RESPIRATORIUS AB

Annual Report and Consolidated Financial Statements

2016

Contents

The Year in Brief

Significant incidents – brief presentation of press releases

PROJECT: VAL001

- **Respiratorius presents favorable results from interim analysis of clinical studies of VAL001.**
  The results from the analysis showed that 1-year survival of patients treated with VAL001 and R-CHOP was 100% and 2-year survival was 95%. Despite the limited study material, the results were significantly better than the reference material from the Swedish lymphoma registry, where treatment was with R-CHOP alone, for both 1-year survival (95% level of significance) and 2-year survival (90% level of significance).

- **Respiratorius applies for patent for new formulation of VAL001**
  Respiratorius reported success in the development of a new dedicated formulation of VAL001 and filed a new patent application.

- **Japan announces approval of patent for VAL001**
  Japan was the first country to announce approval of Respiratorius' patent application for VAL001, "A Pharmaceutical Composition Comprising an HDAC Inhibitor and a Steroid and the Use thereof."

- **EMA recommends European orphan drug designation for Respiratorius' drug candidate VAL001 for the treatment of diffuse large B-cell lymphoma**
  The European Medicines Agency's Committee for Orphan Medicinal Products (COMP) adopted a positive opinion regarding Respiratorius' application for VAL001 to receive orphan-drug designation in Europe. This means that COMP has determined that the application meets all criteria, for which reason it recommends that the European Commission formally grant VAL001 Orphan Drug Designation.

- **European Patent Office grants patent for VAL001**
  The European Patent Office (EPO) announced that it approved Respiratorius' patent application for VAL001, "A Pharmaceutical Composition Comprising an HDAC Inhibitor and a Steroid and the Use thereof."

- **European Commission grants VAL001 orphan drug status for treatment of diffuse large B-cell lymphoma**
  Respiratorius received orphan drug status for the Company's drug candidate VAL001 following a decision by the European Commission. VAL001 will therefore be included in the EU's Community Register of Orphan Medicinal Products when it is launched on the market.

PROJECT: RESP3000

- **US Patent Office grants patent for RESP3000**
  The US Patent Office issued a Notice of Allowance for a patent application for the RESP3000 series, designed for use in cardiovascular diagnostics with PET imaging.
  A patent was also granted in Israel during the year, which will be reported in the Q3 interim report.

- **Respiratorius presents RESP3000 at leading US conference**
  Respiratorius' abstract on the RESP3000 development project was presented at the SNMMI 2016 Annual Meeting in San Diego, California in June 2016. The SNMMI is a leading international scientific conference in nuclear medicine and molecular imaging.

PROJECT: RESP1000

- **Respiratorius receives patent approval in India for the RESP1000 series**
  India approved Respiratorius' patent application (Novel Bronchodilating Alpha, Beta-Unsaturated Amides) for the chemical substance class RESP1000 for more effective treatment of COPD and asthma.

OTHER

- **Information on the transfer of shares in Respiratorius from Fårö Capital AB in connection with stock swap**
  Fårö Capital AB (Christer Fåhraeus) carried out a stock swap with Nordic Biotechnology AB (Prof. Roland Andersson) in which 1,185,000 shares in Respiratorius AB were transferred in exchange for shares in Reccan Diagnostics AB.

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

The patent application for RESP3000 was approved in Australia in mid-March 2017, complementing previous approvals in Israel and the US in 2016. The patent was granted in South Africa in 2015.

The Company in Brief

BUSINESS CONCEPT

Respiratorius develops effective new drugs to treat the common diseases cancer, COPD and severe asthma. The Company bases its operations on patent-pending substances that have shown superior results in preclinical studies compared with the "gold standard."

VISION

Respiratorius' vision is to help reduce the global burden of disease for the three major diseases cancer, respiratory diseases and cardiovascular diseases. The Company's goal and driving force is to develop innovative new drugs to improve quality of life for patients suffering from cancer, chronic obstructive pulmonary disease (COPD) and severe asthma. By so doing, the Company will also create long-term shareholder value.

GOALS

VAL001 – treatment of diffuse large B-cell lymphoma

VAL001 is based on existing and well-proven substances with a new application. Major goals in the form of patents and a first orphan drug approval were met during the year, which likely had a considerable impact on advancing the commercial maturity of the project. The Company is identifying and evaluating potential global partners prior to the continued development of the substance. The objective for 2017 is to prepare for the continued clinical development of VAL001, in part through production of VAL001, and to prepare the regulatory documentation.

RESP1000 – treatment of COPD and asthma

The collaborative project with Cadila Pharmaceuticals Ltd. is successfully progressing as planned. Important targets were met during the year for the identified drug candidate from the RESP1000 series. The objective for 2017 is to continue preparatory preclinical work prior to clinical development.

RESP3000 – cardiovascular diagnostics

In cardiovascular diagnostics, specifically for the RESP3000 project, the Company intends to continue development while searching for potential partners and stakeholders. The objective for 2017, based on the promising results achieved in the preclinical in vivo model, is to initiate preclinical work in preparation for clinical development. The objective is to continue clinical development in collaboration with an external partner.

MARKET

All Respiratorius projects are aimed at large markets involving common diseases for which there is great need to improve treatment.

VAL001 is being developed for the treatment of diffuse large B-cell lymphoma (DLBCL). DLBCL is the most common form of non-Hodgkin lymphoma, the most common type of lymphoma in the developed world. In Europe and the US approximately 60,000 patients are diagnosed with DLBCL annually. The majority of these patients are treated with chemotherapy combined with antibody therapy with Rituximab. Five-year survival is estimated at 60 percent.

RESP1000 focuses on development of a drug to treat COPD and asthma. COPD affects about 10 percent of the population over the age of 45; an estimated 3 million deaths each year are attributable to the disease. The global market for COPD and asthma was valued at USD 25 billion in 2010 and is expected to grow to USD 27 billion in 2017.

RESP3000 is a series of substances developed for cardiovascular diagnostics, thereby addressing the most common cause of death in Sweden among both men and women. Half of the population of the developed world becomes sick and dies from cardiovascular disease. Every year, 715,000 Americans suffer a heart attack and 15 percent of these patients die. The market for PET imaging markers that could be relevant for RESP3000 is rapidly growing, with an estimated size of USD 4 billion in 2018.

STRATEGY AND BUSINESS MODEL

Respiratorius will be an attractive partner for academic research groups, biotech companies and global pharmaceutical companies. Our unique expertise focuses on the early part of the value chain, from academic research to finished product on the market. Respiratorius is actively seeking strategic partners to assume financial and operational responsibility for product development. This type of partner will have financial resources, experience in large clinical studies and established contacts with regulatory authorities. They will also be responsible in the future for manufacturing, marketing and sales of the licensed drugs that may result from the development project. Several large pharmaceutical companies have already shown interest regarding licensing and collaboration on the Company's projects.

A license agreement with a pharmaceutical company is expected to give Respiratorius income in the form of an initial payment followed by milestone payments, as well as royalties. In the event that a license agreement is concluded, there is an intention among the major shareholders to distribute approximately half of the advance payment in connection with a license agreement pro rata to all shareholders, provided that the Company's operations remain intact.

The timing of signing collaboration agreements with pharmaceutical companies will entail business decisions based on cost, risk, skill requirements and the value that would be added by completing additional steps in-house. Such collaboration agreements will ensure that the projects receive expertise and resources from pharmaceutical companies at an early stage. With this approach, Respiratorius avoids tying up excessive resources in a single project. It is in the best interest of the Company to work – without compromising safety or excellence – to minimize time-to-market for its drugs.

ORGANIZATION

The Company operates based on a virtual model, without any employees. Resource and skill requirements vary during project development and are purchased as needed. This organizational model is totally focused on value-generating project development.

During the year, several important patent approvals across the entire project portfolio significantly strengthened the Company's intellectual property protection. In addition the Company obtained orphan drug designation in Europe for the VAL001 cancer project. In the same project, which focuses on treatment of lymphoma, we also obtained clearly favorable results from an interim analysis of data from the phase I/II clinical study. A drug candidate for treatment of COPD and asthma is under development in collaboration with Cadila Pharmaceuticals Ltd, where work is in progress in the preclinical program prior to clinical development. The project aimed at cardiovascular diagnostics, RESP3000, is also in a preparatory phase for clinical studies.

VAL001

During the year data were presented from the clinical study of patients with a specific type of lymphoma, diffuse large B-cell lymphoma (DLBCL), clearly showing a beneficial effect of pretreatment with VAL001 compared with the reference group, which completed the corresponding treatment but without the addition of VAL001. The Company expects the results from the clinical study to be presented in the first half of 2018.
In 2016 IPR protection was secured for the drug project after gaining patent approval in both Japan and Europe. In addition to the patent, the European Commission also issued orphan drug designation, which provides market exclusivity that provides patent protection for 10 years upon market approval. Both the patents and the orphan drug status provide market exclusivity and ensure commercial value, representing a considerable advancement of the project in the value chain. An important aspect of orphan drug status approval for VAL001 is the objective assessment of the data from the clinical study's interim analysis by EMA experts, which is expected to culminate in a marketable product resulting from the project as a whole. Contract manufacturing of VAL001 is planned to begin and the regulatory documentation for further clinical development will be initiated in 2017.

