Year-end Report
1 January 2017 – 31 December 2017

Cantargia AB | 556791-6019

“Cantargia” refers to Cantargia AB (publ), corporate ID number 556791-6019.

Successes on several fronts

Financial information

Full year (1 Jan 2017 – 31 Dec 2017)

- Net sales, kSEK 0 (0).
- Operating loss, kSEK -60,009 (-47,557).
- Loss after tax for the year, kSEK -60,253 (-47,490).
- Earnings per share, before and after dilution, SEK -1.86 (-2.72).
- Equity/assets ratio, 90 (76) per cent.
- Cash and cash equivalents, kSEK 149,781 (25,904).

Fourth quarter (1 Oct 2017 – 31 Dec 2017)

- Net sales, kSEK 0 (0).
- Operating loss, kSEK -14,412 (-17,217).
- Loss after tax, kSEK -14,667 (-17,152).
- Earnings per share, before and after dilution, SEK -0.40 (-0.82).

Operations

Significant events in the fourth quarter

In October the first results of the CANFOUR clinical study from the first three patients in the first dose group were published. No serious side effects were documented and the first patient, who had then been treated on three occasions with the CAN04 antibody, had thus formally completed the safety evaluation in accordance with the clinical protocol.

In October Cantargia received formal patent approval in the US in respect of the CAN04 antibody. The patent protects CAN04 both as a substance and specifically for treatment of various forms of cancer in the US until 2035.

In November Cantargia announced a private placement and a rights issue. The share offerings were completed in December, raising SEK 232 million for an expanded clinical programme on CAN04. Cantargia thus has the financing it needs to expand its clinical development programme for CAN04 and accelerate the development of CANxx. Several institutional investors participated in the private placement, strengthening the company’s shareholder base.

In November, Cantargia also decided to apply for listing on Nasdaq OMX Stockholm's main list in 2018.

Significant events after the end of the period

In January 2018 Cantargia was notified that the United States Patent and Trademark Office (USPTO) had issued a Notice of Allowance for the company’s second, follow-up patent application, no. 15/196,795, in the solid tumours patent family.

In January the Chinese patent office formally approved Cantargia’s patent application for IL1RAP as target molecule for antibody therapy of several types of solid tumour. The approved patent has the number ZL201280014136.7.

In 2016 a third party filed oppositions to two of Cantargia's patents in Europe. One of the patents relates to IL1RAP as target molecule for treatment of hematological cancer while the other patent relates to solid tumours. In January the European Patent Office decided that both patents should remain unchanged.

Cantargia's Nomination Committee for the 2018 Annual General Meeting is appointed and consists of Claus Andersson (Sunstone Life Science Ventures), Mats Larsson (Första AP-fonden) and Jannis Kitsakis (Fjärde AP-fonden).

In February 2018 Cantargia was notified that the United States Patent and Trademark Office (USPTO) had issued a Notice of Allowance for the company's second, follow-up patent application, no. 15/242,242, in the hematological cancer patent family.

CEO Göran Forsberg comments

The fourth quarter proved a worthy end to a very successful 2017 for Cantargia. Through the share offering the company raised SEK 232 million, ensuring that Cantargia is fully funded until 2020. Many long-term investors chose to support us and we are very proud of this vote of confidence. In connection with the share offering Cantargia decided to apply for listing on the main list of the stock exchange. Cantargia has grown and this move feels very much warranted. It will offer an opportunity for many new investors to get to know Cantargia, which is of course a very welcome development. The preparations are in full swing and an important interim objective is described in this report – that we have started reporting financial information in accordance with IFRS.

Our main project, CAN04, has passed a number of important milestones. In the summer we received the go-ahead to initiate our first study in patients with severe cancer, CANFOUR. It is being conducted by experienced investigators at highly regarded hospitals in Belgium, the Netherlands, Denmark and Norway. In October we were able to report that the level of safety was high in the initial group, which consisted of three patients, and the study has since proceeded as planned. The CANFOUR study is being conducted in two stages, where the purpose of the first stage is to study the safety of the CAN04 product candidate. We expect to be able to present the results of that part of the study in summer 2018, after which the study will move directly to a phase IIa stage in which CAN04 will be studied both as monotherapy and in combination with what is currently the standard treatment for each form of cancer. In this stage the study will be focusing on non-small cell lung cancer and pancreatic cancer, but for the future we see a potential also in many other forms of cancer.

It is my hope that Cantargia will continue to make progress in 2018. In addition to the clinical development and the milestones associated with the study, we expect to be able to communicate new preclinical data on CAN04. Many interesting studies are underway, and when the results are ready we will have reason to provide an update. We will also initiate work on formulating a strategy for clinical development in the United States.

I would like to thank all our shareholders for the confidence they have shown in Cantargia and look forward to making further progress on all fronts.

Göran Forsberg
CEO, Cantargia AB

Operations and projects

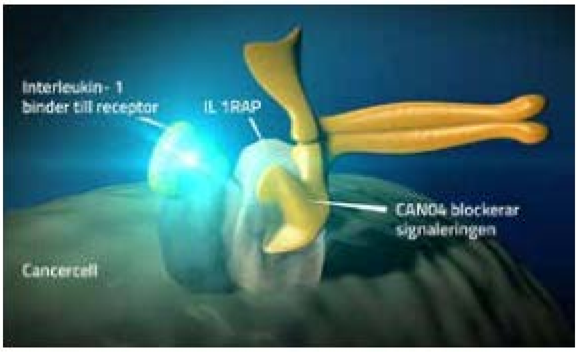
Established in 2010 and listed on the stock exchange in 2015, Cantargia is a biotechnology company that is engaged in research and development of antibody-based therapies for serious diseases. The company has specialised in antibody-based treatment aimed at the target molecule Interleukin-1 Receptor Accessory Protein ("IL1RAP"), which has the potential to be used against a number of different forms of cancer as well as for autoimmune and inflammatory diseases. In its most advanced project Cantargia is developing the CAN04 antibody, which is double-acting. This means that it fights cancer both by activating the immune system and by blocking signals that drive tumour growth.

