

The background features a 3D rendered scene with a blue textured sphere in the upper right and another in the lower right. A central orange branching structure, resembling a stylized plant or biological form, is positioned between them. A thin white arc curves across the top of the image.

Annual Report 2016

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 cantargia

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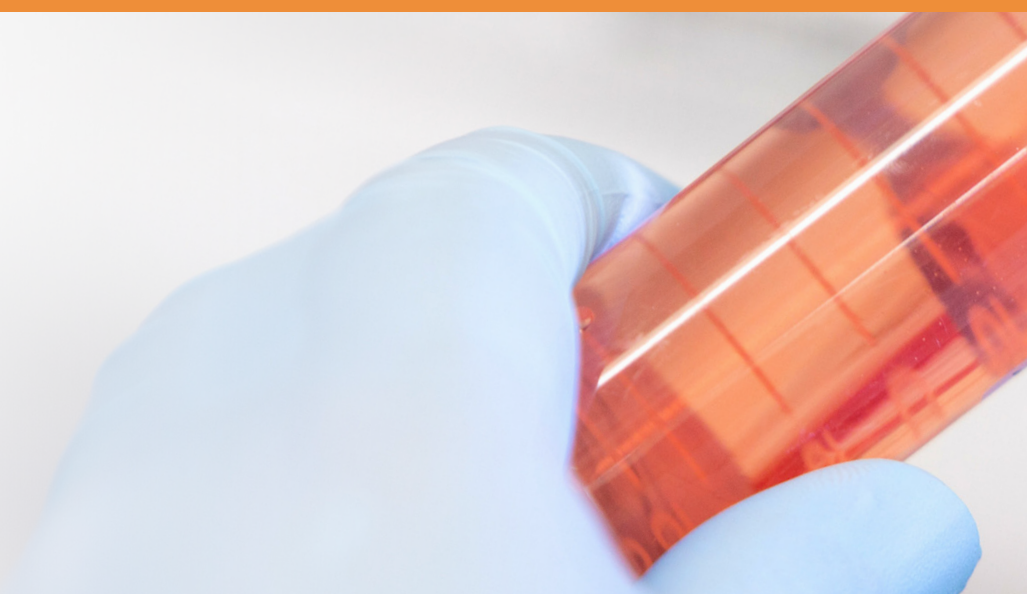
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Introduction

FROM UNIVERSITY RESEARCH TO LISTED COMPANY

Cancer is one of the most common causes of death, accounting for around 20 per cent of deaths in the West. Globally, more than 14 million people are diagnosed with cancer each year and more than eight million lose their lives to cancer-related diseases. Despite significant advances in treatment and diagnosis there is a pressing need for new treatment methods.

It is against this background that Cantargia AB was established in 2009 to continue developing a discovery made by Professor Thoas Fioretos and Dr Marcus Järås from Lund University. Their research showed that leukemia stem cells

express a protein on the cell surface called IL1RAP that is not expressed to the same extent in normal stem cells. Cantargia's continued research has showed that IL1RAP is expressed in solid tumours from several different forms of cancer. In addition to cancer, the antibodies we have developed block mechanisms of disease that play an important role in autoimmune and inflammatory diseases.

In 2015 Cantargia AB was listed on the stock exchange with the aim of developing the Company's first drug candidate and producing the documentation required to start patient studies and then conduct the first phase of the studies in-house. In 2017 a new antibody project, CANxx, has also been initiated. This project is aimed at blocking IL1RAP in order to also enable treatment of autoimmune and inflammatory diseases.



A PROJECT PORTFOLIO WITH POTENTIAL AND BREADTH

Cantargia's project portfolio is based on the development of antibodies against IL1RAP – antibodies that are designed to treat serious, life-threatening diseases. The Company's focus and priority today are on cancer treatment of non-small cell lung cancer (NSCLC) and pancreatic cancer but the portfolio will gradually be broadened, partly through the use of new opportunities in the main CANO4 project and partly through research aimed at developing new antibodies which are designed also for treating autoimmune and inflammatory diseases. This means that Cantargia currently has a portfolio with both potential and breadth. An illustration of Cantargia's project portfolio showing the stage of development of each project is shown below.

Project	Discovery phase	Preclinical phase	Phase I	Phase II	Phase III	Regulatory phase	Commercial phase
CANO4							
Non-small cell lung cancer Pancreatic cancer	████████████████████						
Leukemia	████████████████						
CANxx							
Autoimmune and inflammatory diseases	████						



CAN04 for cancer treatment

Cantargia's antibody treatment, CAN04, fights cancer by activating the immune system's killer cells and by blocking signals which stimulate tumour growth. CAN04 thus has a double-acting effect against cancer. The IL1RAP molecule, the target for Cantargia's treatment, is found in most common forms of cancer, which means that there is significant treatment potential for different cancer diseases. Using the information that is now available, Cantargia is focusing its initial development of CAN04 on non-small cell lung cancer (NSCLC) and pancreatic cancer.

Non-small cell lung cancer

Lung cancer is the fifth most common form of cancer in men and the fourth most common in women. By far the most common cause of lung cancer is tobacco smoking, which singly or in combination with other risk factors explains around 90 per cent of lung cancer cases, but there are also hereditary causes of lung cancer. Lung cancer can be divided into two main groups – non-small cell lung cancer and small cell lung cancer. Non-small cell lung cancer accounts for around 85 per cent of the total number of lung cancer cases.

Pancreatic cancer

Cancer of the pancreas – pancreatic cancer – is a disease with a very poor prognosis and high mortality. In 2013 around 1,200 people in Sweden were diagnosed with pancreatic cancer. We know very little about the causes of pancreatic cancer; the only definitively proven risk factor is smoking. Operation is the only way to cure pancreatic cancer, but most cases of this type of cancer are discovered at such a late stage that the patient's chance of being cured is very small. In addition to operation, the disease is treated with cytotoxins. While these have a certain treatment effect, there is a strong need for new treatments.

Leukemia – AML

AML is the most common form of acute leukemia in adults and is characterised by a rapid increase in white blood cells, which accumulate in the bone marrow and interfere with the production of normal blood cells. The disease progresses rapidly and, if left without treatment, the patient dies within a few months. In the last few decades no significant advances have been made in the treatment of AML. Chemotherapy, currently the most common form of treatment, is plagued by low efficacy and serious side effects. Cantargia and its founders have studied AML and shown that IL1RAP is expressed on leukemic stem cells and on the mature cancer cells. Cantargia is planning to conduct clinical studies of AML, with a focus on mechanisms of action and biomarkers.

CANxx for treatment of autoimmune and inflammatory diseases

Cantargia intends to develop and apply for patents for a new antibody against IL1RAP that is designed for treatment of autoimmune/inflammatory diseases. The goal is to select a product candidate in 2019.





"Once again, we have made significant strides"

MESSAGE FROM THE CEO

I feel very privileged to be able to lead and develop such an exciting company as Cantargia. Regardless of whether we are talking about the possibility of treating serious diseases, the strong and interesting science behind the company, general interest in our area of research or strategic and commercial opportunities, I believe we as a company are in a very attractive situation and face an exciting future.

Cantargia operates in a very hot area of research. Yet we have the unique advantage of having greater flexibility than companies normally have when developing and commercialising new drugs. This exclusivity is based on our approved patents for use of the IL1RAP target molecule in cancer treatment. Cantargia's research has also generated a large amount of data which confirms that IL1RAP is relevant to attack when developing the next generation of cancer treatments. It is therefore with a clear focus and with great enthusiasm that we are making the most of our opportunities to develop new forms of treatment for serious cancer diseases such as lung cancer and pancreatic cancer.

In 2016 we completed most of the necessary preliminary steps for initiating Cantargia's first clinical trial and we are now close to one of our most important milestones, i.e. the day when the first patient is given an opportunity to be treated with our product candidate, CANO4. I personally and my colleagues really look forward to the moment when we move from being a preclinical company to become a clinical company, and I am sure the same is true of Cantargia's shareholders. It is also a sign of strength that we are able to initiate clinical trials at a very early stage of the duration of the patent for CANO4, as we expect to have patent protection until at least 2035.

Reflecting on 2016 and the first few months of 2017, it is clear that this has been a period in which Cantargia has once again made significant strides, both scientifically and in terms of patents, and we have been able to present strong preclinical data which have undoubtedly reduced the development risk. As Cantargia focuses on antibody-based projects, we rely on a robust technological platform that has historically proved to be highly successful in treating cancer and autoimmune diseases. A big factor in the success of antibody technology is good control over the mechanism of action, which reduces the risk of safety issues. In the preclinical studies that we have conducted, covering the mechanism of action as well as safety, we have generated data that is reassuring in that we now understand how our CANO4 product candidate works while also showing that there is a potential to treat serious cancer diseases. To be more concrete, we have documented anti-tumour effects in models of leukemia as well as lung cancer. The models are extremely different, but in both cases we see a significant impact on the progression of the disease and we can also see that the effect is followed by effects in the immune system that are consistent with how CANO4 is intended to work. Nor do we see any side

effect symptoms from the treatment. A challenge with regard to antibodies is that significant investments need to be made in the production process, which takes place in cells, to make enable clinical development. We have now made the necessary investments and have passed the various milestones for the phase we are currently in. As in other projects in this sector, we will of course continue to invest in production development to ensure that CANO4 can be produced as efficiently and economically as may be necessary during the course of the project.

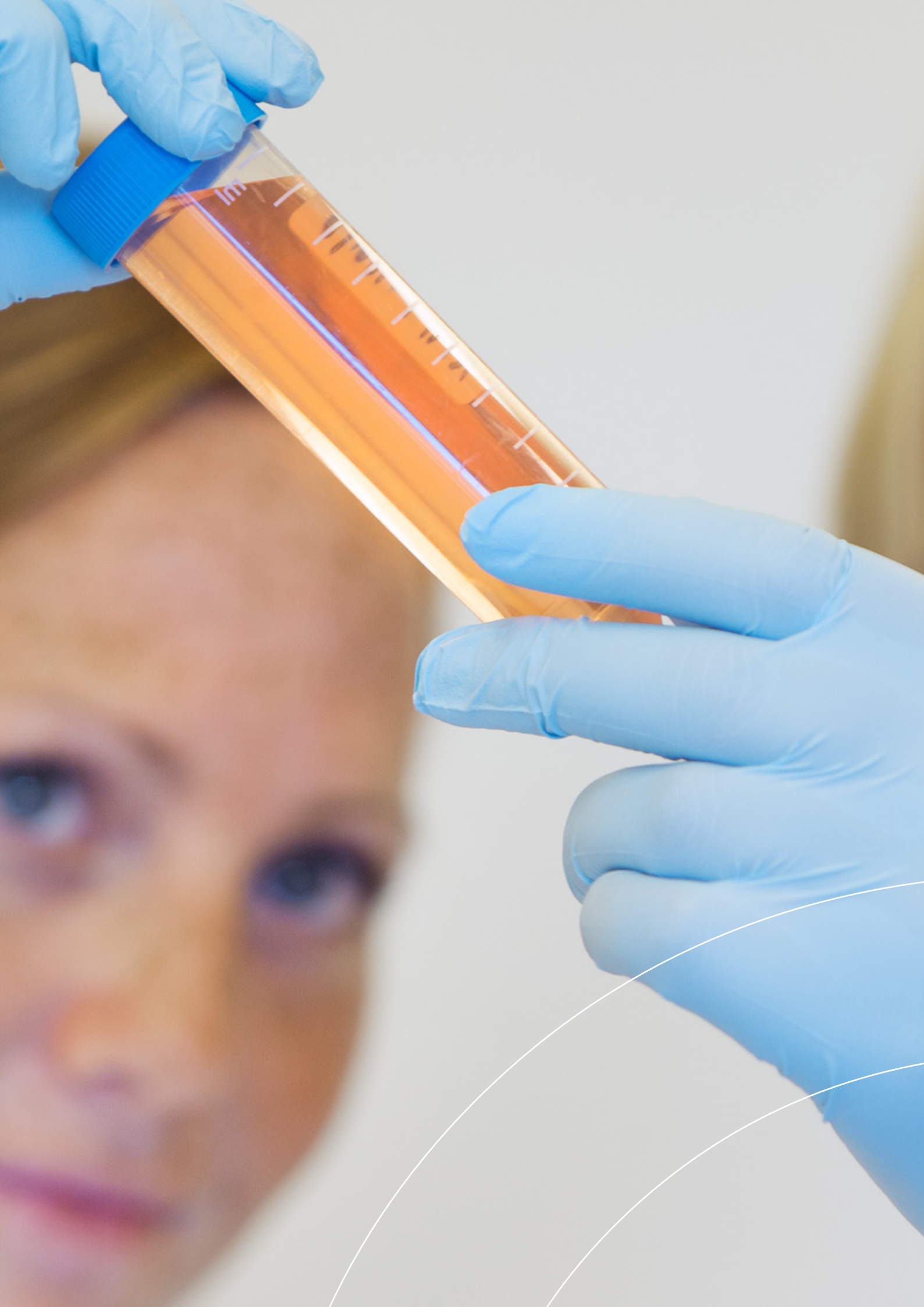
During the development of CANO4 it has become evident that our target molecule, IL1RAP, can also be used for treating autoimmune and inflammatory diseases in a new and unique way. We have identified other antibodies in our library that can work as prototypes for the design of a new antibody against autoimmune/inflammatory diseases. We are now studying different options for improving one of these antibodies with the goal of identifying a new product candidate by 2019. Cantargia will thus become a company which still has a clearly identifiable core but which uses its expertise and technology not just in the area of cancer but also in other disease conditions where signalling through IL1RAP contributes to the progression of the disease.

In the past year we received around SEK 130 million in new financing from our shareholders in order to continue developing our portfolio. I and my colleagues see very good opportunities to increase the value of and further reduce the risk in our projects based on this investment. Our goal is the same as at the time of our IPO, i.e. to find a commercial partner for our projects once we have generated phase II results – a partner that is able to take responsibility for the concluding phase of clinical development before the product is made available to patients.

I would like to thank all Cantargia's shareholders and partners for your support and your efforts to take our business forward. We have many milestones to pass in the next stage of Cantargia's journey. I am convinced, on good grounds, that the way forward will remain exciting and interesting.