RESP1000

A drug to treat COPD and asthma is being developed through a collaboration agreement with Cadila Pharmaceuticals Ltd. in India, based on the Company's identified drug candidates. Work has proceeded according to plan during the year and prospects are encouraging that important steps in the development process can be completed which will bring the project closer to clinical trials.

RESP3000

RESP3000 has shown promising results in the continued preclinical work. We established new biologically relevant experimental models and have been able to successfully compare our lead candidate with similar substances. The objective is optimal management of results through continued limited and clear value-generating development.

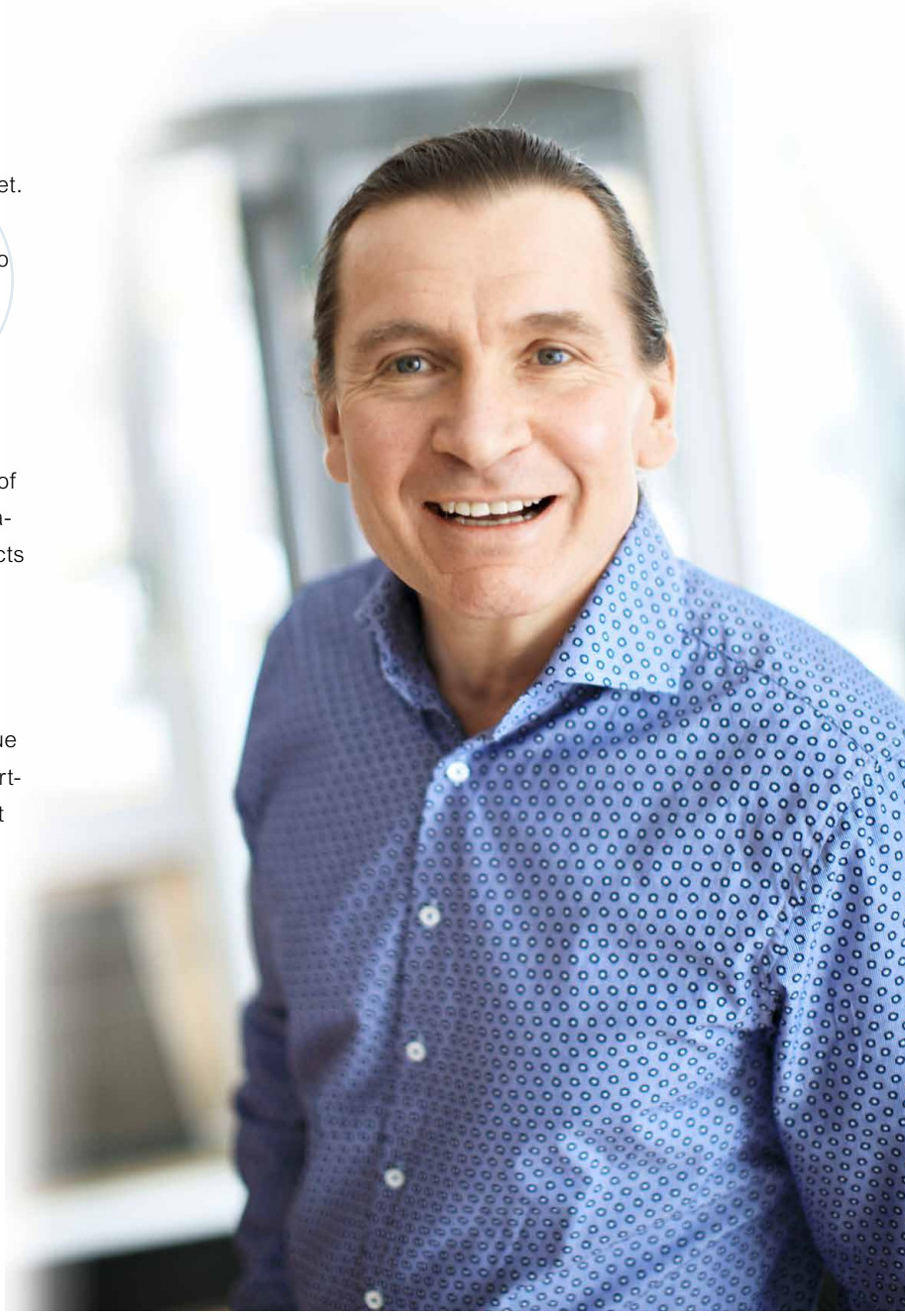
Progress made in all projects and increased interest in Respiratorius

Comments by the CEO

During the year patent approval was obtained in the key markets of Israel and the US. The latter is a frontrunner for the introduction of new diagnostic methods and therefore a large and important market. The Company continues to pursue its strategy of identifying a suitable partner to continue the drug development process.

This year's important approvals of both patents and orphan drug status, as well as the positive study outcomes, ensure commercial value and provide a position of strength from which to establish collaborations with international partners. All projects have made considerable progress and interest in the Company has substantially grown, which is evident through contacts with investors and potential partners.
The overall objective for 2017 is to continue creating value within the entire project portfolio, both for shareholders and for patient populations with unmet medical needs.

Johan Drott, CEO



Project portfolio and pipeline

Respiratorius' pipeline includes projects to develop drugs to treat cancer, COPD and asthma, three major common diseases, as well as cardiovascular diseases.

CURRENT DEVELOPMENT PROJECTS

The table below tracks the progress of Respiratorius' major drug candidates in the development process.

Project	Indication	Research	Animal experiments	Preclinical development	Phase 0	Phase I	Phase ii
VAL001	Lymphoma (cancer)						
RESP1000	COPD, asthma						
RESP2000	COPD, asthma						
RESP3000	Cardiovascular diagnostics						

VAL001

The drug candidate VAL001 is being developed primarily for the treatment of diffuse large B-cell lymphoma (DLBCL), the most common form of lymphoma. VAL001 has clearly shown favorable experimental data for treatment of diseases such as diffuse large B-cell lymphoma, and a phase I clinical trial was successfully completed in 2013. This study determined the maximum tolerated dose in combination with standard chemotherapy (R-CHOP) in patients with DLBCL. The continued clinical development is proceeding through a phase IIa study, with full enrollment achieved in 2015. An interim analysis of the data gathered from the ongoing phase I/IIa clinical study was conducted in April 2016. The results shows significantly improved 1-year and 2-year survival for patients treated with VAL001 and R-CHOP, compared with a matched population from a reference group taken from the Swedish lymphoma registry and treated with R-CHOP alone. The final report from the phase I/IIa clinical study will be compiled in the first half of 2018.

RESP1000

RESP1000 is a compound series of drug candidates with anti-inflammatory and bronchodilatory properties that is currently under development to enable treatment of COPD and asthma patients. In September 2014 Respiratorius signed a license and development agreement for RESP1000 with Cadila Pharmaceuticals Ltd, one of India's largest private pharmaceutical companies. The project is currently in the preclinical phase and under the license agreement, Cadila Pharmaceuticals Ltd will be responsible for and fund development at its facilities in Ahmedabad, India. Preclinical safety studies of the selected substance began during the year.

RESP2000

RESP2000 is a series of new chemical substances, differing from the RESP1000 series, that affect the mitochondria (in simple terms, cellular energy sources) of the smooth muscles. These substances have bronchodilatory properties that also have the potential to be developed into drugs for treatment of COPD and severe asthma. In addition to these indications, some exploratory studies are being carried out in other disease areas in which the mechanism of action indicates potential therapeutic success.

RESP3000

RESP3000 is a project primarily aimed at cardiovascular diagnostics using PET imaging. A proof-of-concept study with the selected substance from the RESP3000 series was completed with promising results in 2014. In 2015 and early 2016 the patent application for the RESP3000 substance series was approved. The aim is to establish collaborations for further development at an early stage.

OTHER RESEARCH AND DEVELOPMENT

Besides the development projects mentioned above, Respiratorius is working with additional drug candidates. However, these drug candidates are currently in a very early stage of development.

Respiratorius has a patented technology platform (R-HSAT) that makes it possible to study smooth muscle in various tissues of both animals and humans. The technology can be used for research purposes, as well as for screening and optimization of drug candidates. Respiratorius intends to out-license the right to use the R-HSAT technology platform.

BACKGROUND AND HISTORY

Respiratorius was founded in 1999 to develop effective drugs to treat COPD and severe asthma, a therapeutic area still lacking in effective drugs.

A measurement device that can be used for testing (R-HSAT) was developed to study the small airways found in lung tissue in patients and animals, and to then analyze the impact of various chemical substances on the smooth muscle of the bronchi. Studies have been conducted on isolated human lung tissue samples from over 150 individuals, providing far better support for the positive effects of these substances in human clinical studies than similar studies conducted on animals.

In 2003, the Company produced the RESP1000 substance series, which has a new mechanism of action compared with existing drugs on the market. RESP1000 appears to be significantly more effec-

tive than existing drugs at countering the underlying medical mechanisms that cause bronchial problems. Between 2006 and 2007 RESP1000 was optimized and one substance from the series was chosen for preclinical development aimed at future clinical development.

