

ANNUAL REPORT AND GROUP ACCOUNTS

For

Modus Therapeutics Holding AB (publ)

Corp. Reg. no 556851-9523

The financial year

2018-01-01 – 2018-12-31

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Management report

The board and the CEO of Modus Therapeutics AB hereby present the Annual Report for the fiscal year 2018-01-01 to 2018-12-31

The Nature and Direction of the Business

Modus is developing sevuparin, a non-coagulant version of heparin, for use in diseases of high unmet need. The anti-aggregate, anti-adhesive and anti-inflammatory effects of sevuparin position it for use across a wide range of diseases where patients have compromised microvasculature due to the disease. Focus has during the past few years been on developing sevuparin for sickle cell disease. In May 2019 results from a completed Phase 2 study of sevuparin did not show a meaningful benefit in the management of acute vaso-occlusive crisis in patients with sickle cell disease. As a result the Company will now change therapeutic focus to the development of sevuparin for other indications. The company's registered office is Stockholm.

Material Events During the Financial Year

In February 2018, an agreement was reached with CRO partner Ergomed regarding a second co-development deal with 50% of its development expenses in the TVOC01 Phase 2 study to be invested through conversion to shares, until a maximum 7% ownership in the company is achieved.

There was one share issue that netted 5M SEK in early 2018.

In March 2018, the majority shareholders, KDev Investments AB, Östersjöstiftelsen, and Praktikerinvest PE AB, committed to investing in Modus Therapeutics through an additional loan, in the form of a convertible note of 32M SEK.

In July 2018, a Series A preferred financing round was done with HealthCap where HealthCap agreed to invest up to SEK 60 million in two tranches. The deal also included the conversion of all outstanding convertible debt into shares. The first tranche, completed in July, included an investment of 30M SEK and debt conversion of 45MSEK. The second tranche is triggered by positive data in the Phase 2 study and is expected to be triggered in mid-2019. After both tranches are complete the new equity investment together with the conversion will amount to over SEK 150 million.

The company submitted its first Investigational New Drug (IND) application to the U.S. FDA in October and the IND was approved in early November.

In an effort to continue to build Modus Therapeutics AB in preparation for the next corporate milestone, the Board of Directors composition changed in 2018. Miroslav Reljanovic, MD, joined the Board in March with the Extra General Meeting (EGM) held on 23 March 2018. The EGM on 19 November 2018 resolved to appoint Stig Løkke Pedersen as Chair and Karin Knobe as a general Board member. Tomas Odegren and Björn Sjöstrand resigned from the Board in the same meeting. The management of the company was also enhanced with the appointment of John Öhd, MD, PhD, as Chief Medical Officer (CMO) in August.

During the year, additional warrants were issued to senior management and the total number of outstanding warrants as of December 31, amounted to 1 335 280.

The patents for sevuparin were granted by the European Union in February and were then validated by all European countries as of November.

Future Expectations Including Risk Factors

The development of pharmaceutical agents for the treatment of disease is a historically risky endeavor with the estimated likelihood of a specific therapeutic making it through all stages of development to the market of 11.9%, with

Phase II products having the lowest likelihood of success of all phases (estimated at 30.7%; BIO, June 2016). The factors that contribute to this high level of risk include many things that are outside of the control of the company including lack of efficacy in the drug, safety concerns, competitive landscape, changes in legislation, lack of access to the manufacturing material and others.

In addition, the ability to raise capital to support the research and development activities is critical and changes in the strategy or leadership of current or potential investors may negatively impact the company's forward plans if sufficient capital is not available. Modus is dependent on additional capital injections in 2019 for continued development of sevuparin within the said areas. The Annual Report has been prepared under the assumption of continued operations. Modus will be dependent of additional contribution of capital during 2019 to continue to develop sevuparin for other indications. The company assesses the conditions for attracting new capital as good.

Financial overview (TSEK)

Group Company	2018	2017	2016	2015	2014
Net sales	0	0	0	0	0
Profit/Loss after financial items	-49 652	-42 427	-21 000	-26 911	-21 117
Balance sheet total	46 951	13 083	5 866	7 899	8 074
Quick asset ratio, % ⁽¹⁾	50,9	Neg	Neg	Neg	63,9
Average number of employees	4	4	4	4	4

Parent Company	2018	2017	2016	2015	2014
Net sales	2 954	1 777	1 624	1 429	0
Profit/loss after financial items	-3 838	-1 789	-1 433	-2 785	-43
Balance sheet total	243 843	155 174	110 406	89 350	64 928
Quick asset ratio, % ⁽¹⁾	87,7	87,3	90,3	85,0	100
Average number of employees	2	1	1	1	0

Comparative figures for previous year are re-stated due to correction of errors at the group account.