Lund, April 2017
Göran Forsberg





CAN04 – SCIENTIFIC BASIS

Immuno-oncology

Our product candidate, CAN04, belongs to one of the areas where the largest investments are currently being made and where big hopes for the future are being raised – immuno-oncology. These hopes are based on the realisation that our immune system has proved to be a very powerful weapon against cancer diseases if we can succeed in activating it and aiming it at the cells in the tumour. Antibodies which manipulate various parts of the immune system have proved to have good treatment effects in cancer patients. In most cases it has been possible to extend the survival of patients with serious cancer diseases.

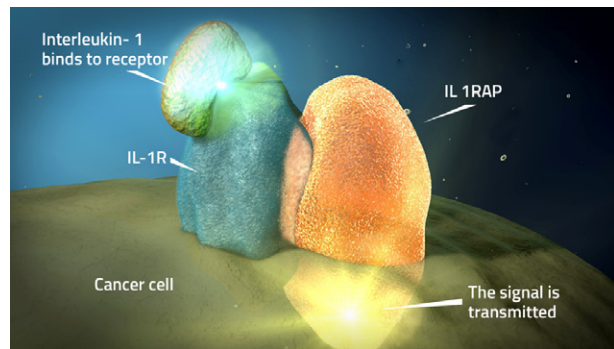
The advances that have been made in immuno-oncology, coupled with the last few years' advances in our understanding of the immune system and cancer biology, have created big opportunities to further improve treatment results by influencing additional parts of the immune system. Today we know that the tumour disease itself is able to reprogram our immune system so that the tumour is not perceived as foreign, and that the cancer exploits a tumour inflammation to grow and spread. Restoring the immune system could thus be a very important part of future treatments. Cantargia has good knowledge of and several patents related to one of these systems, the IL1RAP system, which the Company is focusing on.

Mechanisms of action – CAN04

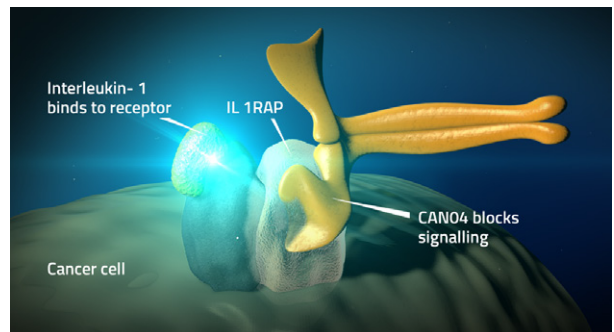
Together with the interleukin-1 receptor, IL1RAP acts as a recipient on the cell surface for signals from the interleukin-1 (IL-1) neurotransmitter. IL-1 is a powerful molecule that is important for triggering inflammation, when required. The signal, which IL1RAP transmits into the cell, initiates several different processes which naturally help the body to fight infections but which in case of disease can amplify and aggravate harmful processes. In a tumour cell the signal can lead to an increase in survival of the tumour cell, increased cell division or increased resistance to chemotherapy, for example. A tumour can thus exploit the body's inflammatory processes for its own purposes.

Cantargia's CAN04 product candidate can be likened to a guided missile that is aimed at IL1RAP. Once it reaches its target it is designed to function in two entirely independent ways.

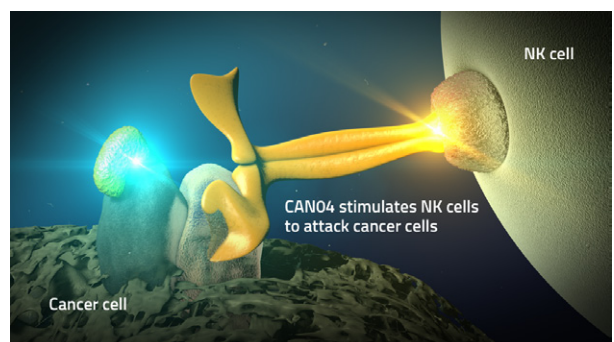
- CAN04 binds to IL1RAP, thereby blocking the signal that is transmitted from the IL-1 molecules in the cells (A and B). This slows down tumour growth and also makes the tumour more sensitive to the body's immune system or other cancer treatments.
- CAN04 is also designed to be recognised by the body's killer cells (NK cells), which can then destroy cells to which CAN04 binds, i.e. tumour cells with the IL1RAP molecule on the cell surface (C). The process is called antibody-dependent cellular cytotoxicity (ADCC) and is a natural function that is activated in the NK cells when they bind antibodies in this way (in this case CAN04). To strengthen this function, CAN04 has also been biochemically modified to bind and activate NK cells even more effectively.



A. Without treatment, IL-1 binds to tumour cells, activating IL1RAP, which transmits a signal that causes the tumour to grow.



B. CAN04 binds to IL1RAP and blocks the signal from IL-1, which slows down tumour growth and alleviates the harmful tumour inflammation.



C. CAN04 forms a bridge to the body's NK cells (killer cells), which thereby effectively destroy the tumour cell.

PATENT PORTFOLIO AND BUSINESS MODEL

Patent portfolio

Cantargia currently has four patent families, which are described below. The first family includes use of IL1RAP as target molecule for treatment and diagnostics of hematological malignancies while the second family comprises IL1RAP as target molecule in solid tumours. The third family relates to the CAN04 product candidate while the fourth relates to other IL1RAP-binding antibodies.

Patent family	Approved	Application processed	Expiration
IL1RAP as target molecule for treatment and diagnostics of hematological malignancies	Europe, USA, Japan, South Africa, Mexico, Australia	China, Canada, Israel	2030
IL1RAP as target molecule in solid tumours	Europe, USA, Japan, Russia	China, Australia, Mexico, South Korea, Brazil, Canada	2032
The CAN04 product candidate	*	National examination initiated	2035
Other IL1RAP-binding antibodies	-	National examination initiated	2035

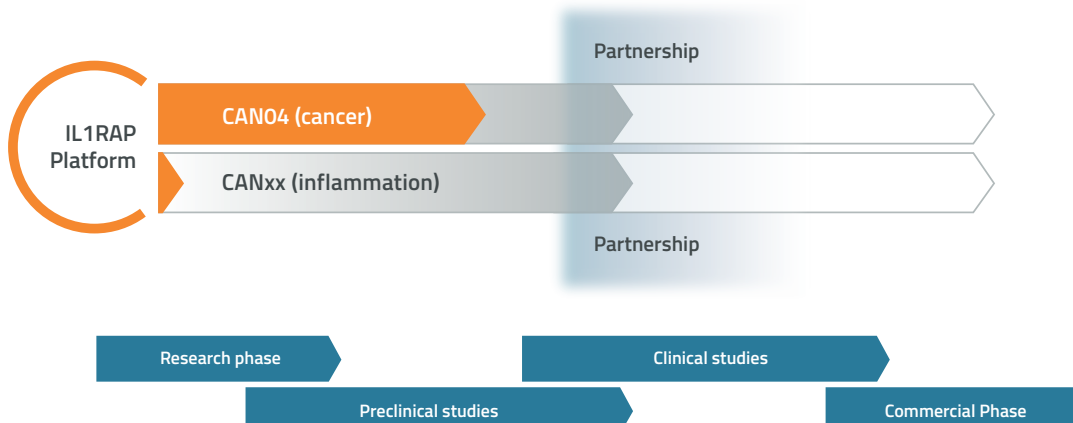
* The European Patent Office has notified that it intends to approve the application.

Business model

Cantargia's business model and scientific strategy are based on partnerships, and Cantargia has concluded agreements with a number of different companies, hospitals and academic groupings. Currently around 30 international and local players are engaged in research and development related to Cantargia's CAN04 antibody. We are now building partnerships in a similar way in our new project, CANxx.

The strategy is based on driving the development of product candidates until an indication of clinical activity has been

obtained. In parallel with clinical studies the other parts of the development programme, such as product development, studies in disease models, combination therapies and bio-marker development, will be advanced. Upon completing the first clinical studies, Cantargia intends to find a commercial partner that is able to carry out the latter stages of clinical development and commercialise our projects. The illustration below shows the link between research and Cantargia's goal of concluding a commercial partnership.



DEVELOPMENT STRATEGY

CAN04 against cancer – coming patient studies

Although CAN04 has the potential to work as treatment for a large number of cancer diseases, Cantargia has in its initial study chosen to focus its development activities on a few forms of cancer where there is currently, based on existing knowledge about IL1RAP's role in the disease progression, strong scientific support that warrants continued research. The clinical programme will initially focus on non-small cell lung cancer and pancreatic cancer.

Over the past year Cantargia has intensified its efforts to complete the necessary preparations for the start of its first clinical study with its CAN04 product candidate. A very important part of these preparations is to complete the laborious administrative procedures involved in the clinical study. To assist it in this task, Cantargia has concluded an agreement with SMS-oncology in Amsterdam, the Netherlands. SMS-oncology is an organisation that has extensive expertise in early clinical trials in the area of cancer and is therefore ideally suited as a strategic partner for Cantargia.

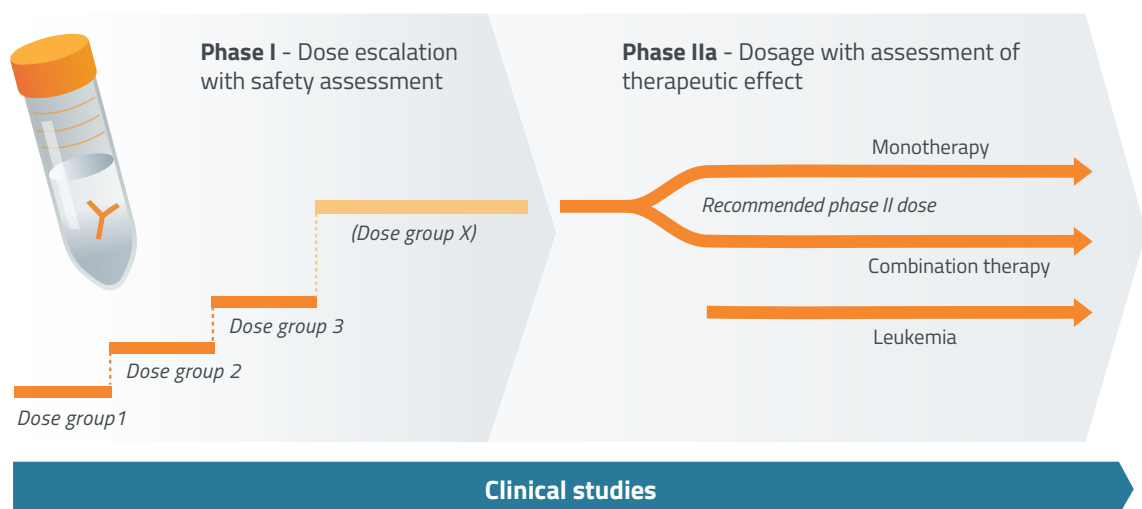
The first study, a "phase I/IIa study", will be conducted in the Benelux countries and Scandinavia, and a number of highly regarded hospitals have shown an interest in taking part in the study. The protocol is based on an adaptive design, which means that the second stage of the study will partly be driven by the data that is generated in the first stage. This ensures increased flexibility during the course of the trial.

The clinical protocol has been developed in consultation with leading international experts in cancer treatment.

In the study CAN04 will be given to a limited number of patients in the initial stage (phase I) after which the dose will be gradually increased with the aim of studying the drug's safety profile and its metabolism in the body. The objective is to determine an appropriate dose for use in the second stage (phase IIa) of the study. A committee consisting of international experts will then evaluate the results along with Cantargia's preclinical data to determine the final design of the second stage (phase IIa) based on a number of predefined criteria.

In the phase IIa stage CAN04 will be given to a larger number of patients in order to evaluate indications of biological effect and to gather more information on the safety of the drug at the chosen dose. The plan is to study CAN04 both as an individual drug and in combination with one of the current standard treatments for each cancer disease.

After completing the initial, dose escalation phase I stage of the first study, Cantargia is planning to conduct a further phase IIa study to study mechanisms of action and biomarkers in treatment of the hematological malignancy acute myeloid leukemia (AML). The protocol for this study will be developed in 2017 and 2018 in collaboration with international experts in the field.



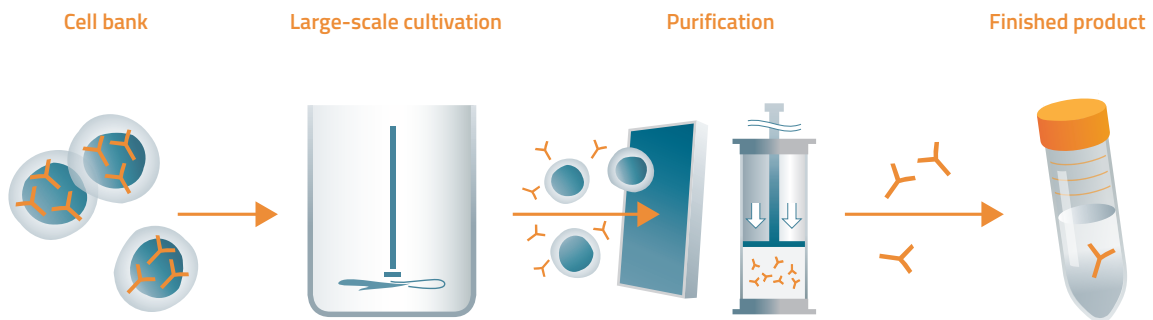
Developing a high-tech production process

A very important part of the development of antibodies for drugs concerns the production side. Production costs for antibodies are higher than for traditional drugs and it is therefore important to develop a process at an early stage that is as cost-effective as possible while taking account of the applicable timetables.

CAN04 is produced in biological production systems and is followed by a sophisticated multi-stage purification process. Production takes place in special cells that are suitable for efficient production of large amounts of antibodies. In addition to the production levels, the choice of cell may affect the further tailoring of the properties of the antibody. Cantargia has licensed a specific cell line from BioWa Inc. that enables production of antibodies with higher ADCC

activity, i.e. an increased ability to stimulate the body's immune system to kill cancer cells. The industrial production process is being developed in collaboration with Glycotope Biotechnology GmbH, which is also producing CAN04 in accordance with good manufacturing practice (GMP) for use in preclinical as well as clinical studies. The production process and control methods will continue to be developed and optimised alongside the clinical development process with the aim of preparing for later clinical development.

The production of CAN04 will be concluded with the aseptic filling of a concentrated solution of the antibody in glass vials. When the final product is used a solution will be prepared at the clinic based on the required dose, which will then be administered to the patient by infusion.