In 2008 another new class of chemical substances, RESP2000, was discovered, which shows a potent bronchodilatory effect on human lung tissue at extremely low concentrations. Subsequently, the bronchodilatory effect of RESP2000 was also confirmed by an in vivo guinea pig model. A more detailed study of the mechanism of action of RESP2000 was also carried out.

Knowledge of the RESP2000 mechanism of action enabled the Company to develop RESP3000, a substance series for improving cardiovascular diagnostics using PET imaging. The project has made good progress and an assessment of relevant biological models was successfully completed in 2014.

In 2012 Respiratorius acquired the shares in Valcuria AB, along with the VAL001 drug project. The acquisition was conducted on commercial terms based on scientific findings, in which experiments conducted using the VAL001 drug candidate demonstrated strong effects on human lymphoma cell lines (models for lymphoma). The strengthening and expansion of the Respiratorius project portfolio with a cancer project was a key component of the commercial foundation. The VAL001 project has performed well under Respiratorius' management and a successful phase I clinical study has been conducted. In 2014, a Phase IIa study was initiated, which achieved full enrollment in 2015. The results from the interim analysis of the clinical phase IIa data are highly promising. The results from the ongoing clinical study are expected in the first half of 2018.

POTENTIAL FOR DRUG CANDIDATES

Respiratorius aims to develop the current drug candidates to be able to present new effective drugs in the future for the treatment of diffuse large B-cell lymphoma (VAL001), COPD and severe asthma (RESP1000 and RESP2000), as well as for cardiovascular diagnostics (RESP3000). In all of these areas the Board of Directors believes that the Company has the potential, either alone or working with partners, to launch these drugs on large markets. However, it is important to note that both preclinical and clinical studies are required before new drugs can be commercialized. The pharmaceutical industry as such, and clinical studies in particular, are associated with uncertainty regarding both funding and study results.

Board of Directors and CEO

OLOV STERNER, Born 1953

Board member

Board member since 2004. Professor of Organic Chemistry and Dean of the Faculty of Science, Lund University. Author and co-author of more than 400 publications in scientific journals. Board member of Partners för Utvecklingsinvesteringar inom Life Sciences AB, Glactone AB, Oncorena AB, Gabather AB and Stelmast AB.

Holdings: 402,178

KRISTINA DROTT, Born 1971

Board member

Board member since 2012. Associate professor at the Faculty of Medicine, Lund University. Specialist in hematology, oncology, medical radiation physics, Skåne University Hospital. Founder of Valcuria AB, which was acquired by Respiratorius AB in 2012, and Valcuria Holding AB.

Holdings: 1,080,000[1]

INGEMAR KIHLSTRÖM, Born 1952

Board member

Board member since 2006. B.A. in chemistry and biology 1976, PhD in physiology 1982, Associate Professor at Uppsala University 1986. Consultant in bioengineering banking and finance since 2004. Worked with research and development and business development at Astra and Pharmacia 1982-1996, then as a pharmaceutical analyst and corporate adviser in finance including for Swedbank, Aros Securities and ABG Sundal Collier. Chairman of the Board of Miris Holding AB, BoMill Holding AB, EQL Pharma AB, Spectracure AB. Board member of Health Invest Partners AB, Prolight Diagnostics AB, Emplicure AB and Attana AB.

Holdings: 801,167

JOHAN DROTT, Born 1966

CEO

CEO since April 2013. PhD in electronic engineering, with extensive experience in senior positions in medical device and pharmaceutical companies with a focus on research, business development and commercialization of research findings. Founder and CEO of Valcuria AB, which was acquired by Respiratorius AB in 2012. Also CEO of Diaprost AB since March 2015.

Holdings: 5,380,560[1]

1 Valcuria Holding AB is owned by Kristina Drott, Johan Drott and two external people (one natural person and one legal entity)

CHRISTER FÅHRAEUS, Born 1965

Chairman of the Board

Founder of Respiratorius and Board member or deputy since 1999. MSc in Bioengineering, 4 years as a PhD student in neurophysiology and 3 years of medical school, Lund University, honorary doctor's degree in engineering from Lund University (2002). Founder of Agellis Group AB, Anoto Group AB, Precise Biometrics AB, CellaVision AB, EQL Pharma AB and FlatFrog Laboratories AB. Chairman of the Board of FlatFrog Laboratories AB and Board member of CellaVision AB, Wranne Fåhræus Design AB, LongBoat Explorers AB. Chief Executive Officer of EQL Pharma AB.

Holdings: 23,020,100

ANDERS MÅNSSON, Born 1967

Board member

Board member since 2016. Degree in business administration from Lund University (1997) and MBA from the Faculty of Business and Economics, University of Lausanne, Switzerland (2007) Anders has more than 20 years of experience in the pharmaceutical industry, including 15 years of experience in international managerial positions. He has a broad background in business and has held executive positions in areas such as sales and marketing, strategic planning and business development. Anders is currently Vice President and has global responsibility for the business areas psoriasis, skin cancer and non-prescription medications at LEO Pharma A/S, headquartered in Copenhagen.

Holdings: 0

SARAH FREDRIKSSON , Born 1968

Board member

Board member since 2016. MSc in bioengineering (1993) and PhD in applied biochemistry (1999), both from Lund University. Professionally, Sarah Fredriksson focuses on business skills and expertise in the Life Sciences, especially in innovation-driven businesses in the fields of bioengineering and biomedical engineering. Founder and former chairman of the board of Genovis AB. Chief Executive Officer of Edvince AB since 2016.

Holdings: 0

History

1999
- Respiratorius founded as a spin-off from Lund University by Christer Fåhræus and Staffan Skogvall.
- First test chamber for obtaining parameters on human airways commissioned.

2000
- Second generation test chamber commissioned.

2001
- Capsazepine discovered to have a general relaxing effect on bronchoconstriction.

2003
- Synthesis of the Company's first potent substances developed in-house, the RESP1000 series for treatment of COPD and asthma.

2004
- First substance patent application filed.
- Scientific journal publishes discoveries relating to capsazepine
  .
- Third generation test chambers commissioned and technology platform patent filed.

2007
- First installation of test chambers by external partner (Riga, Latvia).
- Completion of first preclinical toxicology study of RESP1000.

2008
- Discovery of RESP2000 series, new class of substances with bronchodilating effect for treatment of COPD and asthma.

2009
- RESP2000 shows bronchodilating effect in vivo.
- Respiratorius receives first patent approval for RESP1000.

2010
- Mechanism of action for RESP2000 determined.
- Toxicological safety studies conducted on RESP2000.
- Cooperation agreement signed with Toyota to find license partner in Japan.

2011
- Preclinical efficacy and safety studies conducted on RESP1000 showing promising results. However, the Board of Directors resolved that additional studies were needed before entering clinical phase.
- Respiratorius files patent application in field of biomarkers for RESP3000.
- Grant from VINNOVA to develop RESP1000.

2012
- Respiratorius acquires Valcuria AB, along with the VAL001 drug project for more effective treatment of lymphoma.
- Phase I clinical trial begins for VAL001 drug project.
- RESP1000 receives approved EPO patent (Europe).

2013
- Successful completion of phase I study for VAL001.
- Evaluation agreement for RESP3000 signed with Genovis.
- Patent granted for RESP2000 in the US and Europe.
- Patent granted for RESP1000 in Japan.

2014
- Phase IIa study with VAL001 initiated.
- License and development agreement for RESP1000 signed with Cadila Pharmaceuticals Ltd.
- Successful completion of proof-of-concept study for RESP3000 using biological models.

2015
- Phase IIa study with VAL001 fully enrolled.
- Excellent results reported from Proof-of-concept study in biological models using RESP3000.
- South Africa first country to grant RESP3000 patent.

2016
- Interim analysis of Phase IIa study of VAL001 shows outstanding results with 10% increase in 1-year and 2-year survival.
- Several new patents granted, including for VAL001 in Japan and Europe.
- Orphan drug status for VAL001 granted for Europe.

The share

The Respiratorius share was listed on July 5, 2012 on AktieTorget. The share is traded under the ticker symbol RESP and the ISIN code is SE0004550192. The number of shareholders on December 31, 2016 was 3,613 and the number of shares in the Company was 139,708,423. There is one class of shares, where each share carries equal rights to the Company's assets and earnings, and entitles the holder to one vote at the Annual General Meeting.

