Annual Report

for

AroCell AB (publ)

556596-6107

Fiscal Year

2016

The Board of Directors and CEO of AroCell AB (publ), with its registered office in Uppsala, Sweden, hereby submit the annual report and consolidated financial statements for the 2016 financial year.

The reporting currency of the company is Swedish kronor (SEK). All amounts are presented in Swedish kronor (SEK), unless otherwise indicated.

Directors report

Information on the business

The company's business consists of research and development in cell biology and medicine for commercial applications, such as cancer diagnostics, for prognosis, treatment follow-up and activities consistent therewith.
The company conducts research in close cooperation with leading researchers. Product development takes place in collaboration with other companies. The investment in the company's own laboratory provides conditions for future proprietary product development.

Comment by CEO Jan Stålemark

AroCell had a very good 2016. Clinical validation continued according to plan and constitutes a cornerstone in our strategy to achieve clinical approval and launch our product on the global market for in vitro* diagnostic products for multiple areas of use in cancer treatment.

Two current studies indicate that our product TK 210 ELISA contributes a clinical value both when it is used on its own and in combination with other biomarkers. This supports a strong trend in the market for diagnostics, namely the use of biomarker panels.

The first study was published in the Journal of Tumor Biology and shows that AroCell's test has a higher sensitivity and provides a more specific result than CA 15-3, which is one of the most used biomarkers for breast cancer. The study also showed that when TK 210 ELISA is combined with the biomarker CA 15-3, the sensitivity increases further and gives more specific results in terms of identifying patients with tumors.

The second study compares TK 210 ELISA with the well-known biomarkers PSA, free PSA, pro PSA and Prostate Health Index (PHI) among men with suspected or confirmed prostate cancer. TK 210 ELISA shows a clear connection with PHI. This supports the thesis that TK 210 ELISA can provide important clinical information about patients with prostate cancer and show that our product has potential to be used to improve treatment planning. The American Association for Cancer Research (AACR) has approved a scientific poster that describes this study. The poster will be presented at their annual meeting in Washington D.C. in April 2017.

Right now, two prospective studies** are under way in prostate cancer and the cancer form sarcoma. The study in prostate cancer aims to establish TK 210 ELISA as a supplemental biomarker for certain applications in prostate cancer. The sarcoma study may make TK 210 ELISA a unique new biomarker for patients with sarcoma. Among children who have cancer, 25 percent are diagnosed with this kind of cancer. Early discovery of relapse can lead to curative treatment for this patient group. Both of the studies are expected to be finished before the end of 2018.

The company's strategy to use clinical research centers has led to cooperation with Eagle BioSciences Inc., our distributor in the U.S. We also create awareness in the EU and are beginning to see growing customer interest. We are now planning to continue working through distributors within the EU and other parts of the world as well. In an initial step, we will focus on clinical research and various segments in

pharmaceutical development that are in line with our strategy to obtain clinical evidence for our product in several different applications.

Our product is the first and only CE-marked ELISA kit on the market that can measure the concentration of TK 1 protein in serum from a single blood sample. The TK 210 ELISA test has a standardized format that can be used in all modern clinical chemistry labs. This creates good conditions to introduce TK 210 ELISA on the market.

AroCell can today demonstrate positive results from studies in several areas of therapy, which gives us an opportunity to more actively present the clinical application of TK 210 ELISA as an effective biomarker – both independently and as a part of a biomarker panel. We have engaged a distributor who will do this in the U.S. and a Business Development Manager that is cultivating the EU market. This way, we can increase the awareness and interest for our unique product. The total market for cancer diagnostics is large*** and growing and the market share for AroCell can be significant.

We expect to publish interesting new results on the clinical validation of our product and that we with these results will create new opportunities in the market throughout 2017.

Jan Stålemark
CEO

* In vitro means experiments or observations that are made in e.g. test tubes, i.e. in an artificial environment and not in a living organism.
** *Prospective study* measurement data is gathered forward in time
*** Kalorama Information 6th edition 2014, the global IVD market for cancer was estimated at USD 22.6 billion, corresponding to around SEK 200 billion.

Significant events during the fiscal year

A clinical study of TK 210 ELISA with serum from breast cancer patients demonstrated significantly higher sensitivity compared with existing TK1 tests. The study also showed greater diagnostics sensitivity when the product was combined with one of the most used serum markers CA 15-3, which supports the potential for use of TK 210 ELISA for the purpose of planning treatments.