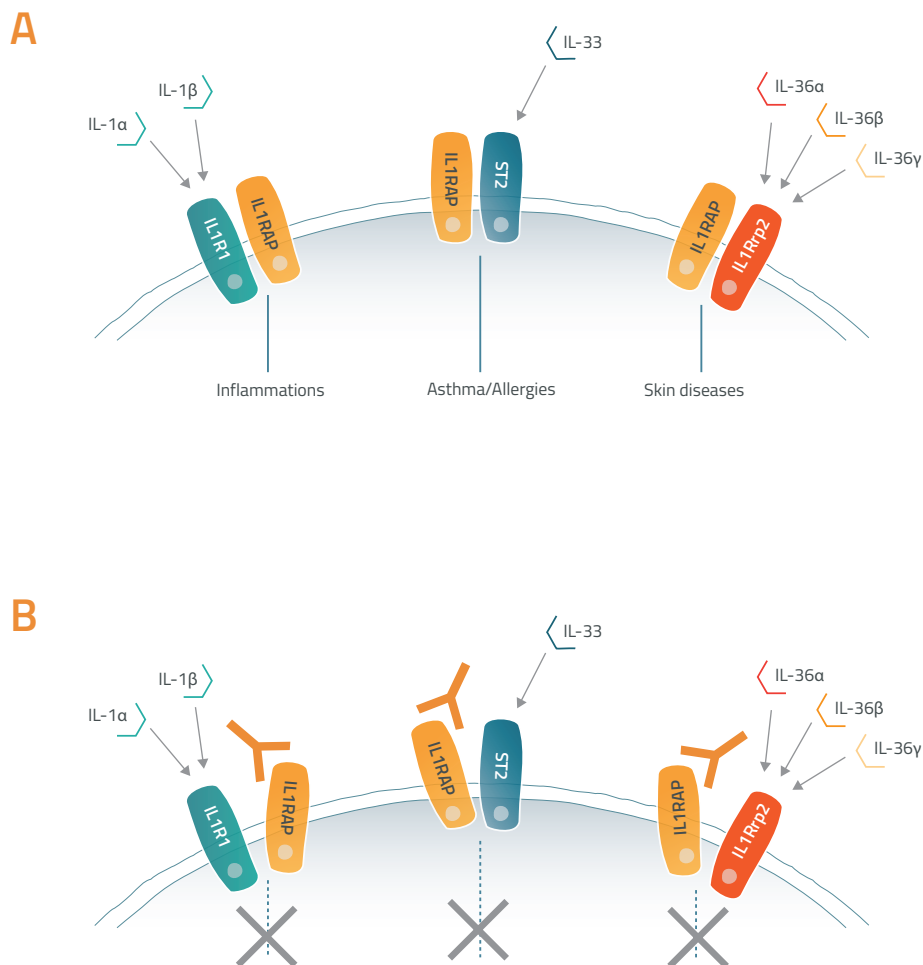


Project CANxx for autoimmune and inflammatory diseases

IL1RAP participates in transmitting signals not just from IL-1 but also from two other related interleukins, IL-33 and IL-36. By blocking IL1RAP it is thus possible to block three different related inflammatory signal pathways. All three neurotransmitters are involved in the body's natural immune system but when expressed at the wrong levels or at the wrong time they also contribute strongly to various diseases where inflammation is a central disease mechanism. IL-1 is involved in several autoimmune and autoinflammatory diseases, IL-33 is involved in asthma/allergies as well as other conditions and IL-36 is strongly linked to various inflammatory/autoimmune skin

diseases. All three can also interact and reinforce each other in several different situations.

There is scientific support indicating that a treatment which targets IL1RAP and thus blocks the above disease mechanisms has a very significant potential in treatment of several diseases and can have a broader and stronger impact than treatment aimed at the individual signal pathways. In its CANxx project Cantargia will be developing an antibody that is designed to block these signal pathways in the best way with the objective of identifying an effective, safe and stable product candidate in 2019 and then initiating documentation and production in preparation for clinical studies.



STRATEGIC PARTNERS

Cantargia operates virtually, which means that we have a small permanent workforce with great flexibility to select sub-contractors with the necessary expertise and experience in the various areas related to the development of CAN04, for example. Currently we have around 30 different subcontractors. Some of these are geographically close but a large number are located internationally, mainly in the EU. In addition to our partnership with our founders at Lund University, we have a number of partnerships with other academic groups, but most of our partners are companies that have specialised in various areas of research and development. In purely economic terms, Cantargia's two largest partnerships are with Glycotope Biotechnology in Heidelberg, on production development, and with SMS-oncology in Amsterdam, on clinical studies.

Glycotope Biotechnology

Glycotope Biotechnology GmbH is a contract manufacturer based in Heidelberg with workforce of around 100 highly educated specialists. The company produces and supplies biological drugs for clinical trials and also produces materials for launch campaigns, all based on the customer's needs and timelines. In 2008 the unit was purchased to produce materials for the parent company's clinical trials, but today only about 30 per cent of the company's capacity is used for in-house projects, with contract projects accounting for more than 70 per cent of capacity since 2014.

Glycotope Biotechnology today offers services across a wide field of research and development – from optimisation of the properties of biomolecules, clone and process development, and preclinical and clinical drug development to GMP production. The latter covers the whole spectrum of GMP activities from cell bank and various production stages to final production in the form of aseptic filling for clinical phase I and phase II trials.



Glycotope Biotechnology's employees have a unique combination of expertise in both development and production, coupled with extensive regulatory experience. For example, the company has a modern production facility with the capacity to cultivate cells using fed-batch processes as well as perfusion technology for various cells, such as CHO, SP2/O or Glycotope's own human cell system GEX®. More than 100 drug substance and 300 drug product GMP campaigns have been successfully conducted at the facility.



Franzpeter Bracht
COO of Glycotope Biotechnology

"The services provided to Cantargia fit very well with Glycotope's core competence and scale of operation. For us, it is a great opportunity to bring in all of Glycotope's capabilities into Cantargia's very fascinating project. It is always a pleasure to work with Cantargia in order to move ahead their lead drug candidate."

SMS-oncology

SMS-oncology is a Dutch company which, in its role of full-service contract research organisation (CRO), is fully dedicated to clinical studies in oncology and hematological malignancies. The company's primary areas of expertise are in early phase trials and in the immuno-oncology segment. As the company has experience of the challenges involved in developing cancer drugs in a highly competitive market, SMS-oncology's experts provide strategic advice during the drug development process, translating complex data into meaningful information that provides insightful strategic support. Through its "4D" service, SMS-oncology helps businesses to make well informed decisions, identify risks and collect the right data for their dossiers. SMS-oncology has stated that they are proud of their partnership with Cantargia and feel



privileged to have been selected as a partner in the first clinical study of CANO4.

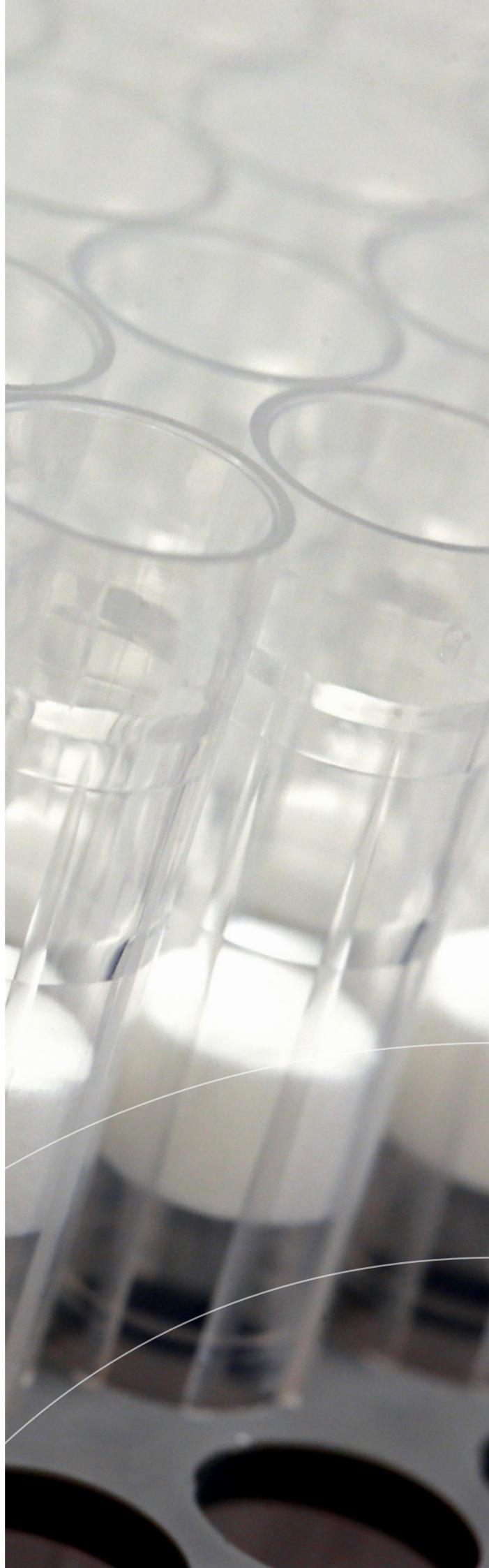
SMS-oncology views CANO4 as an innovative product candidate that has the potential to become a part of tomorrow's cancer treatments.

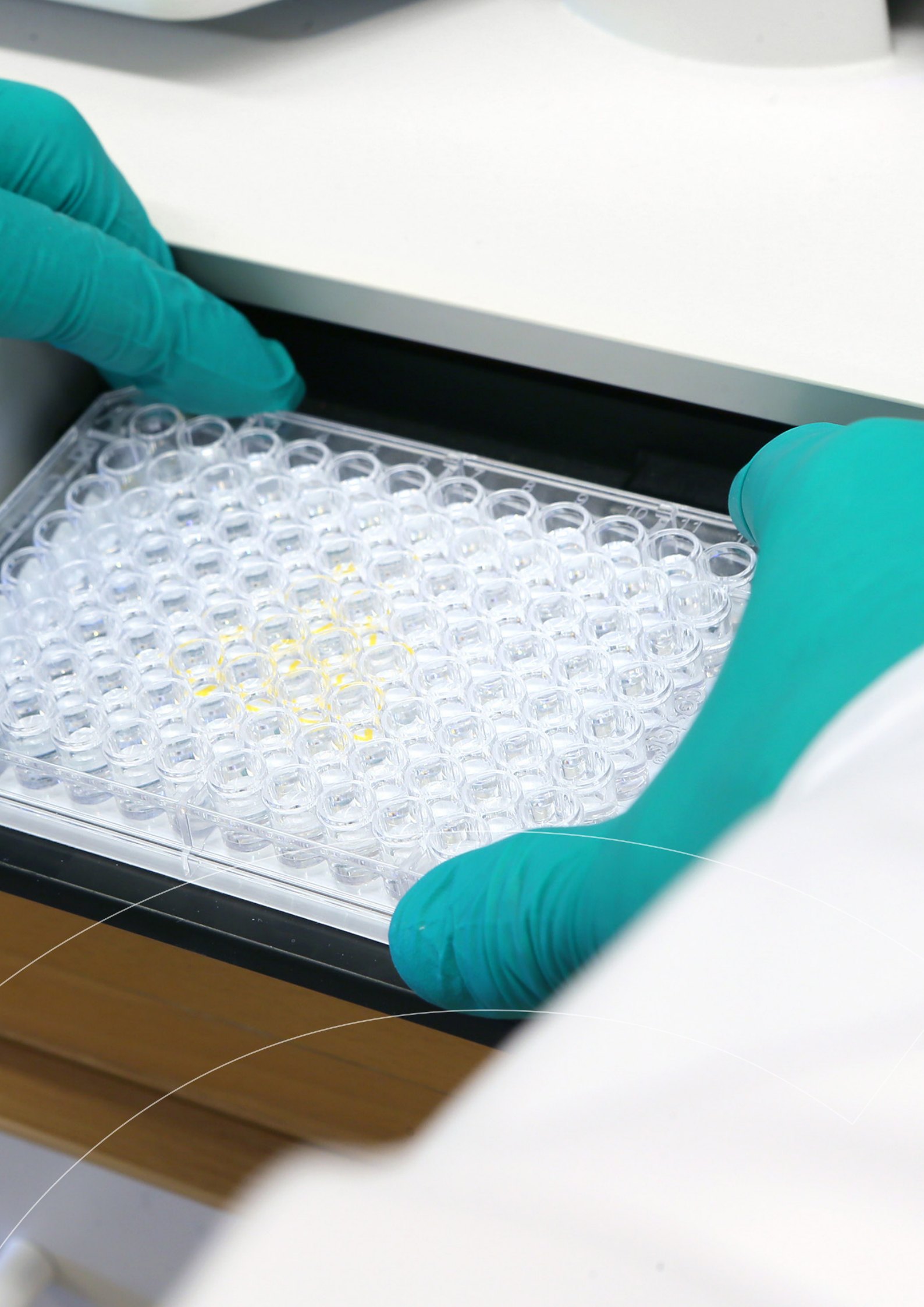
Conducting the study in Amsterdam, where there is good access to skilled oncologists, will help to ensure that the CANO4 study is completed to schedule and on budget, and in accordance with the standard that has been developed by regulators and the industry.



Philine van den Tol
CEO of SMS-oncology

"We're excited to support Cantargia on the development of CANO4. Our team of experts is very happy to be part of the CANO4 study – contributing to promising studies like this is exactly in line with our ambitions."





