020 or August 1 to and including August 21, 2020, and January 1 to and with January 21, 2021. Full exercise of granted share options could cause dilution of 1.50%, based on the number shares of the company.

Share option program 2017/2020

The share option program 2017/2020 was adopted by the AGM on 31 March 2017 and involves 199,591 share options. These share options can be exercised in the periods

- 1 January until 21 January 2018 inclusive, or 1 August until 21 August 2018 inclusive,
- 1 January until 21 January 2019 inclusive, or 1 August until 21 August 2019 inclusive,
- 1 January until 21 January 2020 inclusive, or 1 August until 21 August 2020 inclusive.

Full exercise of granted share options could cause dilution of 1.18%, based on the number shares of the company.

Share option program 2018/2022

The share option program LTI 2018 was adopted by the AGM on 28 November 2018 and involved 234,505 share options. 20,583 share options within the share option program LTI 2018 were cancelled in 2019. Subsequently, this program involves 231,922 share options. These share options can be exercised in the period 1 December 2021 until 17 January 2022 inclusive. Full exercise of granted share options could cause dilution of 1.26%, based on the number shares of the company.

These three share option programs were measured at market value by applying the Black & Scholes valuation model as of their grant dates. More information in note 7.

Operations and future prospects

Xspray Pharma AB (publ) is a product development company with several product candidates in clinical development. Utilizing the company's innovative RightSize™ technology, Xspray develops improved and generic versions of marketed pharmaceuticals, primarily PKIs (protein kinase inhibitors) for treating cancer. Sales of PKI drugs are some 25% of the total oncology market, a segment with very high pricing. Using the company's RightSize™ technology, Xspray can enter as the first competitor to current original drugs by out-licensing, before secondary patents expire. Xspray's goal is to be a leader in developing improved drugs or generics of already marketed PKIs for treating cancer, of which there were 54 approved in December 2019.

The company's leading product candidates, HyNap-Dasa, HyNap-Sora and HyNap-Nilo, are stable, amorphous versions of the three blockbuster cancer drugs Sprycel® (dasatinib), Nexavar® (sorafenib) and Tasigna® (nilotinib).

The launch of the first product candidate, HyNap Dasa, is planned for 2021. The validity of the substance patent for original pharmaceutical Sprycel (dasatinib) expires in late-2020, and the secondary patents in 2026, which may offer Xspray's HyNap-Dasa several years of semi-exclusivity before other competitors reach the market. The company holds patents on manufacturing technology, equipment and the resulting products. The company's development has progressed as planned, and the prospect of achieving the business plan's targets are good.

Xspray has been quoted on Nasdaq First North Growth Market since 2017, with Redeye as its Certified Adviser.

Risks and uncertainty factors

Business risks

Business rinks risks are primarily associated with development work. If bioequivalence studies on healthy trial subjects that Xspray conducts do not demonstrate bioequivalence, or if their safety profile is not approved by regulators, there is a risk of significant delays. Manufacture by providers of clinical trial materials and materials for stability studies may also be delayed. These delays may depend on difficulties in securing the relevant permits from drug regulators for manufacturing pursuant to GMP standards, or technical problems with the manufacturing process.

If the development of product candidates, or a pharmaceutical study, are delayed, this generally means projects becoming more costly because development expenses continue for longer than planned. This may mean expected revenues are not received on schedule, which may impact the company's operations and financial position negatively.

When a pharmaceutical gains approval, the risk that sales do not meet expectations and that the product does not become commercially successful, remain. There is a risk that Xspray will be subject to lawsuits from original drug companies for patent infringement, and risks up to 18 months' prevention of launch of its products. Xspray works actively to reinforce its patent portfolio to protect against such delays.

Legal risks

The company conducts its operations in an industry where legal proceedings occur to a large extent. Xspray's competitors are partly companies that currently have approved and fully developed drugs within the same area as Xspray's products, which entails an inherent risk that the companies owning the original drug will initiate legal proceedings against Xspray for patent infringement, or on other grounds, to prevent Xspray's operations.

Financial risk management and the company's asset management procedures

Through its operations, the company is exposed to various financial risks such as market risk, credit risk and liquidity risk. Primarily, market risk consists of currency risks. The company collaborates with international parties and there is some exposure to fluctuations in different currencies, mainly the USD and EUR. Currency risk arises in future business transactions and in reported assets and liabilities. The scope of the company's operations means that at present, its net foreign currency exposure is limited.

Credit risk in cash and cash equivalents is considered negligible, because counterparties are reputable banks with high credit ratings from external institutes. Financing risk is the ability to fund projects until commercialization. Liquidity risk is the company being unable to meet its commitments. The company manages this risk by continuously monitoring its cash flow to reduce liquidity risk and ensure solvency. The company does not conduct active trading in financial assets for speculation. The goal of asset management is for operations to be financed with equity.

Four-year summary

Parent company	**2019**	**2018***	**2017***	**2016***
Net sales (SEK thousand)	–	277	332	792
Profit/loss before tax (SEK thousand)	-45,796	-20,691	-13,817	-4,782
Basic earnings per share (SEK)	-3.01	-1.52	-1.74	-1.15
Diluted earnings per share, (SEK)	-3.01	-1.52	-1.74	-1.15
Development expenses, % of operating expenses (%)	7.2	14.8	29.0	38.3
Cash and cash equivalents (SEK thousand)	209,822	221,216	115,512	28,803
Total assets (SEK thousand)	395,316	315,306	160,109	51,176
Equity/assets ratio (%)	94.5	96.6	96.4	89.5
No. of employees	17	11	6	6

** Years affected by correction of misstatement, although only 2018 was restated pursuant to IAS 8 in the above summary. More information on the effects of the restatement in note 21.*

Group	**2019**
Net sales (SEK thousand)	–
Profit/loss before tax (SEK thousand)	-45,771
Basic earnings per share (SEK)	-3.01
Diluted earnings per share, (SEK)	-3.01
Development expenses, % of operating expenses (%)	7.3
Cash and cash equivalents (SEK thousand)	209,872
Total assets (SEK thousand)	400,672
Equity/assets ratio (%)	93.3
No. of employees	17

For definitions of key ratios, see note 26.

Proposed appropriation of profits (SEK):

The following funds are at the disposal of the Annual General Meeting:

Share premium reserve	450,265,676
Profit/loss brought forward	-189,921,914
Profit/loss for the year	-45,795,808
Total	**214,547,954**

Board of Directors proposes that these funds are appropriated as follows:

Share premium reserve	450,265,676
Profit/loss brought forward	-235,717,722
Carried forward	**214,547,954**

Dividend policy

The Board of Directors does not intend to propose any dividends to shareholders until the company can generate long-term sustainable profitability and a positive cash flow. The Board of Directors' opinion is that the company should maintain its focus on continued development and expansion of its project portfolio. Accordingly, available financial resources and reported results of operations should be reinvested in operations to finance the company's long-term strategy.

Any future dividends and their scale will be determined on the basis of the company's long-term growth, earnings performance and capital requirements considering adopted goals and strategies. Where proposed, dividends will be well-balanced in terms of the company's goals, scope and business risk.

Financial Statements

Consolidated Income Statement

Amount in SEK thousand	Note	2019
Net sales		–
		–
Other operating income	4	374
Research and development expenses		-3,429
Administration and sales expenses	6	-42,327
Other operating expenses	5	-1,182
Operating loss	3	**-46,564**
Finance income	8	862
Finance costs	9	-69
Finance net		**793**
Loss before Income tax		**-45,771**
	10	–
Tax		**-45,771**
Loss for the year*		
	28	-3.01
Earnings per share for the period before dilution, SEK		-3.01
Earnings per share for the period after dilution, SEK		15,216,057
Average number of shares before dilution		15,670,648
Average number of shares after dilution		

Consolidated Statement of Comprehensive Income

Amount in SEK thousand	2019
Loss for the year	**-45,771**
Other comprehensive income	–
Total comprehensive income for the year	**-45,771**

** The profit for the year and the profit of the comprehensive income are entirely attributable to the Parent Company's shareholders.*

Consolidated Balance Sheet

Amount in SEK thousand	Note	31 Dec. 2019	31 Dec. 2018*
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development costs	11	141,515	71,850
Patent	12	0	43
Total intangible assets		**141,515**	**71,893**
Property, plant and equipment			
Machinery and installations	13	26,465	5,447
Right-of-use assets	14	6,831	-
Equipment	15	1,266	1,283
Fixed assets under construction	16	8,467	9,821
Total Property, plant and equipment		**43,030**	**16,551**
Financial assets			
Financial investments		1	1
Total financial assets		**1**	**1**
Total non-current assets		**184,545**	**88,445**
Current assets			
Current tax asset		421	201
Current receivables	18	5,017	1,474
Prepaid expenses and accured income	19	816	3,920
Cash and cash equivalents	20	209,872	221,266
Total current assets		**216,126**	**226,861**
TOTAL ASSETS		**400,672**	**315,306**

**This year has been recalculated due to correction of misstatement. More information on the effects of the restatement in note 21.*

Consolidated Balance Sheet *cont.*

Amount in SEK thousand	Note	31 Dec. 2019	31 Dec. 2018*
EQUITY AND LIABILITIES			
Equity	21		
Share capital		16,752	15,076
Other contributed capital		450,266	336,991
Reserves		976	976
Retained earnings including profit/loss for the year		-94,279	-48,506
Total equity attributable to the Parent Company's shareholders		**373,715**	**304,537**
Non–current liabilities			
Lease liabilities	14	4,454	-
Total non-current liabilities		**4,454**	**-**
Current liabilities			
Trade accounts payable	18	11,876	7,780
Lease liabilities		876	-
Other current liabilities		743	1,301
Accrued expenses and deferred income	22	9,007	1,688
Total current liabilities		**22,503**	**10,769**
TOTAL EQUITY AND LIABILITIES		**400,672**	**315,306**

**This year has been recalculated due to correction of misstatement. More information on the effects of the restatement in note 21.*

Consolidated Statement of Changes in Equity

Amount in SEK thousand	Share capital	Other contributed capital	Reserves	Retained earnings including profit/loss for the period	Total Equity
Opening balance as of January 1, 2018	**12,356**	**169,253**	**976**	**-28,230**	**154,355**
Correction of misstatement	-	-	-	414	**414**
Adjusted balance as of January 1, 2018	**12,356**	**169,253**	**976**	**-27,816**	**154,769**
Correction of misstatement	-	-	-	2,407	**2,407**
Loss for the year	-	-	-	-23,098	**-23,098**
Other comprehensive income for the year	-	**-**	**-**	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-20,691**	**-20,691**
Transactions with shareholders					
Share option program	-	1,367	-	-	**1,367**
New share issue	2,720	176,820	-	-	**179,540**
Transaction costs	-	-10,449	-	-	**-10,449**
Total	**2,720**	**167,738**	**-**	**-**	**170,458**
Adjusted closing balance as of December 31, 2018	**15,076**	**336,991**	**976**	**-48,506**	**304,537**
Opening balance as of January 1, 2019	**15,076**	**336,991**	**976**	**-48,506**	**304,537**
Loss for the year	-	-	-	-45,771	**-45,771**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-45,771**	**-45,771**
Transactions with shareholders					
New share issue	1,675	120,612	-	-	**122,287**
Transaction costs	-	-7,337	-	-	**-7,337**
Total	**1,675**	**113,275**	**-**	**-**	**114,950**
Closing balance as of December 31, 2019	**16,752**	**450,266**	**976**	**-94,279**	**373,715**

Consolidated Statement of Cash Flow

Amount in SEK thousand	Note	2019
Operating activities		
Operating loss		-46,564
Non-cash adjustments		
Depreciation		4,803
Dissolved prepaid leasing costs, during the year		-1,892
Interest received		591
Interest paid		-69
Cash flow from operating activities before changes in working capital		**-43,131**
Changes in working capital		
Change in operating receivables		-1,963
Change in operating liabilities		10,857
Cash flow from operating activities		**-34,237**
Investing activities		
Capitalized development costs		-68,891
Acquisition of property, plant and equipment		-23,103
Cash flow from investing activities		**-91,994**
Financing activities		
New share issue		114,949
Payment of lease liability	14	-112
Cash flow from financing activities		**114,837**
Cash flow for the year		**-11,394**
Cash and cash equivalents at the beginning of year	20	221,266
Cash and cash equivalents at year-end		**209,872**

Parent Company Income Statement

Amount in SEK thousand	Note	2019	2018*
Net sales		-	277
		0	**277**
Other operating income	4	374	86
Research and development expenses		-3,363	-3,129
Administration and sales expenses	6	-42,417	-16,967
Other operating expenses	5	-1,182	-1,077
Operating loss	3	**-46,589**	**-20,810**
Finance income	8	862	150
Finance costs	9	-69	-31
Finance net		**793**	**119**
Loss before Income tax		**-45,796**	**-20,691**
Tax	10	-	-
Loss for the year		**-45,796**	**-20,691**

Parent Company Comprehensive Income

Amount in SEK thousand	2019	2018*
Loss for the year	**-45,796**	**-20,691**
Other comprehensive income	-	-
Total comprehensive income for the year	**-45,796**	**-20,691**

**This year has been recalculated due to correction of misstatement. More information on the effects of the restatement in note 21.*

Parent Company Balance Sheet

Amount in SEK thousand	Note	31 Dec. 2019	31 Dec. 2018*
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development costs	11	141,414	71,850
Patent	12	0	43
Total intangible assets		**141,414**	**71,893**
Property, plant and equipment			
Machinery and installations	13	26,465	5,447
Equipment	15	1,266	1,283
Fixed assets under construction	16	8,467	9,821
Total Property, plant and equipment		**36,198**	**16,551**
Financial assets			
Shares in subsidiaries	17	50	50
Financial investments		1	1
Total financial assets		**51**	**51**
Total fixed assets		**177,663**	**88,495**
Current assets			
Current receivables			
Current tax-asset		421	201
Other current receivables	18	5,017	1,474
Prepaid expenses and accured income	19	2,393	3,920
Total current receivables		**7,831**	**5,595**
Cash and bank	20	209,822	221,216
Total current assets		**217,653**	**226,811**
TOTAL ASSETS		**395,316**	**315,306**

