

Q-linea AB (publ)

Interim report for 1 January to 30 June 2018

Verification of integrated ASTar™ system begun

Second quarter in brief, 1 April to 30 June 2018

- Net sales amounted to SEK 250 thousand (0).
- Operating result totalled SEK -35,654 thousand (-16,295).
- The company reported a loss after tax of SEK -35,678 thousand (-16,297).
- Earnings per share amounted to SEK -2.41 (-1.65).
- Cash flow from operating activities totalled SEK -28,361 thousand (-13,029).

Period in brief, 1 January to 30 June 2018

- Net sales amounted to SEK 500 thousand (0).
- Operating result totalled SEK -59,584 thousand (-30,022).
- The company reported a loss after tax of SEK -59,630 thousand (-30,020).
- Earnings per share amounted to SEK -4.51 (-3.05).
- Cash flow from operating activities totalled SEK -54,065 thousand (-28,150).
- At 30 June 2018, cash and cash equivalents amounted to SEK 13,931 thousand (29,242) and short-term investments in fixed-income fund to SEK 67,976 thousand (0).

Significant events in the second quarter of 2018

- Q-linea acquired the business Umbrella Science AB for SEK 12.8 million.
- The Annual General Meeting was held on 20 June 2018. Refer to “Other information” for information about the resolutions passed at the Annual General Meeting.
- Marcus Storch, Marianne Hansson, Nigel Darby and Per-Olof Wallström were elected as new directors and Erika Kjellberg Eriksson was elected as Chairperson of the Board.

Significant events after the end of the period

- Nigel Darby stepped down from his position as director due to competing commitments.
- Following the registration of the 1:20 share split approved by the Annual General Meeting in June, the number of shares in the company increased to a total of 14,818,680 shares outstanding, with a quotient value of SEK 0.05 per share.
- Anders Lundin was employed as CFO and Head of Investor Relations as of 1 August 2018.

Comments by the CEO

After a highly intense second quarter, I am pleased to present Q-linea's progress towards securing market approval for our core product, ASTar. ASTar™ is a fully automated instrument for measuring bacteria's antimicrobial susceptibility in order to significantly reduce the time to correct antibiotic treatment of infectious diseases. Faster diagnosis will shorten the time to correct antibiotic treatment, which in turn will save numerous lives while also reducing resistance growth in society and saving costs.

At the end of the quarter, we completed the acquisition of Umbrella Science AB ("Umbrella"), a supplier of certain key components for ASTar that has become a highly important strategic partner during the course of our collaboration. The acquisition allowed us to secure access to the company's unique technology, development capabilities and production capacity. As part of Q-linea, Umbrella will also continue to supply its products and services to external customers in the life sciences industry and academic research.

Towards the end of the quarter, we also achieve several important sub-targets for the year with respect to the development of ASTar, specifically in terms of the performance of our disposables as well as the performance and function of the instrument itself. During the quarter, we reached the technical performance target for our disposables, which was naturally a highly gratifying accomplishment.

As previously announced, we participated in this year's European Congress of Clinical Microbiology & Infectious Diseases (ECCMID) on 21-24 April in Madrid, the most important meeting place for Q-linea's key target groups. Our participation generated considerable interest and provided us with valuable feedback from clinics and new contacts and also gave us an opportunity to speak with potential partners. ASM Microbe 2018, organised by the American Society for Microbiology, was also held during the quarter on 7-11 June in Atlanta. The event, which focuses on the US domestic market, is the second-largest conference in the world in our field. Once again, ASTar attracted considerable interest and we established valuable contacts with several US users. During the conference, we also met with a number of potential strategic partners ahead of the upcoming launch of ASTar and continued our positive dialogue with representatives of the US Food and Drug Administration (FDA).

We had construction discussions with several potential partners during the quarter and I hope to be able to say more about this as our negotiations proceed.

We will continue to maintain a rapid pace in our development of ASTar throughout the remainder of 2018. Our goal remains firm: to be ready to commence CE marking of ASTar for research applications during the fourth quarter. We also continue to expect CE marking for clinical use in Europa to be obtained according to plan.

Finally, I would like to mention the strong addition made to Q-linea's Board of Directors at the Annual General Meeting through the election of four new directors, three of whom are still with the company. The Annual General Meeting also elected Erika Kjellberg Eriksson to succeed Jon Heimer as Board Chairperson, who will continue to serve as a director.