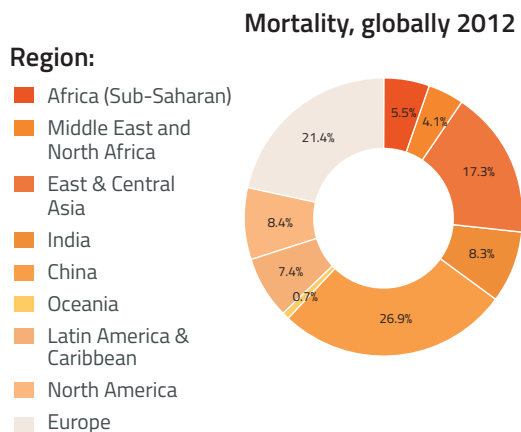
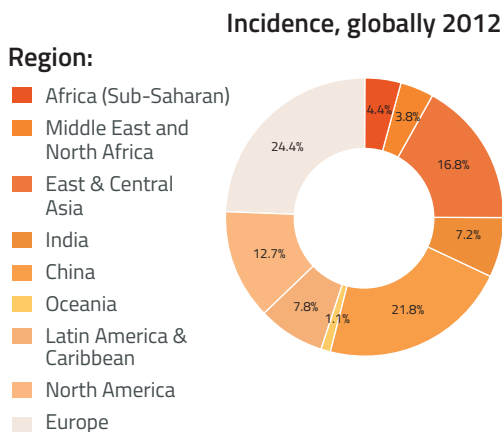
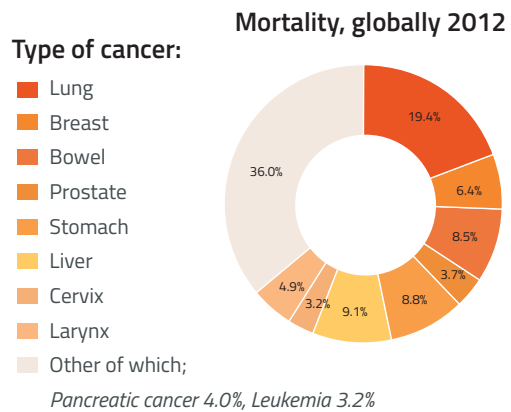
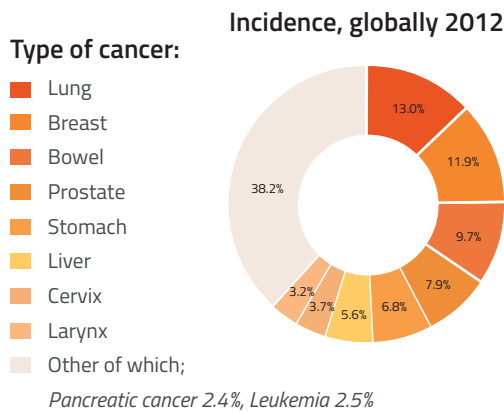
Market overview

CANCER – A GLOBAL CHALLENGE

Cancer is one of the most common causes of death in the world, accounting for around 20 per cent of deaths in the West. Globally, more than 14 million people are diagnosed with cancer each year and more than eight million lose their lives to cancer-related diseases. Despite significant advances in treatment and diagnosis there is a pressing need for new treatment methods.

There are around 200 known cancer diseases, which all have in common that cells somewhere in the body have started to divide and grow uncontrollably. Research indicates that two independent events are required for a cancer disease to develop: normal cells have been damaged, resulting in rapid and uncontrolled cell growth, and the cells exist in an inflammatory microenvironment, which acts as a breeding ground and protects them from attacks from the body's immune system.

The number of cancer cases is increasing continuously in Sweden and globally, partly due to a larger share of elderly in the population, but also because of Western lifestyle, in which smoking, alcohol consumption, unhealthy diets, low physical activity, overweight, obesity and unhealthy sun habits are contributory factors. In 2013, for the first time, more than 60,000 cases of cancer were registered in a single year in the Swedish National Board of Health and Welfare's cancer register. In Sweden it is estimated that at least one in three people will be affected by cancer at some point during their lifetime and the number of cancer cases has doubled since 1970. The distribution of cancer incidence (14.1 million cases) and cancer mortality (8.2 million deaths) in the world by type of cancer and major region in 2012 is shown below:



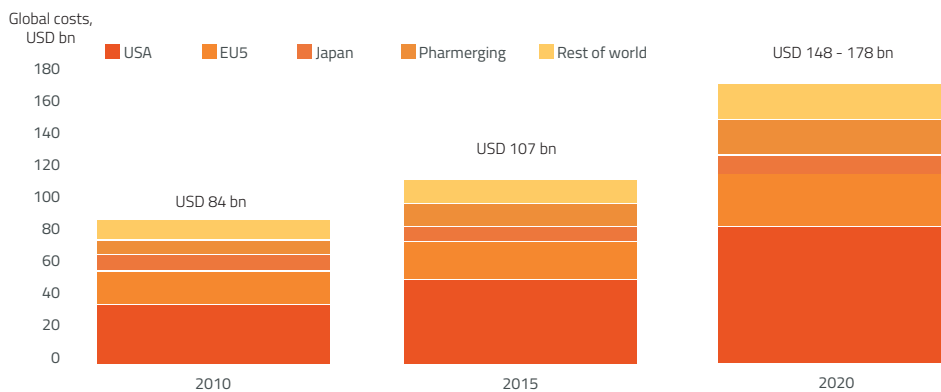
THE MARKET FOR CANCER DRUGS AND ANTIBODIES

The market for cancer drugs is significant and is growing fast. In total, the market was estimated to be worth around USD 107 billion in 2015. New forecasts show that the number of people living with a diagnosis of cancer is set to double by 2040, with a continued strong need for new and more

effective drugs and treatment methods, which means that society's costs for cancer will increase dramatically.

The market for cancer drugs is expected to grow at an annual rate of 7.5 to 10.5 per cent and reach USD 150 billion by 2020. Much of this growth is expected to be driven by extensive use of new treatments, especially immuno-oncology therapies.

The market for cancer drugs: Costs and growth 2010–2020



EU5 (France, Germany, Italy, Spain, UK). **Pharmerging** (China, Brazil, India, Russia, Poland, Argentina, Turkey, Mexico, Venezuela, Romania, Saudi Arabia, Colombia, Vietnam, South Africa, Algeria, Thailand, Indonesia, Egypt, Pakistan, Nigeria, Ukraine).

THE MARKET FOR ANTIBODY-BASED DRUGS

Antibodies, also known as immunoglobulins, are proteins that are produced by the body's immune system and that have the task of binding to and eliminating foreign substances. The antibody binds to specific surface molecules, known as antigens, on pathogens and enables white blood cells and complement proteins to eliminate these pathogens from the body. Ultimately, antibodies aim specifically at the intended target, and the link between an antibody and its target structure is very strong. Antibodies have many properties that make them suitable for treatment of diseases, and many newly developed drugs are based on various types of antibodies. Cantargia focuses on developing antibody-based therapies aimed at cancer and other serious diseases, such as autoimmune and inflammatory diseases (e.g. rheumatoid arthritis, systemic sclerosis and psoriasis).

The global market for antibody-based drugs was estimated to be worth USD 105 billion in 2016 and is expected to grow by 12.5 per cent annually to reach USD 340 billion by the end of 2026. Following recent advances in immuno-oncology there is now a large number of antibody candidates in the research phase and

in preclinical and clinical development for treatment of various forms of cancer. Several immunotherapeutic products have also been launched in recent years.

In 2014 the immunotherapeutic products Opdivo® (Bristol-Myers Squibb) and Keytruda® (Merck) were approved by the FDA. Along with Yervoy® (Bristol-Myers Squibb), they were launched for treatment of malignant melanoma but have expanded their area of use to also include treatment of other forms of cancer. The common denominator for these products is that they block the signals used by the cancer tumour to avoid the immune system and continue to grow. In 2016 Yervoy® generated net sales of USD 1,053 million, Opdivo® USD 3,774 million and Keytruda® USD 1,402 million.

The global market for antibody-based drugs is driven by factors such as the continuous launch of innovative products, high acceptance of antibody-based therapies in price-sensitive markets, efficient approval processes, an increase in chronic diseases, the introduction of diagnostic antibodies and increased research and development expenditure for pharmaceutical and biotech companies.

CANTARGIA'S INITIAL MARKET FOCUS

CAN04 is an antibody aimed at the IL1RAP target molecule that fights cancer both by activating the immune system and by blocking signals which drive tumour growth. While the antibody for which patents have been applied for has the potential to be used for treatment of various forms of cancer, the focus of the initial clinical development is on non-small cell lung cancer (NSCLC) and pancreatic cancer. The choice of initial indications is based on the discovery that the systems which are attacked by CAN04 through interleukin 1 have been shown to play an important role in tumour development in the chosen indications and on the fact that Cantargia's own research has shown a high expression of IL1RAP on these tumours.

LUNG CANCER

Globally, 1.8 million new cases of lung cancer were diagnosed in 2012 while more than 1.5 million people died as a result of lung cancer. Lung cancer is the form of cancer that causes the largest number of deaths and is the fifth most common cause of death after cardiovascular disease, stroke, COPD and respiratory tract infections. Around 80-85 per cent of all lung cancers are non-small cell lung cancer (NSCLC).

Lung cancer is a form of cancer that is hard to treat and for which there is a significant medical need. Lung cancer is in the first hand treated with surgery combined with radiotherapy or chemotherapy but also with targeted therapies, such as antibodies against PD-1 (Keytruda®, Opdivo®), which stimulate the immune system. Despite this, survival after five years is less than 20 per cent.

Promising results have been reported by the MD Anderson Cancer Center in the US from studies of antibodies which block interleukin-1. The studies have shown a reduction in inflammatory biomarkers that could make a very important contribution to help fight the tumour as well as increased muscle mass and an improved quality of life for the patients. In other studies interleukin-1 has also been shown to play an important role for the progression of lung metastases.

PANCREATIC CANCER

Cancer of the pancreas is hard to treat, as it is often discovered at a late stage of the disease process, which makes it difficult to remove the tumour surgically and means that the cancer has in many cases spread to other organs. Each year some 178,000 people are diagnosed with pancreatic cancer globally while around 173,000 die from the disease. The rate of survival after five years is around seven per cent.

Pancreatic cancer is generally treated with a combination of multiple chemotherapies as well as with radiotherapy and surgery where possible, and there is a very significant need for new treatment methods.

Pancreatic cancer is one of the cancer diseases where inflammation is an important part of the development of the tumour and where it has been observed that interleukin-1 plays a central role for the growth of the tumour.

ACUTE MYELOID LEUKEMIA (AML)

AML is the most common form of acute leukemia in adults and is characterised by a rapid increase in white blood cells, which accumulate in the bone marrow and interfere with the production of normal blood cells. The disease progresses rapidly and, if left without treatment, the patient dies within a few months. The underlying reason for the disease is genetic damage, which has been mapped in detail in recent years. It is estimated that there were around 18,000 new cases of AML in the US in 2014 and more than 10,000 AML-related deaths.

Cantargia and its founders have studied AML and other forms of leukemia and have shown that IL1RAP is expressed both on leukemic stem cells and mature cancer cells, and that these can be killed by antibodies targeted at IL1RAP.



DRUG DEVELOPMENT

Before a drug can be commercialised the drug candidates need to be carefully assessed in preclinical and clinical studies to demonstrate safety and efficacy in order to obtain the necessary regulatory permits.

Preclinical studies

The development of new pharmaceutical drugs begins with a research phase, which is followed by a preclinical phase in which various tests and experiments are performed in a laboratory. These may be performed *in vitro*, i.e. through test tube experiments, or *ex vivo*, i.e. on living tissue that has been removed from animals or from the human body. Pre-clinical studies can also be performed *in vivo* (in the body) of living animals.

When the initial tests at the research stage move on to experiments with the drug candidate's composition, the aim is to optimise the relationship between desired and undesired properties and remove the bad properties (candidate optimisation). The next step is to examine the pharmacology, i.e. the candidate's properties and mechanisms of action, its metabolism in the body, any potential toxic effect and its interaction with other drugs (ADME). ADME involves studies of "absorption" (how much of the compound is absorbed), "distribution" (where in the body the compound ends up), "metabolism" (how the compound breaks down) and "excretion" (how the compound and its metabolites are removed from the body).

Clinical studies

The transition from preclinical activities to tests on humans (clinical studies) is made only when there are prospects to achieve a safe and satisfactory result. If the regulators (ethics committees and national medicines agencies) consider the preclinical results to be adequate and approve the clinical study design, clinical studies can be initiated. These are performed in different phases:

Phase I – studies on healthy volunteers in which toxicity and tolerability are studied through an escalation of the amount of the drug that is administered. The phase I study determines the dose that is safe to use in treatment in the coming phase II study. In exceptional cases phase I studies are performed on patient volunteers, for example in cancer treatment or for other diseases which require strong medicines.

Phase II – in the course of the development of new drugs, where different doses are tested and the safety is assessed in patients with the disease concerned, phase II is often broken down into IIa and IIb (studies of different scope), in which case the less extensive studies are performed with the aim of studying the treatment effect and demonstrate proof of concept. Sometimes different doses of the drug are tested without placebo comparison and with a focus on drug metabolism in the body and safety. In other cases additional studies are made of the effect of the chosen dose compared with a placebo ("blinded" studies). In yet other cases the effect may also be compared with or combined with already approved drugs.

Phase III – more extensive studies of the treatment effect on a large number of patients. A successful phase III study results in the documentation that is required for registration of the compound as a medicine. In this phase the drug candidate is compared either with a placebo or with an established treatment using approved drugs.

The approval process

Different requirements are made in different countries and each country has its own regulator that is responsible for approving a drug after clinical studies have been completed. In the EU/EEA it is the EMA (European Medicines Agency), in the US the FDA (Food and Drug Administration) and in China the CFDA (China Food and Drug Administration) that handle applications and issue approvals. Often, studies are conducted that can be approved by most regulators. These studies are conducted multinationally, not just in the EU or the US, but also in other major countries. In Asia special studies in each country are often required, as Asians can react differently to a drug than Europeans, for example.



Directors' Report

The Board of Directors and Chief Executive Officer of Cantargia AB (publ), corporate ID no. 556791-6019, hereby present the annual report for the financial year 1 January 2016 – 31 December 2016. The Company has its registered office in Lund, Sweden. Amounts in the annual report are stated in thousands of Swedish kronor (kSEK) unless otherwise indicated.

OPERATIONS

Cantargia is a research-based biotech company that is engaged in research and development of antibody-based therapy for serious diseases. The Company has specialised in antibody-based treatment aimed at the IL1RAP target molecule, which has the potential to be used for several different forms of cancer as well as for autoimmune and inflammatory diseases.

