Annual Report 2013

PharmaLundensis AB

”Year 2013 has been an extremely exciting and successful year for PharmaLundensis! The implemented COPD study showed that PharmaLundensis’ test substance iodinated activated charcoal provided a statistically significant improvement of the lung function in patients with COPD.”

Board of Directors (from left):

Linus Sjödahl, Masters in Business Administration, Chairman,
Staffan Skogvall, MD, PhD, CEO,
Jonas Erjefält, Professor in Medical Inflammation Research,
Ingmar Karlsson, Civil economist.

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PharmaLundensis AB

Administration Report

The Board of Directors and the CEO of PharmaLundensis AB (publ), 556708-8074, hereby submit the annual report for 2013, the company's seventh annual period.

SUMMARY

Year 2013 has been an extremely exciting and successful year for PharmaLundensis!
The implemented COPD study showed that PharmaLundensis´ test substance iodinated activated charcoal gave a statistically significant improvement in lung function in patients with COPD. The positive effect was significantly greater than that one obtained by one of the largest pharmaceutical companies in testing their new COPD drug candidate. Results from PharmaLundensis' clinical study have been described in a scientific paper published in the well-established lung medical journal "Respiratory Medicine".

In the new COPD study, PharmaLundensis intend to test modified iodinated activated charcoal. This means iodinated activated charcoal with the addition of a substance that reduces the influence of iodine on the thyroid gland. If successful, the possibility opens of increasing the iodinated activated charcoal dose. Since the effect is dose-dependent, it is entirely possible that a greater amount of iodinated activated charcoal can provide a much greater improvement in lung function. A new patent application has been submitted to further strengthen the patent protection of this new treatment concept. Application to conduct the clinical COPD study will be submitted to the authorities in May-June. The study is expected to begin in early fall of 2014. Test centers are planned in Stockholm and Lund, Sweden.

The company's clinical study on chronic fatigue syndrome was conducted in 2013. Database Lock Meeting takes place in the end of May 2014. Evaluation and publication of results is foreseen for June. A positive treatment outcome can lead to the first effective drug against this serious disease.

PharmaLundensis have developed a device that removes antibiotics from urine. A prototype has been built and tests with synthetic urine indicate that the device can remove more than 99% of existing antibiotics. The apparatus is of a size corresponding approximately to a dishwasher, and is meant to be placed in infectious disease clinics and intensive care units, where there is a high level of use of broad-spectrum antibiotics. Urine from the patients at the units is poured into the machine instead of in the sewage, and virtually all antibiotics are removed. The remaining liquid goes to the sewage, while antibiotic residues are sent to incineration. This way, a dramatic reduction in emissions of important antibiotics is obtained from these units, which reduces the risk of development of antimicrobial resistance in bacteria in the sewage system and in the environment. The prototype is patent pending. The company plans to publish more details about this project shortly.

In 2013, PharmaLundensis conducted a new share issue in which the shares were subscribed for 11.294.400 SEK before costs. The Board would like to express a warm thank you to all of you who participated in the issue, and thus have enabled further development of the company's projects!

Finally, the Board wishes to emphasize that a positive outcome even in PharmaLundensis' coming COPD study involves a high likelihood that the project, already in a few years, will result in an effective COPD medication.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR 2013

Iodinated activated charcoal gave a statistically significant improvement of the lung function in patients with COPD

- PharmaLundensis' clinical trial "Proof of concept" in patients with COPD showed that iodinated activated charcoal provided a statistically significant (p=0.03*) improvement in lung function (FEV1 baseline) by 130 mL compared to placebo. A group of six patients (=high responders) had a considerably improved lung function at an average of 215 mL, and some got an increase of almost 400 mL. This is a very big improvement!
- Correlation Statistical calculations support the positive effect of iodinated activated charcoal on lung function. Calculations show a highly significant correlation (p=0.0020**) between FEV1 baseline and FEV1 post-bronchodilator, as well as a statistically significant correlation (p=0.0328*) between FEV1 baseline and FEV1 post-exercise.
- The patients showed no serious adverse reactions caused directly caused by the iodinated activated charcoal treatment. Some patients in the iodinated activated charcoal group, however, showed changes of the thyroid hormones.
- The improvement in lung function with PharmaLundensis' iodinated activated charcoal is considerably greater than the one obtained by one of the world's largest pharmaceutical companies in testing their new COPD candidate losmapimod. This substance only provided 90 mL improvement in lung function in patients with moderate COPD, further on no improvement at all in lung function in patients with severe COPD, at the end of the study[1]. This shows that PharmaLundensis' outcomes are top class, and that not even the world's largest pharmaceutical companies can develop new COPD medications comparable with iodinated activated charcoal!