Definitions

1) Equity in relation to balance sheet total

Proposed distribution of earnings

Share premium reserve	185 336 338
Accumulated loss	31 327 235
Net loss for the year	-3 838 827
SEK	<u>212 824 746</u>

The Board of Directors proposes that the accumulated loss be carried forward as retained earnings

SEK	<u>212 824 746</u>
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Regarding the company's results and financial position in other respects, please refer to the income statements, balance sheets and accompanying, supplementary disclosures set out below.

Consolidated Income statement

TSEK	Note	2018-01-01- 2018-12-31	2017-01-01- 2017-12-31
Net sales		0	0
		0	0
Administration costs		-7 437	-4 946
Research and development costs		-41 653	-37 251
Other operating expenses	3	-561	-228
Operating profit/loss	4,5,6,7	-49 651	-42 425
Result from financial investments			
Interest expenses and similar profit/loss items		-1	-2
Total results from financial investments		-1	-2
Profit/loss after financial items		-49 652	-42 427
Tax on income for the year	8	0	0
Net profit/loss for the year		-49 652	-42 427
Profit/loss attributable to			
Parent Company shareholders		-49 652	-42 427
Non-controlling interest		0	0

Consolidated balance sheet

<i>TSEK</i>	Note	2018-12-31	2017-12-31
Assets			
Non-current assets			
<i>Financial assets</i>	9		
Other long-term receivables		<u>54</u>	<u>0</u>
		54	0
Non-current assets		54	0
Current assets			
Short-term receivables			
Tax receivables		67	0
Other receivables		926	910
Prepaid expenses and accrued income	10	<u>114</u>	<u>93</u>
		1 107	1 003
Cash and bank		45 790	12 080
Total current assets		46 897	13 083
Total assets		46 951	13 083

<i>TSEK</i>	Note	2018-12-31	2017-12-31
Equity and liabilities			
Eget kapital	11		
Share capital		978	687
Other capital contributions		227 263	141 197
Other equity, including net profit/loss for the year		<u>-204 339</u>	<u>-150 504</u>
<i>Equity attributable to Parent Company's shareholders</i>		23 902	-8 620
Total equity		23 902	-8 620
Current liabilities			
Accounts payable - trade		7 375	11 704
Tax liabilities		0	40
Other liabilities	12	8 026	4 824
Accrued expenses and deferred income	13	<u>7 648</u>	<u>5 135</u>
Total current liabilities		23 049	21 703
Total equity and liabilities		46 951	13 083

Group account changes in equity

<i>TSEK</i>	Share capital	Other capital contributions	Other equity including profit/loss for the year	Equity to main shareholder	Total capital
Equity at 2017-01-01	677	103 678	-108 077	-3 722	-3 722
Profit/loss for the year			-42 427	-42 427	-42 427
<i>Transactions with the shareholders</i>					
New issue of shares	10	2 055		2 065	2 065
Convertible loan with obligatory conversion		35 280		35 280	35 280
Received warrants premiums		184		184	184
Equity at 2017-12-31	687	141 197	-150 504	-8 620	-8 620
Equity at 2018-01-01	687	141 197	-150 504	-8 620	-8 620
Profit/loss for the year			-49 652	-49 652	-49 652
<i>Transactions with the shareholders;</i>					
New issue of shares	291	40 149		40 440	40 440
Cost attributable to new share issue		-98		-98	-98
Convertible loan with obligatory conversion		43 827		43 827	43 827
Interest on convertible loan from shareholders		2 092	-4 183	-2 092	-2 092
Received warrants premiums		97		97	97
Equity at 2018-12-31	978	227 263	-204 339	23 902	23 902

The equity is assignable the shareholders of the parent company.

Consolidated cash flow statement

<i>TSEK</i>	Note	2018-01-01- 2018-12-31	2017-01-01- 2017-12-31
Operating activities			
Operating profit/loss		-49 651	-42 425
Interest paid		-1	-2
Cash flow from operating activities before changes in working capital		-49 652	-42 427
Cash flow from changes in working capital			
Increase (-) decrease (+) in current receivable		-104	-14
Increase (+) decrease (-) in current liabilities		9 694	14 179
Cash flow from operating activities		-40 062	-28 262
Investment activities			
Acquisition of financial assets	9	-54	0
Cash flow from investment activities		-54	0
Financing activities			
New issue of shares		30 000	0
Cost attributable to new share issue		-98	0
Received warrants premiums		97	184
Convertible loans	11	43 827	35 280
Cash flow from financing activities		73 826	35 464
Cash flow for the year		33 710	7 202
Cash and cash equivalents at beginning of year		12 080	4 878
Cash and cash equivalents at year-end	14	45 790	12 080