**This year has been recalculated due to correction of misstatement. More information on the effects of the restatement in note 21.*

Parent Company Balance Sheet *cont.*

Amount in SEK thousand	Note	31 Dec. 2019	31 Dec. 2018*
EQUITY AND LIABILITIES			
Equity			
Restricted equity	21		
Share capital		16,752	15,076
Statutory reserve		976	976
Development expenditure reserve		141,414	71,850
Total restricted equity		**159,142**	**87,902**
Non-restricted equity			
Other contributed capital		450,266	336,991
Accumulated earnings		-189,922	-99,665
Loss for the year		-45,796	-20,691
Total non-restricted equity		**214,548**	**216,635**
Total equity		**373,690**	**304,537**
Current liabilities			
Trade accounts payable	18	11,876	7,780
Other current liabilities		743	1,301
Accrued expenses and deferred income	22	9,007	1,688
Total current liabilities		**21,626**	**10,769**
TOTAL EQUITY AND LIABILITIES		**395,316**	**315,306**

**This year has been recalculated due to correction of misstatement. More information on the effects of the restatement in note 21.*

Paraent Company Statement of Change in Equity

Amount in SEK thousand	Share capital	Statutory reserve	Development expenditure reserve	Total restricted equity	Other contributed capital	Retained earnings	Loss for the year	Total non-restric-ted equity	Total Equity
Opening balance as of January 1, 2018	**12,356**	**976**	**39,886**	**53,218**	**169,253**	**-54,299**	**-13,817**	**101,137**	**154,355**
Correction of misstatement	-	-	-	**-**	-	414	-	414	**414**
Adjusted opening balance as of December 31, 2018	**12,356**	**976**	**39,886**	**53,218**	**169,253**	**-53,885**	**-13,817**	**101,551**	**154,769**
Transfer of profit from previous year	-	-	-	**-**	-	-13,817	13,817	-	**-**
Correction of misstatement	-	-	-	**-**	-	-	2,407	2,407	**2,407**
Loss for the year	-	-	-	**-**	-	-	-23,098	-23,098	**-23,098**
Other comprehensive income for the year	-	-	-	**-**	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-20,691**	**-20,691**	**-20,691**
Transactions with shareholders									
Share option program	-	-	-	**-**	1,367	-	-	1,367	**1,367**
New share issue	2,720	-	-	**2,720**	176,820	-	-	176,820	**179,540**
Transaction costs	-	-	-	**-**	-10,449	-	-	-10,449	**-10,449**
Total	**2,720**	**-**	**-**	**2,720**	**167,738**	**-**	**-**	**167,738**	**170,458**
Development expenditure reserve									
Provisions for the year	-	-	31,964	**31,964**	-	-31,964	-	-31,964	**0**
Total	**-**	**-**	**31,964**	**31,964**	**-**	**-31,964**	**-**	**-31,964**	**0**
Adjusted closing balance as of December 31, 2018	**15,076**	**976**	**71,850**	**87,902**	**336,991**	**-99,665**	**-20,691**	**216,635**	**304,537**
Opening balance as of January 1, 2019	**15,076**	**976**	**71,850**	**87,902**	**336,991**	**-99,665**	**-20,691**	**216,635**	**304,537**
Transfer of profit from previous year	-	-	-	**-**	-	-20,691	20,691	-	**-**
Loss for the year	-	-	-	**-**	-	-	-45,796	-45,796	**-45,796**
Other comprehensive income for the year	-	-	-	**-**	-	-	-	-	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-45,796**	**-45,796**	**-45,796**
Transactions with shareholders									
New share issue	**1,675**	**-**	**-**	**1,675**	**120,612**	**-**	**-**	**120,612**	**122,287**
Transaction costs	-	-	-	**-**	-7,337	-	-	-7,337	**-7,337**
Total	**1,675**	**-**	**-**	**1,675**	**113,275**	**-**	**-**	**113,275**	**114,950**
Development expenditure reserve									
Provisions for the year	-	-	69,565	**69,565**	-	-69,565	-	-69,565	**-**
Total	**-**	**-**	**69,565**	**69,565**	**-**	**-69,565**	**-**	**-69,565**	**-**
Closing balance as of December 31, 2019	**16,752**	**976**	**141,414**	**159,142**	**450,266**	**-189,922**	**-45,796**	**214,548**	**373,690**

Conditional shareholder contributions amounted to SEK 50 thousand (50).

Parent Company Statement of Cash Flow

Amount in SEK thousand	Note	2019	2018*
Operating activities			
Operating loss		-46,589	-20,810
Non-cash adjustments			
Depreciation		3,837	1,694
Interest received		591	150
Interest paid		-69	-31
Cash flow from operating activities before changes in working capital		**-42,230**	**-18,997**
Changes in working capital			
Change in operating receivables		-1,965	-3,765
Change in operating liabilities		10,857	5,016
Cash flow from operating activities		**-33,338**	**-17,746**
Investing activities			
Purchase of intangible assets		-69,902	-31,965
Acquisition of property, plant and equipment		-23,103	-14,993
Other financial assets		-	-50
Cash flow from investing activities		**-93,005**	**-47,008**
Financing activities			
New share issue		114,949	170,458
Cash flow from financing activities		**114,949**	**170,458**
Cash flow for the year		**-11,394**	**105,704**
Cash and cash equivalents at the beginning of year	20	221,216	115,512
Cash and cash equivalents at year-end		**209,822**	**221,216**

**This year has been recalculated due to correction of misstatement. More information on the effects of the restatement in note 21.*

Notes – applicable to both consolidated and parent company financial statements

Note 1 Accounting policies

General information, consistency with IFRS and going concern assumptions
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU).

The consolidated accounts also comply with recommendation RFR1 "Supplementary Accounting Rules for Groups" from the Swedish Financial Reporting Board.

The Parent Company applies the same accounting policies as the Group, apart from certain instances stated below in the section "Parent Company accounting policies."

The financial statements of Xspray Pharma for the financial year ending 31 December 2019 were approved by the Board of Directors and CEO on 27 February 2020 and will be presented for adoption by the Annual General Meeting (AGM) on 14 May 2020.

Assets and liabilities are recognized at historical cost.

New standards, amendments and interpretation statements that came into effect on 1 January 2019
IFRS 16 came into effect for financial years beginning on or after 1 January 2019, and was adopted by the Group effective from 1 January 2019.

Pursuant to this new standard, lessees must recognize their operating lease liability obligations in the Balance Sheet. The right-of-use of the underlying leased asset during the lease term is recognized as an asset and the present value of the remaining lease payments is recognized as a lease liability. Amortization of the asset is recognized in profit or loss, as is interest on the lease liability. Payments made to lessors are recognized partly as payment of interest, and partly as amortization of the lease liability. The standard exempts leases with terms of less than 12 months and leases determined to be of low value.

The Group is applying the modified retrospective approach in its initial application of IFRS 16, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, there is no restatement of comparative information for 2018. The Group has applied the transition relief permitted on initial adoption of IFRS 16, which means recognizing leases with a remaining term of less than 12 months as of 1 January 2019 as short-term leases. After the date of initial adoption, the Group will also apply transition relief when recognizing leases with maximum terms of 12 months and leases of low value as a straight-line expense in the Income Statement. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information. For quantification of the transition impact, please refer to Note 14.

A number of other new standards are also effective from 1 January 2019 have not had any effect on the Group's or Parent Company's financial statements.

New standards and interpretations that have not yet been applied by the group
A number of new standards and interpretation statements come into effect for financial years beginning after 1 January 2019 and were not adopted in the preparation of these financial statements. These new standards and interpretation statements are not expected to have a material impact on the consolidated financial statements in current or future periods.

Functional currency and presentation currency
The Group and Parent company's functional currency is Swedish kronor, which is also the presentation currency of the Parent Company and the Group. All amounts are rounded to the nearest thousand unless otherwise indicated.

Classification
Non-current assets comprise of amounts that are expected to be recovered or the risks and rewards associated with ownership are expected to be realized after at least 12 months from the reporting date, whilst current assets comprise of amounts that are expected to be recovered or the risks and rewards associated with ownership are expected to be realized within 12 months of the reporting date. Non-current liabilities comprise of amounts that Xspray has an unconditional right to defer settlement until a time at least 12 months from the reporting date. If Xspray does not possess this entitlement as of the reporting date, or if the liability is expected to be settled within the normal business cycle, the liability amount is recognized as a current liability.

Basis of consolidation

Subsidiaries
Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Subsidiaries are recognized according to the acquisition method when control is transferred to the group.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with subsidiaries are eliminated to the extent of the Group's interest in the subsidiary. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no impairment.

Transactions in foreign currency
Transactions in foreign currency are translated to the functional currency at the rate of exchange ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the reporting date. Exchange gains and exchange losses on trade receivables and trade payables are recognized in operating profit or loss, while exchange gains and exchange losses on financial receivables and liabilities are recognized in Finance net within the income statement.

Revenue from contracts with customers
Revenue is measured based on the compensation specified in the contract with the customer. The Group recognizes revenue when control over a product transfers to the customer. Control arises at a point in time, or over time, depending on the contract terms with the customer.

The Group does not expect to generate any revenues before the Group's products are launched on the market. Sales are therefore not expected to increase until 2021, when pursuant to its current business plan, the Group intends to launch its first product on the market.

Segment reporting
Xspray does not divide its operations into different operating segments. This reflects the Group's organizational structure and reporting system. The Chief Operating Decision Maker (CODM) is the CEO.

The Group has no operating segments, but rather, has a single development operation that consists of developing protein kinase inhibitors for targeted cancer therapy. Within this narrow operational focus, there are three similar product candidates, all based on the same technology. Development operations are conducted as a single segment without any sub-groups or specialization into any of the three products. The Head of R&D is responsible for all development projects and reports to the Parent Company's CEO. The Parent Company's CEO is responsible for operational governance, monitoring and allocation of resources. Accordingly, these operations are reflected in the consolidated financial statements.

Finance income and expenses
Finance income consists of interest income and exchange gains on bank balances and other interest-bearing investments. Finance expenses consist of interest expenses relating to lease liabilities; for more information see below under "Leases".

Interest income and interest expenses are recognized in accordance with the effective interest method. The effective interest rate is the rate that discounts estimated future receipts and payments during the anticipated term of the financial instrument to the financial asset's recognized gross value or at the amortized cost of the financial liability. Interest income and interest expenses include allocated amounts of transaction expenses, and any discounts or premiums.

For financial assets that have been credit-impaired after first-time recognition, interest income is measured by applying the effective interest rate on the financial asset's amortized cost. If the asset is no longer credit-impaired, interest income is measured by applying effective interest on the recognized gross value.

Interest expenses are recognized in profit or loss in the period to which they relate, apart from to the extent that they are included in an asset's cost. An asset for which interest is included in cost is an asset that by necessity takes significant time to complete for intended use or sale. Interest is capitalized in the Group's capitalized development expenditure.

Exchange gains and exchange losses on financial items are recognized on a net basis as finance income or finance expenses, respectively.

Leases
Leases mainly relate to premises and vehicles. The Standard implies that identified leases are recognized in the Balance Sheet and classified as a right-of-use asset and a corresponding lease liability. Leases of low value are expensed as associated costs are incurred. The Group defines leases of low value as associated leased assets with a value as new condition of less than SEK 50 thousand. When the Group enters a lease, a judgement is made as to whether this arrangement confers entitlement to control use of the identified asset for a period in exchange for compensation paid to the lessor. An asset for right-of-use and a lease liability is recognized at the commencement date of the lease, which is the date that the Group gains access to and is able to commence use of the underlying asset. Initially, the right-of-use asset is of the same amount as the lease liability, adjusted for any lease payments made prior to the start date, plus any initial direct expenses, and an estimate of expenses to restore the underlying asset, less any discounts received.

The lease asset is subsequently amortized on a straight-line basis over its useful life, which is assumed to correspond to the lease term.

The lease liability, divided into a long-term and short-term portion, is initially measured at the present value of remaining lease payments over the estimated lease term. The lease term consists of the irrevocable period plus additional periods in the lease arrangement, if at the start date, it is reasonably certain that they will be utilized. Lease payments are normally discounted at the Group's incremental borrowing rate, which in addition to the Group's credit risk, reflects the lease term of each arrangement and the quality of the underlying asset as intended security. However, in those cases where the implicit interest of the lease arrangement can be readily determined, this rate is applied. This is generally the case for leased vehicles. The value of the liability reduces with amortization over the term, which amounts to the net of the lease payments and interest expense over the term.

For premises leases, no distinction is made between lease and non-lease components included in lease payments. Instead, lease and non-lease components are recognized as a single lease component..

Rent payments are restated when changes to future lease payments arise through changes to indexes or altered judgements of the contract resulting from circumstances such as a purchase, contract extension or contract termination. A corresponding restatement of the right-of-use is recognized. For more information, see Note 14.

Employee benefits

Short-term benefits
Short-term benefits to employees such as salary, social security contributions, vacation pay, and bonuses are expensed during the period in which the employees render services to the Group.

Pensions

The Group's pension obligations are comprised of defined contribution plans only. A defined contribution pension plan is a pension plan by which the Group pays fixed premiums to a separate legal entity. The Group has no legal or informal obligations to pay further premiums if this legal entity has insufficient assets to pay all benefits to employees associated with employee service during current or previous periods. Accordingly, the Group bears no further risk associated with pension obligations. The Group's obligations regarding premiums to defined contribution plans are recognized as an expense in profit or loss for the year at the rate that they are accrued by employees rendering services for the Group during the period.

Share-based payment

The Group makes share-based payments to all employees and certain key individuals that are settled with shares in the Parent Company (warrants), and thus recognized in equity. Social security contributions attributable to share-based remuneration are expensed over the vesting period. Warrants acquired by employees at market value are not reported as share-based compensation but as financial instruments. For all warrant programs, option prices have been determined at fair value through application of the Black & Scholes valuation model. Please refer to Note 7 for further information.