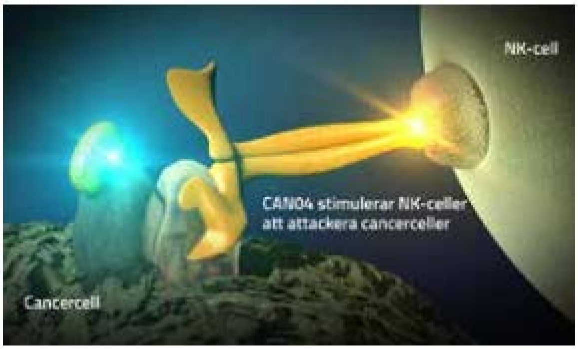
The original discovery made by the research team behind Cantargia was that the specific target molecule, IL1RAP, was found on cancer cells from patients with leukemia but not on normal stem cells in the bone marrow. In subsequent research Cantargia has shown that IL1RAP is also expressed on cancer cells in a large number of cancer diseases.

Cantargia's CAN04 antibody is being studied in the CANFOUR clinical phase I/IIa study. In the second project, CANxx, new antibodies against IL1RAP are being developed that are designed for treatment of autoimmune and inflammatory diseases with the objective of selecting a product candidate in 2019. That project is being conducted in partnership with Panorama Research Inc. in California.

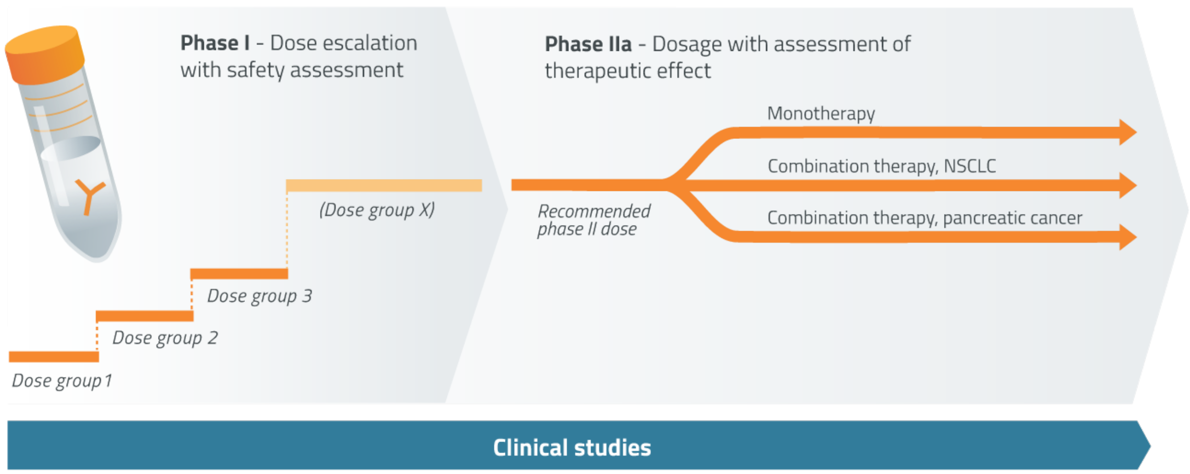
CAN04: Cantargia's product candidate for cancer treatment

Cantargia's CAN04 antibody treatment fights cancer both by activating the immune system's killer cells (illus. 2 below) and by blocking signals which stimulate tumour growth (illus.1 below). CAN04 is designed to block the cancer cell's signalling via the interleukin-1 system, which can limit the inflammation that the tumour uses for growth and as a defensive strategy. 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. While the CAN04 antibody could thus potentially be used for treating several different forms of cancer, in its initial development activities Cantargia has focused on non-small cell lung cancer and pancreatic cancer in its CANFOUR phase I/IIa study. In the initial stage (phase I) of the study CAN04 is being given to a limited number of patients with the aim of gradually increasing the dose and studying the safety profile of the drug and its metabolism in the body, in order to determine an appropriate dose to use in the second stage. In the second stage of the study (phase IIa) CAN04 will be given to a larger number of patients in order to evaluate indications of therapeutic effect and to gather more information on the safety of the drug at the chosen dose. CAN04 will be studied both as an individual drug and in combination with the standard treatment for each indication.

