

# 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 2020 were approved by the Board of Directors and CEO on 19 March 2021 and will be presented for adoption by the Annual General Meeting (AGM) on 20 May 2021.

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 in the annual report of 2019.

### New standards and interpretations that have not yet been applied by the group

The changed standards that came into effect in 2020 have not had any significant effect on the Group. 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 Pharma has an unconditional right to defer settlement until a time at least 12 months from the reporting date. If Xspray Pharma 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 not expected to increase until the Company according to the current business plan obtains market approval of its first product or a business agreement is made.

### Segment reporting

Xspray Pharma 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 interest 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 15.

## 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, warrant 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, XsprayPharma 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

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. The Group's financial assets, except from the item "financial investments" of SEK 1 thousand that belong to the valuation category financial assets valued at fair value through profit or loss, are valued at accrued acquisition value 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. Impairment calculations are also based on forward-looking information to report expected credit losses. The impairment rules in IFRS 9 cover all financial assets that are valued at accrued acquisition value and fair value via other comprehensive income.

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, contract assets and leasing 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. In 2020, the Company has reported no accounts receivable.

### Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows include cash and bank balances.

### 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 2020 are unchanged compared to those applied in the annual accounts for 2019.

### 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.