Termination benefits

A provision for benefits in connection with the termination of staff is only recognized if the Group is obligated to terminate employment before the normal time without any realistic possibility of withdrawal, and the affected groups of employees have been informed of the corresponding redundancy plan. A provision is made for that portion of termination benefits that will be paid without requiring employees to render services.

Tax

Income tax consists of current tax and deferred tax. Income tax is recognized in profit or loss for the year with the exception of when the underlying transaction is recognized in other comprehensive income or in equity; when the associated tax effect is recognized in other comprehensive income or equity, respectively.

Current tax is tax to be paid or received for the current period, including restatement of current tax attributable to previous periods. Current and deferred tax is computed by applying those tax rates and tax regulations that are enacted or substantively enacted on the reporting date.

Deferred tax is recognized according to the balance sheet method on all temporary differences arising between the taxable value of assets and liabilities and their carrying amounts. Deferred tax assets relating to deductible temporary differences and loss carry-forwards are recognized only to the extent it is likely that they can be utilized. The value of deferred tax receivables is impaired when it is no longer considered likely that they can be utilized.

As the Group is in a development phase and has yet to launch any products for sale, tax loss carry-forwards have been generated since the Group commenced operations. The underlying potential tax value of loss carry-forwards has not been recognized as a deferred tax asset because IFRS does not permit the recognition of deferred tax in deductible deficits if there are not convincing factors indicating that the loss carry-forwards can be utilized within the foreseeable future. The deferred tax receivable in loss carry-forwards is recognized in those cases where offset is possible against deferred tax liabilities. Deferred tax receivables are recognized on a net basis against deferred tax liabilities only if they can be settled on a net basis.

Non-current assets

Intangible assets

Limited-life intangible assets are recognized at cost less amortization and any impairment. Intangible assets are amortized systematically over the asset's estimated useful life. The useful life is reassessed at each reporting date and adjusted as required. Amortization of the asset commences once economic benefits associated with the asset are realized by the entity.

When the asset's amortizable amount is determined, the asset's residual value is considered where appropriate.

Development expenditure is capitalized when it satisfies the criteria of IAS 38 "Intangible Assets." Otherwise, development expenditure is expensed as it occurs as operating expenses. The criteria for capitalization are:

- it is technically or commercially feasible to complete the product or process for use,
- the entity intends to complete development of the asset and use or sell it,
- the ability to sell the asset exists,
- the means by which the asset will generate future economic benefits can be demonstrated,
- adequate technical, financial and other resources to complete development to use the asset are available, and
- the costs related to the asset during its development can be measured reliably.

Expenditure directly related to the development of the asset that is capitalized as part of capitalized development expenditure includes expenditure for employees, external consultants, amortization of a right-of-use asset in the form of premises used, and interest.

The following useful lives are applied:	
Capitalized development expenditure	5 years
Patents	5 years

Property, plant and equipment

Property, plant and equipment consists of machinery and technical plant and is recognized in the Group at cost, less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and any costs directly attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by its acquisition. The carrying amount of an asset is derecognized from the balance sheet on disposal or sale, or when no future economic benefits are expected from use or disposal/sale of the asset. A gain or loss on the sale or disposal of an asset consists of the difference between the selling price and that asset's carrying amount less direct selling expenses. Gains and losses are recognized as other operating income/expenses.

The Group presents right-of-use assets in the balance sheet jointly with owned assets of the same class as the underlying leased asset. The leased assets are specified by asset class in Note 14.

The following useful lives are applied	
Machinery and other technical plant	3–10 years
Equipment	3–5 years
Leasehold improvements	Estimated lease term

The depreciation of owned property, plant and equipment is recognized on a straight-line basis over the asset's estimated useful life. The depreciation methods and useful lives applied are re-evaluated at each reporting date. Right-of-use assets from leases are amortized over estimated useful lives based on the irrevocable term of arrangements, plus extension options, initially assumed as reasonably certain.

Impairment of non-financial assets

Assets with indefinite useful lives such as the Group's intangible assets where amortization has not yet commenced because they are not yet in use are subject to impairment testing at least annually and when there are indications of impairment. Assets that are amortized are assessed for impairment at any time events or changes in circumstances indicate that the carrying amount is not recoverable. Assets are impaired by the amount that its carrying amount exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less selling expenses and its value in use. Impairment is recognized as an expense in profit or loss for the year.

If, during the impairment test, it is not possible to determine largely independent cash flows for an individual asset, assets are grouped at the lowest level where it is possible to identify largely independent cash flows, known as cash-generating units.

To test the value of intangible assets, Xspray applies a discounted cash flow model. The measurement of current development projects is computed by measuring the present value of future cash flows. This measurement considers cash flow over the next five years and does not include measurement of any residual value.

Previously recognized impairment is reversed if the recoverable amount is judged to exceed the carrying amount. However, the reversal is not of an amount greater than the carrying amount would have been if no impairment had been recognized in previous periods. However, goodwill impairment is never reversed.

Financial instruments and financial risk management

Financial instruments recognized in the balance sheet as assets include cash and cash equivalents, financial investments, accounts receivable, contract assets (accrued operating income) and loans receivable. Financial instruments recognized in the balance sheet as liabilities consist of accounts payable. Lease liabilities are described above and do not constitute financial instruments.

Recognition and de-recognition from the Balance Sheet

Financial assets are recognized when the group becomes a contract party in the matter of the financial instrument's contracted terms. Receivables are recognized when the group has delivered and there is a contracted obligation for the counterparty to pay, even if no invoice has been sent. Accounts receivable are recognized in the Balance Sheet when an invoice has been sent to the counter party concurrent with the timing of goods or services rendered.

Financial liabilities are recognized when the counterparty has delivered a good or service and there is a contracted obligation to pay, even if no invoice has been received. Trade accounts payable are recognized when an invoice has been received from a counter party concurrent with the timing of goods or services rendered.

Financial assets are derecognized from the balance sheet when the contracted rights to cash flows ceases or if the right to cash flows transfers through a transaction where essentially, all risks and rewards are transferred to the counterparty.

A financial liability is derecognized from the balance sheet when it has been discharged, cancelled, or expired.

Classification and measurement of financial assets on initial recognition

The Group initially classifies financial assets and financial liabilities in accordance with the following measurement categories

- Amortized cost
- Fair value through profit or loss
- Fair value through other comprehensive income

The classification by measurement category determines how the financial assets and liabilities are measured and recognized initially and subsequently thereafter.

The Group's policies for classifying and measuring financial assets are based on a judgement of both (i) the Group's business model for managing financial assets, and (ii) the characteristics of the contracted cash flows from the financial asset. Financial assets measured at amortized cost are debt instruments managed with the aim of realizing the instrument's cash flows by receiving contracted cash flows that exclusively consist of principal and interest on the outstanding amounts. The Group's financial assets are measured at amortized cost due to the assets being held within the auspices of a business model which aims to obtain financial assets with the purpose of collecting contracted cash flows, and at predetermined times, the contracted assets give rise to cash flows that are exclusively payment of principal and interest on the outstanding amounts.

Financial assets and financial liabilities are measured at fair value on initial recognition. For financial instruments not measured at fair value through profit or loss, transaction expenses directly attributable to the purchase or issuance are added to the value of the associated asset or liability. Accounts receivable are typically measured at transaction price.

Subsequent measurement

After initial recognition, financial assets and financial liabilities classified in the amortized cost category are measured at amortized cost by applying the effective interest method. Interest including allocated transaction expenditure, exchange gains or losses and gains or losses on de-recognition from the balance sheet are recognized in profit or loss as financial income and expenses, with the exception of impairment of accounts receivable and contract assets, which are classified as other operating expenses.

Set-off
A financial asset and financial liability are offset and recognized at a net amount in the balance sheet only when there is a legal right of set-off these amounts and there is an intention to settle the items with a net amount or simultaneously realize the asset and settle the liability.

Impairment of financial assets
Impairment of financial assets is recognized in accordance with the expected credit loss (ECL) model. The financial assets in the group regulated by standards on measuring expected credit losses are bonds, other receivables, accrued operating income and bank balances.

When measuring expected credit losses, previous events, current circumstances and reasonable and substantiated forecasts that influence the expected likelihood of receiving future cash flows from the asset are considered.

When applying a forward-looking view, a distinction is drawn between:

- financial instruments whose credit quality has not materially deteriorated since initial recognition or have low credit risk (Step 1) and
- financial instruments whose credit quality has deteriorated materially since initial recognition or whose credit risk is not low (Step 2).

Step 3 is for financial assets where, on the reporting date, the company has objective evidence of impairment (that a credit loss event has occurred). For the first category, 12 months of expected credit losses are reported, while for the second category, expected credit losses for the remaining term are reported. Measurement of expected credit losses is based on a probability-weighted amount of estimated credit losses over the expected life of the assets.

Accounts receivable and other receivables
The Group applies a simplified methodology for recognizing accounts receivable and other receivables and recognizes expected credit losses over remaining terms. In its measurement, the Group uses historical experience, external indications and forward-looking information to measure expected credit losses using a provision matrix. The Group judges impairment of accounts receivable collectively, where receivables are grouped on the basis of a number of overdue days, because they have shared credit characteristics.

Cash and cash equivalents
Cash and cash equivalents in the statement of cash flows include cash, bank balances and other investments in securities. Other investments in securities are classified as cash and cash equivalents when they mature within three months of the acquisition date, can be readily converted into cash at known amounts and are exposed to insignificant risk of value fluctuations.

Earnings per share
The measurement of basic earnings per share is based on the Group's profit or loss for the year attributable to equity holders of the parent and the weighted average number of shares outstanding in the year. When measuring diluted earnings per share, earnings and the average number of shares are revalued to consider the effect of potential ordinary shares that are sourced from warrants issued to employees during the reporting period. The dilution from warrants is based on the measurement of how many shares could hypothetically have been purchased in the period at an exercise price and value of the remaining shares pursuant to IFRS 2 Share-based Payment. Those shares that could not be acquired result in dilution. That number of warrants, and thus shares, that would have been vested if that degree of satisfaction of the vesting conditions applicable at the end of the current reporting period also applied at the end of the vesting period are also included. Potential ordinary shares are only considered diluting in those periods when they result in a lower gain or loss per share.

Basic earnings per share
Basic earnings per share is calculated by dividing:

- earnings attributable to equity holders of the parent by
- the weighted average number of outstanding ordinary shares in the period, adjusted for the bonus issue component of ordinary shares issued in the year, and excluding repurchased shares held in treasury by the Parent Company.

Diluted earnings per share
For calculating diluted earnings per share, the amounts used for calculating basic earnings per share are adjusted to consider:

- the effect after tax of dividends and interest expenses on potential ordinary shares, and
- the weighted average of the additional ordinary shares that would have been outstanding given conversion of all potential ordinary shares.

Provisions
A provision is recognized when there is uncertainty about the payment date or the amount to settle a future obligation of the Group. A provision is recognized in the balance sheet when there is an existing legal or informal obligation resulting from an event that has occurred, it is likely that an outflow of economic resources will be necessary to fulfil this obligation, and the amount can be measured reliably. Provisions are recognized at an amount that is the best estimate of what is necessary to settle the existing obligation on the reporting date. When the effect of the timing of payment is material, provisions are estimated by discounting the expected future cash outflows.

Contingent liabilities
A disclosure on contingent liabilities is presented when there is a potential obligation resulting from events that have occurred, and this occurrence is confirmed only by one or several uncertain future events, or when there is an undertaking that is not recognized as a liability or provision because it is not likely that an outflow of resources will be required.

Equity
Equity consists of the following items:

- *Share capital* that represents the nominal amount (par value) of issued and registered shares.

- *Additional paid in capital* includes premiums received on the new issue of share capital and shareholders' contributions from the Parent Company's owners. Any transaction expenses associated with the new share issue are deducted from Additional paid in capital.
- *Statutory reserve* originates from when the Swedish Companies Act stipulated provisions to a statutory reserve in the parent company. In the consolidated accounts, the statutory reserve is disclosed in the Reserves item.
- *Retained earnings* relates to all earnings/losses brought forward for current and previous periods, and purchases of treasury shares.

Shareholders' contributions
Shareholders' contributions received without being exchanged for issued shares or other equity instruments are reported directly in equity. Shareholders' contributions repaid to owners are recognized as a dividend paid (value transfer) in the balance sheet. The above policies apply equally to conditional and unconditional shareholders' contributions.

Parent Company accounting policies
The Parent Company's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2 "Accounting for Legal Entities." RFR2 stipulates that in its annual accounts for the legal entity, the parent company should apply all IFRS and statements as endorsed by the EU as far as possible within the auspices of the Swedish Companies Act and considering the relationship between accounting and taxation.

The Parent Company's annual accounts are presented in the Company's presentation currency, Swedish kronor.

Revised accounting policies
The Parent Company's accounting policies for 2019 are unchanged compared to those applied in the annual accounts for 2018.

The new policies for leases pursuant to IFRS 16 that the Group has adopted have not been adopted by the Parent Company. The Parent Company applies an exemption in RFR 2, permitting the Parent Company to recognize existing leases in the same manner as in previous financial periods.

Differences between the Parent Company and Group accounting policies
The Parent Company's accounting and valuation policies are consistent with the Group's equivalent policies with the exception of items stated below.

Format
The income statement and balance sheet comply with the Swedish Annual Accounts Act in the Parent Company. The statement of income and other comprehensive income, the statement of changes in equity and cash flow statement are based on IAS 1 *Presentation of Financial Statements* and IAS 7 *Statement of Cash Flows*. The differences in the Group's statements applying to the Parent Company's income statement and balance sheet primarily relate to the presentation of equity.

Participations in subsidiaries
Participations in subsidiaries are recognized at cost after deducting for any impairment. Cost includes acquisition-related expenses and any contingent considerations. When there is an indication that participations in subsidiaries are impaired, their recoverable amount is measured. If this is lower than the carrying amount, they are impaired. Impairment is recognized in the "Profit/loss from participations in group companies" item in the Parent Company income statement.