AroCell strengthens patent protection. The European Patent Office granted AroCell a patent with regard to methods to produce antibodies and methods to use them.

Christine Tadgell, VP Commercial Group, inVentiv Health was elected a new member of the Board of AroCell.

Clinical validation for an application in prostate cancer began in a prospective study at Södersjukhuset, Stockholm. The objective of the study is to provide clinics better information for patients with suspected or confirmed prostate cancer. The study is expected to be finished in autumn 2018.

TK 210 ELISA is validated as one of a few available biomarkers for patients with the cancer form of sarcoma. A clinical study has begun at Helsinki University Hospital to evaluate the prognostic value, treatment monitoring and follow-up after treatment for diagnosis of disease relapse. The study is expected to be finished in autumn 2018 and has the potential to indicate TK 210 ELISA as a unique new biomarker for sarcoma patients.

AroCell was listed on Nasdaq First North on June 30.

An abstract regarding improved performance of the 0 calibrator for TK 210 ELISA was accepted by International Society of Oncology and Biomarkers (ISOBM) and presented by AroCell in September 2016 in Chicago. The sensitivity of TK 210 ELISA has thereby been improved with significantly better discrimination of healthy individuals and patients with disease.

AroCell entered a distributor agreement with Eagle Biosciences Inc. Initially, Eagle Biosciences will focus on cancer research centers in the North American market. North America represents around 50 percent of the global in-vitro diagnostics market.

A proprietary laboratory was established at the company's headquarters in Uppsala, Sweden. It will improve the capacity for product development, quality control and customer service.

The management group was reinforced with Martin Shaw as the Business Development Manager. He contributes more than 40 years' industry experience in biomarkers and IVD. The executive management group was reinforced with Ann Hammarstrand as the new CFO. Her extensive experience in senior positions in life science companies with global responsibility contributes a very important experience when AroCell expands in the global IVD market.

Significant events after the end of the fiscal year

A scientific poster has been accepted by the American Association of Cancer Research (AARC) for presentation at the annual meeting in April 2017. Preliminary results from AroCell's TK 210 ELISA test showed a significant correlation with the Prostate Health Index (PHI), a new index that assesses the status for patients with suspected or confirmed prostate cancer. The study compares AroCell's TK 210 ELISA test with other common test methods, such as PSA, free PSA, pro PSA and PHI in men with potential or confirmed prostate cancer and indicates that AroCell's TK 210 ELISA test adds valuable clinical input.

Expected future development and significant risks and uncertainty factors

AroCell sees a large market for TK 210 ELISA as the total market for cancer diagnostics is large and growing. According to Kalorama Information 6th edition 2014, the global IVD market for cancer is estimated at USD 22.6 billion, corresponding to around SEK 200 billion.

As it is normal that every cancer patient is monitored two to four times a year, depending on the type of tumor, over a five- to ten-year period, methods are needed that are considerate of the patient and cost-effective for healthcare. With AroCell's test, monitoring and follow-up can in many cases become more effective compared with traditional methods, such as tissue biopsies and various kinds of imaging diagnostic methods, such as radiology and ultrasound. A blood sample is easy to take, saves time, less invasive for the patient and provides a lower cost for healthcare.

Financial risks
AroCell AB's business activities are based on external financing. To date, the company has been successful in obtaining financing, but there are not 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.

Commercialization risks
There is always a risk that the products AroCell AB (publ) has developed will not achieve the expected positive reception on the market and that the product will need longer time 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.

Currency risks
The company expenses are partially based in EUR, and this means that there is a risk that weakening of the SEK against the EUR may lead to increased expenses for the company. A portion of the sales proceeds in future can be associated with currencies from other countries, which means that there is a risk that if the SEK becomes stronger to other currencies, this may lead to decreased profits for the company in SEK.
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 minimized, and to some extent, avoided.