FIVE-YEAR COMPARISON

Amounts in kSEK

	2016	2015	2014	2013	2012
Net sales	-	-	-	-	-
Loss after net financial income/expense	-44,680	-17,190	-8,370	-7,946	-3,465
Cash and bank balances and liquid investments	34,841	24,512	16,660	1,496	2,652
Equity	37,127	28,055	4,097	3,132	3,077
Total assets	47,511	31,383	20,129	3,990	3,775
Equity/assets ratio (%)	78%	89%	20%	78%	82%
Quick ratio (%)	383	803	108	259	416
Direct project development costs	-32,683	-7,045	-3,495	-5,773	-1,830
Total operating expenses	-44,747	-17,018	-8,115	-7,978	-3,517
Direct project development costs to total operating expenses (%)	73%	41%	43%	72%	52%
Number of outstanding shares at 31 Dec ²	20,917,200	13,505,874	7,594,874	6,342,910	5,285,709
Number of outstanding warrants at 31 Dec	-	8,283,080	157,250	157,250	157,250
Earnings per share before dilution (SEK)	-2.14	-1.27	-1.10	-1.25	-0.66
Earnings per share after dilution (SEK)	n/a	-1.24	n/a	n/a	n/a
Equity per share before dilution (SEK)	1.77	2.08	0.54	0.49	0.58
Dividend (SEK)	-	-	-	-	-

¹Cantargia AB (publ) has applied K3 since 2014. Comparative years have not been restated.

See Note 11 for definitions of key performance indicators.

²Adjusted for 37:1 split in 2015.

SHAREHOLDERS

Cantargia's ten largest shareholders at 31 December 2016.

Shareholder	Number of shares	Share
Lund University Bioscience AB	4,056,828	19.40%
Försäkringsbolaget Avanza Pension	1,115,570	5.30%
Sunstone LS Ventures Fund KS III	947,838	4.50%
Kudu AB	764,136	3.70%
Thoas Fioretos	732,600	3.50%
Marcus Järås	732,600	3.50%
Stiftelsen Akademihemman	690,640	3.30%
Nordnet Pensionsförsäkring AB	599,420	2.90%
Flerie Invest AB	592,110	2.80%
Brushamn Invest AB	561,807	2.70%
Other shareholders	10,129,651	48.40%
	20,917,200	100.00%

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Cantargia made progress in many areas of its operations. The following is a summary of the various parts of the Company.

Patent portfolio

Cantargia currently has four patent portfolios (as described in the section Patent portfolio). In the two most recent of these the examination process has only just been initiated while in the other two applications are currently being examined and several important approvals were obtained during the year.

- In the application concerning IL1RAP as target molecule for antibody treatment of various forms of leukemia approvals were received in Australia, Japan and Mexico. Approval was also received in the US for acute lymphoblastic leukemia. In the summer a third party filed an opposition to the patent that was approved in Europe in 2015.
- The application concerning IL1RAP as target molecule for treatment of solid tumours was approved in Europe, the US and Japan. At the end of the year a third party filed an opposition to the patent that was approved in Europe.

Research activities

During the year Cantargia presented new data on treatment with CANO4 in preclinical models of non-small cell lung cancer. The results showed a statistically significant treatment effect and a strong infiltration of immune cells in the treated tumour was also exhibited. The results were presented at a scientific

conference in October 2016. Data for Cantargia's antibodies in preclinical models of chronic myeloid leukemia were published in the journal *Blood* and were later also presented at a scientific conference.

Data from toxicity studies for the CANO4 product candidate were presented in March and June, and demonstrated a high level of safety for repeat doses at dose levels up to 100 mg/kg.

The production process was developed further than originally planned, which meant that the desired objectives were achieved, but the start of the first clinical study with CANO4 was deferred until the first half of 2017. A more aggressive clinical development plan was presented, under which the clinical study will be looking at CANO4 as monotherapy as well as combination therapy. In December it was announced that the Company had concluded an agreement with SMS-oncology of the Netherlands under which SMS-oncology will conduct the clinical study.

Cantargia announced its intention to start a new project in autoimmunity and inflammatory diseases.

Financial events

Cantargia raised approximately SEK 31.4 million before issue costs from the exercise of warrants of series TO and TO1 in April 2016, around kSEK 250 from the exercise of warrants of series 2011/2016 in August and around SEK 24.6 million before issue costs from the exercise of warrants of series TO2 and TO4 in October. In December a planned SEK 91 million rights issue was announced.

REVENUE AND EARNINGS

Cantargia has not yet generated any sales. The Company's operating expenses were kSEK -44,747 (-17,018). The increase in operating expenses is due to the intensification of the Company's activities in 2015, which resulted in an increase in project costs of kSEK -25,638. The average number of employees also increased during the year and staff costs increased by kSEK -1,977 compared with 2014. The operating loss was kSEK -44,747 (-17,018) and the net financial expense was kSEK 67 (-172).

FINANCIAL POSITION

The Company had total assets of kSEK 47,511 (31,383), of which kSEK 7,092 (4,282) million refers to intangible assets. Cash and cash equivalents at the end of the year were kSEK 34,841 (24,512), of which kSEK 8,937 (14,871) was invested in funds with short-term liquidity. Equity at year-end was kSEK 37,127 (28,055) and the share capital was kSEK 1,673 (1,080). The equity/assets ratio at the end of the period was 78 (89) per cent. Equity per share was SEK 1.77 (2.08). The Company has no interest-bearing liabilities.

CASH FLOW

The Company's cash flow for the year was kSEK 10,329 (7,852). The operating loss had a negative impact on cash

flow of kSEK -44,747 (-17,018) while changes in working capital had a positive impact of kSEK 5,152 (-13,087). The positive changes in working capital are due to increased trade payables. Cash flow from investments was kSEK -3,895 (-3,018), of which kSEK -2,810 refers to investments in intangible assets and kSEK -1,619 refers to investments in long-term financial assets. The new shares that were issued as a result of the exercise of three different series of warrants improved cash flow by kSEK 53,752 (41,148).

INVESTMENTS

Total non-current assets at 31 December 2016 were kSEK 10,458 (6,029), of which kSEK 7,092 (4,282) refers to capitalised patent costs. The Company currently does not capitalise any development costs, which are expensed directly in the income statement. Non-current financial assets were kSEK 3,366 (1,747) and refer to provisions for pensions and any future severance pay.

SHARE INFORMATION

Cantargia's shares have been listed on Nasdaq Stockholm First North since 17 March 2015, under the ticker "CANTA". At 31 December 2016 Cantargia had a share capital of SEK 1,673,376.00. The number of shares of Cantargia at the same date was 20,917,200.

Share capital history

Year	Event	Quotient value	Increase in no. of shares	Increase in share capital	Total no. of shares	Total share capital
2009	Incorporation	1.00	100,000	100,000.00	100,000	100,000
2010	Issue of new shares	1.00	10,870	10,870.00	110,870	110,870.00
2011	Issue of new shares	1.00	14,130	14,130.00	125,000	125,000.00
2012	Issue of new shares	1.00	3,571	3,571.00	128,571	128,571.00
2012	Issue of new shares	1.00	7,143	7,143.00	135,714	135,714.00
2012	Issue of new shares	1.00	7,143	7,143.00	142,857	142,857.00
2013	Issue of new shares	1.00	3,572	3,572.00	146,429	146,429.00
2013	Issue of new shares	1.00	25,001	25,001.00	171,430	171,430.00
2014	Issue of new shares	1.00	12,500	12,500.00	183,930	183,930.00
2014	Bonus issue	2.96	0	360,502.80	183,930	544,432.80
2014	37:1 share split	0.08	6,621,480	0.00	6,805,410	544,432.80
2014	Debt-for-equity swap	0.08	789,464	63,157.12	7,594,874	607,589.92
2015	Issue of new shares	0.08	5,800,000	464,000.00	13,394,874	1,071,589.92
2015	Issue of new shares, TO 2010:1	0.08	111,000	8,880.00	13,505,874	1,080,469.92
2016	Issue of new shares, TO1/TO3	0.08	4,127,260	330,180.80	17,633,134	1,410,650.72
2016	Issue of new shares, TO 2011:1	0.08	46,250	3,700.00	17,679,384	1,414,350.72
2016	Issue of new shares, TO2/TO4	0.08	3,237,816	259,025.28	20,917,200	1,673,376.00

In January/February 2017 the Company completed a rights issue which increased the share capital by SEK 892,664.64 to SEK 2,566,040.64. The number of shares increased by 11,158,308 to 32,075,508.

BOARD OF DIRECTORS, SENIOR EXECUTIVES AND AUDITOR

The Board of Directors

Under Cantargia's Articles of Association, the Board of Directors shall consist of at least three and no more than eight Directors. At the Annual General Meeting on 25 May 2016 it was resolved that the Board should consist of six regular Directors with no deputies. The Directors have been elected for the period until the end of the Annual General Meeting 2017.

Magnus Persson

Chairman of the Board since 2016

Magnus Persson is a physician and Associate Professor of Physiology at the Karolinska Institute in Stockholm. Dr Persson has extensive experience in medicine, life science and biotech financing. He has previously led development teams in phase II and III programmes in the pharmaceutical industry and has founded and served as Chairman and Director of private as well as public biotech and medtech companies in Europe and the United States. He has also been involved in about ten IPOs.

Born: 1960.

Education: Physician and Associate Professor of Physiology at the Karolinska Institute in Stockholm.

Other directorships: Managing Director of Karolinska Institutet Holding AB. Chairman of SLS Invest AB, Galecto Biotech AB, HIP Health Innovation Platform AB and Perma Ventures AB. Director of Immunicum Aktiebolag, KCIF Fund Management AB, Själbådan AB and Gyros Protein Technologies Holding AB as well as Albumedix A/S and Cerecor Inc.

Previous directorships in last five years: Chairman of Bio-Works Technologies AB until 2015.

Shareholding in the Company: 28,110 shares.



Lars H. Bruzelius

Director since 2013

Lars H. Bruzelius is an associate professor of Business Administration and a management consultant with extensive experience of working with banks and companies in the energy, medtech and telecom industries. He is a senior partner and joint owner of BSI & Partners, and was Deputy Chief Executive and Administrative Director of Gambro AB for three years. He has been a Director of two listed companies and an investor and Director of several start-up companies.

Born: 1943.

Education: Associate Professor of Business Administration at Lund University.

Other directorships: Chairman of Lund University Bioscience AB and Stiftelsen EFL. Director of Brushamn Holding Aktiebolag, Brushamn Invest Aktiebolag, Catella Fondförvaltning AB, Follicum AB, Lars H Bruzelius Aktiebolag and Lunicore Studentkonsult AB. Owner of Lars H Bruzelius Konsult.

Previous directorships in last five years: Chairman of Termino C 243 AB until 2014. Director of Absalon International AB and Termino C 243 AB until 2014 and of ProNoxis AB until 2012. Deputy Director of Absalon International AB until 2015 and WC Likvid AB until 2013. Partner of Handelsbolaget Institutet för Företagsekonomisk Aktionsforskning.

Shareholding in the Company: 792,577 shares part-owned through a company¹.



¹Brushamn Invest Aktiebolag, which also owns 3.7 per cent of the Company's largest shareholder, Lund University Bioscience AB.

Karin Leandersson**Director since 2016**

Karin Leandersson has gained a broad cancer research experience in the areas of tumour immunology and tumour inflammation in solid tumours, mainly in breast cancer. She has also authored around 30 scientific publications in international journals.

Born: 1972.

Education: M.Sc. in Biochemistry, Associate Professor of Immunology and university lecturer in tumour immunology at the Faculty of Medicine at Lund University.

Other directorships: None.

Previous directorships in last five years: None.

Shareholding in the Company: None.

**Thoas Fioretos****Director since 2010**

Thoas Fioretos is a professor and senior physician at the Division of Clinical Genetics at Lund University. The focus of his research is on molecular and functional studies of genetic changes in leukemia and how such changes can be used for diagnostic and therapeutic purposes. Thoas Fioretos has authored more than 100 scientific publications, and is one of the founders of Cantargia AB and the bio-IT company Qlucore AB.

Born: 1962.

Education: Professor and Senior Physician at the Division of Clinical Genetics at Lund University.

Other directorships: Director of Qlucore AB. Deputy Director of Neodos AB.

Previous directorships in last five years: None.

Shareholding in the Company: 732,600 shares.

**Claus Asbjørn Andersson****Director since 2013**

Claus Asbjørn Andersson is partner of Sunstone Life Science Ventures and ARO Medical ApS. He has a M.Sc. in Civil Chemical Engineering from the Technical University of Denmark and a Ph.D. in Mathematical Statistics from Copenhagen University and the Humboldt University of Berlin. Privately, Claus Asbjørn Andersson has founded two European start-up companies and two in Denmark. He has been involved in Sunstone Life Sciences since its establishment in 2007, and is an active member of the International Venture Club and an advisor to the European Commission.

Born: 1968.

Education: M.Sc. in Civil Chemical Engineering from the Technical University of Denmark. Ph.D. in Mathematical Statistics from Copenhagen University and the Humboldt University of Berlin.

Other directorships: Chairman of FBC Device ApS. Director of Acarix A/S, Acarix AB, Follicum AB and Sunstone TV (LSV) Special Limited Partner III ApS.

Previous directorships in last five years: Director of Precisesense A/S until 2014.

Shareholding in the Company: None, but Sunstone Life Science Ventures owns 941,838 shares in the Company.



Niclas Lundqvist
Director since 2016

Niclas Lundqvist has a LL.M. and has previously worked at the law firm Advokatbolaget Wiklund Gustavii. Since 1996 he has worked as a legal advisor on corporate, stock market and securities law matters for companies listed on Swedish stock exchanges or multilateral trading facilities. He has boardroom experience from working as a director for companies listed on Swedish stock exchanges and investment firms regulated by the Swedish Financial Supervisory Authority. His previous experience includes other types of legal, project management and business development work in corporate finance at Sedermera Fondkommission from 2003 to 2013. Niclas Lundqvist is one of the founders of the venture capital fund Swedish Growth Fund.

Born: 1965.

Education: LL.M., Lund University

Other directorships: Chairman of Swedish Growth Fund Holding AB. Director of Aktiebolaget Glumslövs Tegelbruk, Bonsig AB, ABGT Konsult AB and RhoVac AB.

Previous directorships in last five years: Director of Aktiebolaget Daugava and ATS Finans AB until 2013 and of Betting Promotion Systems (BPS) AB until 2012.

Shareholding in the Company: None.



SENIOR EXECUTIVES

Göran Forsberg
CEO since 2014

Göran Forsberg has a Ph.D. in biochemistry, and is an associate professor and the author of over 40 scientific publications. He has been engaged in pharmaceutical and biotechnology companies for more than 30 years, notably in various roles at KabiGen, Pharmacia, Active Biotech and the University of Adelaide, Australia. His most recent position was as Chief Business Officer at Active Biotech AB. Göran Forsberg has extensive drug development experience with an emphasis on oncology.