HISTORICAL SHARE PERFORMANCE

	LOWEST	AVERAGE	HIGHEST	VOLUME OF SHARES
2012	0.23	0.31	0.50	6,760,487
2013	0.27	0.44	0.68	78,859,373
2014	0.25	0.44	0.71	55,348,448
2015	0.25	0.36	0.69	100,742,020
2016	0.33	0.77	4.04	408,774,754

FIVE LARGEST SHAREHOLDERS DEC. 31, 2016

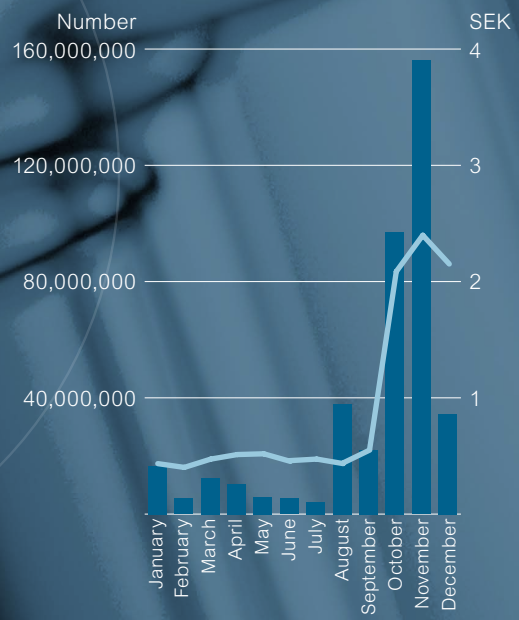
NAME	NO. OF SHARES	HOLDINGS (%)
Fårö Capital AB	23,020,100	16.48
Valcuria Holding AB	10,800,000	7.73
Avanza Pension	8,432,394	6.04
Hans Harvig	3,454,972	2.47
Hartmut Wiese	2,000,000	1.43

OWNERSHIP OF SHARES DEC. 31, 2016

HOLDINGS	NUMBER OF SHARE-HOLDERS	NUMBER OF SHAREHOLD-ERS %	HOLDINGS	NUMBER OF SHARES %
1-1,000	911	25.21%	412,901	0.30%
1,001-10,000	1,522	42.13%	7,181,657	5.14%
10,001-50,000	843	23.33%	20,119,136	14.40%
50,001-100,000	169	4.68%	12,521,586	8.96%
100,001-500,000	136	3.76%	28,404,473	20.33%
500,001-1,000,000	18	0.50%	11,464,017	8.21%
1,000,001-	14	0.39%	59,604,653	42.66%
	3,613	**100.00%**	**139,708,423**	**100.00%**

SHARE PERFORMANCE FOR THE YEAR

MONTH	PRICE	TURNOVER
January	0.429	7,565,155
February	0.4	2,395,058
March	0.475	5,758,736
April	0.51	5,694,451
May	0.51	3,146,530
June	0.449	2,621,823
July	0.462	2,167,974
August	0.436	20,518,798
September	0.555	12,689,266
October	2.09	112,111,841
November	2.4	392,940,439
December	2.14	69,798,082



Invitation to the Annual General Meeting

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders in Respiratorius AB (publ) will be held at 4 p.m. on Monday, May 2, 2017 at Medicon Village in Lund.

The notice to attend the AGM is available on the Respiratorius website (www.respiratorius.com).

RIGHT TO PARTICIPATE AND REGISTRATION20

Shareholders who are registered in the share register maintained by Euroclear Sweden AB as of April 25, 2017, and who have notified the Company of their intention to participate no later than April 25, 2017, preferably before 4:00 p.m., are entitled to attend the Annual General Meeting.

Notification of participation in the Meeting must be sent in writing, including the shareholder's name, personal or corporate identity no., address, email and phone number, to the address Respiratorius AB, 223 81 LUND, or by email to info@respiratorius.com.

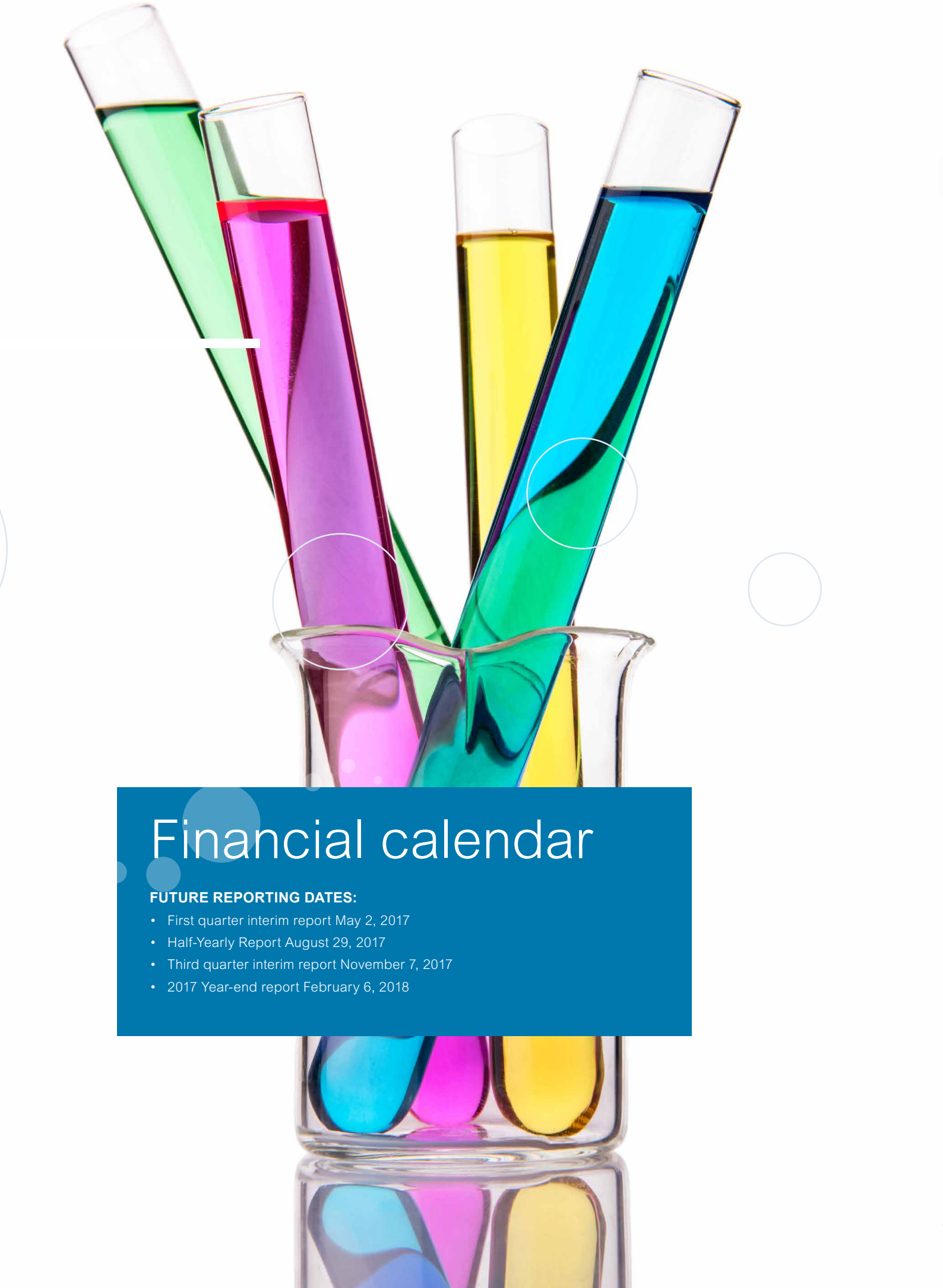
SHARE REGISTRATION

Shareholders whose shares are registered in the name of a nominee must temporarily have re-registered the shares in their own name at Euroclear Sweden AB to be entitled to participate in the Meeting. Such registration must be effected no later than April 25, 2017 and should be requested well in advance of this date.

OTHER INFORMATION

Financial reports, press releases and other information are available on the Respiratorius website www.respiratorius.com from the time of publication. Interested parties may subscribe to Respiratorius financial reports and press releases and download them from the website or via AktieTorget's website.

Respiratorius has decided to primarily distribute the annual report from the Company's website for both financial and environmental reasons. The printed Annual Report may still be ordered through the Company and mailed to shareholders and other stakeholders who specifically request it. For more information please contact Johan Drott, Chief Executive Officer, tel. +46 (0)70-922 41 40, or email: info@respiratorius.com.



Financial calendar

FUTURE REPORTING DATES:

- First quarter interim report May 2, 2017
- Half-Yearly Report August 29, 2017
- Third quarter interim report November 7, 2017
- 2017 Year-end report February 6, 2018

Administration Report

The Board of Directors and the Chief Executive Officer for Respiratorius AB (publ), corporate identity no. 556552-2652, hereby submit the annual report and consolidated financial statements for the 2016 financial year. The Company is registered in Sweden and has its headquarters in Skåne County, Lund Municipality. The annual accounts are prepared in Swedish kronor, SEK.

OPERATIONS

Respiratorius is a pharmaceutical company engaged in research and development to develop innovative new drugs against cancer, as well as against the respiratory diseases COPD and severe asthma. Based on this research, the Company has also produced new chemical substances that may primarily improve diagnostics of cardiovascular diseases.

Drug development in cancer relating to the VAL001 project is based on a combination of proven and well-tolerated drugs used for indications other than cancer. The Company has been able to demonstrate that VAL001 has a clear effect as pretreatment to standard treatment with chemotherapy. Clinical development has begun in this project, including efforts to produce an optimal formulation of the drug.