Leases
The Parent Company does not apply IFRS 16 Leases pursuant to the exemption in RFR 2. As lessee, lease payments are recognized as an expense on a straight-line basis over the lease term, and accordingly, right-of-use assets and lease liabilities are not recognized in the balance sheet.

Financial instruments
The Parent Company has elected not to apply IFRS 9 for its financial instruments. However, parts of the policies of IFRS 9 remain applicable to impairment, recognition/derecognition and the effective interest method for interest income and interest expenses.

Within the Parent Company, financial non-current assets are measured at cost less any impairment and financial current assets are measured at the lower of cost or market value. For financial assets recognized at amortized cost, the impairment regulations of IFRS 9 are applied in the same manner as in the consolidated accounts.

Equity
The Parent Company has a fund for development expenditure which is increased each year by the amount of the company's own development work capitalized. The fund is reduced annually by amortization of capitalized development work.

Shareholders' contributions
Shareholders' contributions made to subsidiaries without issued shares or other equity instruments being received in exchange are recognized in the balance sheet as an increase in the carrying amount of the shares.

Shareholders' contributions received from owners without issued shares or other equity instruments being provided in exchange are recognized directly in equity.

Shareholders' contributions repaid to owners are recognized as a dividend paid (value transfer) in the balance sheet. Repaid shareholders' contributions from subsidiaries are recognized as a dividend received in financial income, concurrent with an impairment test of the carrying amount of shares in subsidiaries being conducted. The above policies apply equally to conditional and unconditional shareholders' contributions.

Note 2 Judgements and estimates

Preparing the financial statements in accordance with IFRS requires Management to make judgements and estimates, and to make assumptions that affect the application of accounting policies and the carrying amounts of assets, liabilities, revenues and expenses. Actual outcomes may differ from these estimates.

The estimates and assumptions are evaluated regularly. Changes to estimates are recognized in the period that the change is made.

The sources of uncertainty and estimates that involve a significant risk that the value of assets or liabilities may require restatement to a material extent during the forthcoming financial year are impairment testing of intangible assets with indefinite useful lives.

Whether the requirements for capitalization of development expenditure is satisfied requires estimates. After capitalization, whether the accounting requirement for development expenses remain satisfied, and whether there are indications that the capitalized expenditure may have been exposed to impairment is monitored on a continuous basis. The Group has capitalized intangible assets that are not yet complete, which are subject to yearly impairment tests or as soon as there is an indication of impairment. Impairment tests involve estimates of future cash flows attributable to the asset or the cash-generating unit to which the asset relates when it is complete. These estimates and judgements involve expectations primarily regarding the selling price of products, market penetration, remaining development, sales and marketing expenses, and the likelihood that the product passes through the remaining development phases. These assumptions involve sector and market-specific data, are made by Management, then reviewed by the Board of Directors. For more information on the impairment testing of intangible assets with indefinite useful lives, see Note 11.

Another source of uncertainty is the judgement of the extent to which deferred tax assets can be recognized based on a judgement of the likelihood of the Group's future taxable revenues that the deferred tax assets can be applied against. Additionally, significant consideration of judgements of the effect of certain legal and financial limitations, or uncertainty in differing jurisdictions is also necessary.

Note 3 Expenses classified by type

Operating profit/loss, expenses classified by type

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018***
Net sales	-	-	277
Capitalized work on own account	68,892	69,904	31,964
Other operating income	374	374	86
Other external expenses	-83,103	-85,105	-34,978
Personnel expenses	-26,743	-26,743	-15,462
Depreciation and amortization	-4,802	-3,837	-1,619
Other operating expenses	-1,182	-1,182	-1,077
Operating profit/loss	**-46,564**	**-46,589**	**-20,810**

** This year has been restated because previously, capitalized work on own account was not disclosed separately. Additionally, the depreciation and amortization item were impacted by correcting misstatements, for more information see note 21.*

Note 4 Other operating income

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018**
Exchange gains	371	371	86
Insurance claims	3	3	-
Total	**374**	**374**	**86**

Note 5 Other operating expenses

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018**
Exchange losses	-1,182	-1,182	-589
Loss on sale of non-current assets	-	-	-74
EU subsidy	-	-	-414
Total	**-1,182**	**-1,182**	**-1,077**

The company previously received a decision to obtain an EU subsidy over a four-year period. When this period expired in 2018, it became clear that the company had received a lower subsidy than expected. This meant it was necessary to dissolve a previous allocation, which had a negative SEK 414 thousand effect on the Income Statement for 2018.

Note 6 Audit fees

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018**
Grant Thornton Sweden AB			
Auditing	346	346	224
Other	86	86	79
Total	**432**	**432**	**303**
KPMG AB			
Auditing	250	250	-
Other	4,343	4,343	-
Total	**4,593**	**4,593**	**-**

Auditing
Auditing means the statutory audit of annual accounts and consolidated accounts, as well as accounting records and the Board of Directors' and CEO's administration, and auditing and other reviews conducted in accordance with agreement or contract.

This includes the duties incumbent on the company's auditor, as well as consulting or other services resulting from observations from such review or performing other such duties.

Other
Essentially, other means consulting in segments such as certifications, internal processes and support on preparations for the company's IPO process.

Note 7 Employees and personnel expenses

	Group		Parent company	
SEK thousand	**2019**		**2019**	**2018**
Average number of employees				
Women	8		8	4
Men	9		9	7
Total	**17**		**17**	**11**
Salaries and other benefits				
Salaries for the Board of Directors and CEO	2,606		2,606	2,626
Bonuses, etc. for the Board of Directors and CEO	413		413	554
Other employees	12,547		12,547	7,513
Total	**15,566**		**15,566**	**10,693**
Social security expenses				
Pension expenses for the Board of Directors and CEO	381		381	349
Pension expenses for other employees	2,090		2,090	981
Other statutory or contractual social security charges	5,057		5,057	2,753
Total	**7,528**		**7,528**	**4,083**
Total salaries, benefits, social security expenses and pension expenses	**23,093**		**23,093**	**14,776**

Remuneration to senior executives

Remuneration 2019, SEK thousand	**Basic salary/ Directors' fee**	**Variable compensation**	**Other benefits**	**Pension expense**	**Other compensation**	**Total compensation**
Chairman Michael Wolff Jensen	280					280
Director Hans Arwidsson	140					140
Director Gunnar Gårdemyr	140					140
Director Maris Hartmanis	155					155
Director Carl-Johan Spak	125					125
Director Torbjörn Koivisto	140					140
Director Christine Lind	140					140
CEO, Per Andersson	1,833	413	48	381		2,675,
Other senior executives (3)	2,053	336	51	450	981**	3,870
Total	**5,006**	**749**	**98**	**831**	**981**	**7,665**

Remuneration 2018, SEK thousand	**Basic salary/ Directors' fee**	**Variable compensation**	**Other benefits**	**Pension expense**	**Other compensation**	**Total compensation**
Chairman Michael Wolff Jensen	182				400*	582
Director Hans Arwidsson	91					91
Director Maris Hartmanis	91					91
Director Carl-Johan Spak	91					91
Director Torbjörn Koivisto	91					91
CEO, Per Andersson	1,528	553	49	349		2,479
Other senior executives (2)	927			178	1,932**	3,037
Total	**3,001**	**553**	**49**	**527**	**2,332**	**6,462**

There are no pension obligations to the Board of Directors. The company's CEO has been allocated a pension solution via Skandia in the form of an occupational pension policy.

** In 2018, the purchase of services from the Chairman of the Board over and above customary service on the Board was disclosed in the "Remuneration to senior executives" note, and in 2019, is disclosed in note 25, transactions with related parties.*

*** Other compensation for other senior executives is consulting fees from a senior executive, not considered as a related party.*

Cont. Note 7

Share option program

The company has issued three series of share options via incentive programs targeting all employees and certain key individuals with the aim of creating greater unity between employees' at shareholders' interests.

Share option program 1 (Program 2015/2021)

In 2015, all employees and the chairman of the board were granted 255,000 share options which remain outstanding as of 31 December 2019 with an exercise price of SEK 25.00 per share. They can be exercised until 21 January 2021. On full exercise, these share options cause maximum dilution of 1.52% based on the current number of shares. The program has no vesting conditions. Recipients of these share options paid market price, with no subsidy granted. No share options had been returned or exercised as of 31 December 2019.

Share option program 2 (Program 2017/2020)

In 2017, all employees were granted one option free of charge per share purchased at market price at the company's IPO on Nasdaq First North. No subsidy was granted. A total of 199,591 share options were granted, which may be exercised by August 2020 at an exercise price of SEK 49.30 per share. This program causes a maximum dilution effect of 1.19% based on the current number of shares. This program is conditional on the holder remaining an employee of the company. The share options can be exercised in the period 1 January to 21 January 2018 inclusive, or 1 August to 21 August 2018 inclusive, 1 January to 21 January 2019 inclusive, or 1 August to 21 August 2019 inclusive and 1 January to 21 January 2020 inclusive, or 1 August to 21 August 2020 inclusive. No share options had been returned or exercised as of 31 December 2019.

Share option program 3 (LTI 2018)

An Extraordinary General Meeting on 28 November resolved to introduce an incentive program (LTI 2018) involving a maximum of 234,505 share options with the aim of creating greater unity between key employees' and shareholders' interests. LTI 2018 was offered to all employees and other key individuals. The company's directors were not eligible for LTI 2018. The CEO, senior executives and other employees of the company, and other individuals that had entered employment contracts with Xspray Pharma during the subscription period were entitled to subscribe for share options, waiving shareholders' preferential rights. The share options were subscribed on market terms at a price (premium) determined on the basis of computed market value of the share options by an independent valuation institute applying the Black & Scholes valuation model. The value was computed at SEK 5.83 per share option based on a subscription price per share of SEK 116.50. Assuming full exercise of the share options already issued in previously adopted incentive programs, LTI 2018 corresponds to a maximum of approx. 1.24% of the share capital and votes after dilution (with a reservation for potential restatement pursuant to the share options' terms & conditions). The share options can be exercised until 17 January 2022. The company subsidized the participants' premium with an amount corresponding to the premium paid, which has been reported as personnel costs in 2018. If the option holder's employment ends during the program's term, options will be redeemed proportionately based on the remaining term in relation to the program's original terms. In 2019, 20,583 share options were returned due to an employee terminating employment. No other options had been returned or exercise as of 31 December 2019.

Parent company and group

No. of share options per incentive program

2019	2015/2021	2017/2020	LTI 2018
Outstanding at beginning of period, 1 Jan. 2019	255,000	199,591	234,505
Granted in the period	-	-	-
Forfeited in the period	-	-	-
Exercised in the period	-	-	-
Redeemed in the period	-	-	-20,583
Outstanding at end of period	255,000	199,591	213,922
Exercisable at end of period, 31 Dec. 2019	**255,000**	**199,591**	**213,922**

2018	2015/2021	2017/2020	LTI 2018
Outstanding at beginning of period, 1 Jan. 2018	255,000	199,591	-
Granted in the period	-	-	234,505
Forfeited in the period	-	-	-
Exercised in the period	-	-	-
Redeemed in the period	-	-	-
Outstanding at end of period	255,000	199,591	234,505
Exercisable at end of period, 31 Dec. 2018	**255,000**	**199,591**	**234,505**

Cont. Note 7

Outstanding share options as of 31 December 2019 (2018) have a subscription price in the interval SEK 25(25) to 116.50 (116.50) and a weighted average remaining contracted term of 2.7 (3.7) years. The fair value of share options has been estimated using the Black & Scholes model.

Fair value and assumptions at the time of granting share options

	Incentive program		
	2015/2021	**2017/2020**	**LTI 2018**
Fair value at grant date			
Share price (SEK)	10	22	69,2
Volume weighted share price at the exercise price (SEK)	-	32,89	70,61
Exercise price (SEK)	25	49,3	116,5
Expected volatility (%)	25	35	35
Share option term (years)	5	3	3,1
Expected dividend	0	0	0
Risk-free interest rate (%)	-1.5	-0.44	-0.28

The input data stated in the above table is for valuation at the grant date. The expected volatility is based on historical volatility based on a weighted average maturity of share options adjusted for any expected change in future volatility resulting from officially available information. The expected term of the option has been determined considering expected subscription prior to the end of each program's subscription period, and has been assumed at 3–5 years. The expected maturity has been completed by using historical data on how early individuals in different staff categories have exercised their share options.

The following executives held shares in the company at the end of the year:	
Michael Wolff Jensen	29,378 shares
Per Andersson	127,437 shares
Maris Hartmanis	28,619 shares
Torbjörn Koivosto	4,000 shares
Gunnar Gårdemyr	400 shares
Christine Lind	2,804 shares
Carl-Johan Spak (via Recipharm Venture Fund AB)	251,838 shares
Other senior executives	81,255 shares

The number of share options granted to senior executives of the company at the end of year	
Michael Wolff Jensen	25,000 share options
Per Andersson	154,857 share options
Other senior executives	42,528 share options

Agreements on severance pay and notice periods
At present, there are no agreements on severance pay for senior executives.

The notice period for termination initiated by the CEO is six months. For termination initiated by the company, the CEO's notice period is nine months. If the CEO is discharged during the notice period, the CEO is not entitled to variable compensation, otherwise normal compensation is payable during the notice period.

