Significant accounting principles

(a) Compliance with standards and laws

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU. Furthermore, the Swedish Financial Reporting Board's recommendation RFR 1 (Supplementary Accounting Rules for Groups) has been applied.

The parent company applies the same accounting principles as the Group, except in the cases listed below under the section headed "The parent company's accounting principles".

The Group was formed in July 2019 when Cyxone AB formed the Swiss subsidiary Cyxone Switzerland AG. No consolidated accounts were prepared for 2019 with reference to the exception stipulated in Chapter 7 Section 3 of the Swedish Annual Accounts Act (1995:1554). There are therefore no effects to report for the Group in connection with a transition to IFRS as the Group has applied IFRS since its formation in July 2019. For details of the effects of the transition to RFR 2 (Accounting for Legal Entities for the Parent Company), see Note 5 in Cyxone's year-end report for 2020.

(b) Valuation criteria applied in the preparation of the financial statements

Assets and liabilities are reported at historical acquisition values, in addition to certain financial assets and liabilities that are valued at accrued acquisition value.

(c) Functional currency and reporting currency

The parent company's functional currency is Swedish kronor, which is also the reporting currency for the parent company and for the Group. This means that the financial statements are presented in Swedish kronor. Unless otherwise stated, all amounts are rounded to the nearest thousand.

(d) Assessments and estimates in the financial statements

Preparing the financial statements in accordance with IFRS requires the company management to make assessments and estimates and to make assumptions affecting the application of the accounting principles and the reported amounts of assets, liabilities, income and expenses. The actual outcome may differ from these estimates and assessments.

(e) Significant accounting policies applied

The accounting principles set out below have, with the exceptions described in more detail, been applied consistently to all periods presented in the Group's financial statements. The Group's accounting principles have also been consistently applied by the Group's companies.

(f) New IFRS that have not yet been applied

New and amended IFRS with future application are not expected to have any significant effect on the company's financial statements.

(g) Classification, etc.

Fixed assets essentially consist of amounts that are expected to be recovered or paid after a period exceeding twelve months from the balance sheet date, while current assets essentially consist of amounts that are expected to be recovered or paid within a period of twelve months from the balance sheet date. Long-term liabilities essentially consist of

amounts that the Group at the end of the reporting period has an unconditional right to choose to pay more than twelve months after the end of the reporting period. If the Group has no such right at the end of the reporting period – or liability is expected to be settled within the normal business cycle – the amount of liability is reported as a current liability.

(h) Operating segment reporting

An operating segment is a part of the Group that conducts operations from which it can generate earnings and incur costs and for which independent financial information is available. The company's highest executive decision-maker continues to monitor an operating segment's results to evaluate performance and to be able to allocate resources to the operating segment.

The Group currently has only one business activity and therefore a single operating profit that the main operating decision-maker regularly decides on and to which resources are allocated. Based on these circumstances, there is only one operating segment that corresponds to the Group as a whole and no preparations are being made for segment reporting. Cyxone's CEO has been identified as the main executive decision-maker in the Group.

(i) Consolidation principles and business acquisitions

(i) Subsidiaries

Subsidiaries are companies that are under a controlling influence from Cyxone AB. A controlling influence exists if Cyxone AB has influence over the investment object, is exposed to or has the right to a variable return from its commitment and can use its influence over the investment to affect the return. In assessing whether a controlling influence exists, potential voting shares and the question of whether de facto control exists are taken into account. The Group was formed on 30 July 2019 when Cyxone AB set up the wholly owned subsidiary Cyxone Switzerland AG.

(ii) Transactions eliminated on consolidation

Intra-group receivables and liabilities, income or expenses and unrealised gains or losses arising from intra-group transactions between Group companies are eliminated in their entirety when preparing the consolidated financial statements.

(j) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are converted into the functional currency at the exchange rate prevailing on the transaction date. Functional currency is the currency in the primary economic environments in which companies operate. Monetary assets and liabilities in foreign currency are converted to the functional currency at the exchange rate prevailing on the balance sheet date. Exchange rate differences that arise in the conversions are reported in the earnings for the period. Non-monetary assets and liabilities that are reported at historical acquisition values are converted at the exchange rate prevailing at the time of the transaction.