The new share issue raised 11.294.400 SEK

In June 2013, PharmaLundensis conducted a new share issue to fund the company's continued operations. The interest in the issue was great, and it received 1.166 application forms for a total of 941.200 shares, corresponding to 11.294.400 SEK before issue costs. The issue was thus subscribed to 94.1%. The Board would like to express a warm thank you to everyone who subscribed to the issue, thereby facilitating further studies with the company's promising COPD medications!

Clinical study on chronic fatigue syndrome

In 2013, PharmaLundensis' Phase 1+2a "Proof of concept" randomized double blind placebo controlled clinical trial was conducted in 40 patients with chronic fatigue syndrome. The study was conducted well, without any major problems. Today, all patients have been treated and followed up with return visits, and the study is completed. Database Lock Meeting takes place in the end of May 2014. Evaluation and publication of results is foreseen for June. A positive treatment outcome can lead to the first effective drug against this serious disease.

COPD patent approved in Japan

PharmaLundensis' primary patent, "Use of iodinated activated charcoal for treatment of COPD and Asthma" has been approved by the Japanese Patent Office! The patent protection is valid at least till year 2028. Previously, patent protection has been granted in Europe, China and Russia.

PharmaLundensis Official Forum is open

In February 2013 PharmaLundensis Official Forum opened. This is a place where anybody interested in PharmaLundensis' projects can write, talk and ask questions. PharmaLundensis' activity is complex and involves several major medical areas. Therefore, we wish to facilitate shareholders' understanding of the company's business, by giving them the opportunity to ask questions about the company and the projects, directly to the management. The questions must be of general interest to the readers and, of course, only information that is already public can be discussed. The forum has been well received, and has so far dealt with 27 different topics.

Support for PharmaLundensis' conception of health risks associated with mercury

Delegates from 150 countries has during the year signed a "New global environmental agreement to protect human health and the environment from mercury." The agreement regulates the use of mercury in both products and industrial processes. The agreement demonstrates that there is broad support in the world for PharmaLundensis' conception of severe health hazards associated with mercury, and that the company's business is entirely at the right time. Should future research show that a number of diseases with today unclear background in fact are caused by mercury, it can result in a huge demand for PharmaLundensis' mercury-binding drugs.

1. http://www.sciencedirect.com/science/article/pii/S221326001370242X

SIGNIFICANT EVENTS AFTER THE PERIOD END

PharmaLundensis' COPD article published online

PharmaLundensis' scientific article that describes the company's clinical trial "Proof of concept" where iodinated activated charcoal was used to treat patients with chronic obstructive pulmonary disease (COPD) has been published online in the well-established lung journal "Respiratory Medicine".

This is a major advance for PharmaLundensis, and implies that the big international airway scientists accept and are interested in PharmaLundensis' COPD treatment! Furthermore, it shows that the company's COPD project is of good scientific quality and level of innovation. The article can be downloaded by the address at the bottom of this page.

Negotiations with other pharmaceutical companies

PharmaLundensis have encountered great interest in the company's COPD projects, and around twenty companies and investors have requested information. A grouping offered to finance a significant portion of PharmaLundensis' future clinical studies in exchange for sales rights for iodinated activated charcoal in China. The Board however determined that this offer was not in PharmaLundensis' best interest, since the Chinese COPD market is huge and valuable. The Board believes, after contacts with several potential partners, it is advisable that PharmaLundensis conduct a further clinical COPD study under its own management, before it is optimal to conclude agreements with major partners. At that point, the potential in PharmaLundensis COPD project will be clear, which will then be reflected in the level of agreement.

Preparing for the next COPD study

The next COPD study is scheduled to be conducted at two test centers; in Stockholm and Lund, Sweden. The study is planned to be a double-blind randomized placebo controlled clinical trial in 80 patients with moderate -severe COPD. Both men and women aged 45-75 years can be included.

The active substance will be iodinated activated charcoal + extra substance to block thyroid side effects. The most important test parameters will be lung function measured by spirometry (FEV1 and FVC). Other than that, the quality of life, working capacity, and a number of laboratory samples, will be investigated.

Agreements have been signed with a CRO company that will plan and supervise the study, the clinic that will carry out patient surveys has been decided, manufacture of iodinated activated charcoal and placebo is in progress, and Apoteket (Pharmacy) will carry out the weighing, bagging and randomization of the test substance. Application to carry out the planned study is scheduled to be submitted to the Swedish Medical Agency and the Ethics Committee in May – June 2014. An initial response is expected to be obtained within two months. Initiation of the next COPD study is expected to occur in early fall 2014.