Born: 1963.

Education: M.Sc. in Engineering and Associate Professor at the Faculty of Engineering at Lund University. Ph.D. in Biochemistry from the KTH Royal Institute of Technology in Stockholm.

Other directorships: Director of Isogenica Ltd.

Previous directorships in last five years: Director of Actinova AB and Active Security Trading Aktiebolag until 2014.

Shareholding in the Company: 34,530 shares.



Liselotte Larsson**VP Operations since 2014**

Liselotte Larsson has a M.Sc. in Chemical Engineering and a Ph.D. in Biotechnology, and has extensive experience from senior positions in pharmaceutical and medtech companies, including MultiFerm AB, BioGaia Fermentation AB, Novozymes Biopharma AB, Camurus AB and Life Science Foresight Institute. She has worked mainly in business development, marketing and sales/licensing, ISO certification, GMP manufacturing and overall project management.

Born: 1963.

Education: M.Sc. in Chemical Engineering, Licentiate of Engineering and Ph.D. from the Faculty of Engineering at Lund University.

Other directorships: None.

Previous directorships in last five years: None.

Shareholding in the Company: 12,000 shares.

**Lars Thorsson****VP Clinical Development since 2015**

Lars Thorsson graduated with a Ph.D. in Clinical Pharmacology in 1998. He has more than 25 years' experience of working in the pharmaceutical industry, including leading roles in clinical studies and project management covering several development phases in the AstraZeneca group. Most recently Lars Thorsson worked at Novo Nordisk A/S, where he was Senior Clinical Pharmacology Scientist with responsibility for preparation and implementation of clinical pharmacological studies in development projects. He has also been in charge of evaluating and documenting new substances, and has experience of regulatory work and contacts with regulators.

Born: 1961

Education: B.Sc. in Animal Physiology and Ph.D. in Clinical Pharmacology from Lund University.

Other directorships: None.

Previous directorships in last five years: None.

Shareholding in the Company: 24,998 shares.

**David Liberg****VP Cancer Research since 2015**

David Liberg graduated with a Ph.D. in 2001 and has nearly 20 years' research experience in immunology and tumour biology. Over the past ten years he has worked in the pharmaceutical industry, managing early-stage research projects and activities in tumour immunology. He has considerable experience of preclinical cancer research. David Liberg joined Cantargia from Active Biotech AB, where he was Project Manager Drug Development and previously Head of Cell Biology and Biochemistry. He has conducted research at Imperial College in the UK and at Lund University.

Born: 1969

Education: Ph.D. in Immunology from Lund University.

Other directorships: None.

Previous directorships in last five years: None.

Shareholding in the Company: 2,000 shares.



Other disclosures on Directors and senior executives

There are no family connections among any Directors or senior executives. There are no conflicts of interest or potential conflicts of interest between the Directors' and senior executives' undertakings to the Company and their private interests and/or other undertakings. As shown above, some Directors and senior executives have financial interests in the Company in the form of shareholdings.

Lars H Bruzelius was a Director of ResQU AB when bankruptcy proceedings were initiated against the company in 2011. With this exception, none of the Directors or senior executives has in the last five years participated or been involved in any bankruptcy, liquidation or administration in the capacity of Director or senior executive of a company. None of the Directors or senior executives have in the last five years been accused of and/or been subject to any sanction from a public authority, professional association or similar body, been disqualified from engaging in business activities or otherwise been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of or from acting in the management or conduct of the affairs any company. There exist no special agreements on post-employment benefits for the current Directors or senior executives.

All Directors and senior executives can be contacted at the Company's address: Medicon Village, Scheelevägen 2, SE-223 81 Lund, Sweden.

Auditors

At the Annual General Meeting on 25 May 2016 Öhrlings PricewaterhouseCoopers AB were appointed as auditors for the Company for the period until the end of the Annual General Meeting 2017. Anders Brofors Ekblom (born 1968) is auditor-in-charge. He is an Authorised Public Accountant and a member of FAR, the professional institute for accountants in Sweden, and has been auditor-in-charge for the Company since 2014.



RISK FACTORS

A number of risk factors can have a negative impact on the operations of Cantargia. It is therefore very important to take account of relevant risks in addition to assessing the Company's growth prospects. A description of risk factors, not in order of importance and not exhaustive, is given below. For natural reasons it is not possible to assess all risk factors without making a general assessment of the Company's operations and external factors.

Research and development and dependence on one drug candidate

Cantargia is engaged in research and development of an antibody treatment for various forms of cancer, with a focus on non-small cell lung cancer and pancreatic cancer. The Company has not yet launched any drug candidates in the market. No sales of drugs have therefore been initiated, and Cantargia's operations have so far not generated any sales revenue. In the first half of 2017 clinical studies of the Company's CAN04 drug candidate are expected to begin.

The development of CAN04 is associated with significant risks of failure and/or that the results will be such that continued research and development will be required. These risks include the risk that the Company's drug will prove to be ineffective, dangerous, toxic or otherwise fail to meet the applicable requirements or that the drug candidate will prove to be difficult to develop into a commercially viable product that generates revenue for the Company. There is also a risk that delays and unexpected difficulties in the development (for example, production or clinical studies) could incur additional costs for the Company. In the event that the development of CAN04 fails, this would have a significant adverse impact on Cantargia's operations, financial position and results, and there is a risk that Cantargia would not be able to continue its operations in their current form.

Implementation of preclinical and clinical studies

Before a drug can be launched in the market, its safety and efficacy for treatment of humans must be assured, which requires extensive preclinical and clinical studies. Such studies are associated with significant uncertainty and risks with regard to timetables, results and outcomes. Results from early clinical studies are not always consistent with the results of more comprehensive clinical studies. There is a risk that the planned studies will not indicate levels of safety and efficacy that are sufficient to obtain the required regulatory permits or to enable the Company to license, establish partnerships for or sell its potential product. The results from preclinical and clinical studies could also result in Cantargia being required to conduct expanded studies. Such studies could result in increased costs, materially delay the registration with the licensing authorities, result in registration of a more limited indication or cause Cantargia to refrain from commercialising its product candidate.

Cantargia, any future business partners, institutional control bodies and/or regulatory authorities could, moreover, at any time suspend clinical trials if it is assumed that the trial subjects or patients participating in such studies are being exposed to unacceptable health risks. For example, patients participating in the studies could experience side effects, which could delay or prevent further product development. The risk that a product will have negative effects remains even after any market authorisation is granted. A product that has already been approved can thus be withdrawn from the market if, for example, it is found to be inadequate from a safety perspective. The aforementioned risks could have a significant negative impact on the Company's operations, financial position and results.

Regulatory permits and registrations

To be approved for preclinical and clinical studies and/or to obtain the right market and sell a drug, all drug candidates under development need to go through a comprehensive registration process and be approved by the relevant regulator in an individual market, such as the US Food and Drug Administration ("FDA") or European Medicines Agency ("EMA"). The registration process covers, for example and where applicable, requirements relating to the development, testing, registration, approval, labelling, production and distribution of new drugs. If such requirements, whether existing or such as may be introduced in future, are not met, this could result, for example, in the recall of products, a suspension of imports, registration being declined, the withdrawal of previous approvals of applications or charges being brought. If a drug that has been developed by Cantargia is registered for commercialisation, there is a risk that Cantargia will not be able to meet new rules or will be unable to maintain its registration or obtain equivalent permits for any further drugs.

There is also a risk that the rules which currently apply for registration, or interpretations of these rules, will be amended in a way that is to the disadvantage of Cantargia. Authorities are not bound by the advice they provide during the development process, but can change their assessments, which could lead to delays caused by necessary changes to the research and development programme. Authorities may also make different assessments than Cantargia, for example with regard to the interpretation of data from studies or the quality of data. In the event that Cantargia does not obtain the required product approvals or in the event that any future approvals are withdrawn or limited, this could have significant negative effects on Cantargia's operations, financial position and results.

Changes in economic activity and the pricing of drugs

The pricing and demand for pharmaceutical drugs could be adversely affected by a general economic decline in the Swedish market, or other major markets, for pharmaceutical drugs. A general economic decline could, for example, affect payers of healthcare, including public authorities, insurance companies

and hospitals, and result in a reduced willingness to pay for pharmaceutical drugs. This, coupled with, for example, other changes in the budgets of such payers, could result in reduced payments for pharmaceutical companies, including Cantargia in the event that Cantargia in future receives relevant approvals for its products. In certain countries the pricing of drugs is determined at the regulatory level and, in case of the launch of drugs, the pricing could thus be regulated by authorities in several countries. A deterioration in general economic conditions and/or regulatory decisions could therefore result in a lower pricing of the drug projects than expected by Cantargia, which could have a significant negative impact on the Company's operations, financial position and results.

Partnerships, licensing and marketing

Cantargia is and will in future be dependent on partnerships in connection with the development of drug candidates, pre-clinical and clinical studies, and licensing/partnerships for any future sale of drugs. Of particular importance for the Company's current operations are its partnerships with Glycotope Biotechnology GmbH and BioWa Inc. for the manufacture and production of CANO4 and its partnership with Specialized Medical Services-oncology BV ("SMS-oncology") for the performance of the Company's first clinical study with CANO4. In the event that these or future partnerships were to be terminated, there is a risk that the Company would be unable, on short notice, to conclude contracts with suitable new business partners, which could have a significant negative impact on the Company's operations, financial position and results.

If current or future external partners were to fail to fulfil their obligations or keep to the agreed timetables, if the external parties were to fail to acquire sufficient necessary material for the development of the drug candidate, if the quality or reliability of the clinical information they obtain is neglected or if confidentiality concerning research results in concluded research agreements for one reason or another cannot be maintained, the ongoing or planned preclinical and clinical trials could be rendered more difficult, delayed or terminated completely, which would have a significant negative impact on the Company's operations and its ability to license or commercialise its product.

Finally, there is a risk that one or more of Cantargia's current or future manufacturers and suppliers will choose to end their collaboration with the Company. Moreover, and in the event that the development of CANO4 proceeds successfully, Cantargia will also be dependent on external parties for marketing and sales. If the Company is not successful in its attempts to conclude future or maintain existing partnership agreements for its product candidate, this could have a significant negative impact on Cantargia's operations, financial position and results.

Preparatory development of further drug candidates

In addition to CANO4, Cantargia intends to continue its re-

search into and engage in further development of a new antibody against the IL1RAP target molecule for treatment of autoimmune/inflammatory diseases. There is a risk that Cantargia's available financial resources will prove insufficient to conduct such development and that the Company, as a result thereof, may be forced to discontinue development or find other sources of financing or, alternatively, that the Company's work on CANO4 may suffer. Continuing the further development of IL1RAP could create a need to expand the Company's organisational resources, which could incur further costs for the Company. There is thus a risk that the Company's work on further drug candidates will have a negative impact on its operations, financial position and results.

Financing and capital requirements

Since starting its operations Cantargia has been reporting an operating loss and cash flow is expected to remain mainly negative until Cantargia succeeds in generating revenue from a launched product. The Company's planned preclinical and clinical studies will entail significant costs and the Company's development of its product candidate could prove more time- and cost-consuming than planned. Cantargia will also continue to need significant capital for research and development in order to conduct preclinical and clinical studies with CANO4 and for its continued research into and development of IL1RAP. Access to and the terms and conditions for further financing are affected by several factors, such as the possibility of concluding partnership agreements and general access to risk capital. If Cantargia, wholly or partly, were to fail to acquire sufficient capital, or succeed in doing so only on unfavourable terms, this could have a significant negative impact on the Company's operations, financial position and results.

Competition

The pharmaceutical industry is subject to tough competition and there are several potential competitors to Cantargia and its future business partners, such as universities and research institutions. Some of the Company's competitors are multinational companies with significant financial resources and greater capacity in terms of research and development, for example, or contacts with regulators than Cantargia. If a competitor succeeds in developing and launching an effective cancer drug, this could have a negative impact on the Company's ability to generate revenue.

Furthermore, technology that is controlled by outside parties and that could be of use for the Company's operations could be acquired or licensed by Cantargia's competitors, and thereby prevent Cantargia from obtaining such technology on commercially acceptable terms, or at all. Competitors with greater resources could also successfully market a similar or even an inferior drug and obtain wider recognition in healthcare in general for such a drug, which could have a negative impact on the Company's operations, financial position and results.

Dependence on key individuals and employees

Cantargia is dependent on a number of key individuals for the continued development of the Company's operations and pre-clinical and clinical projects. Cantargia's ability to retain and recruit qualified employees is of great significance for assuring a high level of expertise in the Company. There is, however, a risk that one or several of the Company's employees will terminate their employment with the Company or that the Company will fail to recruit new individuals with relevant knowledge, which could delay the Company's development and commercialisation of its drug candidate. In the event that the Company were to lose any of its employees, this could, at least in the short term, have a negative impact on the Company's operations, financial position and results.

The employment contracts for several of Cantargia's employees give the employee a right to terminate his employment with the Company with immediate effect in the event of a change in the employee's terms of employment as a result of changes in the Company's ownership structure. In the event that an employee terminates his employment contract on this basis or if the Company dismisses the employee within a twelve-month period of the change in ownership structure, the Company will be obliged to pay six months' severance pay to the employee. If the terms of employment were to change as a result of a change of ownership there is a risk that several employees will choose to terminate their employment under their employment contracts, which could have a significant negative impact on the Company's operations, financial position and results.

Patents and other intellectual property rights

Cantargia's potential success is dependent on the Company's ability to obtain and maintain patent protection of its future products, applications and production methods. There is a risk that it will not be possible to obtain patent protection for drugs and production methods developed by Cantargia, that Cantargia will be unable to register and complete all necessary or desirable patent applications at a reasonable cost or that a future patent portfolio and other intellectual property rights held by the Company will not provide adequate commercial protection. There is also a risk that a patent will not create a competitive advantage for the Company's drugs and/or methods or that competitors will succeed in circumventing the Company's patents. If Cantargia is forced to defend its patent rights against a competitor this could entail significant costs, especially in any disputes with competitors with significantly greater resources than Cantargia.