Parent Company income statement

<i>TSEK</i>	Note	2018-01-01- 2018-12-31	2017-01-01- 2017-12-31
Net sales	15	2 954	1 777
		2 954	1 777
Administration expenses		-5 110	-2 183
R&D costs		-1 681	-1 301
Other operating expenses	3	0	-81
Total operating income/expenses		-6 791	-3 565
Total operating expenses	4,5,6,7	-3 837	-1 788
Result from financial investments			
Interest expenses and similar profit/loss items		-1	-1
Total results from financial investments		-1	-1
Profit/loss after financial items		-3 838	-1 789
Tax on income for the year	8	0	0
Net profit/loss for the year		-3 838	-1 789

Parent Company balance sheet

<i>TSEK</i>	Note	2018-12-31	2017-12-31
Assets			
Non-current assets			
<i>Financial assets</i>			
	9		
Participations in Group companies		<u>200 156</u>	<u>144 156</u>
		200 156	144 156
Total non-current assets		200 156	144 156
Current assets			
Current receivables			
Other receivables		302	51
Prepaid expenses and accrued income	10	<u>26</u>	<u>0</u>
		328	51
Cash and bank		43 359	10 967
Total current assets		43 687	11 018
Total assets		243 843	155 174

<i>TSEK</i>	Note	2018-12-31	2017-12-31
Equity and liabilities			
Equity	11		
<i>Restricted equity</i>			
Share capital		<u>978</u>	<u>687</u>
		978	687
<i>Non-restricted equity</i>			
Share premium reserve		185 357	105 733
Retained earnings		31 307	30 837
Profit/loss for the year		<u>-3 838</u>	<u>-1 789</u>
		212 826	134 781
Total equity		213 804	135 468
Current liabilities			
Accounts payable - trade		724	254
Liabilities to group companies		28 012	17 162
Tax liabilities		23	76
Other liabilities	12	163	1 949
Accrued expenses and deferred income	13	<u>1 117</u>	<u>265</u>
Total current liabilities		30 039	19 706
Total equity and liabilities		243 843	155 174

Parent company changes in equity

TSEK	Restricted equity		Unrestrained equity		Total capital
	Share capital	Share premium	Retained earnings	Profit/loss for the year	
Equity at 2017-01-01	677	103 678	-3 193	-1 433	99 729
Disposition of previous years' result			-1 433	1 433	0
Profit/loss for the year				-1 789	-1 789
<i>Transactions with shareholders:</i>					
New issue of shares	10	2 055			2 065
Convertible loan with obligatory conversion			35 280		35 280
Received warrants premiums			184		184
Equity at 2017-12-31	687	105 733	30 837	-1 789	135 468
Equity at 2018-01-01	687	105 733	30 837	-1 789	135 468
Disposition of previous years' result			-1 789	1 789	0
Profit/loss for the year				-3 838	-3 838
<i>Transactions with shareholders:</i>					
New issue of shares	291	79 702	-39 553		40 440
Cost attributable to new share issue		-98			-98
Convertible loan with obligatory conversion			43 827		43 827
Interest on convertible loan from shareholders			-2 092		-2 092
Received warrants premiums			97		97
Equity at 2018-12-31	978	185 337	31 327	-3 838	213 804

Parent Company cash flow statement

<i>TSEK</i>	Note	2018-01-01- 2018-12-31	2017-01-01- 2017-12-31
Operating activities			
Operating profit/loss		-3 837	-1 788
Interest paid		-1	-1
Cash flow from operating activities before changes in working capital		-3 838	-1 789
Cash flow from changes in working capital			
Increase (-) decrease (+) in current receivable		-277	632
Increase (-) decrease (+) in current liabilities		6 675	6 605
Cash flow from operating activities		2 560	5 448
Investment activities			
Acquisition of shares in subsidiary		-43 994	-31 625
Cash flow from investment activities		-43 994	-31 625
Financing activities			
New issue of shares		30 000	0
Cost attributable to new share issue		-98	0
Received warrants premiums		97	184
Convertible loans	11	43 827	35 280
Cash flow from financing activities		73 826	35 464
Cash flow for the year		32 392	9 287
Cash and cash equivalents at beginning of year		10 967	1 680
Cash and cash equivalents at year-end	14	43 359	10 967

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General information

This consolidated account statement includes the parent company Modus Therapeutics Holding AB, company registration number 556851-9523 and the subsidiary Modus Therapeutics AB, company registration number 556669-2199. The parent company is a stock company registered and located in Stockholm. The address of the main office is S:t Eriksgatan 117, 113 43 Stockholm. The group company's main activity is the development of pharmaceuticals.