(ii) Financial statements of foreign operations

Assets and liabilities in foreign operations, including goodwill and other consolidated surplus and deficit values, are converted from the foreign operations' functional currency to the Group's reporting currency, Swedish kronor, at the exchange rate prevailing on the balance sheet date. Income and expenses in a foreign operation are converted into Swedish kronor at an average exchange rate that constitutes an approximation of the exchange rates prevailing at the time of each transaction. Conversion differences arising from currency

conversion of foreign operations are reported in other comprehensive income and accumulated in a separate component in equity, called the conversion reserve.

(k) Earnings

The Group has not yet generated earnings from the out-licensing of its drug candidates. Other income consists, for example, of sick pay benefits.

(l) Leasing

When an agreement is entered into, the Group assesses whether the agreement is, or contains, a leasing agreement. An agreement is, or contains, a leasing agreement if the agreement transfers the right to decide, for a certain period, on the use of an identified asset in exchange for compensation.

(i) Leasing agreements that are reported as an expense

The Group leases office space in serviced office accommodation. The leasing agreements for office premises normally have a term of 6 months. The leasing agreement contains an option to renew the leasing agreement at the end of the leasing period with additional periods with the same term. The Group's reason for leasing office space in serviced office accommodation is the short leasing period, which increases operational flexibility. The Group considers that it is not reasonably certain that the leasing agreement for the serviced office accommodation will be extended beyond the first period – i.e. the leasing period is estimated to be one period. Since the leasing agreement has a leasing period of less than 12 months, the agreement is classified as a short-term leasing agreement. The Group has chosen not to report usufruct assets and leasing liabilities for these leasing agreements. Leasing fees for these leasing agreements are reported as an expense on a straight-line basis over the leasing period.

(ii) Storage capacity agreement

The Group has agreements with suppliers for the manufacture of substances that include conditions for storing he manufactured substances for a certain period. When an agreement is entered into, Cyxone assesses whether the agreement contains a leasing agreement. In order for an agreement to be deemed to contain a leasing agreement, the agreement needs to include an identified asset. Since the agreements entered into by Cyxone do not relate to rental of a specified area in the warehouse but rather to storage capacity as a service, the company has taken the view that such agreements are not or do not contain leasing agreements.

(m) Taxes

Income taxes comprise current tax and deferred tax. Income taxes are reported in profit or loss for the year, except when the underlying transaction is reported in other comprehensive income or in equity, whereby the associated tax effect is reported in other comprehensive income or in equity.

Current tax is tax that is to be paid or received for the current year, with application of the tax rates that have been determined or in practice determined on the balance sheet date. Current tax also includes an adjustment of current tax attributable to previous periods.

Deferred tax is calculated in accordance with the balance sheet method, based on temporary differences between the carrying amounts and taxable values of assets and liabilities. The valuation of deferred tax is based on how the underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that are determined or in practice determined on the balance sheet date.

Deferred tax assets relating to deductible temporary differences and loss carry-forwards are reported only to the extent that it is probable that these will be utilised. The value of deferred tax assets is reduced when it is no longer considered probable that they can be utilised.

(n) Financial instruments

(i) Accounting and initial valuation

Accounts receivable and issued debt instruments are reported when they are issued. Other financial assets and financial liabilities are reported when the Group becomes a party to the instrument's contractual terms.

A financial asset or financial liability is valued at fair value at the first reporting date plus any transaction costs that are directly attributable to the acquisition or issue. An account receivable (without a significant financing component) is valued at the transaction price.

(ii) Classification and subsequent valuation

Financial assets

The Group's financial assets essentially consist of cash and cash equivalents in the form of bank balances and other receivables. All financial assets are reported at accrued acquisition value.

Financial liabilities

The Group's financial liabilities consist of accounts payable and other liabilities. All financial liabilities are valued at accrued acquisition value.