The Company's scientific and technological platform within the field of COPD and asthma is based on patented and proprietary measurement and testing equipment for biological studies on small human bronchi. The Company has used this platform to develop new patent pending chemical substances with a strong ability to relax small human bronchi far exceeding the effect of existing drugs. This has been demonstrated in ex-vivo tests on human lung material using Respiratorius' biological measurement equipment.

GROUP STRUCTURE

Respiratorius is the parent company of a Group that includes the wholly owned subsidiaries Bergdalsten Kemi AB and Valcuria AB. Bergdalsten Kemi AB is a dormant company. Valcuria AB holds the patent rights for Respiratorius' VAL001 cancer project. All other operations occur within the parent company, Respiratorius, and the parent has no other shareholdings.

SIGNIFICANT EVENTS DURING THE YEAR

Respiratorius announced in November that the European Commission granted orphan drug status for VAL001. Orphan drug status allows ten years of market exclusivity within the EU upon market approval. In addition, free scientific consultancy services are provided when contacting the Swedish Medical Products Agency, which includes support for designing clinical study protocols and reduced costs for regulatory applications prior to commercialization. During the year Respiratorius announced several patent approvals: in addition to the patent for VAL001, which in November was approved in Europe, an equivalent application in Japan was approved in August. The patent filed for RESP1000 was granted in India and applications for RESP3000 were granted in the US and Israel.

All patent approvals are expected to strengthen the Company's position through market exclusivity in negotiations with potential partners.

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

The patent application for RESP3000 was approved in Australia in mid-March 2017, complementing previous approvals in Israel and the US in 2016. The patent was granted in South Africa in 2015.

RESPIRATORIUS' PATENT PORTFOLIO

Respiratorius' strategy is to create strong patent protection for the Company's projects in North America, Europe and Asia, which are all important regions in the pharmaceutical industry. The Company files patents continually for the substances, drug candidates and methods it develops, and conducts regular searches to identify related patent applications. Respiratorius works strategically with patent attorneys specializing in their respective fields, which ensures both quality and cost effectiveness.

As of December 31, 2016 the patent portfolio includes five patent families, each of which has been granted patents.

FINANCIAL PERFORMANCE IN 2016

Sales and earnings

The Company has not had any net sales for the financial year.

Liquidity and financial position

The Board of Directors believes that the Company conducts business very cost effectively, with low administrative costs. Research and development of new drugs is associated with costs, which significantly increase in the clinical phase. Consequently, the Board believes that the Company eventually may need to strengthen its liquidity through one of the following options:

1. licensing of one of its projects, or
2. the sale of one of its projects, or
3. acquisition involving a legal entity with access to cash, or
4. share issue with or without preferential rights for existing shareholders in favor of financial or strategic investors

ORGANIZATION AND STAFF

The Company leases appropriate facilities at Medicon Village in Lund. The Medicon Village environment offers close proximity to important skills and interesting business opportunities.

Personnel during the year have consisted of consultants staffing the positions of CEO, Director of Research and specialists to meet the needs of the individual projects.

BOARD WORK

During the year, seven Board meetings were held focusing primarily on strategy for research, funding and external collaborations, as well as related licensing strategy.

OUTLOOK

The VAL001 drug project is progressing as planned. The project is currently in phase IIa, with a successful phase I study completed in the third quarter of 2013. In 2016 the Company reported promising results from an interim analysis of data from the phase II study. During the year orphan drug status was granted in Europe for the project, which provides 10 years of market exclusivity upon market approval for the product. Work on a new formulation of the planned product is underway in parallel with clinical development.

In the RESP3000 diagnostics project, aimed at improving cardiovascular diagnostics, detailed project planning is underway. In 2016 the Company completed a limited, clear value-generating development process, along with business development initiatives.

Within the field of COPD and asthma, Respiratorius and Cadila Pharmaceuticals Ltd. signed a license and development agreement relating to RESP1000 in 2014. Under the agreement Cadila is covering the costs of the development work, which is being carried out in India. The Company is open to further collaborations or out-licensing involving RESP2000.

RISK FACTORS

A number of risk factors could have a negative impact on business at Respiratorius. Drug development is associated with great uncertainty since the Company's operations include new complex and unpredictable parameters, as well as biological and medical processes. It is therefore important to consider the relevant risks along with the Company's growth opportunities. Other risks are associated with the performance of the Company's share, which is listed on Aktietorget. Below is a list of risk factors, which are presented in no particular order and with no claim to be exhaustive. Naturally, all risk factors cannot be described without conducting a complete evaluation of the Company along with a general business analysis. Additional risk factors that are not currently known or are not currently considered to be material could also affect the Company's business.

Clinical development

The success of Respiratorius depends on favorable outcomes from the clinical trials that the Company intends to conduct, as well as approval from regulatory authorities before sales of the drug candidates can begin. There can be no guarantees that Respiratorius' drug candidates will exhibit favorable properties in clinical trials, or that regulatory approval will be obtained. Should such a course of events fail to occur, there is a risk medicines will not be launched in the future, as well as a risk of loss of income.

Funding and collaborations

There is a risk that in the future, the Company may be unable to raise the necessary capital on the financial markets to run one or more projects until a partner takes over responsibility for continued development. Respiratorius is engaged in discussions with large pharmaceutical companies to establish partnerships under which the pharmaceutical company accepts all or part of the financial and operational responsibility, especially when the projects enter the later clinical phases, which are extremely expensive. No assurance can be given that the Company will succeed in establishing such partnerships. Nor can it be assured that new capital can be raised if such needs should arise, or that such capital can be raised on favorable terms.

Market growth

Expansion to new countries and regions could entail problems and risks that are difficult to predict. Moreover, delays could occur that would entail a loss of revenue. Rapid growth could also mean that the Company will acquire other companies. Synergistic effects that fail to materialize and a less than successful integration process could have an adverse effect on Respiratorius' business and financial performance. Rapid growth could cause problems at the organizational level. It may be difficult to recruit qualified staff and to successfully integrate new staff into the organization. Expansion and aggressive marketing campaigns could also entail increased costs for the Company.

Product development and regulatory approval

Pharmacologically active products are manufactured, marketed and distributed on a regulated market for which agencies such as the US Food and Drug Administration (FDA) and the corresponding authority in the EU, the European Medicines Agency (EMA), set rules regarding preclinical and clinical evaluation, approval and quality assessment. If regulatory authorities should impose additional restrictions on Respiratorius' business, or if necessary future regulatory approvals are not obtained, this could adversely affect the Company commercially and financially. Parts of Respiratorius' product portfolio are in the preclinical stage, which is an early phase in the development of new medications. Even if the Company's preclinical substances have shown potential to be developed into finished products to date, no assurance can be given that the drug candidate(s) that the Company or a partner select(s) to advance to the next step, clinical studies, will have the intended clinical effect and obtain the required regulatory approval.

Respiratorius is highly dependent on the continued favorable development of existing and new substances, drug candidates and methods. As with all aspects of drug development, there is a risk that new substances will have side effects that cannot be eliminated by chemical modification or tolerated by patients. In addition, competing businesses could have similar substances under development. The Company's patents, patent applications and a high level of confidentiality cannot guarantee favorable results. Continued development of existing and new substances, drug candidates and methods are of great importance for Respiratorius. If the Company should lose its ability to do so, if future research findings or clinical results do not provide scientific or commercial support for continued drug development, if continued drug development cannot proceed according to plan for other reasons, if finished products cannot be launched on schedule, or if the market reception is worse than expected, such factors could have a negative impact on Respiratorius' financial performance.

Development costs

The Company will continue to develop new and existing products in its field. Time and cost aspects of product development may be difficult to accurately determine in advance. Consequently there is a risk that a product may be more expensive to develop than planned.

Adverse reactions

When developing new classes of drugs, there is always a risk that the substances may prove to have side effects. In some cases, this can be overcome by chemically modifying substances, but in specific cases, side effects can be intimately associated with the therapeutic effect, which precludes their use as medicinal products.

Partners

Respiratorius has collaborations with a number of partners. It cannot be ruled out that one or more of them could choose to terminate their collaboration with the Company, which could have a negative impact on the business. In addition, it cannot be guaranteed that Respiratorius' partners will fully meet the quality standards set by the Company. Moreover, it could be more expensive and/or take longer than expected for the Company to establish new partnerships.

Key management and staff

Respiratorius has a distinct high-tech focus and is therefore dependent on being able to recruit and retain highly skilled employees. There is no guarantee that the Company will continue to be able to attract and retain human capital, which is crucial for the positive development of the Company in the future.

Competitors

Other companies could have similar substances under development of which Respiratorius is not aware. There is also a risk that new competitors with a larger resource base of expertise and capital could enter Respiratorius' market and offer better methods and more effective products than Respiratorius. The Company is not aware of any competing companies that are working on development of substances that interact with or use the mechanisms of action that the Company has identified. However, this should not be interpreted to mean that the Company has no competitors now or in the future. Established pharmaceuticals companies are usually extremely cautious about publicizing preclinical research programs. There may be companies working with similar technology and objectives. An extensive investment and product development by a competitor could entail risk for lower earnings. Increased competition could have a negative impact on sales and financial performance for the Company in the future.