Modification of iodinated activated charcoal treatment can lead to a very large improvement in lung function

PharmaLundensis intend to, in the upcoming clinical COPD study, modify the treatment with iodinated activated charcoal to reduce the impact on thyroid hormones. This can be done by adding a substance that counteracts the effect of iodine on the thyroid. A major advantage of this method is that this may allow dose escalation of iodinated activated charcoal. A greater amount iodinated activated charcoal is most likely to produce an even more pronounced improvement in lung function, as the iodinated activated charcoal effect is likely to be dose-dependent. Treatment with iodinated activated charcoal in high dose has the potential to provide a huge improvement in lung function!

Development of the method against antibiotic resistance

PharmaLundensis drive another few additional projects. One project concerns a possible method to control the development of antibiotic resistance.

Article: http://download.journals.elsevierhealth.com/pdfs/journals/0954-6111/PIIS0954611114001061.pdf

Antibiotic resistance is a major global issue which causes that many infectious diseases cannot be cured with currently available antibiotics. The European Union has in a facts sheet[1] recently described that antibiotic-resistant bacteria are found in many hospitals in Europe, that 4 million patients become infected by them every year, and that 25.000 people in the EU die every year from antibiotic-resistant bacteria.

Particularly valuable antibiotics are known as broad-spectrum antibiotics, which kill many types of bacteria. When a seriously ill patient enters the hospital, the physician doesn't dispose of the time to decide exactly what type of bacterium causes the disease, treatment is initiated with an antibiotic with a very broad spectrum, which kills most bacteria. If the disease-causing bacteria would be resistant to this antibiotic, it would be disastrous, since then there is a risk of patient's death.

Thus it is of particular interest to protect valuable broad-spectrum antibiotics against resistance development. The impetus behind the development of antibiotic resistance in bacteria is prolonged contact between bacteria and antibiotics in high concentration. A place that exhibits these conditions is sanitary sewage from hospitals. In hospital infectious disease clinics and intensive care units there is in daily use large amounts of antibiotics, and much is made of the broad-spectrum type. After the patient has taken antibiotics, this passes through the body and is then normally excreted through the urine, which in turn goes into the sewer. This means that wastewater from these clinics meet the requirements for the development of antibiotic resistance; high doses of broad-spectrum antibiotics in contact with large amounts of bacteria.

It has recently been shown that even low levels of antibiotics in the environment can lead to increased incidence of antibiotic resistance[2,3]. Since current sewage treatment plants usually cannot remove antibiotics from wastewater, this is discharged into the sewage system to eventually end up in the environment, and lead to increased risk for the development of antibiotic-resistant bacteria.

PharmaLundensis have developed a device that removes antibiotics from urine. A prototype has been built and tests with synthetic urine indicate that it can remove more than 99% of existing antibiotics. The prototype is of a size corresponding approximately to a dishwasher. Devices of this type are meant to be placed in infectious disease clinics and intensive care units having high use of broad-spectrum antibiotics. Urine from the units' patients (usually with a catheter) is poured into the machine instead of in the sewage, and virtually all antibiotics are removed. The remaining liquid goes to sewage, while antibiotic residues are sent to incineration. This way, a dramatic reduction in emissions of important antibiotics is obtained from these units, which reduces the risk of development of antimicrobial resistance in bacteria in the sewage system and in the environment. The prototype is patent pending.