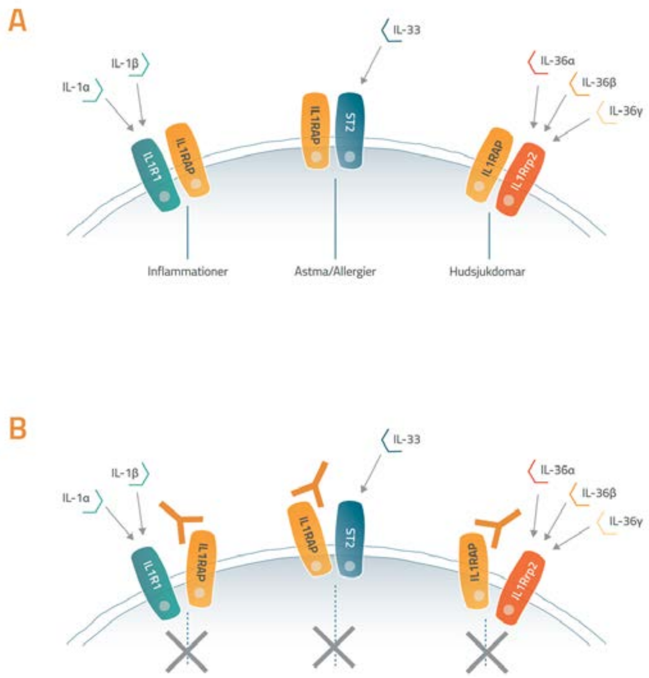


Cantargia's initial clinical phase I/IIa study covers both monotherapy and combination therapy, where CAN04 is combined with the existing standard treatments for non-small cell lung cancer and pancreatic cancer. This will result in additional data, which will accelerate the overall development of CAN04. An initial presentation of phase I data is expected to be made around one year after the start of the study.

CANxx: Developing product candidates for autoimmunity and inflammation

CAN04, Cantargia's first product candidate, has been designed for treatment of various forms of cancer. Yet Cantargia's platform offers the potential to develop further antibodies against the IL1RAP target molecule that are designed to treat additional, life-threatening diseases. Cantargia is currently working on developing new antibodies that are designed for treatment of autoimmune and inflammatory diseases.

The company's new project, CANxx, is aimed at developing an antibody with properties that are optimised for treatment of autoimmune and inflammatory diseases. Viewed from a functional biological perspective, IL1RAP transfers signals from the cytokines IL-1 and IL-33, which play a role in several serious autoimmune and inflammatory diseases.



The CANxx project was launched in 2017 with the objective of identifying a clinical candidate that can move on to the development phase in 2019. By launching a new project targeting a disease segment that supplements CAN04, Cantargia will diversify its activities and obtain a favourable risk spread in its project portfolio. The project is being conducted in partnership with Panorama Research Inc. in California. Panorama is contributing by conducting the early stages of the development at its own expense in exchange for a share of future revenues.

Financial information

Income
The company had no income in the full year 2017.

Earnings
The company reports an after-tax loss of kSEK -14,677 (-17,152) for the fourth quarter and kSEK -60,253 (-47,490) for the full year.

The loss is essentially related to the company's costs for developing its CAN04 and CANxx product candidates. Project costs in the fourth quarter were kSEK -10,157 (-13,981). For the full year costs for development projects had a negative impact on earnings of kSEK -44,819 (-35,493). Due to a change of accounting policies, patents are no longer capitalised, see also Note 2. Instead, patent costs are expensed as incurred as a part of the company's project costs. Patent costs expensed for the full year were kSEK -3,142 (-2,810).

In the fourth quarter other external expenses were kSEK -1,857 (-1,458) and personnel expenses were kSEK -2,268 (-1,746). For the full year other external expenses were kSEK -6,917 (-5,119) and personnel expenses were kSEK -8,064 (-6,787). Other operating expenses, which comprise foreign exchange differences on trade payables, were kSEK -131 (-32) in the fourth quarter and kSEK -210 (-158) for the full year.

Net financial income/expense consists largely of foreign exchange differences on currency accounts. A weaker Swedish krona increased the net financial expense, which was kSEK -254 (65) for the fourth quarter and kSEK -243 (67) for the full year.

Financial position
The equity/assets ratio at 31 December 2017 was 90 (76) per cent and equity was kSEK 246,120 (30,053). The company's cash and cash equivalents, which consist of cash and available deposits with banks and other credit institutions, were kSEK 149,781 (25,904) at the balance sheet date. In addition to cash and cash equivalents, the company has short-term investments with banks and in fixed income funds in a total amount of kSEK 120,000 (8,937). The increase in cash and cash equivalents and short-term investments is wholly related to the share offerings that were completed in 2017. Total assets at the end of the period were kSEK 274,453 (39,715).

Cash flow and investments
Cash flow from operating activities for the full year was kSEK -41,103 (-42,338). Cash flow from investing activities, which refers mainly to the change in short-term investments, was kSEK -111,358 (4,849). During the year the company completed two major share offerings, which resulted in a positive cash flow. Cash flow from financing activities for the full year was kSEK 276,338 (53,752). The total change in cash and cash equivalents for the twelve-month period was positive, at kSEK 123,877 (16,263).

Other information

Related party transactions
Cantargia has a research agreement with Lund University, where Thoas Fioretos, one of Cantargia's founders and a Director of the company, is engaged in research. Under the agreement, Thoas Fioretos has undertaken, as part of his employment at Lund University, to conduct projects which are aimed at obtaining more knowledge about IL1RAP. Cantargia has the right under the agreement to use and, where applicable, take over any and all research results from the two projects at no cost. In 2017 the company made payments of approximately SEK -0.5 (-1.0) million to Lund University in accordance with the agreement.

In May Cantargia concluded a consulting agreement with Jöndell Consulting AB, a company that is wholly owned by the company's CFO. The CFO is not employed by Cantargia but works on a consultancy basis in accordance with the agreement. In 2017 Cantargia paid approximately SEK 0.7 million for the consulting services provided.

In the company's assessment, the above agreements have been concluded on commercial terms.