Economic conditions and currency risk

External factors such as inflation, currency and interest rate fluctuations, supply and demand, as well as booms and recessions could have an impact on operating costs, selling prices and valuation of shares. These factors, which are beyond the Company's control, could have a negative impact on Respiratorius' future revenues and valuation of shares. A portion of sales revenues could be received in international currencies. Exchange rates could fluctuate considerably.

Political risk

Respiratorius is a Swedish company. The business could become internationalized as it expands, directly or indirectly through partners. Risks could arise from changes in laws, taxes, duties, exchange rates and other conditions for foreign companies. The Company could also be affected by political and economic uncertainties in other countries. The above may be associated with negative consequences for the Company's business and results of operations.

Confidentiality

The success of Respiratorius depends on confidentiality and expertise in the Company's research. No assurance can be given that the Company's employees, consultants, advisors or other individuals will not violate the confidentiality agreements they have signed. Moreover, there is no assurance that confidential information will not be disclosed in some other way, and therefore could be used by competitors.

Patents and rights

Respiratorius has several approved patents as well as patent applications. The success of Respiratorius depends in part on whether patent protection can be obtained and maintained for the Company's substances, drug candidates and methods, and that the business can be run without encroaching on technological areas protected by someone else's patent. The Company files patents continually for the substances, drug candidates and methods it develops. However, there is no guarantee that current or future patent applications will be granted, or that granted patents will provide adequate protection against competitors. Moreover, there is always a risk that dis-

putes concerning infringement of patents and other intellectual property rights could be initiated against or by the Company. Disputes of this type are usually expensive and if a dispute should arise, it could have a significant negative impact on the Company.

There is also no guarantee that patents will bring a competitive advantage, or that competitors will not be able to bypass Respiratorius' patents. If Respiratorius is forced to defend its intellectual property against a competitor, considerable costs could be involved, which in turn could have a negative impact on the Company's financial position. If Respiratorius uses substances or methods in research that are patented or will be granted patents, the holders of these patents could claim that Respiratorius infringed on their patent. A third party's patent could prevent one of the Company's future licensees from freely using a licensed substance. The uncertainty associated with patents makes it difficult to predict the outcome of such disputes. In addition, the costs of such disputes, even one that has a favorable outcome for Respiratorius, could be considerable and would therefore have a negative impact on Respiratorius' financial position.

Potential future litigation

In conjunction with the Company's suggestion of listing in a newspaper article, Staffan Skogvall, a shareholder and former CEO of the Company, as well as its co-founder, placed demands on the Company for the annulment of the severance agreement reached with Staffan Skogvall in May 2006, as well as certain shareholder agreements also dated in May 2006. The requirement was last put forth in November 2006, but then not until March 2012. Staffan Skogvall has not specified what legal consequences he believes that the annulment should entail, but indicated that he is considering having the dispute legally settled, for which reason a legal dispute cannot be ruled out. After obtaining legal advice on the issue, the Board believes that an action for annulment directed against the Company would be deemed essentially futile, though no guarantees of a final outcome can be provided.

Financial overview*

GROUP

SEK THOUSAND	2016	2015	2014	2013	2012
Profit/loss after financial items	-4,854	-5,685	-5,275	-5,097	-5,164
Balance sheet total	13,725	20,247	16,866	15,419	20,385
Equity/assets ratio (%)	91.7	89.0	95.2	80.2	85.7
Return on equity (%)	neg.	neg.	neg.	neg.	neg.

PARENT COMPANY

(SEK 000S)	2016	2015	2014	2013	2012
Profit/loss after financial items	-4,956	-5,438	-5,385	-4,995	-5,029
Balance sheet total	14,182	20,376	17,207	15,802	20,761
Equity/assets ratio (%)	91.8	88.2	95.0	80.8	85.9
Return on equity (%)	neg.	neg.	neg.	neg.	neg.

* Definitions of key ratios, see supplementary disclosures

Appropriation

Proposal for treatment of the Company's loss

At the disposal of the Annual General Meeting:	
loss brought forward	-16,859,068
share premium reserve	5,831,925
loss for the year	-4,956,259
	-15,983,402

The Board of Directors proposes:	
carry forward to new account	-15,983,402
	-15,983,402

Regarding the Company's financial performance and position in general, please refer to the following income statements and balance sheets with accompanying supplementary disclosures.

Statement of changes in equity

GROUP	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER EQUITY, INCLUDING NET PROFIT
Amount, Jan. 1	6,085,421	22,586,789	-5,552,034
Profit/loss for the year according to resolution from the Annual General Meeting:			-5,684,567
Registered issue	900,000	-900,000	
Fund for development costs		330,000	-330,000
Profit/loss for the year			-4,854,308
Amount, Dec. 31	**6,985,421**	**22,016,789**	**-16,420,909**

PARENT COMPANY	SHARE CAPITAL	OTHER RESTRICTED EQUITY	OTHER UNRESTRICTED EQUITY	PROFIT/LOSS FOR THE YEAR	TOTAL UNRESTRICTED EQUITY
Amount, Jan. 1	6,085,421	22,586,789	-6,035,897	-5,437,899	-10,697,144
Registered issue	900,000	-900,000			
Fund for development costs		330,000	-330,000		
Profit/loss for the year according to resolution from the Annual General Meeting:			-5,437,899	5,437,899	
Loss for the year				-4,956,259	-4,956,259
Amount, Dec. 31	**6,985,421**	**22,016,789**	**-11,027,144**	**-4,956,259**	**-15,653,403**

Income statement

		GROUP		PARENT COMPANY	
	NOTE	2016-01-01 DEC. 31, 2016	2015-01-01 DEC. 31, 2015	2016-01-01 DEC. 31, 2016	2015-01-01 DEC. 31, 2015
Operating revenue, etc.					
Other operating income		0	0	0	0
		0	**0**	**0**	**0**
Operating expenses					
Raw material and consumables		-591,814	-1,601,635	-313,431	-205,911
Other external costs	1	-2,587,637	-2,555,074	-2,170,616	-2,281,324
Personnel costs	2	-660,280	-360,752	-654,655	-360,752
Depreciation, amortization and impairment of plant, property, and equipment and intangible assets		-2,571,793	-3,390,728	-1,641,092	-2,619,436
Capitalized work for own account		1,565,895	2,236,059	932,230	641,975
		-4,845,629	**-5,672,130**	**-3,847,564**	**-4,825,448**
Operating profit/loss		**-4,845,629**	**-5,672,130**	**-3,847,564**	**-4,825,448**
Profit/loss from financial items					
Profit/loss from participations in Group companies	3	0	0	-600,000	-600,000
Other interest income and similar profit/loss items		266	218	250	204
Interest expense and similar profit/loss items		-8,945	-12,655	-8,945	-12,655
		-8,679	**-12,437**	**-608,695**	**-612,451**
Profit/loss after financial items		**-4,854,308**	**-5,684,567**	**-4,456,259**	**-5,437,899**
Appropriations					
Group contributions paid		0	0	-500,000	0
		0	**0**	**-500,000**	**0**
Profit/loss for the year		**-4,854,308**	**-5,684,567**	**-4,956,259**	**-5,437,899**
Attributable to:					
Equity holders of the Parent Company		-4,854,308	-5,684,567		

Balance sheet

		GROUP		PARENT COMPANY	
	NOTE	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
NON-CURRENT ASSETS					
Intangible assets					
Capitalized expenditure for research, etc.	5	5,368,485	5,968,994	3,102,168	3,741,134
Patents	6	5,936,400	6,341,788	1,587,362	1,657,258
		11,304,885	**12,310,782**	**4,689,530**	**5,398,392**
Financial assets					
Participations in Group companies	7	0	0	4,100,000	4,700,000
		0	**0**	**4,100,000**	**4,700,000**
Total assets		**11,304,885**	**12,310,782**	**8,789,530**	**10,098,392**
CURRENT ASSETS					
Current receivables					
Receivables from Group companies		0	0	3,020,901	2,459,276
Other receivables		131,420	7,816,035	105,748	7,714,276
Prepaid expenses and accrued income		103,900	103,900	103,900	103,900
		235,320	**7,919,935**	**3,230,549**	**10,277,452**
Cash and bank balances					
Cash and bank balances		2,184,532	16,704	2,162,256	0
		2,184,532	**16,704**	**2,162,256**	**0**
Total current assets		**2,419,852**	**7,936,639**	**5,392,805**	**10,277,452**
TOTAL ASSETS		**13,724,737**	**20,247,421**	**14,182,335**	**20,375,844**

