

Annual report
for
AroCell AB (publ)
556596-6107

Financial year
2014

The Board of Directors and CEO of AroCell AB hereby submit the annual report for the 2014 financial year.

Administration report

Information on business activities

The company's business activities comprise research and development within cell biology and medicine for commercial applications such as cancer diagnostics, for prognosis, treatment monitoring and follow-up, and compatible activities.

Significant events during and after the end of the financial year

In October 2014, the company carried out a preference share issue with a subscription rate of around 129%. After issue and guarantee expenses, the issue brought in around TSEK 18,149 for AroCell.

During 2014, development of our TK210 ELISA product entered its final phase and was moved to production. The development work has been challenging, and there have been a number of delays regarding the schedule. We encountered certain challenges in connection with shifting up to large-scale production. This is not unusual when scaling up production of *in vitro* diagnostics products. We identified the problems and implemented measures that we consider will ensure both reproducible and robust production of our end product.

Preparations ahead of the launch of our TK210 ELISA test are in line with the updated schedule, with a view to CE-marking during the third quarter of 2015. We can see that the product's performance will comfortably meet the specifications set.

At our own initiative, we have carried out a number of clinical studies to lay the foundations for the clinical evidence needed for fast market acceptance. The plan is to carry out more, and more extensive clinical studies during 2015.

A process to recruit an International Product Manager started in December in order to add to the team required for the launch.

We are now establishing collaborations with distributors, clinics and stakeholders within the health care sector concerning use and application of our product. This will form the basis for the business model, marketing and sales strategy. Close collaboration with our customers is and will remain our top priority.

Key risks

Financial risks

AroCell's business activities are based on external financing. To date, the company has been successful in obtaining financing, but there are no guarantees of this happening in the future in a way that is advantageous to the company's shareholders. A sufficiently serious failure in future financing may affect the company's development and market value.

Development and production risks

Development and transfer to production are always associated with risks. A product manufactured at production scale does not always display exactly the same characteristics as one manufactured at research scale. Developing future products may also prove to be more complicated and take longer than expected.

Commercialisation risks

There is always a risk that the products AroCell has developed will not achieve the expected positive reception on the market and that the product will need longer to gain acceptance. Particularly in the early stages, the quantity of products sold may then be lower and the time it takes to establish the product on the market may be longer than the company allowed for in its sales estimates.

In addition, there are risks associated with patent security and how the market assesses studies, approvals and certifications. Taking risk factors into consideration in decision processes and when designing routines and drawing up documentation means that the risks are assessed and their effects can be minimised and, to some extent, avoided.

Five-year summary (TSEK)	2014	2013	2012	2011	2010
Net sales	0	0	0	0	27
Loss after financial items	-6,369	-3,733	-3,157	-3,584	-2,152
Return on equity (%)	-18	-24	-31	-75	-179
Equity ratio (%)	93	87	85	68	33

Proposal to deal with the loss

Unappropriated earnings (SEK):

remaining share premium reserve	39,742,664
accumulated loss for the year	- 6,368,852
	33,373,812

The Board of Directors proposes that the accumulated loss of SEK 6,368,852 is settled against the share premium reserve and that the remaining share premium reserve, SEK 33,373,812, is carried forward.

The company's loss and financial position in other respects are set out in the following income statement, balance sheet and supplementary disclosures.

Income statement

	Note	01.01.2014 -31.12.2014	01.01.2013 -31.12.2013
Operating expenses			
Other external costs	1,2	-4,828,021	-3,614,758
Staff costs	3	-1,548,763	-49,593
Depreciation and amortisation			
	4, 5, 6, 7	-32,862	-32,863
Other operating expenses		0	-21,894
		-6,409,646	-3,719,108
Operating loss		-6,409,646	-3,719,108
Financial items			
Interest income		78,451	33,597
Interest expenses		-37,657	-47,418
		40,794	-13,821
Loss after financial items		-6,368,852	-3,732,929
Loss before tax		-6,368,852	-3,732,929
Loss for the year		-6,368,852	-3,732,929

Balance sheet	Note	31.12.2014	31.12.2013
ASSETS			
Fixed assets			
<i>Intangible assets</i>			
Capitalised product development expenses	7	16,982,052	10,283,648
Patents	6	843,849	869,691
		17,825,901	11,153,339
<i>Property, plant and equipment</i>			
Equipment, tools, fixtures and fittings	5	21,060	28,080
Total fixed assets		17,846,961	11,181,419
Current assets			
<i>Inventories etc.</i>			
Raw materials and consumables		1,578,388	1,534,415
<i>Current receivables</i>			
Other receivables		400,273	281,902
Prepaid expenses and accrued income		262,976	52,022
		663,249	333,924
<i>Cash and bank balances</i>		18,513,606	4,995,487
Total current assets		20,755,243	6,863,826
TOTAL ASSETS		38,602,204	18,045,245