Employees
The average number of employees for the period January to December 2017 was 5 (4), of whom 2 (1) were women. Cantargia's operations are largely carried out by external partners.

Share information
Cantargia's shares were listed on Nasdaq Stockholm First North on 17 March 2015, under the ticker "CANTA". At 31 December 2017 the number of shares was 46,940,508 (20,917,200).

Financial calendar

• The Annual Report 2017 will be published in	May 2018
• Interim report 1	15 May 2018
• Interim report 2	21 August 2018
• Interim report 3	15 November 2018
• Year-end report for 2018	27 February 2019

Interim reports and the annual report are available at www.cantargia.com .

Annual General Meeting 2018
The Annual General Meeting of Cantargia will be held at Medicon Village, Scheelevägen 2 in Lund on 31 May, at 4 p.m.

Proposed appropriation of earnings
The Board of Directors and Chief Executive Officer propose that no dividend be paid for the financial year 1 January 2017 – 31 December 2017.

Principles for preparation of the year-end report
See Note 1.

Transition to RFR 2 in the interim report
See Note 2.

Critical judgements and estimates
See Note 3.

Key performance indicators, definitions
- Operating profit/loss: Net sales less total operating expenses.
- Earnings per share: Profit/loss for the period divided by average number of shares for the period.
- Equity/assets ratio: Equity divided by total capital.

Certified Adviser
Sedermera Fondkommission is Cantargia's Certified Adviser.

Examination by auditors
The year-end report has not been examined by Cantargia's auditors.

General information
Cantargia is a limited company with registered office in the municipality of Lund, Sweden. The address is Medicon Village, Scheelevägen 2, SE-223 81 Lund, Sweden.

Submission of interim report
Lund, 28 February 2018
Cantargia AB
The Board of Directors

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STATEMENT OF COMPREHENSIVE INCOME

(kSEK)	2017 Oct-Dec	2016 Oct-Dec	2017 Jan-Dec	2016 Jan-Dec
Operating income				
Net sales	-	-	-	-
Operating expenses				
Project costs	-10 157	-13 981	-44 819	-35 493
Other external expenses	-1 857	-1 458	-6 917	-5 119
Personnel expenses	-2 268	-1 746	-8 064	-6 787
Other operating expenses	-131	-32	-210	-158
	-14 412	**-17 217**	**-60 009**	**-47 557**
Operating profit	**-14 412**	**-17 217**	**-60 009**	**-47 557**
Financial income and expense				
Interest income and similar items	70	129	86	132
Interest expense and similar items	-324	-64	-329	-65
	-254	**65**	**-243**	**67**
Profit before taxes	**-14 667**	**-17 152**	**-60 253**	**-47 490**
Loss for the year *)	**-14 667**	**-17 152**	**-60 253**	**-47 490**
Earnings per share before and after dilution (SEK) based on average number of shares	-0,40	-0,82	-1,86	-2,72

*) No items are reported in other comprehensive income, meaning total comprehensive income is consistent with the loss for the year.

BALANCE SHEET

(kSEK)	31-12-2017	31-12-2016	01-01-2016
ASSETS			
Fixed assets			
Intangible assets			
Concessions, patents, licences and trademarks	-	-	-
	-	-	-
Financial assets			
Other securities held as non-current asset	2 957	2 662	1 577
	2 957	2 662	1 577
Total fixed assets	2 957	2 662	1 577
Current assets			
Other receivables	1 345	795	253
Prepaid expenses and accrued income	370	1 417	589
	1 715	2 212	842
Short-term investments			
Other short-term investments	120 000	8 937	14 871
	120 000	8 937	14 871
Cash and bank balances			
Cash and bank balances	149 781	25 904	9 641
	149 781	25 904	9 641
Total current assets	271 496	37 053	25 354
TOTAL ASSETS	274 453	39 715	26 931
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	3 755	1 673	1 080
Share capital not yet registered	1 612	-	-
	5 367	1 673	1 080
Non-restricted equity			
Share premium account	390 608	117 964	64 805
Retained earnings	-89 602	-42 112	-23 087
Loss for the year	-60 253	-47 490	-19 025
	240 753	28 362	22 693
Total equity	246 120	30 035	23 773
Long-term liablities			
Provisions	-	-	-
	-	-	-
Short-term liabilities			
Trade payables	20 619	7 419	1 794
Tax liabilities	377	186	51
Other liabilities	221	167	194
Accrued expenses and deferred income	7 117	1 908	1 119
	28 333	9 680	3 158
TOTAL EQUITY AND LIABILITIES	274 453	39 715	26 931

STATEMENT OF CHANGES IN EQUITY

(kSEK)	Restricted equity Share capital	Paid not registered share capital	Non-restricted equity Share premium account	Retained earnings incl Loss for the year	Total Total equity
Opening balance 1 January 2017	**1 673**	**-**	**117 964**	**-89 602**	**30 035**
Loss for the year	-	-	-	-60 253	-60 253
Transactions with shareholders					
Warrant programme	-	72	-	-	72
Issue of new shares for the year	2 082	1 540	300 857	-	304 479
Capital acquisition cost	-	-	-28 213	-	-28 213
	2 082	1 612	272 644	-	276 338
Closing balance 31 December 2017	**3 755**	**1 612**	**390 608**	**-149 855**	**246 120**
Closing balance 31 December 2015	**1 080**	**-**	**64 805**	**-37 830**	**28 055**
Adjustments transition to RFR2	-	-	-	-4 282	-4 282
Opening balance 1 January 2016	**1 080**	**-**	**64 805**	**-42 112**	**23 773**
Loss for the year	-	-	-	-47 490	-47 490
Transactions with shareholders					
Issue of new shares for the year	593	-	55 632	-	56 225
Capital acquisition cost	-	-	-2 473	-	-2 473
	593	-	53 159	-	53 752
Closing balance 31 December 2016	**1 673**	**-**	**117 964**	**-89 602**	**30 035**