The parent company in the largest corporate group of which Modus Therapeutics Holding AB is subsidiary is KDev Investment AB, corporate registration number 556880-1608, located in Solna.

Note 3 Other operating expenses

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Exchange rate difference	-561	-228	0	-81
Total	-561	-228	0	-81

Note 4 Leasingavtal

Modus as leasee

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Future minimum leasing fees pertaining to non-cancellable leases was distributed as follows:				
Due for payment within one year	107	83	0	0
Due for payment between one year and five years	0	0	0	0
Due for payment later than five years	0	0	0	0
Leasing cost for the year	320	336	0	0

Operational leases for the Group refer to the rented premises, with 3 months' notice of termination.

Note 5 Remuneration to auditors

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
<i>Ernst & Young AB</i>				
Auditing assignments	97	45	97	25
Auditing activities other than auditing tasks	17	0	17	0
Other services	120	0	120	0
Total	234	45	234	25

Auditor remuneration is included as administration expenses in the function-divided income statement

Note 6 Employee salaries and benefits

	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Average number of employees				
Men	2	1	0	0
Women	2	3	2	1
Total	4	4	2	1

	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Average number of Senior management				
<i>Board members</i>				
Women	1	0	1	0
Men	6	6	6	5
<i>Managing directors and Senior executives</i>				
Women	1	1	1	1
Men	0	0	0	0

	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Salaries, other remunerations and social contributions				
Board of Directors and Managing directors	2 491	1 997	2 231	1 703
Other employees	1 656	1 695	596	0
Total	4 147	3 692	2 827	1 703
Social contributions	1 164	1 125	876	606
Pension costs to Board of directors and Managing directors	279	299	279	299
Pension costs to other employees	123	346	0	0
Total salaries, other remunerations and social contributions	5 713	5 462	3 982	2 608

The managing director has the right to three months' base salary as severance pay.

Warrants

Modus Therapeutics Holding AB has a warrant program in which some members of the management and board of directors has purchased warrants for purchase of shares in the parent company. The warrants has been valued in accordance with the Black & Scholes-model. Warrants that are used result in payment congruent to a subscription rate and the warrant holder receives a common share in the parent company. The warrants may be exchanged at any time prior to the expiration date, 2020-06-30. The share capital can be increased by 66 764 SEK should all issued warrants be subscribed for shares.

Allocated warrants	2018-12-31		2017-12-31	
	Number of warrants	Average exercise price, SEK per warrant	Number of warrants	Average exercise price, SEK per warrant
Outstanding at 2018-01-01	748 030	20,50	0	0,00
Allocated in 2018	587 250	20,50	748 030	20,50
Total number of allocated warrants	1 335 280	20,50	748 030	20,50

Note 7 Costs per cost type

TSEK	Group		Parent company	
	2018	2017	2018	2017
Research costs	37 958	32 983	0	0
Other external costs	5 324	3 620	2 766	881
Personnel costs	5 808	5 594	4 025	2 603
Other operating expenses	561	228	0	81
Total	49 651	42 425	6 791	3 565

Note 8 Tax on the profit/loss for the year

TSEK	Group		Parent company	
	2018	2017	2018	2017
Current tax	0	0	0	0
Tax on net profit/loss for the year	0	0	0	0

TSEK	Group		Parent company	
	2018	2017	2018	2017
Pre-tax profit/loss	-49 652	-42 427	-3 838	-1 789
<i>Tax at current tax rate (22%)</i>	<i>10 923</i>	<i>9 334</i>	<i>844</i>	<i>394</i>
Tax effect of non-deductible costs	-19	-15	-8	-1
Tax effect of non-deductible income	43	43	0	0
Non-valuated loss carry-forward	-10 947	-9 361	-836	-392
Net tax	0	0	0	0

The group has tax items referring to costs attributable to new share issue that are recognized directly against equity.

Note 9 Financial assets**Participation in Group companies**

<i>TSEK</i>	<i>Parent company</i>	
	2018	2017
<i>Cost of acquisition at start of the year</i>	144 156	105 656
Shareholders contributions, paid	56 000	38 500
Total accumulated cost of acquisition	200 156	144 156
Carrying amount	200 156	144 156

Subsidiary / Corp. reg. no / Based	Equity %	Shares of votes %	Numbers of shares	Carrying amount
				2018
Modus Therapeutics AB 556669-2199, Stockholm	100%	100%	100 000	200 156
				200 156

Other long-term receivables

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
<i>Cost of acquisition at start of the year</i>	0	0	0	0
Receivables during the year	54	0	0	0
Total accumulated cost of acquisition	54	0	0	0
Carrying amount	54	0	0	0

Long-term receivables refer to rent deposits.