Gender division on the Board of Directors and senior executives	**2019**	**2018**
Share of women on the Board of Directors	14%	0%
Share of men on the Board of Directors	86%	100%
Share of women in other senior executives	50%	33%
Share of men in other senior executives	50%	67%

Note 8 Financial income

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018**
External interest income	862	862	150
Total	**862**	**862**	**150**

Note 9 Financial expenses

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018**
External interest expenses	-69	-69	-24
Exchange losses	-	-	-7
Total	**-69**	**-69**	**-31**

Note 10 Tax

	Group	Parent company	
SEK thousand	**2019**	**2019**	**2018***
Current tax	0	0	0
Total reported tax	**0**	**0**	**0**
Reconciliation of effective tax			
Reported profit/loss before tax	-45,771	-47,795	-20,691
Tax at applicable rate 21.4% (22.0)	9,795	9,800	4,552
Tax effect of deductible costs that are not included in the reported profit	1,570	1,570	-
Tax effect of non-deductible expenses	-34	-34	-19
Tax effect of non-taxable revenues	-	-	-
Change of temporary differences	5		
Increase in loss carry-forwards without the corresponding capitalization of deferred tax	-11,336	-11,336	-4,533
Reported effective tax	**0**	**0**	**0**

** Recalculated to correct misstatement. More information on the effects of the restatement in note 21*

The Company has tax items in respect of emissions expenses reported directly against equity

In February 2020, the company started a case with the Swedish Tax Authority to get their opinion on the tax-related loss carry-forwards that have arisen from 2015. The potential effect can lead to reductions of previous tax-related loss carry-forwards in 2015 due to the special limitation rules for change of the company's ownership. Tax-related loss carry-forwards that have arisen after the 2015 tax year are not considered to be affected, but may have an effect for the opening tax-related balances for each year.

It has tax-related loss carry-forwards in the amount of SEK 226,594 thousand (173,621) for which deferred tax assets have not been reported in the balance sheet and which have no time limitation. Deferred tax assets have not been reported for these items as the Company most likely will continue to make losses next year. Furthermore, significant parts of the loss carry-forward may be lost owing to the special limitation and blocking rules that apply when there are changes in ownership. The size of the remaining loss carry-forward is analyzed every year and the likelihood of their ability to be used against future gains is assessed.

Note 11 Capitalized development costs

	Group		Parent company	
SEK thousand	**2019-12-31**	**2018-12-31**	**2019-12-31**	**2018-12-31**
Acquisition costs brought forward	71,850	39,885	71,850	39,885
Purchases	70,004	31,965	69,904	31,965
Reclassification	-339	-	-339	-
Closing accumulated acquisition cost	**141,515**	**71,850**	**141,414**	**71,850**
Closing residual value according to plan	**141,515**	**71,850**	**141,414**	**71,850**

Costs for research and development expensed in the period is SEK 3,363 thousand (3,129) for the parent company and SEK 3,429 thousand (-) for the group.

In the consolidated accounts, interest of SEK 251 thousand (-) was capitalized as capitalized development expenditure in 2019. Interest is attributable to the group's lease liability. The average interest rate in the period was 5%.

Critical estimates and judgements

Several critical estimates and judgements are made when Xspray conducts impairment tests of the group's and parent company's capitalized development expenditure.

Primarily, the most critical assumptions are assumptions guarding the size of the market, market share and pricing levels. The company remains in the development phase, and judgements cannot be backed by financial history, which presents difficulties in assessing the reasonableness of forecasts. However, the company can refer to relevant products on the market at present. The company has conducted sensitivity analyses based on narrower margins, delays in time in terms of estimated sales, and the scale of estimated sales, these analyses offer indications that impairment is necessary. The weighted average cost of capital after tax could also double without any indication of impairment.

The impairment test is based on forecasted sales revenue based on current sales statistics. Furthermore, cost of goods sold has been calculated based on cost estimates from suppliers, partners and personnel costs. Other external costs and personnel costs for the projects have been considered. Furthermore, consideration has also been made for depreciation of the intangible asset.

Capitalized development expenditure begins amortization when each product is launched on the market.

Note 12 Patents

	Group		Parent company	
SEK thousand	**2019-12-31**	**2018-12-31**	**2019-12-31**	**2018-12-31**
Acquisition costs brought forward	2,699	2,699	2,699	2,699
Closing accumulated acquisition cost	**2,699**	**2,699**	**2,699**	**2,699**
Depreciations brought forward	-2,656	-2,279	-2,656	-2,279
Depreciations for the year	-43	-377	-43	-377
Accumulated depreciations carried forward	**-2,699**	**-2,656**	**-2,699**	**-2,656**
Closing residual value according to plan	**-**	**43**	**-**	**43**

SEK 29 thousand (75) of amortization of patents is in the Income Statement under research and development expenditure, and SEK 14 thousand (302) is included in administration and selling expenses. Maintenance costs for existing patents have not been activated as patents.

Note 13 Machinery and other technical plant

	Group		Parent company	
SEK thousand	**2019-12-31**	**2018-12-31**	**2019-12-31**	**2018-12-31***
Acquisition costs brought forward	12,554	8,791	12,554	8,791
Purchases	6,799	3,558	6,799	3,558
Reclassification	17,676	205	17,676	205
Scrapping	-144	-	-144	-
Closing accumulated acquisition cost	**36,885**	**12,554**	**36,885**	**12,554**
Depreciations brought forward	-7,107	-6,197	-7,107	-6,197
Depreciations for the year	-3,457	-839	-3,457	-839
Reclassification	-	-71	-	-71
Scrapping	144	-	144	-
Accumulated depreciations carried forward	**-10,420**	**-7,107**	**-10,420**	**-7,107**
Closing residual value according to plan	**26,465**	**5,447**	**26,465**	**5,447**

** Recalculated to correct misstatement. More information on the effects of the restatement in note 21.*

SEK 3,457 thousand (839) of depreciation on equipment and other technical plant is in the Income Statement under research and development expenses.

Note 14 Leases

The effects of the transition to IFRS 16 on the group's leases is reviewed in accounting policies and below. The transition approach the group has decided to apply on the transition to IFRS 16 implies that the comparative information has not been restated to reflect the new requirements. The group is only a lessee in the matter of lease contracts entered, and is not a lessor.

The Group has a rental agreement for premises. The lease was signed during the last quarter of 2018 and runs until October 31, 2023.

Extension options are included in the agreement regarding the premises. When determining the length of the lease, management considers all available information that provides a financial incentive to exercise an extension option. The possibility of extending an agreement is only included in the duration of the lease if it is considered reasonably certain that the agreement will be extended. Possible future cash flows of SEK 4,300 thousand have not been included in the lease debt as it is not certain that the agreements will be extended or terminated.

The Group also has a small number of leasing contracts for cars with lease periods of 3 years.

Right-of-use asset

SEK thousand	**Real estate used in business operations**	**Vehicles**	**Total**
Closing balance, 31 December 2019	6,604	227	6,831
Depreciations during the year	862	104	966

Additional right-of-use assets in 2019 were SEK 211 thousand. This amount includes cost for right-of-use assets relating to vehicles newly acquired in the year.

Cont. Note 14

Lease liabilities

SEK thousand	2019
Short-term lease liabilities	876
Long-term lease liabilities	4,455
Total lease liabilities	**5,331**

Amounts recognized in profit or loss

SEK thousand	2019
Depreciations of right-of-use assets	966
Interest on lease liabilities	-
Variable lease payments not included in measurement of lease liability	146
Expense for short-term leases	8
Expense for leases of low value, not short-term leases of low value	118

Future lease payments:

	Group		Parent company	
SEK thousand	2019	2018	2019	2018
Within one year	919	1 975	919	1,975
Between one year and five years	5,920	9,604	5,920	9,604
After more than five years	-	-	-	-

The group's future lease payments for 2019 are disclosures pursuant to IFRS 16 including expected usage of extension options. Future lease payments for the parent company and group for 2018 only include the minimum lease payments excluding extension options pursuant to IAS 17.

Expense payments for operating leases pursuant amount to:

	Group	Parent company	
SEK thousand	2019	2019	2018
Minimum payments	701	2,023	701
Variable payments	-	146	

Total lease expenses
Amounts recognized in the Statement of Cash Flows

SEK thousand	2019
Total cash outflows attributable to leases	383

The above cash outflow includes amounts for leases recognized as lease liabilities, and amounts paid for variable lease payments, short-term leases and leases of low value.

Transition effects for the group

Reconciliation of operating lease obligations	2019-01-01
Undiscounted obligations for operating leases, as of December 31, 2018	9,604
Less leases for which the following relief regulations are applied:	
Leases of low value	-
Short-term leases	-
From prepaid rent as of January 1, 2019	-3,469
Effect of the present value calculation, at the Group's incremental borrowing rate, appr. 5 %	-1,154
Reported liability as of 1 January 2019	**4,981**

Note 15 Equipment

	Group		Parent company	
SEK thousand	**31 Dec. 2019**	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Acquisition costs brought forward	1,979	718	1,979	718
Purchases	321	1,409	321	1,409
Disposals/scrapping	-	-148	-	-148
Closing accumulated acquisition cost	**2,300**	**1,979**	**2,300**	**1,979**
Depreciation brought forward	-696	-437	-696	-437
Depreciations for the year	-337	-333	-337	-333
Disposals/ scrapping	-	74	-	74
Accumulated depreciations carried forward	**-1,033**	**-696**	**-1,033**	**-696**
Closing residual value according to plan	**1,266**	**1,283**	**1,266**	**1,283**

Depreciation on equipment is reported in the Income Statement under administration and selling expenses at SEK 230 thousand (247), as well as research and development expenses, at SEK 107 thousand (86).

Note 16 Construction in progress

	Group		Parent company	
SEK thousand	**31 Dec. 2019**	**31 Dec. 2018***	**31 Dec. 2019**	**31 Dec. 2018***
Acquisition costs brought forward	9,821	-	9,821	-
Expenses incurred in the year	15,983	9,821	15,983	9,821
Reclassification in the year	-17,337	-	-17,337	-
Closing accumulated acquisition cost	**8,467**	**9,821**	**8,467**	**9,821**

** Recalculated to correct misstatement. More information on the effects of the restatement in note 21.*

Note 17 Shares in subsidiaries

Parent company, SEK thousand	**31 Dec. 2019**	**31 Dec. 2018**
Acquisition costs brought forward	50	0
Purchases	-	50
Accumulated cost carried forward	**50**	**50**
Closing carrying amount	**50**	**50**

Namn	**Share of equity (%)**	**Share of votes (%)**	**No. of shares**	**Book value (SEK thousand)**
Xspray Pharma Futurum AB	100	100	50,000	50

Name	**Corp ID no.**	**Reg. office**	**Equity (SEK thousand)**	**Profit/ loss for the year**
Xspray Pharma Futurum AB	559178-7642	Stockholm	50	0

Note 18 Financial instruments and financial risks

Financial assets and liabilities for the parent company and group as of year-end 2019 and 2018. All financial assets and liabilities below are recognized at amortized cost apart from the financial investment in shares of SEK 1 thousand, which is in the financial assets at fair value through profit or loss measurement category.

SEK thousand	31 Dec. 2019	31 Dec. 2018
Financial assets in the Balance Sheet		
Financial investments	1	1
Current receivables	5,017	1,474
Accrued income	271	-
Cash and cash equivalents	209,872	221,266
Total	**215,161**	**222,741**
Financial liabilities in the Balance Sheet		
Trade accounts payable	11,876	7,780
Other current liabilities	-	-
Accrued expenses	506	707
Total	**12,382**	**8,487**

The carrying amounts of invested assets, other receivables, cash and cash equivalents and trade accounts payable are reasonable approximations of fair value.

For lease liabilities in the consolidated accounts, see note 14.

Financial risks and asset management procedures
Through its operations, the company is exposed to various financial risks such as market risk (currency risk in cash flow), credit risk and liquidity risk. The Board of Directors has adopted a finance policy for managing financial risks within the Group. The Board is responsible for the Group's long-term financing strategy and for any raising of capital. The CFO is responsible for managing financial risks in its day-to-day operations.

Currency risk
The company collaborates with international counterparties and there is some exposure to fluctuations of different currencies, mainly USD and EUR. Exposure to currency risk arises in tandem with foreign currency payments and receipts, and in the translation of foreign currency receivables and liabilities. The scope of the company's operations mean that at present, net exposure to foreign currencies is limited. A weakening of the Swedish Krona against these currencies will lead to increased costs for the Group, if all else being equal.

The current exposure for foreign currencies is limited. A change in the average exchange rate for USD and EUR by +/– 10%, with all other variables constant, will have an impact on the Group's profit before tax by SEK +/– 2,219 thousand and SEK +/– 3,868 thousand. However, since foreign currency expenditures are mainly capitalized in machinery and capitalized development expenditure, currency risks are only exposed for the time between delivery and payment.

The profit/loss for the year for the group and parent company include exchange differences in the operating profit/loss.

Credit risk
Credit is the risk of a counterparty of a financial transaction not fulfilling its obligations on the due date. Credit risk mainly relates to balances with reputable banks with credit ratings of A or higher, based on credit rating from Standard & Poor. These balances are available on demand. Considering their short maturity and banks' high credit ratings, the credit risk is considered low, and expected credit losses negligible.

Liquidity risk/financing risk and going concern
The group had available liquidity of SEK 209,872 thousand as of 31 December 2019, consisting of bank balances. As of the reporting date, the group had no external borrowings.

Liquidity risk is the risk of the company being unable to fulfil its obligations. The group manages this risk by monitoring and forecasting receipts and payments in daily business. The company does not conduct trading in financial assets for speculation purposes.

Financing risk is the capability of being able to finance projects until commercialization. Available cash and cash equivalents are sufficient to cover the liquidity necessary to conduct planned operations over the next 12 months.

The Group's goal regarding the capital structure is to ensure the Group's ability to continue its operations, so that it can continue to generate returns to shareholders and benefit other stakeholders, and maintain an optimal capital structure to keep low costs.

Before the company achieves profitability and positive cash flow, the Group needs to maintain its capital structure from new share issues and other equity instruments to finance the development costs and launch of new projects.