STATEMENT OF CASH FLOWS

(kSEK)	2017 Jan-Dec	2016 Jan-Dec
Operating activities		
Operating loss	-60 009	-47 557
Interest received etc.	86	132
Interest paid etc.	-329	-65
Cash flow from operating activities before changes in working capital	**-60 253**	**-47 490**
Changes in working capital		
Change in receivables	497	-1 370
Change in trade payables	13 200	5 625
Changes in other current liabilities	5 453	897
	19 150	**5 152**
Cash flow from operating activities	**-41 103**	**-42 338**
Investing activities		
Acquisition of consessions, patents, licences, etc.	-	-
Acquisition of other long-term securities	-295	-1 085
Change in other short-term investments	-111 063	5 934
Provisions	-	-
	-111 358	**4 849**
Financing activities		
Issue of new shares for the year	304 479	56 225
Capital acquisition cost	-28 213	-2 473
Warrant programme	72	-
	276 338	**53 752**
Change in cash and cash equivalents	123 877	16 263
Cash and cash equivalents at beginning of year	25 904	9 641
Cash and cash equivalents at end of year *)	**149 781**	**25 904**

*) The company's cash and cash equivalents consist of cash and disposable balances with banks and other credit institutions

Note 1 Summary of significant accounting policies

Significant accounting policies applied in preparing this interim report are described in the following. Unless otherwise stated, these policies have been applied consistently for all the periods presented.

Basis of preparation of financial statements

This interim report for Cantargia AB ("Cantargia") has been prepared in accordance with the Swedish Annual Accounts Act, Recommendation RFR 2 *Financial Reporting for Legal Entities* of the Swedish Financial Reporting Board and IAS 34 *Interim Financial Reporting*. RFR 2 states that a legal entity is required to apply the International Financial Reporting Standards (IFRS), as adopted by the EU, insofar as this is possible under the Swedish Annual Accounts Act and Pension Obligations Vesting Act and with regard to the relationship between accounting and taxation. The recommendation specifies the exemptions from and the additional disclosures that are required in relation to IFRS.

The interim report has been prepared using the cost method.

The interim report for the fourth quarter 2017 is Cantargia's first report to be prepared in accordance with the Swedish Annual Accounts Act and RFR 2. Cantargia has previously applied the Annual Accounts Act and General Recommendation BFNAR 2012:1 *Annual Accounts and Consolidated Financial Statements* (K3) of the Swedish Accounting Standards Board. Historical financial information has been restated as of 1 January 2016, which is the date of transition to RFR 2. Explanations concerning the transition from the previously applied accounting policies to RFR 2 and a description of the effects of the restatement on the opening balance as at 1 January 2016 and closing balance as at 31 December 2016, and on comprehensive income for 2016 are provided in Note 2.

The preparation of financial statements in compliance with the applied regulations requires the use of critical accounting estimates. Management is also required to make certain judgements in applying the company's accounting policies. Areas which involve a high degree of judgement, are complex or where assumptions and estimates have a material impact on the interim report are described in Note 3.

Changes to accounting policies and disclosures

New standards and interpretations which have not yet been applied by the Group

A number of new standards and interpretations will become effective for financial years beginning after 1 January 2018 and have been applied in preparing these financial statements. The following is a preliminary assessment of the effects of these standards:

IFRS 9 Financial Instruments deals with the classification, measurement and recognition of financial assets and liabilities. It replaces those parts of IAS 39 which relate to the classification and measurement of financial instruments. Cantargia will not be affected by the new rules for classification and measurement, as the company applies the exemption in RFR 2, under which financial instruments may be recognised and measured based on cost in accordance with the Annual Accounts Act. Cantargia is not yet generating any income and thus has essentially no trade receivables. Cantargia's assessment is therefore that the company will not be affected by the new impairment model at the transition date, 1 January 2018. The standard is applicable for financial years beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers regulates the accounting treatment of revenue. The principles on which IFRS 15 is based are intended to give users of financial statements additional valuable information about a company's revenue. Cantargia is not yet generating any revenue and therefore does not expect to be affected by the transition to the new revenue recognition standard when it takes effect on 1 January 2018. The standard is applicable for financial years beginning on or after 1 January 2018.

IFRS 16 Leases supersedes IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities attributable to all leases, with a few exceptions, be recognised in the balance sheet. The standard is applicable for financial years beginning on or after 1 January 2019. Early application is permitted. Cantargia does not expect that it will be affected by the new lease standard, as the company is likely to apply the exemption from IFRS 16 in RFR 2 and will continue to account for all leases in accordance with a model that is similar to the model for operating leases in IAS 17, i.e. lease payments will be expensed on a straight-line basis over the term of the lease.

No other IFRS or IFRIC interpretations that have not yet become effective are expected to have a material impact on the Group.

Formats
The format prescribed in the Swedish Annual Accounts Act is used for the income statement and balance sheet. The statement of changes in equity is presented in the format prescribed in IAS 1 *Presentation of Financial Statements* but must contain the columns indicated in the Annual Accounts Act.