Note 10 Prepaid expenses and accrued income

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Prepaid rent	54	49	0	0
Prepaid insurance premiums	60	44	26	0
Summa	114	93	26	0

Note 11 Shareholders' equity**Shares and nominal value**

The number of ordinary shares amount to 19 567 218 in total and the nominal value amounts to 0,05 SEK per share. The shares per balance sheet date are distributed as 14 210 635 ordinary shares and 5 356 583 preference shares A

Convertible loan

Modus Therapeutics Holding AB has an agreement with the current shareholders regarding the convertible loan with compulsory conversion with a capital amount of 39 554 TSEK as well as 1 989 TSEK in accrued interest.

No additional interest is accrued for existing convertible loans. Both the capital amount and accrued interest will be converted to new shares to the subscription price of 14,00 SEK per share, provided the company reach certain clinical development targets during 2019. The convertible loan with compulsory conversion is categorized as equity in the group and parent company's balance sheet. New convertible loans during the year amounts to 43 827 TSEK. In connection with the new issue of shares on July 27, 2018, 39 554 TSEK was converted. In addition, accrued interest and other shareholder loans for a total of 44 992 TSEK were converted to shares in the company with a subscription rate of 14,00 SEK per share, which is equal to the subscription rate of HealthCaps investment in the company.

Note 12 Other liabilities

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Liabilities to share holders	7 765	4 360	0	1 580
Other liabilities	261	464	163	369
Total	8 026	4 824	163	1 949

Note 13 Accrued expenses and deferred income

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Accrued salaries	698	387	406	137
Vacation liability	248	81	170	24
Accrued social contributions	249	148	181	51
Accrued costs R&D	6 013	4 333	0	0
Other	440	186	360	53
Total	7 648	5 135	1 117	265

Note 14 Cash flow statement

Cash flow liquidity

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Credit balance	45 790	12 080	43 359	10 967
<i>Cash flow liquidity</i>	45 790	12 080	43 359	10 967

Note 16 Associate company transactions

<i>TSEK</i>	<i>Group</i>		<i>Parent company</i>	
	2018	2017	2018	2017
Sales to group company	0	0	2 954	1 777
Purchases from companies within Karolinska Development group	0	-240	0	0
Purchases from Ergomed	-19 666	-16 582	0	0

For information regarding compensation to managing directors, refer to note 6 Employee salaries and benefits

Note 16 Pledged assets and contingent liabilities

No pledged assets and contingent liabilities exist within the group company.

Note 17 Important events after the end of the financial year

The TVOC01 Phase 2 study that had been enrolling SCD patients across the EU and Middle East since late 2015 completed enrollment in January 2019. In May 2019 results from a completed Phase 2 study of sevuparin did not show a meaningful benefit in the management of acute vaso-occlusive crisis in patients with sickle cell disease. As a result the Company will now change therapeutic focus to the development of sevuparin for other indications.

A Phase 1 study with subcutaneously-administered sevuparin started in the US in February.

In January 2019, a new long-term incentive program was introduced for senior management and the Board. According to the program, these are allocated a predetermined number of shares over a four-year period, divided into 25% after 12 months and the remaining 75% on an ongoing basis during the remaining three years. Together with issued warrants, the incentive programs comprise a total of 3,764,280 shares.

Mats Blom joined Modus as CFO on April 1.

Note 18 Correction of errors

Accrued costs for research and development at the group account were not recognized for in the correct period. Adjustments have been made for additional accrued costs, amounting to 3 402 TSEK in the balance sheet per 2017-12-31. The income statement for 2017 has been adjusted with additional costs for research and development of 2 636 TSEK. The effect in group equity is stated below.

<i>Effect in equity</i>	Share capital	Other capital contributions	Other equity including profit/loss for the year	Total capital
Equity at 2016-12-31 according to stated balance sheet	677	103 678	-107 311	-2 956
Effect from correction of errors:				
Adjustment of accrued costs research and development			-766	-766
Equity 2017-01-01 after correction of errors	677	103 678	-108 077	-3 722

<i>Effect in eq</i>			Restricted equity	Unrestrained equity	Total capital
Equity at 2017-12-31 according to stated balance sheet	687	141 197	-147 102		-5 218
Effect from correction of errors:					
Adjustment of accrued costs research and development				-3 402	-3 402

Modus Therapeutics Holding AB (publ)

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Equity 2017-12-31 after correction of errors	687	141 197	-150 504	-8 620
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