Balance sheet	Note	31.12.2014	31.12.2013
EQUITY AND LIABILITIES			
Equity	8		
<i>Restricted equity</i>			
Share capital		2,346,096	1,775,722
<i>Non-restricted equity</i>			
Share premium reserve		39,742,664	17,728,281
Loss for the year		-6,368,852	-3,732,929
Total equity		33,373,812	13,995,352
		35,719,908	15,771,074
Long-term liabilities			
Other liabilities to credit institutions	9	150,000	350,000
Other long-term liabilities	9	0	175,083
Total long-term liabilities		150,000	525,083
Current liabilities			
Trade payables		1,950,025	954,825
Other payables		493,531	428,949
Accrued expenses and deferred income		288,740	365,314
Total current liabilities		2,732,296	1,749,088
TOTAL EQUITY AND LIABILITIES		38,602,204	18,045,245
Pledged assets			
<i>To secure own liabilities and provisions</i>			
Floating charges		1,000,000	1,000,000
		1,000,000	1,000,000
Contingent liabilities		None	None

Supplementary disclosures

Accounting and valuation principles

General disclosures

With effect from the 2014 financial year, the company is applying BFNAR 2012:1 Annual accounts and consolidated accounts (K3), issued by the Swedish Accounting Standards Board. No differences in the accounts compared with previous accounting principles have arisen in the transition to BFNAR 2012:1.

Receivables and payables

Receivables are recognised at the amounts expected to be received. Other assets and payables are recognised at cost unless otherwise specified.

Leases

All leases are accounted for as operating leases. All lease payments are expensed on a linear basis over the lease period.

Post-employment benefits

The company has only defined contribution pension plans. Defined contribution plans are plans where set contributions are paid and there is no obligation to make any further payments over and above these contributions.

Charges for defined contribution plans are accounted for as a cost during the period in which the employees are performing the services underlying the pension obligation.

Fixed assets

Intangible assets and property, plant and equipment are recognised at cost less accumulated depreciation and amortisation according to plan and any write-downs.

Inventories

Inventories have been valued at the lower of cost and net realisable value on the balance sheet date. Net realisable value refers to the estimated selling price of the goods less selling expenses. The chosen valuation method means that any obsolescence in inventories has been taken into consideration.

Internally generated intangible assets

The company applies the so-called capitalisation method to internally generated intangible assets. This method involves all expenses that meet the criteria in K3 being capitalised as intangible assets and amortised over the estimated useful life of the asset.

Definitions of key ratios

Return on equity (%)

Profit/loss after financial items as a percentage of adjusted equity (equity and untaxed reserves less deferred tax).

Equity ratio (%)

Adjusted equity (equity and untaxed reserves less deferred tax) as a percentage of total assets.

Notes

Note 1 Transactions with related parties

Staffan Eriksson, board member and one of the three founders of the company, has carried out research and development work for which he has received remuneration of SEK 360,000. This has been invoiced by Lena Lindqvist Design AB, which is a company owned by a family member.

Jan Mellberg, board member, has carried out market analysis services for which he has received remuneration of SEK 40,000. This has been invoiced by his own company Affärsdiagnostik AB.

Håkan Englund, board member, has carried out marketing services for which he has received remuneration of SEK 15,000. This has been invoiced by his own company JDS Invest AB.

Note 2 Operating leases

	2014	2013
Lease payments expensed during the period	38,776	57,268
Future payments relating to non-cancellable contracts		-
Within 1 year	112,000	38,776
Between 1 and 5 years	-	-
More than 5 years	-	-

All leases are rental agreements for premises. The rental period is one year with the option to extend for three years. The period of notice is six months.

Note 3 Employees and staff costs

Average number of employees

Women	1	1
Men	1	0
	2	1

Salaries and other remuneration plus social security expenses including pension expenses

Salary and remuneration to CEO	750,000	0
Other employees	287,080	43,551
	1,037,080	43,551
Pension expenses for CEO	168,143	0
Statutory social security expenses	299,164	5,592
Other statutory and collectively agreed social security expenses	1,542	450
	468,849	6,042
Total salaries, remuneration and social security expenses including pension expenses	1,505,929	49,593

Remuneration to the Board of Directors and CEO

	Fee	Invoiced fee	Salary	Pension premiums
Arne Ferstad, chairman of the Board of Directors*		65,710		
Erik Walldén, chairman of the Board of Directors*		98,565		
Jan Mellberg, board member		65,710		
Håkan Englund, board member	50,000			
Staffan Eriksson, board member	50,000			
Anne-Charlotte Aronsson, CEO*		418,800		
Jan Stålemark, CEO*			750,000	168,143
	100,000	648,785	750,000	168,143

* Erik Walldén succeeded Arne Ferstad as chairman of the Board of Directors at the annual general meeting on 7 May 2014. Jan Stålemark succeeded Anne-Charlotte Aronsson as CEO on 2 May 2014.

The CEO's contract of employment includes a clause concerning payment of six months' severance pay.

See note 1 for information on other transactions with related parties.