Note 19 Prepaid expenses and accrued income

	Group		Parent company	
SEK thousand	**31 Dec. 2019**	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Prepaid rent	83	3,491	1,660	3,491
Other prepaid expenses	462	429	462	429
Accrued interest income	271	-	271	-
Total	**816**	**3,920**	**2,393**	**3,920**

Note 20 Cash and cash equivalents

	Group		Parent company	
SEK thousand	**31 Dec. 2019**	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Bank balances	209,872	221,266	209,822	221,216
Total	**209,872**	**221,266**	**209,822**	**221,216**

Cash and cash equivalents in the Balance Sheet and Cash Flow Statement consist of cash and bank balances only. All outstanding bank balances are wholly invested with banks with high credit ratings from leading credit institutions. See note 18 for more detail on credit risk.

Note 21 Equity

	2019	2018
Number/value at end of year	15,076,460	12,356,460
New share issue	1,675,162	2,720,000
Number at the end of year	**16,751,622**	**15,076,460**

The share has been trading on Nasdaq First North with the ticker XSPRAY since 28 September 2017. The share's IPO price was SEK 22.00. The number of shares of the company as of 31 December 2019 was 16,751,622 (15,076,460).

The shares have a quota value of SEK 1 per share.

Retroactive restatement of depreciation, amortization, and reclassification

Investments in three new production lines commenced 2018. One of these lines was completed in June 2019. The other two production lines are scheduled for completion and come on stream in 2020. Sub-components of ongoing investments in these production facilities were inadvertently classified as complete as early as 2018, so depreciation commenced before they came on stream. Investments in sub-components and production lines are mutually dependent and cannot be used until the whole production line is complete.

In the Balance Sheet, investments in 2018 should have been classified as construction in progress, to not reclassify as machinery until each production line came on stream. Reclassification from construction in progress to machinery was first reported in June 2019, when one of the production lines completed and came on stream, whereupon depreciation commenced.

In the company's review of investments and depreciation, the occurrence of investments was noted at the end of 2017 for which full-year depreciation was reported without regard to the fact that the facilities in question were only used during part of the year. Accordingly, the carrying amount of the machine has been adjusted as of January 1, 2018.

The following reports are included to illustrate quantifiable effects:

- Consolidated balance sheet, 31 Dec. 2018
- Parent Company income statement, 2018 including earnings per share
- Parent Company statement of comprehensive income, 2018
- Parent Company balance sheet, 1 Jan. 2018 (restatement of opening balance)
- Parent Company balance sheet, 31 Dec. 2018
- Parent Company cash flow statement, 2018

Cont. Note 21

Consolidated Balance Sheet

SEK thousand	After correction 31 Dec. 2018	Correction	Before correction 31 Dec. 2018
Property, plant and equipment			
Machinery and installations	5,447	-7,000	12,447
Right-of-use assets	-	-	-
Equipment	1,283	-	1,283
Fixed assets under construction	9,821	9,821	-
Total Property, plant and equipment	**16,551**	**2,821**	**13,730**
TOTAL ASSETS	**315,306**	**2,821**	**312,485**
EQUITY AND LIABILITIES			
Equity			
Share capital	15,076	-	15,076
Other contributed capital	336,991	-	336,991
Reserves	976	-	976
Retained earnings including profit/loss for the period	-48,506	2,821,	-51,327
Total equity attributable to the Parent Company's shareholders	**304,537**	**2,821**	**301,716**
TOTAL EQUITY AND LIABILITIES	**315,306**	**2,821**	**312,485**

Parent Company Income Statement

SEK thousand	After correction 2018	Correction	Before correction 2018
Research and development expenses	-3,129	2,407	-5,536
Operating loss	**-20,810**	**2,407**	**-23,217**
Loss for the year	**-20,691**	**2,407**	**-23,098**
Earnings per share for the year before dilution, SEK	-1.52	0.18	-1.70
Earnings per share for the year after dilution, SEK	-1.52	0.18	-1.70

Cont. Note 21

Parent Company Balance Sheet

SEK thousand	After correction 1 Jan. 2018	Correction	Before correction 1 Jan. 2018
Property, plant and equipment			
Machinery and installations	2,594	414	2,180
Equipment	281	-	281
Fixed assets under construction	-	-	-
Total Property, plant and equipment	**2,875**	**414**	**2,461**
TOTAL ASSETS	**160,523**	**414**	**160,109**
EQUITY AND LIABILITIES			
Restricted equity			
Share capital			
Statutory reserve	12,356	-	12,356
Development expenditure reserve	976	-	976
Total restricted equity	39,886	-	39,886
Summa bundet eget kapital	**53,218**	**-**	**53,218**
Non-restricted equity			
Other contributed capital	169,253	-	169,253
Retained earnings and profit from previous years	-67,701	414	-68,115
Total non-restricted equity	**101,552**	**414**	**101,137**
Total equity	**154,769**	**414**	**154,355**
TOTAL EQUITY AND LIABILITIES	**160,523**	**414**	**160,109**

Parent Company Balance Sheet

SEK thousand	After correction 31 Dec. 2018	Correction	Before correction 31 Dec. 2018
Property, plant and equipment			
Machinery and installations	5,447	-7,000	12,447
Equipment	1,283	-	1,283
Fixed assets under construction	9,821	9,821	-
Total Property, plant and equipment	**16,551**	**2,821**	**13,730**
TOTAL ASSETS	**315,306**	**2,821**	**312,485**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	15,076	-	15,076
Statutory reserve	976	-	976
Development expenditure reserve	71,850	-	71,850
Total restricted equity	**87,902**	**-**	**87,902**
TOTAL EQUITY AND LIABILITIES	**315,306**	**2,821**	**312,485**

Cont. Note 21

Parent Company Statement of Cash Flow

SEK thousand	After correction 2018	Correction	Before correction 2018
Operating activities			
Operating loss	-20,810	2,407	-23,217
Non-cash adjustments			
Depreciation	1,694	-2,407	4,101
Cash flow for the year	**105,704**	**-**	**105,704**

Note 22 Accrued expenses and deferred income

	Group		Parent company	
SEK thousand	**31 Dec. 2019**	**31 Dec. 2018**	**31 Dec. 2019**	**31 Dec. 2018**
Accrued bonus incl. soc.security fee	2,301	-	2,301	-
Accrued research and development expenses	1,797	-	1,797	-
Accured legal cost	1,490	-	1,490	-
Accrued vacation pay incl. soc.security fee	1,198	658	1,198	658
Accrued special payroll tax	922	323	922	323
Accured consulting fee	793	-	793	-
Accrued Board fees	187	179	187	179
Other accrued expenses	319	528	320	528
Total	**9,007**	**1,688**	**9,007**	**1,688**

Note 23 Pledged assets

There are no pledged assets or liabilities for which collateral has been pledged.

Note 24 Contingent liabilities

There are no contingent liabilities, or contingent liabilities in favor of a separate legal entity.

Note 25 Transactions with related parties

The Management of the parent company, the Boards of Directors of the parent company and subsidiaries are defined as related parties. The subsidiary is fully dormant, and there have been no intra-group transactions, so no further disclosure will be made on this topic subject.
The following transactions with related parties occurred during the financial year and comparative year. For the comparative year, amounts are stated under other benefits, while for the financial year, information presented over and above that in note 7 – Employees and personnel expenses is provided.

Purchases of services from Directors in 2019 were consulting fees to MWJ Partners Aps, which is owned by Chairman of the Board Michael Wolff Jensen. Purchase of services from related senior executives refers to services which were purchased primarily in 2018 from Liljebris Consulting AB. The services were consulting fees for investigating new rental space. Charlotta Liljebris was at that time a Board member of Liljebris Consulting AB.

These transactions were on an arm's length basis.

	Group	Parent company	
SEK thousand	**31 Dec. 2019**	**31 Dec. 2019**	**31 Dec. 2018**
Purchase of services from Directors	234	234	400
Purchase of services from related Senior Executives	21	21	377
Total	**255**	**255**	**737**

Note 26 Definitions of key ratios

Earnings per share computed as profit/loss for the period divided by the average number of shares in the period.

This key ratio is useful for readers of the financial reports as a complement to other key ratios for assessing Xspray's profit position.

Equity/assets ratio equity, and where appropriate, untaxed reserves (les deferred tax) in relation to total assets.

This key ratio is useful for readers of the financial reports as a complement to other key ratios for assessing Xspray's capital position.

Research and development expenses as a percentage of operating expenses consists of research and development expenses divided by operating expenses, which include selling and administration expenses and other operating expenses.

This key ratio is useful for readers of the financial reports as a complement to other key ratios for assessing the degree of development of the Company's product candidates.

Note 27 Significant events after the reporting period

- In February 2020, stability studies for HyNap-Dasa tablets according to GMP standard were started.
- In February 2020, four new patents for the product candidate HyNap-Dasa were granted in the U.S.
- In February 2020, Xspray issued a notice of Extraordinary General Meeting on March 26, 2020, regarding decisions on long-term incentive program 2020 (LTI 2020) and issue of warrants.

No events causing restatements of the Income Statement and Balance Sheet have occurred between the reporting date and the date of approval of this Report.

Note 28 Earnings per share

	Group	Parent company
SEK thousand	**31 Dec. 2019**	**31 Dec. 2019**
Basic earnings per share	-3.01	-3.01
Diluted earnings per share	-3.01	-3.01

Amounts used in numerators are consistent with profit/loss for the year of the group of SEK –45,771 thousand, and SEK –45,796 thousand (–20,691) in the parent company. Amounts used in denominators are stated below.

The weighted average number of outstanding shares was 15,216,057 (13,593,172), which is affected by new share issues in the current and previous financial years. The number of outstanding shares at year-end was 16,751,622 (15,076,460).

Instruments that can have a dilution effect and changes after the reporting date

The weighted average number of shares after dilution and profit/loss after dilution are the same before and after dilution. Because the group is reporting a loss for the current and previous financial years, potential ordinary shares cause no dilution of the average number of shares. There are incentive programs, which once the company reports a profit, will have a dilution effect. For more information on the terms & conditions of incentive programs, and the number of outstanding share options, see note 7. No change to the number of shares before and after dilution occurred after the reporting date.

Not 29 Appropriation of profit/loss

SEK thousand	**31 Dec. 2019**
The following funds are at the disposal of the Annual General Meeting:	
Share premium reserve	450,266
Loss brought forward	-189,922
Loss for the year	-45,796
Total	**214,548**
Appropriated as follows:	
Share premium reserve	450,266
Loss carried forward	-235,718
Carried forward	**214,548**

Signatories to the Annual Report

The Board of Directors and Chief Executive Officer certify that these annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden, and the consolidated accounts have been prepared in in accordance with the international accounting standards as referred to in European Parliament and Regulation (EC) No 1606/2002 as of 19 July 2002 on the application of international accounting standards. The annual accounts and consolidated accounts give a true and fair view of the parent company's and the group's financial position and results of operations. The Report of the Board of Directors for the parent company and the group gives a true and fair view of the progress of the parent company and the group's operations, financial position and results of operations, and describes the significant risks and uncertainties faced by the parent company and group companies.

As stated above, the annual accounts and consolidated accounts were approved for issue by the Board of Directors and Chief Executive officer on 27-02-2020. The Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Balance Sheet and Other Comprehensive Income and Statement of Financial Position, and the Parent Company Income Statement and Balance Sheet will be subject to adoption at the Annual General Meeting on 14-05-2020.

Stockholm
28-02-2020

Michael Wolff Jensen
Chairman of the Board

Hans Arwidsson

Gunnar Gårdemyr

Maris Hartmanis

Torbjörn Koivisto

Christine Lind

Carl-Johan Spak

Per Andersson
CEO

Our Audit Report was presented on 28-02-2020

KPMG AB

Duane Swanson
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Xspray Pharma AB (publ), corp. id 556649-3671

Report on the annual accounts and consolidated accounts

Opinions

Vi har utfört en revision av årsredovisningen och koncern-reWe have audited the annual accounts and consolidated accounts of XSpray Pharma AB (publ) for the year 2019. The annual accounts and consolidated accounts of the company are included on pages 26–70 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and balance sheet for the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other Matter

The audit of the annual accounts for year 2018 was performed by another auditor who submitted an auditor´s report dated 29 April 2019, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 3–25 and 71–80. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of XSpray Pharma AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm 28 February 2020

KPMG AB

Duane Swanson
Authorized Public Accountant

Corporate Governance Statement

Xspray Pharma AB is a Swedish public limited company, whose shares have been traded on Nasdaq First North Growth Market, Stockholm, since 2017. Xspray Pharma AB (publ) acquired a newly incorporated subsidiary at the end of December 2018, which remains dormant, to prepare the group structure for future structural needs. The subsidiary did not conduct any operations in 2019, with all operations being conducted by the parent company Xspray Pharma AB (publ).

Since its IPO on Nasdaq First North Growth Market, the company's corporate governance has mainly been based on Swedish law, the company's Articles of Association, internal regulations and ordinances, generally accepted stock market practice, and in those sections deemed relevant to the company, according to the Swedish Code of Corporate Governance (the "Code").

Xspray's Board of Directors has decided to apply for quotation of the company's shares on Nasdaq Stockholm's main list, and consequently, the company's accounting policies were amended effective the fourth quarter 2018 to satisfy the provisions of IFRS and RFR2. Because there is no requirement for companies whose shares trade on Nasdaq First North Growth Market to comply with the Code, the company had not previously applied it, other than in those sections deemed relevant. In 2019, the company started to apply the Code fully.

Any non-compliance from the Code will be reported in the company's Corporate Governance Statement. However, the company does not intend to have any instances of non-compliance with the Code.

Shareholders

Xspray's shares are listed on Nasdaq First North Growth Market. Share capital as of 31 January 2019 consisted of 16,751,622 shares with a quota value of SEK 1.00. As of 31 December 2019, Östersjöstiftelsen and Ribbskottet AB were shareholders with holdings of at least one-tenth of the votes for all shares of the company. Östersjöstiftelsen's holdings of shares and votes were 14.93%, and Ribbskottet AB's holdings were 10.45% at year-end.

All shares are ordinary shares and carry equal rights to the company's earnings, and to one vote at the AGM. All parties entitled to vote at the AGM may do so for the full number of shares held or represented, without limitation of the number of votes.