If Cantargia in its own operations uses or is alleged to be using products or methods which are protected by patents or will be patented by another party, the holder of these patents could accuse Cantargia of patent infringement. There is therefore a risk that Cantargia will be drawn into processes or other procedures for alleged infringements of patents or rights. Due to the uncertainty that is associated with patent protection, the outcome of such disputes is hard to predict. In case of a nega-

tive outcome for the Company of such a process, Cantargia could be liable to pay damages, be prohibited from continuing the activity which constitutes an infringement and/or be forced to acquire a licence to continue to produce or market the products and/or methods covered.

The failure to maintain its own, and/or any infringement of other parties', intellectual property rights could have a significant negative impact on Cantargia's operations, financial position and results.

Changes to laws and regulations, and regulatory interpretations and practice

The pharmaceutical industry is heavily regulated by laws and regulations covering the development process, approval process, quality controls, documentation requirements and pricing systems. Cantargia believes the Company is following these laws and regulations. There is, however, a risk that new laws will be adopted, which, in an attempt to reduce public healthcare costs, could materially change the regulatory framework which governs preclinical and clinical studies, regulatory approvals, production and marketing of regulated products and their pricing. Such changes, revisions and/or re-interpretations could, for example, result in demands for further preclinical and clinical studies, changed production methods and increased documentation requirements. Changes to laws and regulations for drugs, in the US and the EU, as well as in other major markets for pharmaceuticals, could result in increased costs and could also have a significant negative impact on Cantargia's operations, financial position and results.

Product liability

Cantargia's operations are subject to various liability risks that are common for companies engaged in drug research and development. This includes the risk of product liability that can arise in connection with production and clinical studies where the participating patients can experience side effects or fall ill during treatment. There is a risk that product liability claims could have a significant negative impact on Cantargia's operations, financial position and results.

Insurance cover

Cantargia believes it has appropriate insurance cover for its current operations. There is, however, a risk that such cover will prove insufficient for claims that could arise in relation to product liability and other damage. Furthermore, it is not certain that the Company will be able to maintain its insurance cover on favourable terms, or at all. There is therefore a risk that insufficient or excessively expensive insurance cover could have a significant negative impact on the Company's operations, financial position and results.

Disputes and legal actions

In 2016 a German company filed objections to Cantargia's European patents related to antibodies against IL1RAP for treatment of leukemia and solid tumours. Cantargia believes the objections are groundless and the Company will be making a

more detailed statement on these in early 2017. Other than these objections, Cantargia is currently not involved in any legal actions with third parties or with regulatory or managing authorities. Nor can the Company reasonably predict any such action. There is, however, a risk that the Company may be involved in such future disputes related to its ongoing activities. Such disputes could relate to alleged infringements of intellectual property rights, the validity of certain patents and other commercial disputes. Disputes and claims can be time-consuming, disrupt the operations, relate to significant amounts or important matters of principle, and incur significant costs and have a significant impact on the Company's operations, financial position and results.

Currency risk

Assets, liabilities, income and expenses in foreign currency give rise to currency exposures. A weakening of the Swedish krona (SEK) against other currencies increases the recognised amounts of Cantargia's assets, liabilities, income and earnings while a strengthening of the SEK against other currencies decreases these items. The Company is exposed to such changes, as parts of the Company's costs are paid in EUR and other international currencies and because a part of the Company's future sales revenue may be received in international currencies. A material change in such exchange rates could have a negative impact on the Company's financial statements, which in turn could have negative effects on Cantargia's financial position and results.

Tax losses

In view of the fact that Cantargia's operations have generated significant deficits, the Company has significant accumulated tax losses. Changes in ownership resulting in a change in control over the Company could restrict (wholly or partly) the Company's ability to use such losses in future. The Company's ability to use the losses in future could also be adversely affected by changes in the applicable legislation. Such restrictions of the right to use the Company's accumulated tax losses could have negative effects on Cantargia's financial position and results.

ORGANISATION

One of Cantargia's key success factors is the Company's employees. The average number of employees of the Company during the year was 4 (3), of whom 1 (1) is a woman. The number of employees at year-end was 4 (4) full-time equivalents, of whom 1 (1) is a woman. The level of education among the employees is high. All four employees hold PhDs in medicine or natural sciences.

In addition to its employees, Cantargia engages a number of consultants who are tied to the business on a continuous basis. The large network with which Cantargia works ensures access to top-level expertise, flexibility and cost effectiveness.

RESEARCH AND DEVELOPMENT

The majority of the Company's resources are used for research and development.

ENVIRONMENTAL IMPACT

Cantargia AB does not engage in activities requiring a permit under the Swedish Environmental Code, as the Company does not engage in the production of pharmaceuticals or pharmaceutical substances and does not handle solvents and chemicals.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

In February Cantargia completed a rights issue which raised approximately SEK 72.5 million for the Company before issue costs.

OUTLOOK FOR 2017

Cantargia's objective is to develop, patent and document drug candidates for use in cancer therapy. The plan is to eventually sell or license such drug candidates to companies operating in Cantargia's field of activity. The objective for 2017 is to initiate a clinical phase I/IIa study that is focused on examining non-small cell lung cancer and pancreatic cancer. Continued toxicological studies will be conducted along with further studies aimed at documenting the selected cancer indications, which will, for example, involve developing biomarkers.

APPROPRIATION OF RETAINED EARNINGS

Proposed appropriation of retained earnings. The Annual General Meeting is asked to resolve on the appropriation of the following:

Loss brought forward	-40,639,949
Share premium account	117,964,195
Loss for the year	-44,680,467
	32,643,779

The Board proposes that SEK 32,643,779 be carried forward.

For more information on the Company's results and financial position, see the following income statement and balance sheet and the additional disclosures.

Financial information

INCOME STATEMENT

Amounts in kSEK	Note	1 Jan 2016 -31 Dec 2016	1 Jan 2015 -31 Dec 2015
Operating income			
Net sales		-	-
Operating expenses			
Project costs	3	-32,683	-7,045
Other external expenses		-5,119	-4,953
Staff costs	4	-6,787	-4,810
Other operating expenses		-158	-210
		-44,747	-17,018
Operating loss		-44,747	-17,018
Financial income and expense			
Other interest income and similar items	5	132	23
Interest expense and similar items	6	-65	-195
		67	-172
Loss after net financial income/expense		-44,680	-17,190
Loss for the year		-44,680	-17,190

BALANCE SHEET

Amounts in kSEK	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Concessions, patents, licences, trademarks, etc.	7	7,092	4,282
		7,092	4,282
<i>Financial assets</i>			
Other securities held as non-current assets	8	3,366	1,747
		3,366	1,747
Total non-current assets		10,458	6,029
Current assets			
Other receivables		795	253
Prepaid expenses and accrued income		1,417	589
		2,212	842
Short-term investments			
Other short-term investments		8,937	14,871
		8,937	14,871
Cash and bank balances			
Cash and bank balances		25,904	9,641
		25,904	9,641
Total current assets		37,053	25,354
TOTAL ASSETS		47,511	31,383

BALANCE SHEET, CONT.

Amounts in kSEK	Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
<i>Equity</i>			
<i>Restricted equity</i>			
Share capital		1,673	1,080
Reserve for development costs		2,810	-
		4,483	1,080
<i>Non-restricted equity</i>			
Share premium account		117,964	64,805
Retained earnings		-40,640	-20,640
Loss for the year		-44,680	-17,190
		32,644	26,975
Total equity		37,127	28,055
<i>Non-current liabilities</i>			
Provisions	9	704	170
		704	170
<i>Current liabilities</i>			
Trade payables		7,419	1,794
Tax liabilities		186	51
Other liabilities		167	194
Accrued expenses and deferred income		1,908	1,119
		9,680	3,158
TOTAL EQUITY AND LIABILITIES		47,511	31,383

STATEMENT OF CHANGES IN EQUITY

Amounts in kSEK	Share capital	Paid-up not regd share cap	Reserve for development costs	Additional paid-in capital	Ret earnings incl profit/ loss for year	Total equity
Equity, 1 Jan 2015	184	63	-	24,490	-20,640	4,097
Issue of new shares	896	-63	-	43,847	-	44,680
Capital acquisition cost	-	-	-	-3,532	-	-3,532
Loss for the period	-	-	-	-	-17,190	-17,190
Equity, 31 Dec 2015	1,080	-	-	64,805	-37,830	28,055
Equity, 1 Jan 2016	1,080	-	-	64,805	-37,830	28,055
Issue of new shares	593	-	-	55,632	-	56,225
Capital acquisition cost	-	-	-	-2,473	-	-2,473
Capitalisation of development costs	-	-	2,810	-	-2,810	-
Loss for the period	-	-	-	-	-44,680	-44,680
Equity, 31 Dec 2016	1,673	-	2,810	117,964	-85,320	37,127

CASH FLOW STATEMENT

Amounts in kSEK	Note	1 Jan 2016 -31 Dec 2016	1 Jan 2015 -31 Dec 2015
Operating activities			
Operating loss		-44,747	-17,018
Interest received etc.		132	23
Interest paid		-65	-195
Cash flow from operating activities before changes in working capital		-44,680	-17,190
Cash flow from changes in working capital			
Change in receivables		-1,370	-213
Change in trade payables		5 625	387
Changes in other current liabilities		897	-13,261
Cash flow from operating activities		-39,528	-30,277
Investing activities			
Acquisition of concessions, patents, licences, etc.	7	-2,810	-1,835
Acquisition of other long-term securities	8	-1,619	-1,353
Provisions	9	534	170
Cash flow from investing activities		-3,895	-3,018
Financing activities			
Issue of new shares for the year		56,225	44,680
Capital acquisition costs		-2,473	-3,532
Cash flow from financing activities		53,752	41,148
Change in cash and cash equivalents		10,329	7,852
Cash and cash equivalents at beginning of year		24,512	16,660
Cash and cash equivalents at end of year*		34,841	24,512

*Cash and cash equivalents comprise liquid short-term investments and cash and bank balances.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1

Accounting policies

The annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and General Recommendation BFNAR 2012:1 Annual Accounts and Consolidated Financial Statements (K3) of the Swedish Accounting Standards Board. The accounting policies have not changed since last year.

Valuation principles

Assets, provisions and liabilities have been stated at cost unless otherwise indicated in the following.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and any impairment, and consist of capitalised expenditure for patents.

The capitalisation model is applied in accounting for expenditure for patents. This means that expenditure incurred during the development phase is capitalised when all of the following criteria are met:

- It is technically possible to complete the intangible asset so that it can be used or sold.
- It is intended to complete the intangible asset for use or sale.
- It is possible to use or sell the intangible asset.
- It is probable that the intangible asset will generate future economic benefits.
- Adequate technical, economic and other resources are available to complete the development of and use or sell the intangible asset.
- The costs attributable to the intangible asset can be reliably measured.

Expenditure for patents that has been financed with government assistance has not been capitalised.

The assets' estimated useful lives are reviewed at each balance sheet date. Projects in progress are not amortised but tested for impairment annually. Assets are amortised as of the date when a patent is granted.

Financial instruments

Financial instruments are accounted for in accordance with the rules in K3, Chapter 11, which provide for cost-based measurement.

Financial instruments that are accounted for in the balance sheet include securities, trade and other receivables, short-term investments, trade payables and loans. The instruments are recognised in the balance sheet when the Company becomes a party to the contractual terms of the instrument.

Financial assets are derecognised when the right to receive cash flows from the instrument has expired or been transferred and the Company has transferred virtually all risks and benefits associated with ownership.

Financial liabilities are removed from the balance sheet when the obligations have been settled or otherwise been extinguished.

Trade and other receivables

Receivables are accounted for as current assets, with the exception of items maturing later than 12 months from the balance sheet date, which are classified as non-current assets. Receivables are stated at the amounts that are expected to be received less any individually assessed doubtful receivables.

Loans and payables

Loans and payables are initially recognised at cost less transaction costs. If the carrying amount differs from the amount repayable at maturity, the difference is recognised as an interest expense and allocated over the term of the loan using the effective interest rate for the instrument. This ensures that the carrying amount and the amount repayable are the same at the maturity date.

Impairment testing of financial assets

At each balance sheet date the Company assesses whether there is any indication of impairment of financial assets. An impairment loss is recognised if the decline in value is deemed to be permanent. Impairment losses are recognised in Interest expense and similar items in the income statement.

Receivables and liabilities in foreign currency

Monetary receivables and liabilities in foreign currency have been translated at the closing rate. Foreign exchange differences arising upon settlement or translation of monetary items are recognised in the income statement in the financial year in which they arise, either as an operating item or as a financial item based on the underlying commercial transaction.

Employee benefits

Short-term benefits

Short-term employee benefits in the Company comprise salary, social security contributions, paid holiday, paid sick leave, healthcare and bonuses. Short-term employee benefits are recognised as a cost and a liability when there is a legal or constructive obligation to make a payment.

Post-employment benefits

Only defined contribution pension plans are used in the Company. In a defined contribution plan the Company pays contributions to another company and has no legal or constructive obligations to make any further payments even if

the other company is unable to meet its obligations. Costs are charged to earnings as the employees' pensionable services are performed. Retirement benefit obligations whose value is dependent on the value of an endowment policy are stated at the carrying amount of the endowment policy.

Termination benefits

Remuneration in case of termination is paid when the Company decides to terminate an employment before the normal date of termination or when an employee accepts an offer of voluntary redundancy in exchange for such remuneration. If the remuneration does not give the Company any future economic benefit, a liability and an expense are recognised when the Company has a legal or constructive obligation to pay such remuneration. The remuneration is measured at the best estimate of the remuneration that would be required to settle the obligation at the balance sheet date.

Taxes, including deferred tax

Current tax is income tax for the current financial year relating to the taxable profit for the year and that portion of income tax for previous financial years that has not yet been recognised. Current tax is measured at the amount that is expected to be paid, based on the tax rates and tax rules applying at the balance sheet date. Deferred tax is income tax for taxable profits relating to future financial years as a result of past transactions or events.

Deferred tax is calculated on temporary differences. A temporary difference exists when the carrying amount of an asset or liability differs from the tax basis.

Deferred tax assets relating to unused tax losses or other future tax deductions are recognised to the extent that it is probable that such deductions can be used to offset future taxable profits. Deferred tax has not been recognised on the tax loss, as management is not yet able to assess when it will be possible to use this deficit to offset future taxable profits.

Cash flow statement

The cash flow statement has been prepared using the indirect method. The recognised cash flow only comprises transactions resulting in incoming and outgoing payments. In addition

to cash assets, the Company classifies available deposits with banks and other credit institutions and liquid short-term investments as cash and cash equivalents.