Segment reporting
Cantargia's chief operating decision maker is the company's Chief Executive Officer (CEO), as it is primarily he who is responsible for the allocation of resources and evaluation of results. The CEO receives reports containing financial information for the company as a whole. Cantargia has not yet commercialised any of the development projects in which it is engaged and the company is not yet generating and income. All activities of Cantargia are considered to constitute a single segment.

Intangible assets
Research and development costs
Cantargia is a research-based biotech company that is engaged in research and development of antibody-based therapy for serious diseases. All expenditure directly attributable to the development and testing of identifiable and unique products which are controlled by Cantargia is accounted for as an intangible asset when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use,
- the company intends to complete the product for use or sale,
- there is reason to expect that the company will be able to use or sell the product,
- it can be shown that the product will generate probable future economic benefits,
- adequate technical, economic and other resources are available to complete the development of and use or sell the product, and
- the costs attributable to the product during its development can be reliably measured.

The overall risk in ongoing development projects is high. The risk includes safety and efficacy risks that can arise in clinical studies, regulatory risks related to applications and approval for clinical studies and marketing authorisation, as well as IP risks related to approval of patent applications and the maintenance of patents. All development work is therefore deemed to be research, as the work does not meet the criteria listed below. As at 31 December 2017 no development costs had been recognised as intangible assets in the balance sheet, as it was not considered that all of the above criteria for capitalisation had been met for any of the development projects in which the company is engaged.

Research expenditure is expensed as incurred.

Capitalised development costs are recognised as intangible assets and amortised from the date when the asset is ready for use.

Impairment of intangible assets
Intangible assets which are not ready for use (capitalised development costs) are not amortised but are tested annually for impairment. However, no capitalised development costs are currently recognised in Cantargia's balance sheet.

Leases
Cantargia is a lessee only under operating leases for office premises.

Leases in which a significant share of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made during the lease term (after deducting for any incentives from the lessor) are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Foreign currency
Transactions in foreign currency are translated to the functional currency at the exchange rates applying at the transaction date or the date when the items were restated. Foreign exchange gains and losses are recognised in the statement of comprehensive income in other operating expenses, foreign exchange differences trade payables, and in net financial income/expense, foreign exchange differences currency accounts.

Financial assets and liabilities

Recognition and derecognition in the balance sheet
A financial asset or financial liability is recognised in the balance sheet when the company becomes a party to the contractual terms and conditions of the instrument. A financial asset is derecognised in the balance sheet when the contractual right to the cash flow from the asset expires or is settled. The same applies when the risks and benefits of ownership of the asset have essentially been transferred to another party and the company no longer has control over the financial asset. A financial liability is derecognised in the balance sheet when the contractual obligation is fulfilled or extinguished.

Measurement of financial instruments
Cantargia applies the exemption in RFR 2 under which IAS 39 *Financial Instruments: Recognition and Measurement* is not applied for recognition and measurement of financial instruments. Instead, cost is applied in accordance with the Annual Accounts Act.

Financial assets are initially recognised at cost including any transaction costs directly attributable to the acquisition of the asset.

After initial recognition, current financial assets are recognised at the lower of cost and net realisable value at the balance sheet date.

Trade receivables and other receivables classified as current assets are measured individually at the amounts expected to be paid.

Interest-bearing financial assets are measured at amortised cost using the effective interest method.

Measurement of financial liabilities
Short-term trade payables are recognised at cost.

Employee benefits
Retirement benefit obligations

Cantargia has both defined contribution and defined benefit pension plans. Defined contribution pension plans are post-employment benefit plans under which the company pays fixed contributions into a separate legal entity. Cantargia has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions are recognised as personnel expenses when they fall due.

Cantargia's defined benefit pension plans consist of the ITP 2 plan's defined benefit pension obligations. The ITP 2 plan's defined benefit pension obligations for retirement and family pensions are secured through an insurance policy with Alecta. According to a statement from the Swedish Financial Reporting Board, UFR 10 *Recognition of the ITP 2 Plan* that is funded through an insurance policy with Alecta, this is a defined benefit plan covering several employers. For the financial year 2017 the company has not had access to information that would enable it to account for its proportionate share of the plan's obligations, assets and expenses. It has therefore not been possible to recognise the plan as a defined benefit plan. The ITP 2 pension plan secured through an insurance policy with Alecta is therefore accounted for as a defined contribution plan. The premium for defined benefit retirement and family pensions is calculated individually and depends on factors such as salary, previously earned pension and expected remaining period of service. The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policyholders calculated using Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective funding ratio may normally varies within a range of 125 and 155 per cent. If Alecta's collective funding ratio were to fall below 125 per cent or exceed 155 per cent, it would be necessary to take measures that will enable the ratio return to the normal range. In case of a low funding ratio, one measure that can be taken is to raise the agreed price for new policies and the expansion of existing benefits. If the funding ratio is high, premiums can be reduced. At the end of the financial year 2017 Alecta's surplus, as defined by the collective funding ratio, was 154 per cent (2016: 149 per cent) on a preliminary basis.

In addition to the above, Cantargia has made pension promises to two employees and in connection therewith purchased endowment policies which have been posted as collateral for the employees' pensions. RFR 2 does not indicate how pension obligations that are secured through an endowment policy, or "direct pension," should be recognised. Companies therefore need to rely on IAS 19 for guidance on how to account for these obligations. Under IAS 19, a pension plan should be classified based on the economic substance of the plan. Under the concluded salary exchange agreements, Cantargia's direct pension obligation is limited to paying defined premiums to the insurance company. Cantargia does not bear any risk related to the change in value of the endowment policy, as this risk is borne by the employee. In accordance with RFR 2/IAS 19, the pension is therefore classified and accounted for as a defined contribution pension plan.