(iii) Impairment losses

The Group's financial assets in the form of cash and cash equivalents and other receivables are covered by the rules for provisions for expected credit losses in IFRS 9. However, cash and cash equivalents consist entirely of bank balances with banks with a high credit rating and these can be obtained on request. No reserve for expected credit losses in cash and cash equivalents is therefore reported for reasons of materiality. All other receivables are current and, for reasons of materiality, no reserve for expected credit losses is reported for these receivables either.

(iv) Removing financial assets from the statement of financial position

Financial assets

The Group removes a financial asset from the statement of financial position when the contractual rights to the cash flows from the financial asset expire.

Financial liabilities

The Group removes a financial liability from the statement of financial position when the commitments stated in the agreement are fulfilled, cancelled or discontinued.

(o) Intangible assets

(i) Acquired intangible assets - Patents and similar rights

Intangible assets acquired by the Group consist primarily of patents. The patents relate to ongoing patent expenses for T20K as well as expenses for patent applications in the USA, Europe and Australia. The company received patents for T20K in different countries during 2016-2018. Depreciation began in January 2017. The patent for Rabeximod was acquired in 2018.

Patents are reported at acquisition value less accumulated depreciation and any write-downs. Patents are written off over the life of the patent.

In 2020, Cyxone acquired the exclusive right from Dr Kalev Kask to the patent applications covering the use of Rabeximod for the treatment of the symptoms arising from Covid-19. The acquired rights have initially been valued at the fair value of the option issued to Dr Kalev Kask, as the acquisition of the rights is a transaction falling within the scope of application of IFRS 2 Share-based Payments. The value of the acquired rights has been based on the fair value of the option granted, as Cyxone has determined that the fair value of the acquired rights could not be estimated in a sufficiently reliable manner. Depreciation begins when a patent has been obtained.

(ii) Procurement through internal reprocessing
The work of developing an internally generated intangible fixed asset is divided into a research phase and a development phase.

All expenses arising from the Group's research phase are reported as an expense when they arise.

Expenditure on development is reported as an asset in the statement of financial position, if the product or process is technical and

a) it is technically possible to complete the intangible asset so that it can be used or sold;
b) the company intends to complete the intangible asset and use or sell it;
c) there are conditions for using or selling the intangible asset;
d) the intangible asset is likely to generate future economic benefits;
e) there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f) the expenses attributable to the intangible asset during its development can be reliably calculated.

In the statement of financial position, reported development expenses are taken up to acquisition value less accumulated depreciation and any write-downs. If all the above criteria are not met, the development expenses are reported as an operating expense when they arise.

The submission of the application for final approval to the supervisory authority is a strong indication that all of the above criteria have been met and that it will be possible to capitalise the in-house developed projects. Capitalisation of internally generated intangible assets is therefore not normally done until this time.

(iii) Additional expenses
Additional expenses for capitalized intangible assets are reported as an asset in the statement of financial position only when these expenses increase the future economic benefits of the specific asset to which they relate. All other expenses are expensed as incurred.

(vi) Depreciation principles
Depreciation is reported in profit or loss for the period on a straight-line basis over the estimated useful lives of intangible assets. The useful lives are reviewed at least once a year. Intangible assets that are not yet ready for use are tested for impairment annually and also as soon as there are indications indicating that the asset in question has decreased in value. Intangible assets with determinable useful lives are amortised from the time when they are available for use.

The estimated useful lives are:

- patent 7-10 years

(p) Impairment of intangible assets

If there is an indication of the need for impairment, the asset's recoverable amount is calculated (see below). For intangible assets that are not yet ready for use, the recoverable amount is also calculated annually. If it is not possible to determine essentially independent cash flows for an individual asset, and its fair value less sales costs cannot be used, the assets are grouped when reviewing the need for impairment to the lowest level where essentially independent cash flows can be identified – a so-called cash-generating unit.

An impairment loss is recognised when an asset's or cash-generating unit's (group of units) carrying amount exceeds the recoverable amount. An impairment loss is reported as an expense in the profit or loss for the period.

The recoverable amount is the higher of fair value less sales costs and value in use. When calculating the value in use, future cash flows are discounted with a discount factor that takes into account risk-free interest and the risk associated with the specific asset.