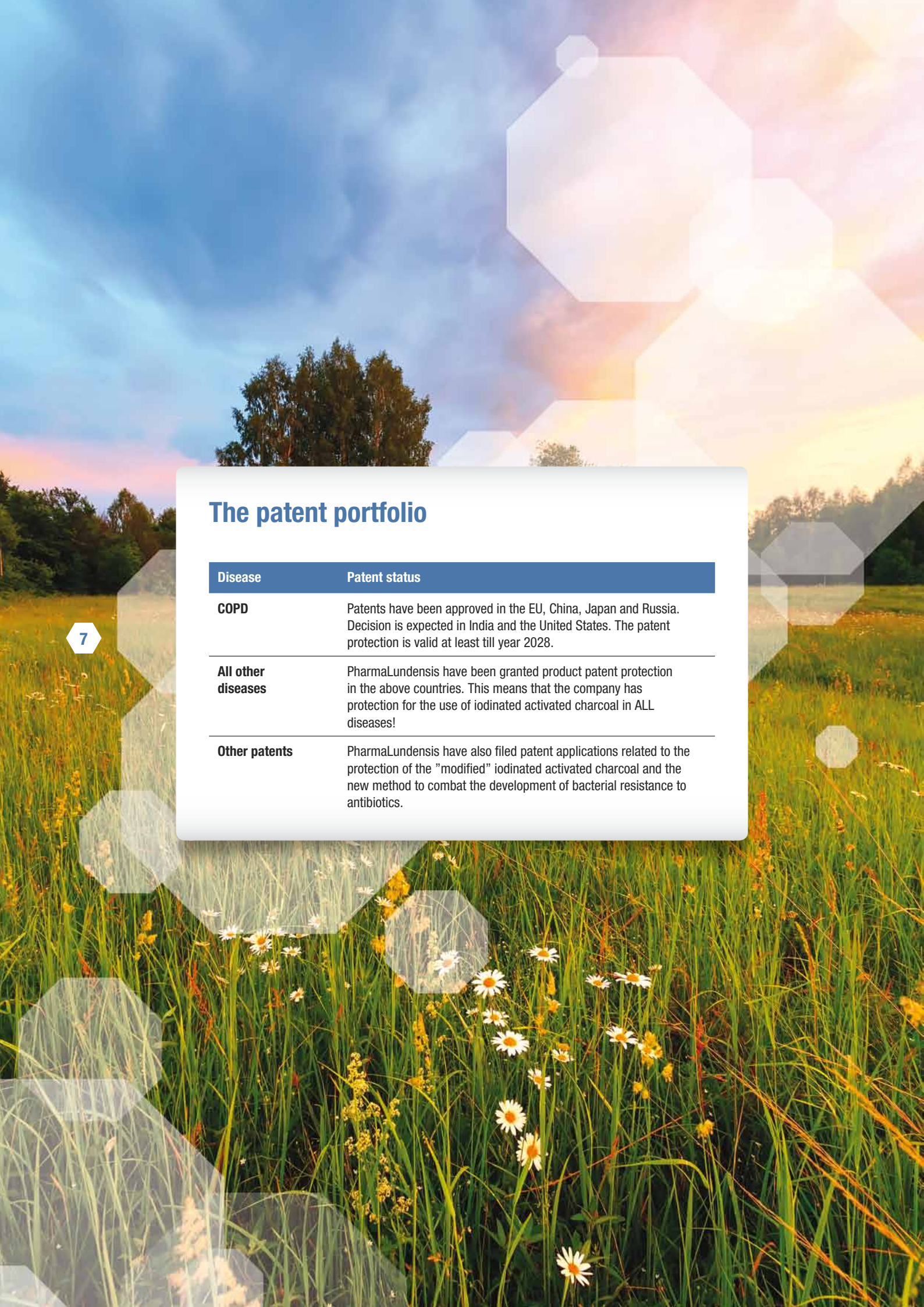
FINANCING

Existing capital is expected to suffice well into year 2015. The Board considers that it is soon desirable to refill the checkout. As mentioned above, the Board has concluded that it is advisable that PharmaLundensis conduct a further clinical COPD study under its own management, before it is optimal to conclude agreements with major partners. It is therefore possible that PharmaLundensis raise capital through a new share issue in 2014 or in the beginning of 2015.

THE COMPANY

PharmaLundensis a pharmaceutical company based in Lund, developing new and innovative medicines for diseases that currently lack effective treatment. Central to the company's formation hypothesis is that the environmental toxin mercury, to which all humans are exposed, may be of great importance for the development of a range of diseases with today unclear background. A clinical trial of a new possible treatment for the severe lung disease chronic obstructive pulmonary disease (COPD) has recently been implemented successfully, and a new COPD study will begin shortly. The company also operates a clinical study for chronic fatigue syndrome, which is complete and the results will be published soon. In addition to these pharmaceutical projects, the company has a few other projects that might prove to be of value.

1. http://ec.europa.eu/research/fp7/pdf/antimicrobial_resistance_fact_sheet.pdf
2. http://ehp.niehs.nih.gov/wp-content/uploads/120/8/ehp.1104650.pdf
3. http://www.plospathogens.org/article/info%3Adoi%2F10.1371%2Fjournal.ppat.1002158



The patent portfolio

Disease	Patent status
COPD	Patents have been approved in the EU, China, Japan and Russia. Decision is expected in India and the United States. The patent protection is valid at least till year 2028.
All other diseases	PharmaLundensis have been granted product patent protection in the above countries. This means that the company has protection for the use of iodinated activated charcoal in ALL diseases!
Other patents	PharmaLundensis have also filed patent applications related to the protection of the ”modified” iodinated activated charcoal and the new method to combat the development of bacterial resistance to antibiotics.