Balance sheet, cont'd

		GROUP		PARENT COMPANY	
	NOTE	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
EQUITY AND LIABILITIES					
Restricted equity, Group					
Share capital	8	6,985,421	6,085,421		
Additional paid-in capital		22,016,789	22,586,789		
Other equity, including profit/loss for the year		-16,420,909	-11,236,572		
		12,581,301	**17,435,638**		
Restricted equity, parent company					
Share capital	8			6,985,421	6,085,421
Share capital, not registered				0	900,000
Restricted reserves				22,016,789	21,686,789
				29,002,210	**28,672,210**
Unrestricted equity					
Unrestricted reserves				-	-
Share premium reserve				5,831,925	6,161,925
Retained earnings				-16,859,068	-11,421,169
Profit/loss for the year				-4,956,259	-5,437,899
				-15,983,402	**-10,697,143**
Total equity		**12,581,331**	**17,435,638**	**13,018,808**	**17,975,066**
Non-current liabilities	9				
Liabilities to Group companies		0	0	92,537	98,162
Total non-current liabilities		**0**	**0**	**92,537**	**98,162**
Current liabilities					
Bank overdraft facility	10	0	795,026	0	795,026
Accounts payable		361,086	805,270	314,170	331,603
Other liabilities		10,546	0	10,546	0
Accrued expenses and deferred income	11	771,774	1,211,487	746,274	1,175,987
Total current liabilities		**1,143,406**	**2,811,783**	**1,070,990**	**2,302,616**
TOTAL EQUITY AND LIABILITIES		**13,724,737**	**20,247,421**	**14,182,335**	**20,375,844**

Statement of cash flows

		GROUP		PARENT COMPANY	
	NOTE	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Operating activities					
Operating profit/loss		-4,854,308	-5,684,567	-4,956,259	-5,437,899
Adjustments for non-cash items, depreciation/amortization		2,571,793	3,390,728	2,741,092	3,219,436
CASH FLOW FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL		**-2,282,515**	**-2,293,839**	**-2,215,167**	**-2,218,463**
Cash flow from changes in working capital					
Reduction(+)/increase(-) of receivables		7,684,615	-7,668,842	-7,046,903	-8,586,171
Reduction (-)/increase (+) current liabilities		-1,668,377	2,003,614	-1,231,625	1,550,822
CASH FLOW FROM OPERATING ACTIVITIES		**3,733,723**	**-7,959,067**	**3,600,111**	**-9,253,812**
Investing activities					
Investments in intangible assets	4.5	-1,565,895	-2,236,060	-932,230	-641,975
Investment in non-current financial assets	7	0	0	-500,000	-256,000
CASH FLOW FROM INVESTING ACTIVITIES		**-2,878,036**	**-2,236,060**	**-1,432,230**	**-897,975**
Financing activities					
Rights issue for the year		0	7,061,925	0	7,061,925
Reduction (-)/increase(+) of non-current liabilities		0	0	-5,625	-5,625
CASH FLOW FROM FINANCING ACTIVITIES		**0**	**7,061,925**	**- 5,625**	**7,056,300**
Change in cash and cash equivalents		2,167,828	-3,133,202	2,162,256	-3,095,487
Cash and cash equivalents, Jan. 1		16,704	3,149,906	0	3,095,487
Cash and cash equivalents, Dec. 31		**2,184,532**	**16,704**	**2,162,256**	**0**

Supplementary disclosures

GENERAL INFORMATION

ACCOUNTING POLICIES

This annual report has been prepared in accordance with the Annual Accounts Act and BFNAR 2012:1 Annual Reports and Consolidated Financial Statements. The policies are unchanged compared with the previous year.

VALUATION PRINCIPLES

Receivables

Receivables are reported at the amounts expected to be received.

Other assets, provisions and liabilities

Other assets, provisions and liabilities have been valued at cost unless otherwise stated below.

Property, plant and equipment

Property, plant and equipment are recognized at cost, less accumulated depreciation and any impairment losses. The assets are depreciated over their estimated useful lives except for land, which is not depreciated. The useful life is reviewed at each reporting date. The following useful lives are applied:

	Number of years
Machinery and other technical installations	5
Equipment, tools and machinery	5

Intangible assets

Intangible assets, consisting of patents and capitalized development costs, are recognized at cost less accumulated depreciation and impairment losses. The assets are depreciated over their estimated useful lives. The following useful lives are applied:

	Number of years
Capitalized expenditure for research and development and similar work	10
Patents	10

Research costs are expensed as incurred. Development costs for future products are expensed in the research phase. Expenditure thereafter and until commercialization is capitalized, to the extent that it is probable that the product is commercially viable.

CAPITALIZATION OF INTERNALLY GENERATED INTANGIBLE ASSETS

Capitalization model

All expenditures incurred during the research phase are expensed as incurred. All expenditure incurred during the development phase are capitalized when the following conditions are met: the company intends to complete the intangible asset and use or sell it and now has the ability to use or sell the asset, it is technically possible for the company to complete the intangible asset so that it can be used or sold, and the availability of adequate technical, financial and other resources to complete the development and to use or sell the asset, it is probable that the intangible asset will generate future economic benefits and the company can reliably calculate the expenditure attributable to the asset during its development. Cost includes personnel costs incurred in the process of development along with an appropriate portion of relevant overheads and borrowing costs.

Tax on income

Current tax is calculated on the taxable profit for the period and the part of income for the previous financial year, on which income tax has not yet been reported.

Current tax is valued at the probable amount according to the tax rates and rules that apply on the balance sheet date. Deferred tax is the income tax for taxable income relating to future financial years as a result of past transactions or events.

Deferred tax is calculated on temporary differences. A temporary difference exists when the carrying value of an asset or liability differs from the tax value. Temporary differences are not taken into account in differences relating to investments in subsidiaries, branches, associates or joint ventures if the Company can control the reversal of the temporary differences and it is not clear that the temporary difference will not reverse in the foreseeable future. Differences arising from the initial recognition of goodwill or from the initial recognition of an asset or liability, unless the related transaction is a business combination or affects tax or reported income, are not considered temporary differences.

Deferred tax assets relating to loss carryforwards or other future tax deductions are recognized to the extent that it is probable that the deduction can be offset against future taxable profits within the next three years. The accumulated losses from business of Group and parent company amount to more than SEK 96 million, all relating to Sweden. The nominal value of the tax amounts to SEK 21.1 million at the 22% tax rate. No part of this receivable has been classified as an asset in the Balance Sheet since the Company and Group still and within budgets carry future development costs that exceed budgeted revenues. The receivable will be recognized as an asset only when the Company and the Group budget or report stable profits. Deferred tax liabilities attributable to untaxed reserves are not recognized separately, untaxed reserves are reported as a gross amount in the balance sheet.

SEGMENT REPORTING

Respiratorius AB operates in only one segment and therefore refers to the income statement and balance sheet concerning reporting of operating segments.

RELATED PARTIES TRANSACTIONS

Regarding the Company's Board members, there are no transactions other than those described in Note 2.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Preparation of the annual accounts and application of different accounting standards are often based on management's assessments or on assumptions and estimates that are regarded as reasonable under the prevailing circumstances.

These assumptions and estimates are often based on historical experience and other factors, including expectations of future events. For Respiratorius AB the following areas are worth noting:

Patents and capitalized development fees

The recoverable amount of capitalized development costs is determined based on economic life and volume. This calculation is based on estimated future cash flows, based on financial forecasts approved by management and covering product life cycles.

CONSOLIDATED ACCOUNTS

Subsidiaries

Subsidiaries are entities in which the parent company directly or indirectly holds more than 50% of the voting rights or otherwise has a controlling influence. Controlling interest entails the right to determine a company's financial and operative strategies to obtain economic benefits. Accounting for business combinations is based on the entity approach. This means that the acquisition analysis is prepared as of the date when the acquirer gains a controlling influence. From this point the acquirer and the acquiree are viewed as a single accounting unit. Application of the economic entity view entails that all assets (including goodwill) and liabilities as well as revenues and expenses are included in their entirety even for subsidiaries that are not wholly owned. The cost of the subsidiary is calculated as the sum of fair value at the acquisition date for purchased assets with the addition of incurred and assumed liabilities and equity instruments issued, costs directly attributable to the business combination and any additional consideration. The acquisition analysis determines the fair value, with some exceptions, at the acquisition date of acquired identifiable assets, assumed liabilities and any non-controlling interests. Non-controlling interest is measured at fair value at the acquisition date. The revenues and expenses, identifiable assets and liabilities and any goodwill or negative goodwill of the acquired company are included in the consolidated financial statements from the acquisition date.

Consolidated intangible assets

Group surplus values relate to patents acquired on acquisition of subsidiaries – there is no consolidated goodwill in the consolidated balance sheet – that are recognized when the acquisition of shares in subsidiaries exceeds the value of the identifiable net assets of the acquired company as measured in the acquisition analysis. Patent are recognized at cost less accumulated amortization and impairment, if any.

Elimination of transactions between Group companies and associates

Intra-Group balances, income and expenses and any unrealized gains and losses arising from intra-Group transactions are eliminated in their entirety. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the Company. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no indication of impairment.

STATEMENT OF CASH FLOWS

The statement of cash flows has been prepared using the indirect method. Cash and cash equivalents consist of cash and bank deposits.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 REMUNERATION TO AUDITORS

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Crowe Horwath Osborne AB				
Audit assignments	123,600	119,900	100,000	100,000
Other services	0	8,140	0	4,540
	123,600	**128,040**	**100,000**	**104,540**

Audit assignments refer to the auditor's work for the statutory audit and audit services relating to various types of quality assurance services. Other services are those that are not included in the audit assignment, audit services or tax advice.