Short-term benefits
Short-term benefits are employee benefits which are payable within twelve months of the balance sheet date in the year in which the employee earned the benefit, with the exception of post-employment benefits and termination benefits.

Short-term benefits include
1. salaries, social security contributions and other payroll costs,
2. paid short-term leave such as paid holiday and paid sick leave,
3. bonuses, and
4. non-monetary benefits such as health care for current employees.

Accounting treatment – paid short-term leave
Short-term benefits for paid leave that can be saved should be accounted for as an expense and current liability when the employees have performed the services which entitle them to future paid leave.
Short-term benefits for paid leave that are not saved should be recognised as an expense when the leave is taken.

Accounting treatment – bonus plans
The expected expense for profit sharing and bonuses should be recognised only if
1. the company has a legal or constructive obligation as a result of past events, and
2. the amount of the obligation can be reliably estimated.

Tax
The tax on the profit for the year in the income statement consists of current tax and deferred tax. Current tax is calculated on the taxable profit the period at the applicable tax rate. The actual tax expense is calculated based on the tax rules that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. However, deferred tax attributable to untaxed reserves is accounted for separately, as untaxed reserves are recognised as a separate item in the balance sheet. Deferred tax liabilities are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be wholly or partially offset.

Deferred tax is calculated by applying tax rates (and laws) which have been adopted or announced at the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Income
Interest income
Interest income is recognised by applying the effective interest method.

Cash and bank balances, and the statement of cash flows
The statement of cash flows is prepared using the indirect method. The reported cash flow only includes transactions involving incoming or outgoing payments. The company classifies cash, available deposits with banks and other credit institutions as cash and cash equivalents.

Share capital
Ordinary shares are classified as equity.

Transaction costs which are directly attributable to the issuance of new shares or options are recognised, net of tax, in equity less a deduction from the proceeds of the issue.

Note 2 Effects of the transition to RFR 2 *Financial Reporting for Legal Entities*

The interim report for the fourth quarter 2017 is the first report to be prepared in accordance with RFR 2.

The accounting policies described in Note 2 were applied in preparing the financial statements as at 31 December 2017 and the comparative information that is presented as at 31 December 2016, and in preparing the opening balance sheet as at 1 January 2016 (Cantargia's transition date to RFR 2).

The transition to RFR 2 is accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The change of accounting policy to RFR 2 must be applied retrospectively. This means that the opening balance of each affected component of equity should be adjusted for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if RFR 2 had always been applied.

When the opening balance sheet as at 1 January 2016 and the balance sheet as at 31 December 2016 in accordance with RFR 2 were prepared amounts which in previous annual reports had been reported in accordance with General Recommendation BFNAR 2012:1 *Annual Accounts and Consolidated Financial Statements* (K3) of the Swedish Accounting Standards Board were adjusted. An explanation of how the transition from the previously applied accounting policies to RFR 2 has affected Cantargia's results and financial position is presented in the following tables and the related notes.

Reconciliation between previously applied accounting policies and RFR 2

The following tables show, for each period, the reconciliation between the previously applied accounting policies and RFR 2 for the balance sheet and equity as well as total comprehensive income.

RECONCILIATION OF BALANCE SHEET AND EQUITY

kSEK	Note	1 January 2016 According to previous accounting principles	Total effect of transition to RFR 2	According to RFR 2
ASSETS				
Immateriella anläggningstillgångar				
Concessions, patents, licences and trademarks etc.	a)	4 282	-4 282	-
Financial assets				
Other securities held as non-current asset	c)	1 747	-170	1 577
Total current assets		25 354	-	25 354
Total assets		**31 383**	**-4 452**	**26 931**
EQUITY AND LIABILITIES				
Equity				
Restricted equity				
Share capital		1 080	-	1 080
Reserve for development costs		-	-	-
Non-restricted equity				
Share premium account		64 805	-	64 805
Retained earnings	a)	-20 640	-2 447	-23 087
Loss for the year	a)	-17 190	-1 835	-19 025
Total Equity		**28 055**	**-4 282**	**23 773**
Long-term liablities				
Provisions	c)	170	-170	-
Total short-term liabilities		**3 158**	**-**	**3 158**
Total Equity and Liabilities		**31 383**	**-4 452**	**26 931**

RECONCILIATION OF BALANCE SHEET AND EQUITY

kSEK	Note	31 December 2016 According to previous accounting principles	Total effect of transition to RFR 2	According to RFR 2
ASSETS				
Immateriella anläggningstillgångar				
Concessions, patents, licences and trademarks etc.	a)	7 092	-7 092	-
Financial assets				
Other securities held as non-current asset	c)	3 366	-704	2 662
Total current assets		37 053	-	37 053
Total assets		**47 511**	**-7 796**	**39 715**
EQUITY AND LIABILITIES				
Equity				
Restricted equity				
Share capital		1 673	-	1 673
Reserve for development costs		2 810	-2 810	-
Non-restricted equity				
Share premium account		117 964	-	117 964
Retained earnings	a)	-40 640	-1 472	-42 112
Loss for the year	a)	-44 680	-2 810	-47 490
Total Equity		**37 127**	**-7 092**	**30 035**
Long-term liablities				
Provisions	c)	704	-704	-
Total short-term liabilities		**9 680**	**-**	**9 680**
Total Equity and Liabilities		**47 511**	**-7 796**	**39 715**