Shares in PharmaLundensis AB (publ) were listed in July 2010 in AktieTorget (StockMarket), which is a securities company under the supervision of the Financial Supervisory Authority and that operates a trading platform called MTF (Multilateral Trading Facility). On the 31st of December 2013, the number of shares in PharmaLundensis was 17.023.667. There is one class of shares. All shares carry equal rights to share in the company's assets and earnings and entitle the holder to one vote at the General Meeting.

RISKS

There are inherent risks in medication development. These include, among others, the ability to meet future capital requirements, the test compound's efficacy and adverse events in clinical trials, regulatory approvals, the company's ability to retain key employees, existing and future competitors, patents sustainability, economic development, foreign currency risk and political risks.

BACKGROUND

Chronic obstructive pulmonary disease (COPD)

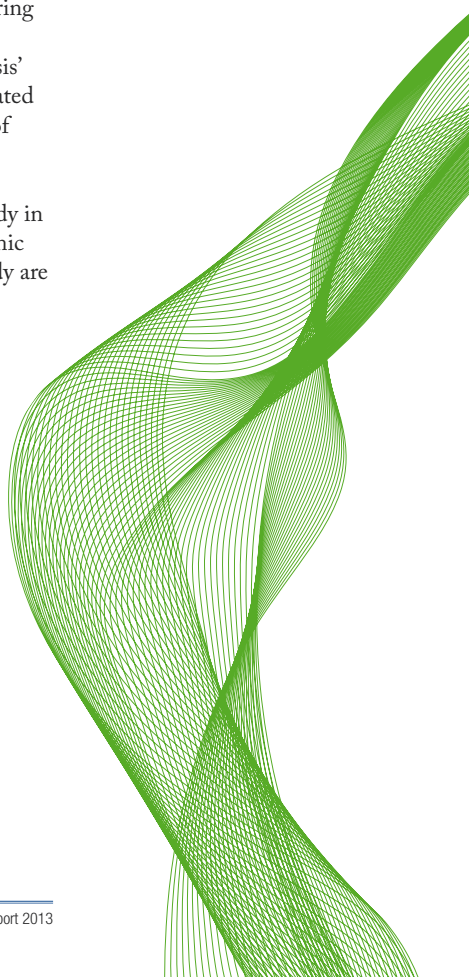
COPD is one of the most common and fastest growing diseases in the world. There is currently no effective treatment, only medication that partially relieves the symptoms. Over 2.500 people die each year from COPD in Sweden. It is well established that smoking greatly increases the risk of suffering from COPD, but it is unclear what it is in cigarette smoke that damages the lungs. PharmaLundensis' project is based on the hypothesis that cigarette smoke contains mercury which has a central role in disease development. PharmaLundensis' founder and CEO Dr. StaffanSkogvall has in his research shown that so-called neuroepithelial endocrine (NEE) cells[1] release a major relaxing factor (EpDRF) which normally keeps the airways open. According to the hypothesis, this factor is decreased when the mercury in cigarette smoke is deposited in the lungs. PharmaLundensis' drug candidate iodinated activated charcoal may restore the normal content of EpDRF by reducing pulmonary mercury content, and thus improve lung function.

PharmaLundensis have conducted a clinical study in 40 patients with moderate COPD. The results were positive and showed a statistically significant improvement in lung function in patients with COPD. The company intend to, in early fall 2014, launch a new study of 80 patients with COPD, with moderate-severe disease. If this study also turns out to be successful, the likelihood is big that the project, already in a few years, will result in an effective COPD medication.

Chronic fatigue syndrome

Chronic fatigue syndrome is a difficult and enigmatic disease common among ambitious and active people in the middle of life, and that can lead to severe consequences. Many people suffer from long-term unemployment and social exclusion, in situations where they can't even maintain contact with family and friends. The cause of the disease is unclear, and there is no effective treatment. Even in this disease, it can be suspected that mercury may play a role. All humans are daily exposed to low doses of mercury from the environment, which is called micromercurialism. Low levels of mercury primarily affect the mental function, lead to impaired work capacity, severe fatigue, impaired memory, and irritability in sensitive individuals. These symptoms are similar to those occurring in chronic fatigue syndrome. It is therefore important to test whether PharmaLundensis' mercury binding substance iodinated activated charcoal can improve the health and lives of these severely ill patients.

PharmaLundensis conducted a clinical study in 40 patients with physician-diagnosed chronic fatigue syndrome. The results from the study are scheduled for release in June 2014.