NOTE 2 PERSONNEL

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Average number of employees				
The average number of employees is based on the number of hours worked for which the company paid in relation to normal working hours.				
Average number of employees	0.00	0.00	0.00	0.00
Salaries, benefits				
Salaries, benefits, social security expenses and pension costs have been paid as follows:				
Board of Directors and CEO:				
Salaries and benefits	530,000	270,000	530,000	270,000
	530,000	**270,000**	**530,000**	**270,000**
Social security expenses	166,526	84,834	166,526	84,834
Total Board of Directors and others	**696,526**	**354,834**	**696,526**	**354,834**

In 2016 Chairman of the Board Christer Fåhraeus was paid SEK 130,000 and other Board members were paid SEK 80,000 for serving on the Board of Directors. CEO Johan Drott has invoiced for accrued hours worked through Drott Development AB, which is responsible for Johan Drott's salary, social security expenses, pension costs and other expenses. Fees totaling SEK 539,964 were paid.

NOTE 3 PROFIT/LOSS FROM PARTICIPATIONS IN GROUP COMPANIES

	GROUP		PARENT COMPANY	
	2016	2015	2016	2015
Impairment losses	0	0	-600,000	-600,000
	0	**0**	**-600,000**	**-600,000**

An impairment charge of 10% was taken for the shares in a subsidiary because the value of its shares relates to patents.

NOTE 4 TAX ON PROFIT/LOSS FOR THE YEAR

GROUP

	2016	2015
Effective tax reconciliation		
Profit/loss before taxes	-4,854,308	-5,684,567
Tax liability 22.00% (22.00%)	1,067,948	1,250,605
Tax effects of:		
Non-deductible expenses	-336	0
Non-taxable revenues	52	48
Consolidated depreciation/amortization	-132,000	-132,000
Loss carryforward for the year	-935,664	-1,118,653
Total	**0**	**0**

PARENT COMPANY

	2016	2015
Effective tax reconciliation		
Profit/loss before taxes	-4,956,258	-5,437,899
Tax liability 22.00% (22.00%)	1,090,377	1,196,338
Tax effects of:		
Non-deductible expenses	-3	0
Non-taxable revenues	55	45
Impairment of shares in subsidiary	-132,000	-132,000
Loss carryforward for the year	-958,429	-1,064,383
Total	**0**	**0**

NOTE 5 CAPITALIZED EXPENDITURE FOR RESEARCH, ETC.

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Opening cost	29,582,846	27,751,211	27,183,579	26,747,668
Purchases	921,813	1,831,635	643,430	435,911
Closing accumulated cost	**30,504,659**	**29,582,846**	**27,827,009**	**27,183,579**
Opening depreciation/amortization	-23,613,851	-21,304,536	-23,442,445	-21,233,484
Depreciation/Amortization for the year	-1,522,323	-2,309,315	-1,282,396	-2,208,961
Closing accumulated depreciation/amortization	-25,136,174	-23,613,851	-24,724,841	-23,442,445
Closing carrying amount	**5,368,485**	**5,968,995**	**3,102,168**	**3,741,134**

NOTE 6 PATENTS

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Opening cost	15,418,481	15,014,056	7,576,603	7,370,538
Purchases	644,081	404,425	288,800	206,065
Closing accumulated cost	**16,062,562**	**15,418,481**	**7,865,403**	**7,576,603**
Opening depreciation/amortization	-9,076,693	-7,995,310	-5,919,345	-5,508,870
Depreciation/Amortization for the year	- 1,049,469	-1,081,383	-358,696	-410,475
Closing accumulated depreciation/amortization	- 10,126,162	-9,076,693	-6,278,041	-5,919,345
Closing carrying amount	**- 5,936,400**	**6,341,788**	**1,587,362**	**1,657,258**

NOTE 7 PARTICIPATIONS IN GROUP COMPANIES

PARENT COMPANY

COMPANY CORPORATE IDENTITY NUMBER:	REGISTERED OFFICE	NUMBER OF/CAP. PERCENTAGE	DEC. 31, 2016 CARRYING AMOUNT	DEC. 31, 2015 CARRYING AMOUNT
Bergdalsten Kemi AB				
Corp. Id. No. 556650-7330	Lund	100	100,000	100,000
Valcuria AB				
Corp. ID no.556871-5196	Lund	100	4,000,000	4,600,000
			4,100,000	**4,700,000**

NOTE 8 INFORMATION ON SHARE CAPITAL

	HOLDINGS	PAR VALUE
Number/value, Jan. 1	121,708,423	0.05
Number/value, Dec. 1	**139,708,423**	**0.05**

NOTE 9 NON-CURRENT LIABILITIES

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Repayment after 5 years	0	0	92,537	98,162
	0	**0**	**92,537**	**98,162**

NOTE 10 BANK OVERDRAFT FACILITY

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Granted overdraft facility amounting to:	0	1,000,000	0	1,000,000
Credit used on balance sheet date:	0	795,026	0	795,026

NOTE 11 ACCRUED EXPENSES AND DEFERRED INCOME

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Accrued fees	582,629	542,538	582,629	512,538
Other accrued expenses	189,145	668,949	163,645	663,449
	771,774	**1,211,487**	**746,274**	**1,175,987**

NOTE 12 LIABILITIES FOR WHICH ASSETS WERE PLEDGED

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Overdraft facility, amount used	0	795,026	0	795,026
Granted overdraft facility amounting to:	0	1,000,000	0	1,000,000

NOTE 13 PLEDGED ASSETS

	GROUP		PARENT COMPANY	
	DEC. 31, 2016	DEC. 31, 2015	DEC. 31, 2016	DEC. 31, 2015
Chattel mortgages	2,500,000	2,500,000	2,500,000	2,500,000

NOTE 14 DEFINITION OF KEY RATIOS

Equity ratio

Adjusted equity as a percentage of total assets

Return on equity

Profit/loss after financial items as a percentage of average adjusted equity

Lund March 1, 2017

Christer Fåhraeus

Kristina Drott

Johan Drott
Chief Executive Officer

Ingemar Kihlström

Olov Sterner

Sarah Fredriksson

Anders Månsson

Our Auditor's Report was submitted on April 4, 2017

Olov Strömberg
Authorized public accountant
Crowe Horwarth Osborne AB

Auditors' report

TO THE ANNUAL GENERAL MEETING OF SHAREHOLDERS OF RESPIRATORIUS AB CORP. ID NO.556552-2652

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Respiratorius AB for the 2016 financial year.

The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 23 – 47.

In our opinion, the annual accounts and consolidated accounts have been prepared in accordance with the Swedish Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company and the Group as of Dec. 31, 2016 and of its financial performance and its cash flows 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 and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the Group.

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 parent company and the Group 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.

Information other than the annual accounts and consolidated accounts

The Board of Directors and the Chief Executive Officer are responsible for this other information. The other information comprises pages 2 – 22 (but does not include the annual accounts, consolidated financial statements or our audit report regarding them).

Our opinion regarding the annual accounts and consolidated accounts does not cover this information, and we make no statement of assurance regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, it is our responsibility to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure, we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed on this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We

have nothing to report in this regard.

Responsibilities of the Board of Directors and the Chief Executive Officer

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

In preparing the annual accounts and consolidated accounts, the Board of Directors and the Chief Executive Officer are responsible for the assessment of the ability of the Company and the Group to continue as a going concern. They disclose, as applicable, matters related to the ability to continue as a 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 Chief Executive Officer intend to liquidate the company, cease operations or have no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to submit 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 and consolidated 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 and consolidated 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 the 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, where applicable, the Chief Executive Officer.

Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the going concern basis of accounting in preparing the annual accounts and consolidated 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 and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, the latter

is required to draw attention in the auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify the opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Chief Executive Officer of Respiratorius AB for the financial year 2016 and the proposed appropriations of the Company's profit or loss.
We recommend to the general meeting of shareholders that the loss be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Chief Executive Officer 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 parent company and the Group 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 Chief Executive Officer

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 and the Group's type of operations, size and risks place on the size of the parent company's and the Group'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 and the Group'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 Chief Executive Officer 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 Chief Executive Officer 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.

Lund April 4, 2017

Crowe Horwath Osborne AB

Olov Strömberg
Authorized public accountant
Crowe Horwarth Osborne AB

The Company in Brief

Respiratorius AB (publ) develops drug candidates with the goal of launching or out-licensing drugs for the treatment of cancer, chronic obstructive pulmonary disease (COPD) and severe asthma.

In the field of oncology, Respiratorius is developing a new drug as a pretreatment to enhance the effects of the standard treatment currently used for the treatment of diffuse large B-cell lymphoma, the most common type of aggressive lymphoma.

In the field of COPD and asthma, Respiratorius has developed compound series with a demonstrated bronchodilating effect on human lung tissue. The Company's project portfolio also contains a substance developed for use in PET imaging, aimed at facilitating the diagnosis of certain cardiovascular diseases.

RESPIRATORIUS®