Impairment reversal

An impairment is reversed if there is both an indication that there is no longer a need for impairment and there has been a change in the assumptions that formed the basis for calculating the recoverable amount. A reversal is made only to the extent that the asset's carrying amount after reversal does not exceed the carrying amount that would have been reported, less depreciation where applicable, if no write-down has been made.

(q) Earnings per share

The calculation of earnings per share before dilution is based on the earnings for the period in the Group attributable to the parent company's owners and on the weighted average number of shares outstanding during the period. Potential ordinary shares are seen as diluting only during periods leading to a lower gain or greater loss per share.

(r) Employee benefits

(i) Short-term benefits

Short-term benefits to employees are calculated without discounting and are reported as an expense when the related services are received.

A provision is reported for the expected cost of profit-sharing and bonus payments when the Group has a current legal or informal obligation to make such payments as a result of services received from employees and the obligation can be reliably calculated.

(ii) Pensions

The Group has only defined contribution pension plans. The defined contribution pension plans are those plans where the company's obligation is limited to the contributions that the company has undertaken to pay. In such a case, the size of the employee's pension depends on the contributions that the company pays into the plan or into an insurance company and the return on capital that the contributions provide. Consequently, the employee bears the actuarial risk (that the benefit will be lower than expected) and the investment risk (that the invested assets will be insufficient to provide the expected benefits). The company's obligations regarding contributions to defined contribution plans are reported as an expense in the earnings for the period at the rate at which they are earned by the employees performing services for the company during a period.

(iii) Severance pay
A cost for payments relating to redundancies is reported no earlier than when the company can no longer withdraw the offer to the employees or when the company reports costs for restructuring. Payments that are expected to be adjusted after twelve months are reported at their present value. Payments that are not expected to be fully settled within twelve months are reported according to long-term payments.

(s) Contingent liabilities
Disclosure of contingent liabilities is provided when there is a possible liability arising from events that have taken place and whose occurrence is confirmed only by one or more uncertain future events beyond the Group's control or when there is an undertaking that is not reported as a liability or provision because it is unlikely that an outflow of resources will be required or cannot be calculated with sufficient reliability.

Parent company accounting principles
The parent company has prepared its financial reports in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Statements issued by the Swedish Financial Reporting Board concerning listed companies are also applicable. RFR 2 means that the parent company in its financial statements for the legal entity shall apply all IFRSs and statements adopted by the EU as far as possible within the scope of the Swedish Annual Accounts Act, the Swedish Social Security Act and with regard to the connection between accounting and taxation. The recommendation specifies the exceptions from and additions to IFRS that are to be made.

Differences between the Group's and the parent company's accounting principles
Differences between the Group's and the parent company's accounting principles are set out below. The accounting principles set out below have been applied consistently to all periods presented in the parent company’s financial statements.

Classification and layout of the profit and loss account
For the parent company, the terms income statement, balance sheet and cash flow analysis are used for the statements which in the Group have the titles "Report on Earnings", "Report on Financial Position" and "Report on Cash Flows". The income statement and balance sheet are prepared for the parent company in accordance with the schedules of the Swedish Annual Accounts Act, while the report on earnings and comprehensive income, the report on changes in equity and the cash flow analysis are based on IAS 1 Presentation of Financial Statements and IAS 7 Cash Flow Statements. The differences from the Group's statements that apply in the parent company's income statements and balance sheets primarily consist of financial income and expenses, fixed assets and equity.

Subsidiaries, associated companies and jointly controlled companies
Shares in subsidiaries are reported in the parent company according to the acquisition value method.

Financial instruments
The parent company has chosen not to apply IFRS 9 for financial instruments. However, parts of the principles in IFRS 9 are still applicable – such as those relating to write-downs, inclusion/removal and the effective interest method for interest income and interest expenses.

In the parent company, financial fixed assets are valued at acquisition value less any write-downs and financial current assets according to the lowest value principle. IFRS 9's impairment rules apply to financial assets that are reported at accrued acquisition value.

Leased assets

The parent company does not apply IFRS 16, in accordance with the exception contained in RFR 2. As a lessee, leasing fees are reported as an expense on a straight-line basis over the leasing period and usufruct rights and leasing liabilities are therefore not reported in the balance sheet.