Note 4 Depreciation and amortisation

Fixed assets are depreciated or amortised on a linear basis according to plan over the expected useful life with respect to material residual value. The following depreciation/amortisation percentages are applied:

Intangible assets

Capitalised product development expenses	20%
Capitalised patent expenses	10%

Property, plant and equipment

Equipment, tools, fixtures and fittings	20%
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Note 5 Equipment, tools, fixtures and fittings

	2014	2013
Cost, 1 January	244,475	209,375
Purchases	0	35,100
Accumulated cost, 31 December	244,475	244,475
Depreciation, 1 January	-216,395	-209,375
Depreciation for the year	-7,020	-7,020
Accumulated depreciation, 31 December	-223,415	-216,395
Carrying amount, 31 December	21,060	28,080

Note 6 Patents	2014	2013
Cost, 1 January	1,085,191	980,917
Purchases	0	104,274
Accumulated cost, 31 December	1,085,191	1,085,191
Amortisation, 1 January	-215,500	-189,658
Amortisation for the year	-25,842	-25,842
Accumulated amortisation, 31 December	-241,342	-215,500
Carrying amount, 31 December	843,849	869,691

Note 7 Capitalised product development expenses	2014	2013
Cost, 1 January	10,405,106	6,434,396
Purchases	6,698,404	3,970,710
Accumulated cost, 31 December	17,103,510	10,405,106
Amortisation, 1 January	-121,458	-121,458
Amortisation for the year	0	0
Accumulated amortisation, 31 December	-121,458	-121,450
Carrying amount, 31 December	16,982,052	10,283,648

Note 8 Changes in equity

Number of shares:
23,460,960

	Share capital	Other contributed capital	Retained earnings incl. loss for the year	Total equity
Amount at 01.01.2014	1,775,723	17,728,281	-3,732,929	15,771,075
New issue	570,373	25,747,312		26,317,685
Allocation in accordance with resolution at AGM		-3,732,929	3,732,929	0
Loss for the period			-6,368,852	-6,368,852
Amount at 31.12.2014	2,346,096	39,742,664	-6,368,852	35,719,908

Conditional, non-repaid shareholders' contributions at the balance sheet date are SEK 300,000 (2013: SEK 300,000).

AroCell AB (publ)
Corporate identity number 556596-6107

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Note 9 Financial payables, age analysis

	31.12.2014	31.12.2013
Due within 1 and 5 years of the balance sheet date		
Borrowings < 1 year	331,311	375,088
Borrowings 2-5 years	150,000	525,083
	481,311	900,171

The income statement and balance sheet will be presented for approval at the annual general meeting.

Uppsala, 08.05.2015

Erik Walldén
Chairman

Jan Mellberg

Håkan Englund

Staffan Eriksson

Jan Stålemark
CEO

Auditor's endorsement

My auditor's report was submitted on 08.05.2014.

Björn Ohlsson
Authorised public accountant

Auditor's report

To the annual general meeting of AroCell AB (publ),
corporate identity number 556596-6107

Report on the annual accounts

I have audited the annual accounts for Arocell AB (publ) for the financial year 01.02.2014–31.12.2014.

The Board of Directors' and CEO's responsibility for the annual accounts

The Board of Directors and CEO are responsible for the preparation of annual accounts that give a true and fair view in accordance with the Swedish Annual Accounts Act and for such internal control as the Board of Directors and CEO determine is necessary to enable the preparation of annual accounts that are free of material misstatement, whether due to fraud or error.

The auditor's responsibility

My responsibility is to express an opinion on the annual accounts based on my audit. I have conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. This requires that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement.

An audit involves performing various procedures to obtain audit evidence for the amounts and other information in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of annual accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and CEO, as well as evaluating the overall presentation of the annual accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act and in all material respects give a true and fair view of Arocell AB (publ)'s financial position at 31 December 2014 and of the company's financial results for the year pursuant to the Swedish Annual Accounts Act. The administration report is consistent with other parts of the annual accounts.

I therefore recommend to the annual general meeting that the income statement and balance sheet be adopted.

Report on other requirements in law and other statutes

In addition to my audit of the annual accounts, I have also conducted an audit of the proposal for dealing with the company's profit or loss and the Board of Directors' and CEO's administration of Arocell AB (publ) for the financial year 01.01.2014–31.12.2014.

The Board of Directors' and CEO's responsibility

The Board of Directors is responsible for the proposal for dealing with the company's profit or loss, and the Board of Directors and CEO are responsible for administration pursuant to the Swedish Companies Act.

The auditor's responsibility

My responsibility is to pass an opinion on the proposal for dealing with the company's profit or loss and on the administration with reasonable assurance based on my audit. I have conducted my audit in accordance with generally accepted auditing standards in Sweden.

As a basis for my opinion on the Board of Directors' proposal for dealing with the company's profit or loss, I have examined whether the proposal is consistent with the Swedish Companies Act.

As a basis for my opinion on discharge from liability, I have, in addition to my audit of the annual accounts, examined material decisions, measures and circumstances in the company in order to be able to assess whether any member of the Board of Directors or the CEO has a liability to the company for damages. I have also examined whether any member of the Board of Directors or the CEO has in any other way acted in contravention of the Swedish Companies Act, Annual Accounts Act or the company's articles of association.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

I recommend to the annual general meeting that the profit/loss be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the CEO be discharged from liability for the financial year.

Uppsala, 8 May 2015

Björn Ohlsson
Authorised public accountant