RECONCILIATION OF COMPREHENSIVE INCOME

kSEK	Note	1 October 2016 - 31 December 2016 According to previous accounting principles	 Total effect of transition to RFR 2	 According to RFR 2
Net sales		-	-	-
Project costs	a)	-13 000	-981	-13 981
Other external expenses		-1 458	-	-1 458
Personnel expenses		-1 746	-	-1 746
Other operating expenses		-32	-	-32
Operating profit		**-16 236**	**-981**	**-17 217**
Interest income and similar items		129	-	129
Interest expense and similar items		-64	-	-64
Net financial items		**65**	**-**	**65**
Loss for the year		**-16 171**	**-981**	**-17 152**
Total comprehensive income		**-16 171**	**-981**	**-17 152**

kSEK	Note	1 January 2016 – 31 December 2016 According to previous accounting principles	 Total effect of transition to RFR 2	 According to RFR 2
Net sales		-	-	-
Project costs	a)	-32 683	-2 810	-35 493
Other external expenses		-5 119	-	-5 119
Personnel expenses		-6 787	-	-6 787
Other operating expenses		-158	-	-158
Operating profit		**-44 747**	**-2 810**	**-47 557**
Interest income and similar items		132	-	132
Interest expense and similar items		-65	-	-65
Net financial items		**67**	**-**	**67**
Loss for the year		**-44 680**	**-2 810**	**-47 490**
Total comprehensive income		**-44 680**	**-2 810**	**-47 490**

a) Intangible assets – adjustment of previously capitalised patent costs

Under the previously applied accounting policies, Cantargia capitalised costs for patent agents and the registration of patents. In connection with the transition to RFR 2, Cantargia analysed the previously capitalised patent costs and concluded that the criteria for capitalisation of development costs in IAS 38 *Intangible Assets* had not been met. Cantargia has therefore adjusted this by derecognising all previously capitalised patent costs as at 1 January 2016 (kSEK 4,282) and as at 31 December 2016 (kSEK 7,092). This has decreased equity by kSEK 4,282 as at 1 January 2016 and by kSEK 7,092 as at 31 December 2016. Comprehensive income for 2016 and earnings for the fourth quarter of 2016 have decreased by kSEK 2,810 and kSEK 981, respectively, as a result of increased project costs.

b) Adjustment of reserve for development costs

As Cantargia has adjusted all previously capitalised patent costs in connection with the transition to RFR 2, the previously recognised transfers to the reserve for development costs in equity have also been adjusted. The full amount previously recognised in reserve for development costs, kSEK 2,810, has been transferred to the item retained earnings as at 31 December 2016. The net effect of the reclassification in equity is kSEK 0.

c) Other securities held as non-current assets and provisions – adjustment for defined contribution pension plans

Cantargia has made pension promises to two employees and in connection therewith purchased endowment policies which have been posted as collateral for the employees' pensions. Under the previously applied accounting policies, the endowment policies and the liability were presented on a gross basis in the balance sheet. The asset was measured at cost and the liability was measured at the same amount as the asset. The pension solution constitutes a defined contribution plan and should, in accordance with IAS 19, be accounted for by charging to expense the amount that is paid into the pension plan in each period. Cantargia has adjusted this by derecognising the asset (the endowment policy) and the liability (the pension obligation) in the balance sheet. The net effect of this adjustment is kSEK 0 in equity, both as at 1 January 2016 and as at 31 December 2016, as well as in comprehensive income for 2016.

Reclassifications in the statement of cash flows for 2016

d) Patent costs – reclassification from investment to overhead expense.

As a result of the adjustment of previously capitalised patent costs, a reclassification has been made in the statement of cash flows for 2016, as described below.

e) Short-term investments – not included in cash and cash equivalents

In accordance with RFR 2 (IFRS), a definition of cash and cash equivalents in which short-term investments are not included is applied. This means that the opening balance of cash and cash equivalents at 1 January 2016 has been adjusted to kSEK 9,641. Changes in short-term investments are presented in investing activities, which in 2016 were kSEK 5,934.

Only those rows which have been reclassified are presented below.

CASH FLOW

		1 January 2016 – 31 December 2016		
kSEK	Note	According to previous accounting principles	Total effect of transition to RFR 2	According to RFR 2
Operating income	d)	-44 747	-2 810	-47 557
Cash flow from operating activities before changes in operating capital		-44 680	-2 810	-47 490
Cash flow from operating activities		**-39 528**	**-2 810**	**-42 338**
Acquisition of consessions, patents, licences, etc.	d)	-2 810	2 810	-
Change in other short-term investments	e)	-	5 934	5 934
Cash flow from investing activities		**-3 895**	**8 744**	**4 849**
Change in cash and cash equivalents		10 329	5 934	16 263
Cash and cash equivalents at beginning of year		24 512	-14 871	9 641
Cash and cash equivalents at end of year *)	e)	34 841		25 904

*) The company's cash and cash equivalents consist of cash and disposable balances with banks and other credit institutions

Note 3 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 which 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.

The most critical judgement in Cantargia's financial reporting refers to the date of capitalisation of development costs. Based on the accounting policies that are presented in Note 1, all development activities in which Cantargia is engaged are currently classified as research, for which costs should not be capitalised. The achievement of positive results in phase III clinical trials is the earliest point at which the criteria for capitalisation can be considered to be met.

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