Researchers suspect that a number of obscure diseases are caused by mercury

It is well known that mercury affects the very basic functions of the body cells, and a mixed picture with many different disease symptoms can be expected. It is thus quite possible that mercury lies behind a series of difficult diseases that we today do not know the reason for. As an example, there are scientists who believe that mercury can be a major cause of Alzheimer's disease. Mutter with colleagues[1] wrote in 2010 (abbreviated): "Trials with tissue culture and animal testing have shown that mercury can create all pathological changes seen in Alzheimer's disease, and that it is entirely possible that mercury may be an important cause of this neurodegenerative disease."

There are also researchers who suspect that mercury may have relevance to other nervous diseases such as Parkinson disease[2], Multiple Sclerosis (MS), etc. The possible connection between mercury and depression has recently been shown in animal testing[3]. This study showed that mice exposed to methyl mercury in early life showed persistent neurological changes, which are generally interpreted as depressive disorders in mice (lack of endurance in swimming tests). This symptom decreased significantly if the animals were treated with a standard antidepressant (Prozac).

There are also recent studies that show that children 9-11 years old who eat fish (which always contains methyl mercury) have a disrupted cortisol rhythm in the body, and signs of systemic inflammation (inflammation throughout the body)[4]. The symptoms appeared proportional to the concentration of mercury in the blood of the children. Higher mercury concentration gave greater hormonal disorder and more signs of inflammation. As allergies, eczema and other signs of inflammation are sharply increasing in society, investigation whether mercury can be an important reason for this is a must!

It is also of great interest to note that the fish-eating children developed these hormonal and immunological effects even though the concentration of mercury in their blood was well below allowable limits. If more studies show similar findings, then limits for allowable mercury exposure must be reduced significantly (by 80%)!

The issues related to whether mercury lays behind a whole series of obscure diseases, show how extremely important it is for PharmaLundensis to have the opportunity to further develop the company's projects! Should future research show that a number of diseases with today unclear background in fact are caused by mercury, this can bring a huge demand for PharmaLundensis' mercury binding substances. When IodoCarb® has been registered as medication, PharmaLundensis will most likely have the only authorized mercury binding drug in the world.

References:

1. Mutter J, Curth A, Naumann J, Deth R, Walach H. (2010) J Alzheimers Dis.;22(2):357-74. doi: 10.3233/JAD-2010-100705. Does inorganic mercury play a role in Alzheimer's disease? A systematic review and an integrated molecular mechanism.
2. Dantzig PI. J OccupEnviron Med. 2006 Jul;48(7):656. Parkinson's disease, macular degeneration and cutaneous signs of mercury toxicity.
3. Onishchenko N, Karpova N, Sabri F, Castrén E, Ceccatelli S. J Neurochem. 2008 Aug;106(3):1378-87. Long-lasting depression-like behavior and epigenetic changes of BDNF gene expression induced by perinatal exposure to methylmercury.
4. Brooks B. Gump, James A. MacKenzie, Amy K. Dumas, Christopher D. Palmer, Patrick J. Parsons, Zaneer M. Segu, Yehia S. Mechref, and KestutisBendinskas. (2012) Environ Res. January; 112: 204?211. Fish Consumption, Low-Level Mercury, Lipids, and Inflammatory Markers in Children.

Financial Summary

(Amounts in SEK)	2013-12-31	2012-12-31	2011-12-31	2010-12-31	2009-12-31
Net sales	8 178	93 517	0	11 559	0
Profit/loss after financial items	-6 641 895	-5 028 971	-2 803 553	-3 382 823	-1 379 140
Earnings per share	-0,39	-0,31	-0,20	-0,25	-0,13
Balance sheet total	13 347 445	8 581 635	4 131 704	4 368 618	1 639 562
Equity ratio, %	88,7	89,2	77,5	85,1	64,7

Earnings per share 31/12/2013 is calculated based on 17,023,667 shares.

Proposed distribution of earnings

(Amounts in SEK)	
The Board of Directors and the CEO proposes that the available amounts:	
Share premium reserve	30 221 552
Retained earnings	-12 593 867
Profit/loss for the year	-6 641 895
Total	**10 985 790**
To be carried forward to retained earnings	**10 985 790**
Total	**10 985 790**

For the company´s results and financial position. Please refer to the Income Statement and Balance Sheet with their accompanying notes.