Ownership structure

The largest shareholders in AroCell December 31, 2016

Name	Dec. 31, 2016	% of total
Försäkringsaktiebolaget, Avanza Pension	3,373,889	12%
Bernhard Tribukait	1,236,796	4%
Staffan Eriksson with company	1,077,862	4%
Nordnet Pensionsförsäkring AB	798,207	3%
Jon Eiken	650,000	2%
Gunvor Berger	634,852	2%
Olle Stenfors	540,000	2%
UBS Switzerland AG / Clients Account	497,529	2%
Swedbank	351,210	1%
Håkan Englund with company	341,478	1%
Other	19,172,683	67%
Total	28,674,506	100%

Five-year summary (TSEK)	**2016**	**2015**	**2014**	**2013**	**2012**
Operating loss	-9,229	-7,485	-6,410	-3,719	-3,145
Loss after financial items	-9,235	-7,479	-6,369	-3,733	-3,157
Return on equity, %	neg	neg	neg	neg	neg
Equity/assets ratio (%)	96	98	93	87	85

For definitions of key ratios, refer to the Accounting and valuation principles.

Change in equity

	Share capital	Development expense fund	Share premium reserve	Loss brought forward	Loss for the year	Total
Amount at beginning of year	2,867,451		102,614,663	-25,312,064	-7,478,995	**72,691,055**
Appropriation as per AGM resolution:				-7,478,995	7,478,995	**0**
Development expenses		9,518,160		-9,518,160		**0**
Loss for the year					-9,234,943	**-9,234,943**
Amount at year-end	**2,867,451**	**9,518,160**	**102,614,663**	**-42,309,219**	**-9,234,943**	**63,456,112**

Proposed appropriation of earnings

The Board of Directors proposes that the profits at the disposal of the Annual General Meeting (SEK):

Share premium reserve	102,614,663
Loss brought forward	-42,309,219
Loss for the year	-9,234,943
	51,070,501

Appropriated such that	
accumulated loss	-51,544,162
and share premium reserve	102,614,663
to carry forward	**51,070,501**

The company's position and performance otherwise are presented by the following income statements, balance sheets and cash flow statements with supplemental disclosures.

Income statement

	Note	January 1, 2016 -December 31, 2016	January 1, 2015 -December 31, 2015
Operating income			
Other operating income	2	58,997	460,217
		58,997	**460,217**
Operating expenses			
Other external expenses	3, 4, 5	-4,921,290	-5,273,317
Personnel expenses	6	-4,152,816	-2,664,448
Depreciation of tangible and intangible assets		-7,916	-7,020
Other operating expenses		-205,762	0
		-9,287,784	**-7,944,785**
Operating loss		**-9,228,787**	**-7,484,568**
Profit/loss from financial items			
Other interest income and similar profit/loss items		0	20,042
Interest expenses and similar profit/loss items		-6,156	-14,469
		-6,156	**5,573**
Loss after financial items		**-9,234,943**	**-7,478,995**
Loss before tax		**-9,234,943**	**-7,478,995**
Loss for the year	7	**-9,234,943**	**-7,478,995**

Balance sheet

	Note	December 31, 2016	December 31, 2015
ASSETS			
Fixed assets			
Intangible assets			
Capitalized development expenses	8	29,898,553	20,781,455
Patents	9	1,429,371	1,028,309
		31,327,924	**21,809,764**
Tangible assets			
Plant and machinery	10	106,604	0
Equipment, tools, fixtures and fittings	11	7,020	14,040
Construction in progress regarding tangible assets	12	56,682	0
		170,306	**14,040**
Total fixed assets		**31,498,230**	**21,823,804**
Current assets			
Inventory			
Raw materials and consumables		1,419,016	1,419,016
		1,419,016	**1,419,016**
Current receivables			
Current tax receivables		41,129	0
Other receivables		407,245	1,315,230
Prepaid expenses and accrued income	13	203,448	62,490
		651,822	**1,377,720**
Cash and bank balances		32,852,457	49,702,333
Total current assets		**34,923,295**	**52,499,069**
TOTAL ASSETS		**66,421,525**	**74,322,873**