Annual General Meeting (AGM)

Pursuant to the Swedish Companies Act (2005:551), the AGM is the company's chief decision-making body. Shareholders exercise their voting rights at AGMs. AGMs must be held within six months of the end of each financial year. Extraordinary General Meetings (EGMs) may also be convened in addition to AGMs. Apart from Solna, where the company has its registered office, the Articles of Association allow AGMs to be held in Stockholm.

Pursuant to the company's Articles of Association, invitations to AGMs should be through an announcement in the Swedish Official Gazette, and by an invitation being uploaded on the company's website. Simultaneous with the invitation, the company should announce that the invitation has been made through an advertisement in Swedish daily newspaper Svenska Dagbladet.

Shareholders recorded in the share register five days prior to the AGM, and that have notified the company by that date and time stated in the invitation to the Meeting, are entitled to participate. Such day may not be a Sunday, other public holiday, Saturday, Midsummer's Eve, Christmas Eve or New Year's Eve, and may not occur earlier than five days prior to the Meeting.

AGM 2019

Xspray's AGM 2019 was held on 23 May 2019 in Stockholm. Apart from customary business, the AGM made the following resolutions;

- to re-elect Michael Wolff Jensen, Hans Arwidsson, Maris Hartmanis, Carl-Johan Spak and Torbjörn Koivisto as Directors for the period until the end of the following AGM, and
- to appoint Gunnar Gårdemyr and Christine Lind as Directors
- to re-elect Michael Wolff Jensen as Chairman of the Board for the period until the end of the following AGM.
- To elect registered public accounting firm KPMG AB as auditor, with Duane Swanson as Auditor in Charge.
- To establish a Nomination Committee whose duty is to consult on decisions on matters of election and remuneration for the company's AGM, and where appropriate, on procedural issues for the following Nomination Committee, and to constitute instructions for the work for the Nomination Committee, and that such Nomination Committee should be established for the AGM 2020.
- To authorize the Board of Directors to take decisions on new share issues on one or more occasions in the period until the following AGM, corresponding to a maximum of 10% of the total number of shares of the company at the time of the AGM resolution.

AGM 2020

The AGM will be held on Thursday, 14 May 2020 in Stockholm. The invitation will be published in a press release and an announcement in the Swedish Official Gazette, and in Svenska Dagbladet, and published on Xsprays's website.

Shareholders wishing to have a matter considered by the AGM should make a written request to the Nomination Committee by no later than seven weeks prior to the AGM. The Nomination Committee can be contacted by mail at: Xspray Pharma AB, Råsundavägen 12, 169 67 Solna, Sweden, or by email to: generalmeeting@xspray.com, write "Valberedningen" in the subject line.

Nomination Committee

Companies that comply with the Code must have a Nomination Committee. Pursuant to the Code, the AGM should appoint the members of the Nomination Committee, or state how members are to be appointed. Pursuant to the Code, the Nomination Committee should have a minimum of three members, and a majority of them should be independent of the company and its management. At least one member of the Nomination Committee should also be independent of the largest shareholder in terms of the vote, or that group of shareholders that collaborate on the company's administration.

The Nomination Committee has especially considered the need for diversity in terms of skills, experience and backgrounds, considering factors including the company's strategic development, governance and controls. The Nomination Committee has discussed the diversity perspective based on its opinion that they are essential to the composition of the Board of Directors, and the Nomination Committee intends to attain equal gender balance.

The duty of the Nomination Committee is to consult on decisions on election and remuneration issues for the company's AGM, and where appropriate, procedural issues for the following Nomination Committee

Instructions for the work and composition of the Nomination Committee

Pursuant to a resolution by the company's AGM on 23 May 2019, the Chairman of the Board should make contact with the three largest shareholders of the company in terms of votes according to Euroclear Sweden AB's printed register as of 30 September, who should each be offered the opportunity to appoint a member, who will make up the nomination committee jointly with the Chairman of the Board. If one of these shareholders does not exercise its right to appoint a member, entitlement to appoint such member defers to the next largest shareholder in terms of votes that has not already been entitled to appoint a member of the Nomination Committee. This process should continue until the Nomination Committee consists of three members apart from the Chairman of the Board. If the Nomination Committee does not decide otherwise, the Chairman of the Nomination Committee should be the member representing the largest shareholder in terms of the vote. The Chairman of the Board may not serve as Chairman of the Nomination Committee.

The names of the Nomination Committee members should be published as soon as the Nomination Committee is appointed, although by no later than six months prior to the following AGM. The Nomination Committee is appointed for a term of office from the time when its composition is published until a new Nomination Committee has been appointed.

If changes to the company's ownership structure occur after 30 September, but before the Nomination Committee's complete proposals for resolution have been published, and if a shareholder, who after this change, is one of the three largest shareholders in terms of votes, expresses a wish to become a member of the Nomination Committee to the Chairman of the Nomination Committee, that shareholder shall be entitled to appoint one further member of the Nomination Committee. Additionally, the Nomination Committee e can decide that a member that has become significantly smaller than the third largest shareholder in terms of the vote of the company should leave the Nomination Committee if considered appropriate.

If a member leaves the Nomination Committee during its term of office, or if such member is unable to render service, the Nomination Committee should require that shareholder that has appointed said member to appoint a new member in a reasonable time. If said shareholder does not exercise its right to appoint a new member, that right defers to the next largest shareholder in terms of the vote that has not already appointed or declined to appoint a member of the Nomination Committee. Alterations to the composition of the Nomination Committee should be published as soon as they have occurred.

The Nomination Committee should consult on proposals on the following issues to be presented to the AGM for resolution:

- Proposal for a Chairman of the AGM,
- Proposal for a Board of Directors,
- Proposal for a Chairman of the Board,
- Proposal for Directors' fees, divided between the Chairman and other Directors,
- Proposal for fees for members of the Remuneration and Audit Committees (where applicable),
- Proposal for an auditor,
- Proposal for remuneration of the auditor, and
- where considered necessary, proposals for amending applicable rules for the Nomination Committee.

There are no specific provisions of the Articles of Association regarding appointing and dismissing Directors and on amending the Articles of Association.

Nomination Committee for the AGM 2020

The members of the company's Nomination Committee for the AGM 2020 are

- Gillis Cullin, appointed by Östersjöstiftelsen
- Anders Bladh, appointed by Ribbskottet AB
- Jan Dworsky, appointed by Swedbank Robur Fonder
- Michael Wolff Jensen (Chairman of the Board)

Board of Directors

The Board of Directors is the company's chief decision making body after the AGM. The Swedish Companies Act stipulates that the Board of Directors is responsible

for the company's administration and organisation, which means that the Board has duties including setting goals and strategies, ensuring procedures and systems for evaluating predetermined goals are in place, continuously evaluating the company's results of operations and financial position, and appraising executive management. The Board of Directors is also responsible for ensuring that annual accounts and interim reports are prepared on time. The Board of Directors also appoints the company's CEO.

Directors are normally appointed by the AGM for the period until the end of the following AGM. Pursuant to the company's Articles of Association, the Board of Directors, to the extent elected by the AGM, should have a minimum of three and a maximum of seven Directors, with a minimum of zero and maximum of two Deputies. The Chairman of the Board should be elected by the AGM and has special responsibility for leading the Board of Directors' work, and for this work being well organized and conducted efficiently.

The Board of Directors complies with written rules of procedure that are revised yearly and adopted at the Board meeting following election in each year. The rules of procedure formalize activities including the Board's practices, functions and the segregation of duties between Directors and the CEO. At the Board meeting following election, the Board of Directors also adopts instructions for the CEO, and for financial reporting.

The Board of Directors meets according to a predetermined schedule. In addition to these meetings, other meetings may be convened to consider issues that cannot be dealt with at scheduled Board meetings. In addition to Board meetings, the Chairman and CEO maintain a continuous dialogue on the company's management.

The Board of Directors established two consultative committees in 2019, a Remuneration Committee and an Audit Committee.

Remuneration Committee

Xspray has established a Remuneration Committee with three members: Michael Wolff Jensen (Chairman), Gunnar Gårdemyr and Torbjörn Koivisto. The duties of the Remuneration Committee are formalized by the company's rules of procedure for the Remuneration Committee. This Committee consults on issues including the Board's decisions on remuneration principles, compensation and other employment terms for the CEO and senior executives.

Audit Committee

Xspray has established an Audit Committee with three members: Maris Hartmanis (Chairman), Hans Arwidsson and Christine Lind. The duties of the Audit Committee are formalized by the company's rules of procedure for the Audit Committee. This Committee's duties include continuously monitoring and appraising the work of the auditors on behalf of the Board of Directors. The Audit Committee should review and monitor auditor independence and impartiality. Additionally, the Audit Committee should consult on matters relating to the company's accounting and internal controls, risk management, external audit and financial information.

Remuneration of Directors

Remuneration to Xspray's Directors is resolved by the AGM. The AGM on 23 May 2019 approved the Nomination Committee's proposals that the following Directors' fees would be payable: SEK 250,000 to the Chairman of the Board, SEK 125,000 to each of the other Directors, SEK 30,000 to the Chairman of the Audit Committee and SEK 15,000 each to the Audit Committee's other members, and SEK 30,000 to the Chairman of the Remuneration Committee, and SEK 15,000 to the Remuneration Committee's other members.

Work of the Board of Directors in 2019

In 2019, the Board of Directors held 15 meetings where minutes were taken. Individual Directors' participation at these meetings is stated in the table below. All the year's meetings followed an approved agenda, which Directors received before Board meetings. The CEO and CFO participate at the greater part of Board meetings. The Board annually preforms a self-assessment. The Self-assessment is designed to follow up the annual performance. Board meetings include a review of current business status, the company's results of operations and financial position, and outlook for the remainder of the year. The work of the Board of Directors in the year largely focused on:

- Developing the project portfolio
- The company's clinical phase I study on HyNap-Dasa
- Strategy, business development and business intelligence
- Financial performance and raising capital
- Interim reports, annual financial statement and annual accounts
- The forthcoming application for quoting the company's shares on Nasdaq Stockholm's Main List

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	Yes	Yes	14 (15)
Hans Arwidsson	Board member	2006	Yes	Yes	15 (15)
Maris Hartmanis	Board member	2015	Yes	Yes	15 (15)
Torbjörn Koivisto	Board member	2017	Yes	Yes	15 (15)
Carl-Johan Spak	Board member	2015	Yes	Yes	14 (15)
Gunnar Gårdemyr	Board member	2019	Yes	Yes	11 (15)
Christine Lind	Board member	2019	Yes	Yes	11 (15)

Chief Executive Officer and other senior executives
The CEO is subordinate to the Board of Directors and is responsible for the company's continuous administration and daily operation. The segregation of duties between the Board of Directors and CEO is stated in the rules of procedure for the Board of Directors and instructions for the CEO. The CEO is also responsible for preparing financial statements and compiling information from management for Board meetings, and presents this material at Board meetings. Pursuant to the instructions for financial reporting, the CEO is responsible for the company's financial reporting, and consequently, should ensure that the Board of Directors receives sufficient information for the Board to be able to evaluate the company's financial position continuously.

They CEO should keep the Board of Directors continuously informed on progress of the company's operating activities, of its sales, the company's results of operations and financial position, the liquidity and credit position, significant business events, and each other event, circumstance or relationship that could be assumed to be of material significance to the company's shareholders.

The CEO and other senior executives are presented on page 76–78.

Audit
The auditor should review the company's annual accounts and accounting records, and the Board of Directors' and CEO's administration.

The auditor should present an audit report to the AGM after each financial year.

Pursuant to the company's Articles of Association, the company should have a minimum of one and a maximum of two auditors, and a minimum of zero and maximum of two Deputy Auditors. The company's auditor is KPMG AB, with Duane Swanson as Auditor in Charge. The company's auditor is presented above under the heading "Board of Directors, CEO and auditors."

Total compensation to the company's auditors in 2019 was SEK 250 thousand, see note 6.

Internal controls
Pursuant to the Swedish Companies Act and the Swedish Annual Accounts Act, the Board of Directors is responsible for internal controls. The purpose of internal controls is to achieve expedient and effective operating activities, ensure reliable financial reporting and information on operating activities, and compliance with applicable laws, regulations, policies and guidelines.

The company's internal controls are based on principles produced by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal controls over financial reporting
Internal controls over financial reporting are designed to create reasonable reliability and assurance in financial reporting and to ensure that external financial reporting complies with applicable laws and accounting standards. The Board of Directors bears ultimately responsibility for internal controls, and evaluates the company's risk management controls continuously through the Audit Committee.

The company ensures internal controls over financial reporting through qualitative and quantitative analysis of the Consolidated Balance Sheet and Consolidated Income Statement. The purpose of the quantitative analysis is to identify risks associated with material and transaction-intensive items. The qualitative analysis is intended to identify risks associated with complexity and impropriety. Based on the outcome of this analysis, significant financial processes and risks have been identified.

The company has designed procedures and activities to monitor financial reporting and ensure that any misstatements are discovered and rectified. Key controls have been designed and followed up as part of the work of maintaining good internal controls.

Control environment and risk assessment
The company's control environment sets a framework for the orientation and culture the company's Board of Directors and Management communicate to the organization. To ensure expedient risk management and good internal controls, over and above policy documents such as the Board of Directors' rules of procedure, instructions for the CEO and associated delegation schedule and approvals list, the company has adopted a number of internal guidelines, business processes and procedures.

Additionally, the Board of Directors has established an Audit Committee whose main duty is to monitor the company's financial position, the effectiveness of the company's internal controls, internal audit and risk management to stay informed on the audit of the annual accounts and consolidated accounts, and review and monitor auditor impartiality and independence. Responsibility for continuous work on internal controls over financial reporting has been delegated to the company's CEO.