Income Statement

(Amounts in SEK)	Note	2013-01-01 -2013-12-31	2012-01-01 -2012-12-31
Net sales		8 178	93 517
Total		**8 178**	**93 517**
Operating expenses			
Other external costs	1	-6 512 669	-4 594 716
Personnel costs	2	-1 170 465	-924 256
Depreciation of tangible assets		-	-2 014
Capitalized development expenditure	3	990 000	400 000
Operating profit/loss		**-6 684 956**	**-5 027 469**
Result from financial investments			
Interest income		43 084	106
Interest expense		-23	-1 608
Profit/loss after financial items		**-6 641 895**	**-5 028 971**
Profit/loss before tax		**-6 641 895**	**-5 028 971**
Net profit/loss for the year		**-6 641 895**	**-5 028 971**

Balance Sheet

(Amounts in SEK)	Note	2013-12-31	2012-12-31
ASSETS			
Fixed assets			
Intangible assets			
Capitalized expenditure for development and similar	3	3 690 000	2 700 000
Total		**3 690 000**	**2 700 000**
Tangible assets			
Equipment, tools, fixtures and fittings	4	-	-
Total		-	-
Financial assets			
Other securities held as fixed assets	5	1 000	1 000
Total		**1 000**	**1 000**
Total fixed assets		**3 691 000**	**2 701 000**
Current assets			
Current receivables			
Accounts receivable - trade		-	36 541
Other receivables		272 990	207 691
Prepaid expenses and accrued income		192 515	169 780
Total current receivables		**465 505**	**414 012**
Cash and bank balances		9 190 940	5 466 623
Total current assets		**9 656 445**	**5 880 635**
TOTAL ASSETS		**13 347 445**	**8 581 635**

Balance Sheet

(Amounts in SEK)	Note	2013-12-31	2012-12-31
EQUITY AND LIABILITIES			
Equity	6		
Restricted equity			
Share capital 17 023 667 (16 082 467) shares		851 183	804 123
Total		**851 183**	**804 123**
Non-restricted equity			
Share premium reserve		30 221 552	19 444 212
Profit or loss brought forward		-12 593 867	-7 564 896
Profit/loss for the year		-6 641 895	-5 028 971
Total		**10 985 790**	**6 850 345**
Total equity		**11 836 973**	**7 654 468**
Current liabilities			
Account payable - trade		926 741	457 847
Other liabilities		19 852	19 696
Accrued expenses and deferred income		563 879	449 624
Total		**1 510 472**	**927 167**
TOTAL EQUITY AND LIABILITIES		**13 347 445**	**8 581 635**

Pledged assets and contingent liabilities

	2013-12-31	2012-12-31
Pledged Assets		
Bank accounts	50 000	50 000
Total	**50 000**	**50 000**
Contingent liabilities	None	None

Accounting Policies and Notes to the Accounts

(Amounts in SEK unless otherwise stated)

GENERAL ACCOUNTING PRINCIPLES

The annual report has been prepared in accordance with the Annual Accounts Act and the Accounting Standards Board, however, BFNAR 2008:1 (K2) or 2012:1 (K3) has not been applied.

VALUATION PRINCIPLES ETC

Assets, provisions and liabilities are valued at cost unless otherwise stated.

Recognition of income

As income the company is reporting the fair value of what is received or to be received. The company thus report revenue at nominal value (invoice amount) if the company receives payment in liquid assets immediately upon delivery. Deductions are made for discounts.

Research and development costs

Expenditure on internal research and development are expensed as incurred, however expenditure for development projects related to the design and testing of new or improved products, such as intangible assets, are balanced, to the extent that these technically are expected to lead to products and that these are expected to generate future economic benefits.

Receivables

Receivables are stated at cost less any impairment losses.

Depreciation of fixed assets

Scheduled depreciation is based on cost less estimated residual value. Depreciation takes place over the asset's estimated period of use. Devaluation occurs when permanent decline in value.

The following depreciation rates have been applied, taking into account the holding period for acquired and divested assets during the year.

Fixed assets	% per year
Tangible assets:	
Inventory	20
Computers	30

Taxes

The company has a tax loss carryforward to the amount of 23.792.154 (16.685.432) SEK. Uncertainty exists about the extent to which a tax loss carryforward can be utilized in the future. Size of the tax loss carryforward may, among other things, be affected by changes in the ownership structure. No deferred tax receivable has been included in the balance sheet.

TRANSACTIONS WITH RELATED PARTIES

No transactions according to the Annual Accounts Act 5, chapter 12a§ have occurred during the year.