Balance sheet

	Note	December 31, 2016	December 31, 2015
EQUITY AND LIABILITIES			
Equity	14, 15		
Restricted equity			
Share capital		2,867,451	2,867,451
Development expense fund		9,518,160	0
		12,385,611	**2,867,451**
Non-restricted equity			
Share premium reserve		102,614,663	102,614,663
Loss brought forward		-42,309,219	-25,312,064
Loss for the year		-9,234,943	-7,478,995
		51,070,501	**69,823,604**
Total equity		**63,456,112**	**72,691,055**
Current liabilities			
Accounts payable		1,912,068	771,179
Other liabilities		256,962	399,780
Accrued expenses and deferred income	16	796,383	460,859
Total current liabilities		**2,965,413**	**1,631,818**
TOTAL EQUITY AND LIABILITIES		**66,421,525**	**74,322,873**

Cash flow statement

	Note	January 1, 2016 -December 31, 2016	January 1, 2015 -December 31, 2015
Operating activities			
Operating profit/loss before financial items		-9,228,787	-7,484,568
Financial income and expenses		-6,156	5,573
Depreciation/amortization		7,916	7,020
Cash flow from operating activities before changes in working capital		**-9,227,027**	**-7,471,975**
Cash flow from changes in working capital			
Change in inventory and work in progress		0	159,372
Changes in current receivables		725,898	-714,471
Changes in accounts payable		1,140,889	-1,178,846
Changes in current liabilities		192,708	78,368
Cash flow from operating activities		**-7,167,532**	**-9,127,552**
Investing activities			
Investments in intangible assets		-9,518,160	-3,983,863
Investments in tangible assets		-164,184	0
Cash flow from investing activities		**-9,682,344**	**-3,983,863**
Financing activities			
New share issue		0	44,450,142
Borrowings		0	-150,000
Cash flow from financing activities		**0**	**44,300,142**
Cash flow for the year		**-16,849,876**	**31,188,727**
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the beginning of the year		49,702,333	18,513,606
Cash and cash equivalents at year-end		**32,852,457**	**49,702,333**

Notes

Note 1 Accounting and valuation principles

General disclosures

The annual report and consolidated financial statements have been prepared in accordance with the Annual Accounts Act and BFNAR 2012:1 Annual Accounts and Consolidated Accounts (K3).

Receivables have been recognized in the amounts anticipated to be received.

Other assets and liabilities have been recognized at acquisition value (cost) unless otherwise stated below.

The accounting principles are unchanged compared with the previous year.

Revenue recognition

Revenue has been taken up at the fair value of what has been received or will be received and recognized insofar as it is likely that the financial benefits will accrue to the company and the revenues can be reliably calculated.

Intangible assets

The company recognizes internally produced intangible assets according to the capitalization model. This means that all expenses related to the production of internally produced intangible assets are capitalized and amortized over the asset's estimated useful life on condition that the criteria in BFNAR 2012:1 are met.

Fixed assets

Tangible and intangible fixed assets are recognized at cost less accumulated depreciation/amortization according to plan and possible impairment losses.

Expenses for research activities are expensed as they arise.

Depreciation and amortization are applied straight-line over the expected useful life with regard to material residual value. The following depreciation and amortization periods are applied:

Capitalized expenses for product development	20%
Capitalized expenses for patent costs	10%
Plant and machinery	20%
Equipment, tools, fixtures and fittings	20%

Receivables and liabilities

Receivables have been recognized in the amounts anticipated to be received. Other assets and liabilities have been recognized at acquisition cost unless otherwise stated below.

Leases

The company recognizes all leases as operating leases. Operating leases are recognized as an expense straight-line over the term of the lease.

Inventories
The total inventory value is of subordinate significance to the company and has been taken up at a set amount and at a fixed value.

Income taxes
Total tax is comprised of current and deferred tax. Taxes are recognized in the income statement except when the underlying transaction is recognized directly against equity whereby tax effects are recognized in equity.

Current tax
Current tax is calculated based on the tax rate applicable on the closing date.

Deferred tax
In light of the fact that the company has not historically recognized surpluses and that there is some uncertainty when tax loss carry-forwards arise, no deferred tax assets attributable to tax loss carry-forwards are recognized in the income statement and balance sheet.
The total unutilized deficit amounts to SEK 49,904 thousand (-40,682).

Employee remuneration
Remuneration of employees refers to all forms of compensation that the company pays to the employees. Short-term employee benefits comprise salaries, paid holiday, paid absence and bonuses. Short-term employee benefits are recognized as an expense and a liability when there is a legal or constructive obligation to pay a benefit as a result of a previous event and a reliable estimate of the amount can be made.