Each year, the company's group management should conduct a risk assessment regarding strategic, operational, legal and financial risks with the aim of identifying potential problem areas, and assess the company's risk exposure. The risk assessment includes identifying risks that may arise and could prevent the company from realizing its vision and achieving its goals, for example if the fundamental requirements of the company's financial reporting are not satisfied. Within each risk segment, the individual responsible for each risk segment identifies risks and the potential consequences, as well as likelihoods, and proposes actions. The Audit Committee is responsible for continuously evaluating the company's risk situation and should support the Board of Directors by making proposals for managing the company's financial risk exposure and risk management.

Control activities
The Board of Directors has adopted a risk management policy to identify and manage the risks associated with the company's operating activities. Risk management is a high priority within the company. The Board of Directors bears ultimate responsibility for risk management. The company's risk situation should be evaluated each year, with an action plan then produced. The company has based its control environment on the risks identified during the risk assess-

ment process. The company has also appointed process owners who are responsible for individual processes. The CEO and other senior executives all participate in ongoing work in managing risk associated with operating activities.

The company has formulated procedures and activities to monitor financial reporting and ensure that any misstatements are discovered and rectified. These activities include monitoring and comparing earnings performance with accounting items, account reconciliations and balance specifications, as well as approvals of banking transactions and collaborative agreements, powers of attorney and approvals lists, as well as accounting and valuation policies. The company's CFO plays a key role in analyzing and monitoring the company's financial reporting and results of operations. Access to the accounting system is limited by authority, responsibility and role.

Information and communication

The company also has internal control functions for information and communication intended to ensure accurate financial and other corporate information is communicated to employees and other stakeholders.

The company's internal instructions and policies are available to all staff and offer detailed information on applicable procedures in all parts of the company, and review the control functions and how they are implemented.

Monitoring

Compliance and effectiveness of internal controls is regularly monitored. The CEO ensures that the Board of Directors receives regular reports on progress of the company's operating activities including progress of the company's results of operations and financial position, and information on significant events, such as research outcomes and important agreements and contracts. The CEO reports on these issues to the Board of Directors. The company's compliance with applicable policies and control documents, as well as the effectiveness of internal controls, are subject to annual review. The outcome of this evaluation is compiled by the company's CEO and reported to the Board of Directors each year. The Board of Directors discusses all interim reports and annual accounts prior to their publication and monitors the review of internal controls through the Audit Committee. The Audit Committee supports the Board of Directors by consulting on issues and offering the Board of Directors support in its work on performing its duties within the segments of internal and auditing, as well as quality-assuring the company's financial reporting.

Board of Directors and Auditor

Michael Wolff Jensen

Board member and Chairman of the Board since 2013. Chairman of the Remuneration Committee.
Born 1971
Education: Master of Laws (LL.M.), University of Copenhagen.
Other current assignments: Chairman of the Boards of Ascendis Pharma A/S, Ascendis Pharma Bone Diseases A/S, Ascendis Pharma Endocrinology Division A/S, ASCENDIS PHARMA Circulatory Diseases, MWJ Partners ApS, ASCENDIS PHARMA, Ophthalmology Division A/S and ASCENDIS PHARMA Oncology Division A/S. Deputy Director of Xspray Pharma Futurum AB.
Previous assignments (past five years): Chairman of the Boards of Eurocine Vaccines AB and VANX ApS.
Holding in the company on 31 December 2019: 29,378 shares and 25,000 share options via MWJ Partners ApS.

Hans Arwidsson

Board member since 2006. Member of the Audit Committee.
Born 1958
Education: Ph.D. in Pharmaceutical Science and Pharmacist's Degree, University of Uppsala; Master of Business Administration, Executive MBA, Stockholm School of Economics.
Other current assignments: Chairman of the Board of Nanexa AB. Director of Eurocine Securities AB and Healthy Bizniz Europe AB, Director and CEO of Eurocine Vaccines AB.
Previous assignments (past five years): Director of Nanexa AB. Proprietor of Healthy Bizniz Europe. Director of Nanexa AB.
Holding in the company on 31 December 2019: –

Gunnar Gårdemyr

Board member since 2019. Member of the Remuneration Committee.
Born 1959
Education: B.A. in Marketing & Finance from Lund University.
Other current assignments: Chairman of the Board of RhoVac AB. Director of Asgard Therapeutics AB.
Previous assignments (past five years): Director of RhoVac AB.
Holding in the company on 31 December 2019: 400 shares.

Maris Hartmanis

Board member since 2015. Chairman of the Audit Committee.
Born 1953
Education: M.Sc. in biotechnology, KTH Royal Institute of Technology, Stockholm. Dr. of Technology and Associate Professor in Biochemistry, KTH.
Other current assignments: Chairman and CEO of the FINGERS Brain Health Institute foundation. Director and CEO of Hartmanis & Partners AB and Director of Xbrane Biopharma AB and BioLamina AB.
Previous assignments (past five years): Director of Applied Photophysics Ltd., Karolinska Institutet Innovations AB and Vitrolife AB. Proprietor of Hartmind.
Holding in the company on 31 December 2019: 28 619 shares.

Torbjörn Koivisto

Board member since 2017. Member of the Remuneration Committee.
Born 1969
Education: LL.M., Uppsala University.
Other current assignments: Director of Cinclus Pharma Holding AB, Hemcheck Sweden AB, and IARU Institutet för Affärsjuridisk Rådgivning i Uppsala AB. Deputy director of RJC Roger Johansson Consulting AB and Virdings Allé Invest AB. Partner of KOL Arts & Craft Handelsbolag.
Previous assignments (past five years): Chairman and Director of Forslid & Co AB. Director of KIBACQ AB, Kibion AB and Moberg Pharma AB (publ)
Holding in the company on 31 December 2019: 4,000 shares via the company IARU.

Christine Lind

Board member since 2019. Member of the Audit Committee.
Born 1974
Education: B.Sc. Finance & Information Systems from New York University, Stern School of Business, and MBA in Financial & Organizational Management from Columbia Business School.
Other current assignments: Chairman and CEO of Lind Growth Strategy AB. Deputy Director of Shinka Life Sciences AB.
Previous assignments (past five years): Director of Glycovisc Biotech AB and Medivir Personal AB. President & CEO of Medivir Aktiebolag and EVP Strategic Business Development of Medivir AB.
Holding in the company on 31 December 2019: 2,804 shares.

Carl-Johan Spak

Board member since 2015
Born 1956
Education: Dr. of Odontology, Degree in Dentistry, Karolinska Institutet.
Other current assignments: Chairman of Bostadsrättsföreningen Smultronhyllan. Director of Atrogi AB, Empros Pharma AB, Follicum AB, Inject Pharma Sweden AB, KAHR Medical Ltd., Pharmacolog i Uppsala AB (publ), Prokarium Ltd., SwedenBIO Service AB, Symcel AB and Synthonics, Inc. Chairman and CEO of Recipharm Venture Fund AB.
Previous assignments (past five years): Chairman of the Boards of Cobra Biologics Matfors AB, Cobra Biopharma Matfors AB, Cobra Biologics Holding AB, Recipharm OT Chemistry AB and Recipharm Pharmaceutical Development AB. Director of Bostadsrättsföreningen Smultronhyllan, Pharmanest AB, Recipharm OT Chemistry AB and Recipharm Strängnäs AB. Deputy Director of Cobra Biologics AB and Cormorant Pharmaceuticals AB. Director and CEO of RPH Pharmaceuticals AB.
Holding in the company on 31 December 2019: 251,838 shares via Recipharm Venture Fund AB.

Auditor

KPMG AB (PO Box 382, 101 27 Stockholm, Sweden) were elected the company's auditor at the AGM on 23 May 2019. Duane Swanson, Authorized Public Accountant and member of FAR (the Institute for the Accountancy Profession in Sweden) is Auditor in charge. Grant Thornton Sweden AB (PO Box 7623, 103 94 Stockholm, Sweden) were the company's auditor in the period 17 December 2015 until the AGM 2019 inclusive. Thomas Lindgren (Authorized Public Accountant and member of FAR, was auditor in charge in this period.

Management

Per Andersson

CEO since 2006.
Born 1967
Education: Ph.D. in Analytical Chemistry, Stockholm University.
Other current assignments: Chairman of the Board of Robotic Lawn Care Sweden AB and Director of Xspray Pharma Futurum AB. Deputy Director of Journeyman Stockholm AB.
Previous assignments (past five years): Deputy Director of Innovation TBD AB.
Holding in the company on 31 December 2019: 127,437 shares and 154,857 share options.

Kerstin Hasselgren

CFO since 2019.
Born 1961
Education: MBA, Stockholm School of Economics
Other current assignments: –
Previous assignments (past five years): –
Holding in the company on 31 December 2019: 4,500 shares.

Andreas Konar

Business Development since 2010.
Born 1949
Education: Professor and Ph.D. in organic chemistry, Lund University; M.Sc. (Eng.) Chalmers University of Technology, Gothenburg.
Other current assignments: Director of Ground Zero Pharmaceuticals Inc., Proprietor of Intercon Handelsbolag.
Previous assignments (past five years): -
Holding in the company on 31 December 2019: 75,555 shares and 19,091 share options.

Charlotta Liljebris

Head of R&D since 2018.
Born 1964
Education: Ph.D. in Pharmaceutical Chemistry, M.Sc. in Organic Chemistry, Uppsala.
Other current assignments: Director of Sprint Bioscience AB, Deputy Director of Liljebris Consulting AB.
Previous assignments (past five years): Director of non-profit organization Connect Uppsala, Liljebris Consulting AB and Recipharm OT Chemistry AB.
Holding in the company on 31 December 2019: 1,200 shares and 23,437 share options.

Glossary

Amorphous • Amorphous structure is a chemical term that describes substances whose molecules lack an organized structure.

ANDA • An Abbreviated New Drug Application is an application for a U.S. generic drug approval for an existing licensed medication or approved drug.

API • Active Pharmaceutical Ingredient

Bioavailability • i.e. biological availability, is a pharmacological term that shows what proportion of the drug reaches the blood.

Blockbusters • Drugs with annual global sales in excess of USD 1 billion.

Clinical phase • The various stages in the study of a drug's effects in humans (see also 'clinical study'). Phase 1 investigates safety in healthy subjects; Phase 2 investigates the effects in patients with the disease concerned, and Phase 3 is a larger study to verify previously achieved outcomes. Once a drug is sold on the market, Phase 4 studies are conducted to discover unusual side effects, for example.

Clinical study • A study of healthy test subjects (Phase 1) or patients (Phases 2 through 4) in order to study safety and the effect of the drug or method of treatment.

CMO • Contract Manufacturing Organization

CRO • Contract Research Organization. A service provider that performs assignment research and drug development services.

Crystalline • Crystalline structure is a chemical term that describes substances whose molecules have an organized structure.

Drug candidate • A substance chosen during a pre-clinical phase for further testing in healthy subjects and later, in patients.

Excipient • Excipients facilitate/enable handling and use of a drug formulation; they include binding agents, fillers and stabilizing agents and other.

FDA • Food and Drug Administration. The USA's food and drug regulator whose responsibilities cover food, dietary supplements, drugs, cosmetics, medical equipment, radiation emission products and bio products.

Formulation • In the pharmaceutical industry, formulation is synonymous with preparation.

Generic • Generic drugs are replacement drugs with the same function, quality and safety as the original drug.

GMP • Good Manufacturing Practice. Good Manufacturing Practice rules describe how the drug industry must produce medications such that patients can always be sure they are getting the correct and high-quality product. The rules govern the production, including packaging, of drugs, foods – and nutritional supplements. GMP is a system for ensuring that products are always manufactured and controlled for compliance with current quality standards. They are designed to minimize the risks in drug production that cannot be eliminated through testing of the end product.

Indication • In medical contexts an indication is a symptom, illness or a condition that requires treatment.

Oncology • The study of cancer and also a medical specialization that focuses on cancers and their treatment.

Orphan Drug • An individual drug for the treatment of a single serious or chronic illness where no more than 200,000 patients in the USA have the indication.

Patent window • The time between the start date of the primary substance patent for the original drug and the expiration date of the relevant secondary patents.

Pharmaceutical equivalence • The product has the same active ingredients as the original product, with the same strength, dosage form and route of administration. However, it may differ from the original product where in excipients, size, shape and packaging, etc.

Preclinical • Part of drug development that takes place before a drug candidate is tested on humans.

Primary and secondary patents • The primary patent protects the active substance (API) in a drug. The secondary patent describes modified compounds, formulations, dosages, special medical uses etc.

Protein kinase • An enzyme that acts as a messenger in a cell. Protein kinases are crucial when a cell's functions are to be controlled by external signals e.g. hormones, by helping to pass on signals inside the cell. Protein kinases help cancer cells grow and spread.

Protein kinase inhibitors • Drugs that block protein kinases. Protein kinase inhibitors act by blocking the activity of enzymes that drive the development and growth of cancer cells.

SCF • Super Critical Fluid

SEK billion • Billions of Swedish kronor.

SEK million • Millions of Swedish kronor.

SEK thousand • Thousands of Swedish kronor.

Shareholder information

Financial calendar 2020	Date
Interim Report Q1, Jan–Mar 2020	14 May 2020
AGM 2020	14 May 2020
Interim Report Q2, Apr–Jun 2020	27 August 2019
Interim Report Q3, Jul–Sep 2020	20 November 2020
Financial Statement 2020	26 February 2021

All financial reports are available at Xspray's website, www.xspraypharma.com

For more information on Xspray, please contact
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Xspray's Certified Adviser is Redeye AB
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+46 (0)8 121 57690

Annual General Meeting 2020

The AGM will be held at 11 a.m. on 14 May 2020, at Vinge's premises at Stureplan 8, Stockholm, Sweden.

For entitlement to participate in the AGM, shareholders must:

- be recorded as a shareholder in the share register maintained by Euroclear Sweden AB as of Friday 5 May 2020
- notify the company of their intention to participate at the AGM by no later than Friday 5 May 2020. Notifications can be by mail to: Xspray Pharma AB, Råsundavägen 12, 169 67 Solna, Sweden, or email to: generalmeeting@xspray.com

Complete information on the AGM 2020 is in the notice convening the meeting, which is at Xspray's website, www.xspraypharma.com

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