NOTE 2

Critical judgements and estimates

The preparation of financial statements and application of accounting policies are often based on judgements, estimates and assumptions made by management that are deemed reasonable at the time when they are made. The estimates and assumptions applied are based on historical experience and other factors which are deemed reasonable under current circumstances. The results of these are then used to determine carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from these estimates and assessments.

Estimates and assumptions are reviewed regularly. Any changes are recognised in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

Material risks in the financial statements refer primarily to the carrying amounts of non-current assets and their useful lives. The carrying amount is dependent on the future market for the Company's products developing as expected. It is considered that the carrying amount of these items did not exceed fair value as at 31 December 2016.

NOTE 3

Project costs

	2016	2015
Project costs	-32,683	7,045
	-32,683	7,045

Project costs refer to the Company's direct costs relating primarily to research and development for the project. The item includes costs for studies and tests as well as compensation paid to subcontractors tied directly to the project.

NOTE 4

Number of employees, salaries, other remuneration and social security contributions

Average number of employees	2016		2015	
	Number of employees	Of which men	Number of employees	Of which men
	4	3	3	2

The average number of employees is based on the number of working hours paid for by the Company in relation to the number of normal working hours.

Breakdown of senior executives at balance sheet date:

	31 Dec 2016		31 Dec 2015	
	Number	Of which men	Number	Of which men
Board Directors	6	5	5	5
Other employees in management, incl. CEO	4	3	1	1

Salaries and remuneration for the year

Salaries, remuneration, social-security contributions and pension costs have been paid in the following amounts:

2016	Directors' fee	Basic salary	Variable remuneration	Retirement benefit cost	Other remuneration	Social sec contributions	Total
Magnus Persson, Chairman	260	-	-	-	-	82	342
Claus Asbjörn Andersson, Director	80	-	-	-	-	25	105
Lars H Bruzelius, Director	90	-	-	-	-	28	118
Thoas Fioretos, Director	80	-	-	-	-	25	105
Karin Leandersson, Director	80	-	-	-	-	25	105
Niclas Lundqvist, Director	110	-	-	-	-	35	145
Göran Forsberg, CEO		1,179	210	810	7	633	2,839
Total, Board and CEO	700	1,179	210	810	7	853	3,759
Other employees	-	2,325	-	1,077	14	512	3,928
Total	700	3,504	210	1,887	21	1,365	7,687

Retirement benefit obligations to the Board and CEO 468

2015	Directors' fee	Basic salary	Variable remuneration	Retirement benefit cost	Other remuneration	Social sec contributions	Total
Sven Andreasson, Chairman	209	-	-	-	92	47	348
Lars H Bruzelius, Vice Chairman	100	-	-	-	1	31	132
Claus Andersson, Director	-	-	-	-	-	-	-
Thoas Fioretos, Director	-	-	-	-	-	-	-
Lars Larsson, Director	50	-	-	-	-	16	66
Göran Forsberg, CEO	-	1,212	264	681	-	588	2,745
Total, Board and CEO	359	1,212	264	681	93	682	3,291
Other employees	-	1,317	-	465	-	244	2,026
Total	359	2,529	264	1,146	93	926	5,317

Retirement benefit obligations to the Board and CEO 170

In accordance with the guidelines on remuneration adopted by the Annual General Meeting, the annual variable remuneration of senior executives is capped at 30 per cent of the fixed salary and the total variable remuneration paid to the Company's senior executives is limited to kSEK 750. The term of notice in case of termination by the employee shall be at least six months for the CEO and at least three months for other senior executives. In addition to the term of notice, severance pay may be paid to the CEO up to a maximum of twelve months' salary and employment benefits. There are no other agreements on bonuses, severance pay or equivalent remuneration for Board Directors and senior executives. Nor are there any forms of conditional or deferred remuneration or benefits in kind to report, and there are no provisions

or accrued amounts for post-employment retirement or similar benefits.

The Directors' fees approved at the 2016 AGM comprise kSEK 250 to the Chairman of the Board, kSEK 80 to each of the other Directors, kSEK 30 to the Chairman of the Remuneration Committee and kSEK to each of the other members of the Remuneration Committee. The full amount of Directors' fees was charged to earnings in 2016. For 2015 the corresponding fees were kSEK 150 to the Chairman of the Board, kSEK to the Vice Chairman and kSEK 50 to each of the other independent Directors. The table above for 2015 also includes Directors' fees which refer to 2014.

NOTE 5

Other interest income and similar items

	2016	2015
Interest	3	21
Foreign exchange differences	129	2
	132	23

NOTE 6

Other interest expense and similar items

	2016	2015
Other interest expenses	-2	-67
Impairment of short-term investments	-16	-128
Capital loss	-47	-
	-65	-195

NOTE 7

Concessions, patents, licences, trademarks, etc.

	31 Dec 2016	31 Dec 2015
Cost at beginning of year	4,282	2,447
Purchases	2,810	1,835
Cost at end of year	7,092	4,282
Carrying amount at end of year	7,092	4,282

NOTE 8**Other securities held as non-current assets**

	31 Dec 2016	31 Dec 2015
Cost at beginning of year	1,747	394
Purchases	1,619	1,353
Cost at end of year	3,366	1,747
Carrying amount at end of year	3,366	1,747

The market value of the above securities at the balance sheet date is SEK 3,597,247.

NOTE 9**Provisions**

	31 Dec 2016	31 Dec 2015
Pension provision	704	170
	704	170

NOTE 10**Significant events after the end of the financial year**

In February Cantargia completed a rights issue which raised approximately SEK 72.5 million for the Company before issue costs.

NOTE 11**Definitions of key performance indicators**

Equity/assets ratio - Adjusted equity as a percentage of total assets

Quick ratio - Current assets as a percentage of current liabilities

Equity per share - Equity divided by number of shares at end of period

Earnings per share - Profit for the year divided by number of outstanding shares at end of period



Magnus Persson
Chairman

Claus Asbjørn Andersson

Lars H Bruzelius

Thoas Fioretos

Karin Leandersson

Niclas Lundqvist

Göran Forsberg
Chief Executive Officer

Our auditor's report was submitted on 28 April 2017
Öhrlings PricewaterhouseCoopers AB

Anders Brofors Ekblom
Authorised Public Accountant

AUDITOR'S REPORT

To the shareholders' meeting of Cantargia AB (publ), corporate ID no. 556791-6019

Report on the annual accounts

Opinion

We have audited the annual accounts of Cantargia AB (publ) for 2016. The company's annual accounts are included on pages 22-45 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and give an essentially true and fair view of Cantargia AB (publ)'s financial position at 31 December 2016 and of its financial results and cash flow for the year in accordance with the Annual Accounts Act. The Directors' Report is consistent with the other sections of the annual report.

We therefore recommend that the shareholders' meeting adopt the income statement and balance sheet.

Basis of opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden (Swedish GAAS). Our responsibility under these standards is described in the section The auditor's responsibility. We are independent of Cantargia AB (publ) in accordance with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards.

We believe that the audit evidence we have obtained is sufficient and adequate as a basis for our opinion.

Other information than the annual accounts

Other information consists of the report from the company's management on pages 2-21. Responsibility for this other information rests with the Board of Directors and Chief Executive Officer.

Our opinion on the annual accounts does not cover this other information, and we do not express any opinion, or make any certification, in respect of this information.

In connection with our audit of the annual accounts it is our responsibility to read the information identified above and,

in so doing, to consider whether it is materially inconsistent with the annual accounts. In this review we also take account of other knowledge obtained in the course of our audit and assess whether the information otherwise appears to contain material misstatements.

If, based on the work we have carried out in respect of this information, we conclude that the other information contains a material misstatement, we have a duty to report this. We have nothing to report in that regard.

The Board of Directors' and Chief Executive Officer's responsibility

Responsibility for ensuring that annual accounts are prepared and give a true and fair view pursuant to the Annual Accounts Act rests with the Board of Directors and Chief Executive Officer. The Board and CEO are also responsible for such internal control as they deem necessary for the purpose of preparing annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board and CEO are responsible for assessing the company's ability to continue as a going concern. Where applicable, they are also required to disclose circumstances which could affect the company's ability to continue as a going concern and use the going concern assumption. The going concern assumption applies unless the Board and CEO intend to liquidate the company or cease to operate, or have no realistic alternative to doing so.

The auditor's responsibility

Our objective is to obtain reasonable assurance that the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to submit an auditor's report containing our opinion. Reasonable assurance is a high degree of assurance, but does not constitute a guarantee that an audit conducted in accordance with ISA and Swedish GAAS will always detect a material misstatement if it exists. Misstatements can arise due to fraud or error and are considered material if they individually or jointly can reasonably be expected to affect financial decisions made by users on the basis of the annual accounts.

As part of our audit in accordance with ISA, we use our professional judgement and maintain a professionally sceptical attitude throughout our audit. We also:

- identify and assess the risks of material misstatement in the annual accounts, whether due to fraud or error, devise and perform audit procedures partly on the basis of these risks and obtain audit evidence that is sufficient and appropriate as a basis for our opinion. The risk of not detecting a material misstatement that is due to fraud is higher than for a material misstatement that is due to error, as fraud can involve persons acting in collusion, falsification, intentional omissions, incorrect information or neglect of internal control.
- obtain an understanding of that part of the company's internal control system that is of significance for our audit in order to devise audit procedures which are appropriate in view of the circumstances, but not to express an opinion on the effectiveness of the internal control system.
- evaluate the appropriateness of the accounting policies used and the reasonableness of the Board of Directors' and CEO's estimates in the accounts and related disclosures.
- draw a conclusion on the appropriateness of the Board of Directors' and CEO's use of the going concern assumption in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, on whether there is any material uncertainty related to events or circumstances which could cast significant doubt on the company's ability to continue as a going concern. If we draw the conclusion that there is a material uncertainty we need to draw attention in our auditor's report to those disclosures which concern the material uncertainty in the annual accounts or, if such disclosures are insufficient, modify our opinion on the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or circumstances could result in a company being unable to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts provide a true and fair view of the underlying transactions and events.

We are required to inform the Board on, for example, the planned scope, focus and timing of our audit. We are also required to communicate any significant observations made in the course of our audit, including any significant internal control issues that we have identified.

Report on other statutory and regulatory requirements

Opinion

In addition to our audit of the annual accounts, we have audited the Board of Directors' and Chief Executive Officer's

management of Cantargia AB (publ) for 2016 and the proposed appropriation of the company's profit or loss.

We recommend that the shareholders' meeting allocate the retained earnings as proposed in the Directors' Report and grant release from liability to the Directors and Chief Executive Officer in respect of the financial year.

Basis of opinion

We have conducted our audit in accordance with generally accepted auditing standards in Sweden (Swedish GAAS). Our responsibility under these standards is described in the section The auditor's responsibility. We are independent of Cantargia AB (publ) in accordance with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards.

We believe that the audit evidence we have obtained is sufficient and adequate as a basis for our opinion.

The Board of Directors' and Chief Executive Officer's responsibility

Responsibility for the proposed appropriation of the company's profit or loss rests with the Board of Directors. The preparation of a dividend proposal involves assessing whether the dividend is justifiable with regard to the equity, consolidation, liquidity and financial position requirements of the company arising from the nature, scope and risks of its operations.

The Board is responsible for the company's organisation and the management of its affairs. This involves continuously assessing the company's financial situation, and ensuring that the company's organisation is structured so as to ensure satisfactory control of its accounting, management of funds and financial affairs. The Chief Executive Officer is responsible for day-to-day management in accordance with the guidelines and instructions issued by the Board and is required to take such actions as may be necessary to ensure compliance with the company's statutory accounting obligations and satisfactory management of funds.

The auditor's responsibility

Our objective for the management audit, and thus for our opinion on release from liability, is to obtain audit evidence which enables us to assess with reasonable assurance whether any member of the Board or the Chief Executive Officer has in any material respect:

- taken any action or been guilty of any neglect that could give rise to a liability to indemnify the company.
- otherwise acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective in respect of our audit of the proposed appropriation of the company's profit or loss, and thus for our opinion on the same, is to obtain reasonable assurance that the proposed appropriation is consistent with the Companies Act.

Reasonable assurance is a high degree of assurance but does not guarantee that an audit conducted in accordance with Swedish GAAS will always detect actions or neglect that could give rise to a liability to indemnify the company, or that the proposed appropriation of the company's profit or loss is consistent with the Companies Act.

As part of our audit in accordance with Swedish GAAS, we use our professional judgement and maintain a professionally sceptical attitude throughout our audit. Our management audit and audit of the proposed appropriation of the company's profit or loss is based primarily on our audit of the financial statements. We use our professional judgement to decide which additional audit procedures to carry out based on risk and materiality. This means that we focus our examination on such procedures, areas and circumstances that are material to the business and where deviations and violations would be particularly significant for the company's situation. We review and test the decisions that have been made, the bases for these decisions, the measures taken and other circumstances that are relevant to our opinion on release from liability. As a basis for our opinion on the Board of Directors' proposal for appropriation of the company's profit or loss, we have examined whether the proposal is consistent with the Swedish Companies Act.

Lund, 28 April 2017

Öhrlings PricewaterhouseCoopers AB

Anders Brofors Ekblom

Authorised Public Accountant

ANNUAL GENERAL MEETING AND FINANCIAL CALENDAR

Cantargia's Annual General Meeting will be held on Tuesday 30 May 2017, at 5 p.m., at Medicon Village, Scheelevägen 2 in Lund, Sweden. Shareholders wishing to take part in the Annual General Meeting must be registered in the share register maintained by Euroclear Sweden AB by Tuesday 23 May 2017, and register their attendance with the Company no later than Tuesday 23 May 2017 by writing to Cantargia AB, Medicon Village, Scheelevägen 2, 223 81 Lund. Shareholders can also be register by phone on +46 (0)46-27 56 260 or by e-mail at info@cantargia.com. Shareholders whose shareholdings are registered with a nominee must, to be entitled to attend the AGM, ensure that their shareholding is temporarily re-registered in their own name with Euroclear Sweden AB in good time before Tuesday 23 May 2017.

- 15 May 2017 Interim report 1
- 30 May 2017 Annual General Meeting
- 23 Aug 2017 Half-year report
- 15 Nov 2017 Interim report 3
- 28 Feb 2018 Year-end report for 2017

The logo for Cantargia, featuring a stylized '@' symbol followed by the word 'cantargia' in a lowercase, sans-serif font.

www.cantargia.com