Employee benefits after concluded employment
There are only defined-contribution pension plans in the company. Plans where fixed fees are paid and there are no obligations to pay anything more beyond these fees are classified as defined-contribution plans.
Fees for defined-contribution plans are recognized as an expense in the period the employees render the services that form the basis of the obligation.
Upon termination of the CEO by the company, a six month period of notice applies and the CEO also has a right to receive six months' salary in severance pay.

Public grants
In the cases that no future performance is required to receive the grant, public grants are recognized as revenue when the conditions to receive the grant are met. Public grants are valued at the fair value of what has been received or will be received.

Key ratio definitions
Return on equity (%)
Profit after financial items as a percentage of equity.

Equity/assets ratio (%)
Equity as a percentage of total assets.

Estimates and assessments

The preparation of annual accounts and application of accounting principles are often based on the management's assessments, estimates and assumptions that are considered to be reasonable at the time the assessment is made. Estimates and assessments are based on historic experience and a number of other factors that are considered to be reasonable under prevailing circumstances. The results of them are used to assess the carrying amounts on assets and liabilities, which are not otherwise clearly apparent from other sources. The actual outcome may deviate from these estimates and assessments. Estimates and assessments are reviewed regularly.

According to company management, significant assessments of applied accounting principles and sources of uncertainty in estimates, mainly related to internally produced intangible assets.

Note 2 Other operating income

In 2015, the company received an EU grant in the Horizon 2020 program in an amount of EUR 50,000 with regard to an implemented prestudy for clinical studies. In 2016, no grant was received.

Other sales in 2016 amounted to SEK 58,997.

Note 3 Leases

The leasing expenses for the year with regard to operating leases amounted to SEK 211,763 (149,692).

Future leasing fees fall due for payment as follows:

	2016	**2015**
Within one year	179,516	152,501
After one year, but within five years	18,488	319,057
Later than five years	0	0
	198,004	**471,558**

The largest item pertains to leases for premises. The rent period is three years with a period of notice of three months. Other items pertain to a rental agreement for an office machine with a rental period to the end of April 2019.

Note 4 Transactions with related parties

Staffan Eriksson, Board member and one of three founders of the company, performed research and development work. Compensation amounted to SEK 485,000 (360,000), which has been invoiced by Lena Lindqvist Design AB, which is a company owned by a relative.

Håkan Englund, Board member has invoiced the company for SEK 18,000.

Note 5 Remuneration of auditors

	2016	2015
Ernst & Young		
Auditing assignment	125,000	133,500
	125,000	**133,500**

Note 6 Employees and personnel costs

	2016	2015
Average number of employees		
Women	1.0	0.5
Men	1.8	1.5
	2.8	**2.0**
Salaries and other benefits		
Board of Directors and CEO	1,712,000	1,215,200
Other employees	1,131,278	539,750
	2,843,278	**1,754,950**
Social security expenses		
Pension costs for the CEO	223,667	269,442
Pension costs for other employees	98,317	
Other statutory and contractual social security contributions	929,922	547,675
	1,251,906	**817,117**
Total salaries, other benefits, social security contributions and pension costs	**4,095,184**	**2,572,067**
Gender distribution among senior executives		
Percentage women on the Board	17%	0%
Percentage men on the Board	83%	100%
Percentage men among other senior executives	100%	100%

Board fees:

Erik Walldén, Chairman	197,130
Håkan Englund	72,281
Jan Mellberg	72,281
Staffan Eriksson	55,000
Carl Blomqvist	55,000
Christine Tadgell	30,000

Jan Stålemark, CEO salary: 1,572,000 and pension premium: 223,667

Agreement on severance pay
Upon termination of the CEO by the company, a six month period of notice applies and the CEO also has a right to receive six months' salary in severance pay.