Notes

Note 1 | Remuneration to, and expenses of, auditors

	2013-01-01 -2013-12-31	2012-01-01 -2012-12-31
Nyström & Partners Horwath KB		
Auditengagement	150 495	163 183
Total	**150 495**	**163 183**

Note 2 | Employees and personnel costs

Average number of employees	2013-01-01 -2013-12-31	2012-01-01 -2012-12-31
Men	2	2
Women	-	-
Total	2	2

Salaries, other remuneration and social costs	2013-01-01 -2013-12-31	2012-01-01 -2012-12-31
Board of Directors and CEO	660 000	310 500
Other employees	487 600	610 830
Total	**1 147 600**	**921 330**
Social costs	339 816	285 546
(of which pension costs)	0	0

Of the company's pension costs, 0 refers to (previous year 0) the Board and CEO.
Wage allowances have been obtained by 339.336 (282.780) SEK.

Note 3 I Capitalized expenditure for development

	2013-12-31	2012-12-31
Accumulated acquisitions costs:		
-At beginning of year	2 700 000	2 300 000
-Capitalization for the year	990 000	400 000
Total	**3 690 000**	**2 700 000**
Scheduled accumulated depreciation:		
-At beginning and end of year	0	0
Carrying amount at year-end	**3 690 000**	**2 700 000**

Capitalized expenditure for development mainly relates to personnel costs for chemist, cost of patent applications, consumable materials for development projects, consultancy costs for laboratory analyzes, costs of clinical trial and costs related to the preparation of test substance prior to clinical trials.

No depreciation of capitalized expenditure has been done. Depreciation occurs first from the time the project is essentially complete.

Note 4 I Equipment, tools and installations

	2013-12-31	2012-12-31
Accumulated acquisition costs:		
-At beginning of year	96 131	96 131
-Disposals and obsolescence	-26 153	-
Total	**69 978**	**96 131**
Scheduled accumulated depreciation:		
-At beginning of year	-96 131	-94 117
-Disposals and obsolescence	26 153	-
-Scheduled depreciation for the year on acquisition cost	-	-2 014
Total	**-69 978**	**-96 131**
Carrying amount at year-end	**-**	**-**

Note 5 | Other securities held as fixed assets

	2013-12-31	2012-12-31
Accumulated acquisition costs:		
-At beginning of year	1 000	1 000
Carrying amount at year-end	**1 000**	**1 000**

Note 6 | Equity

	Share capital	Share premium reserve	Profit or loss brought forward	Profit/loss for the year	Total
At beginning of year	804 123	19 444 212	-7 564 896	-5 028 971	7 654 468
Disposition as resolved by Annual General Meeting	-	-	-5 028 971	5 028 971	-
Share issues during the year	47 060	10 777 340	-	-	10 824 400
Profit/loss for the year	-	-	-	-6 641 895	-6 641 895
At year end	**851 183**	**30 221 552**	**-12 593 867**	**-6 641 895**	**11 836 973**

- In 2013 a new share issue was conducted, registered on the 10th of September 2013. At the issue 941.200 new shares were issued.
- Issue expenses of 470.000 (619.000) SEK have been accounted for directly in equity.
- Conditional repayment obligation on shareholders' contributions amounted to 3.199.769 SEK (3.199.769 SEK).
- The nominal value of the share amounted to 0,05 SEK (0,05 SEK).

Signatures

Lund 2014-05-21

Linus Sjödahl
Chairman of the Board

Staffan Skogvall
Chief Executive Officer

Jonas Erjefält

Ingmar Karlsson

My audit report was submitted 2014-05-23.

Martin Bengtsson
Authorized Public Accountant

NYSTRÖM & PARTNERS REVISION KB
Member Crowe Horwath
Authorized Public Accountants

AUDITOR'S REPORT

To the annual meeting of the shareholders of PharmaLundensis AB (publ)
Corporate identity number 556708-8074

REPORT ON THE ANNUAL ACCOUNTS

I have audited the annual accounts of PharmaLundensis AB (publ) for the year 2013-01-01--2013-12-31.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts

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

Auditor's responsibility

My responsibility is to express an opinion on these annual accounts based on my audit. I conducted my audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts.

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

Opinions

In my 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 PharmaLundensis AB (publ) as of 31 December 2013 and of its financial performance 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.

I therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

NYSTRÖM & PARTNERS REVISION KB
Member Crowe Horwath
Authorized Public Accountants

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to my audit of the annual accounts, I have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of PharmaLundensis AB (publ) for the year 2013-01-01--2013-12-31.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

My responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on my audit. I conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for my opinion on the Board of Directors' proposed appropriations of the company's profit or loss, I examined whether the proposal is in accordance with the Companies Act.

As a basis for my opinion concerning discharge from liability, in addition to my audit of the annual accounts, I examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. I also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions

I recommend to the annual 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.

Helsingborg 2014-05-23

Martin Bengtsson
Authorized Public Accountant

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