Note 7 Earnings per share

	2016	2015
Average number of shares before dilution	28,674,506	28,674,506
Average number of shares after dilution	**28,674,506**	**28,674,506**
Earnings per share before dilution	-0.32	-0.26
Earnings per share after dilution	-0.32	-0.26

Note 8 Capitalized development expenses

	12/31/2016	12/31/2015
Opening costs	20,902,913	17,103,510
Purchases	9,117,098	3,799,403
Closing accumulated costs	**30,020,011**	**20,902,913**
Opening depreciation	-121,458	-121,458
Closing accumulated depreciation	**-121,458**	**-121,458**
Closing carrying amount	**29,898,553**	**20,781,455**

Note 9 Patents

	12/31/2016	12/31/2015
Opening costs	1,269,651	1,085,191
Purchases	401,062	184,460
Closing accumulated costs	**1,670,713**	**1,269,651**
Opening depreciation	-241,342	-241,342
Closing accumulated depreciation	**-241,342**	**-241,342**
Closing carrying amount	**1,429,371**	**1,028,309**

Note 10 Plant and machinery

	12/31/2016	12/31/2015
Purchases	107,500	
Closing accumulated costs	**107,500**	
Depreciation for the year	-896	0
Closing accumulated depreciation	**-896**	**0**
Closing carrying amount	**106,604**	**0**

Note 11 Equipment, tools, fixtures and fittings

	12/31/2016	12/31/2015
Opening costs	244,475	244,475
Closing accumulated costs	**244,475**	**244,475**
Opening depreciation	-230,435	-223,415
Depreciation for the year	-7,020	-7,020
Closing accumulated depreciation	**-237,455**	**-230,435**
Closing carrying amount	**7,020**	**14,040**

Note 12 Construction in progress regarding tangible assets

	12/31/2016	12/31/2015
Purchases	56,683	0
Closing accumulated costs	**56,683**	**0**
Closing carrying amount	**56,683**	**0**

Note 13 Prepaid expenses and accrued income

	12/31/2016	12/31/2015
Prepaid rent	86,270	33,133
Other items	117,178	29,357
	203,448	**62,490**

Note 14 Proposed appropriation of profit

The Board of Directors proposes that the funds at the disposal of the Annual General Meeting:

Share premium reserve	102,614,663
Loss carried forward	-42,309,219
Net loss for the year	-9,234,943
	51,070,501
Appropriated such that	
accumulated loss	-51,544,162
and share premium reserve	102,614,663
to carry forward	**51,070,501**

Note 15 Number of shares and quota value

There were 28,674,506 shares with a quota value of SEK 0.10

Non-repaid conditional shareholders' contributions amount to SEK 300,000 (300,000) as of the balance sheet date.

Note 16 Accrued expenses and deferred income

	12/31/2016	12/31/2015
Accrued personnel expenses	532,425	274,849
Accrued accounting and audit costs	147,000	120,000
Other items	116,958	66,010
	796,383	**460,859**

Note 17 Events after the balance sheet date

Results from a study that compares AroCell AB (publ) TK 210 ELISA with other common test methods such as PSA. Free PSA, pro PSA and PHI (prostate health index) among men with potential or confirms prostate cancer shows that AroCell AB (publ) TK 210 ELISA shows a significant correlation with PHI but not with PSA or free PSA.

A scientific poster has been accepted by the American Association of Cancer Research (AARC) for presentation at the annual meeting in April 2017.

AroCell AB (publ) has begun the preparations for the market establishment in the Japanese research market.

Note 18 Pledged assets and contingent liabilities

Non-utilized overdraft facilities

Chattel mortgages	1,000,000	1,000,000
	1,000,000	**1,000,000**

Financial calendar

05/11/2017 Interim report 1
05/18/2017 Annual General Meeting
08/24/2017 Interim report 2
11/23/2017 Interim report 3
02/22/2018 Interim report 4

The income statement and balance sheet will be presented to the Annual General Meeting on May 18, 2017 for adoption.

Uppsala, March 29, 2017

Erik Walldén
Chairman

Carl Blomqvist

Håkan Englund

Staffan Eriksson

Jan Mellberg

Christine Tadgell

Jan Stålemark
Chief Executive Officer

Our auditor's report was issued April 18, 2017.

Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

THIS IS A TRANSLATION FROM THE SWEDISH ORIGINAL

Auditor's report

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

Report on the annual accounts

Opinions

We have audited the annual accounts of AroCell AB (publ) for the year 2016-01-01 - 2016-12-31.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the AroCell AB (publ) as of December 31, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the AroCell AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts, the Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts , whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of AroCell AB (publ) for the year 2016-01-01 - 2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the AroCell AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Uppsala April 18, 2017

Ernst & Young AB

Björn Ohlsson
Autorized Public Accountant