In summary, I am proud of what we achieved during the quarter. I would also like to welcome Umbrella's employees to the Q-linea family.

Q-linea AB is a diagnostics company focused on developing and delivering solutions for healthcare providers, enabling them to accurately diagnose and treat infectious diseases in the shortest possible time. Our core product, ASTar™, is a system for quickly and automatically determining the most effective antibiotic for the treatment of infectious diseases. The company was founded in 2008 on technology developed by scientists from the Rudbeck Laboratory at Uppsala University, together with other companies such as Olink Bioscience AB and Uppsala University's holding company, UUAB.
www.qlinea.com

ASTar project development during the second quarter of 2018

Project 01 – ASTar instrument

During the quarter, the instrument project was in phase three (design and development)

- The first integrated prototype of the ASTar instrument (prototype 1) has been developed and undergone extensive functionality and software testing. Testing was carried out with the automated ASTar protocol using realistic samples.
- Based on experiences from prototype 1, the design group worked on the next prototype version (alpha 2). The design documentation for alpha 2 was frozen at the end of the second quarter.

Project 02 – First ASTar product: BC G-Kit analysis kit

During the quarter, the development of the first ASTar product was in phase three (design and development)

- The product, BC G-Kit, is an analysis kit for gram-negative bacteria from positive blood cultures.
- Components for sample preparation and analysis were manufactured and used in development work and performance testing.
- Extensive performance testing was carried out for a product prototype in independent instrument modules. The testing showed that the prototype meets the established requirements.
- Three clinics have been identified for the clinical trial in Europe and contract negotiations to commence the trial have begun.

Financial performance in brief

Comments on the report

Figures in parentheses refer to the outcome for the corresponding period in the preceding year. Unless otherwise state, the amounts are presented in thousands of kronor (SEK thousand). All amounts presented have been rounded correctly, which may mean that certain totals do not tally.

Acquisition of Umbrella business

On 30 June 2018, Q-linea acquired Umbrella for SEK 12.8 million. Umbrella is a strategically important supplier focusing on the design, development and production of highly specialised plastic disposables for customers in the life sciences industry. Synergy effects are mainly expected derive from the expertise of the company's employees and more efficient use of production facilities.

The purchase consideration was paid in cash and was financed through a short-term interest-free loan of SEK 12.8 million from Q-linea's principal owner, Nexttobe AB. The agreement also contains standard guarantees and liability clauses. No earn-out will be paid.

The share

The Annual General Meeting resolved in accordance with the Board's proposal to increase the number of shares through a 1:20 share split. Following the share split, the company has a total of 14,818,680 shares outstanding, with a quotient value of SEK 0.05 per share. The share split, which was registered after the end of the reporting period, resulted in a retroactive recalculation of the average number of shares and subsequently the performance measure of earnings per share before and after dilution for all periods reported in accordance with IFRS.

Income, expenses and earnings

Net sales for the second quarter amounted to SEK 250 thousand (0), up SEK 250 thousand compared with the year-earlier period. Net sales for the first half of the year totalled SEK 500 thousand (0), up SEK 500 thousand. This increase is mainly attributable to licensing revenue.

Other operating income amounted to SEK 46 thousand (109) for the second quarter and SEK 32 thousand (270) for the first half of the year.

Operating expenses including depreciation, amortisation and impairment totalled SEK 35,950 thousand (16,404) for the second quarter and SEK 60,116 thousand (30,292) for the second half of the year. The increase in the second quarter amounted to SEK 19,546 thousand and the increase in the first half of the year to SEK 29,824 thousand. The increase was primarily attributable to the fact that the company built additional prototype instruments with related disposables, which resulted in higher costs for raw materials and consumables. External costs increased due to a growing number of consultants, higher costs for patents and the company's relocation to more suitable premises. Personnel costs increased compared with the year-earlier period due to product development entering a more intense phase and requiring additional personnel resources. Depreciation, amortisation and impairment of tangible and intangible assets amounted to SEK 476 thousand (422) for the second quarter and SEK 941 thousand (845) for the first half of the year. Other operating expenses totalled SEK 51 thousand (0) for the quarter and the first half of the year.

Operating result amounted to SEK -35,654 thousand (-16,295) for the second quarter and SEK -59,584 thousand (-30,022) for the January to June period. The decline in earnings was mainly attributable to the increase in operating expenses.

Net financial items amounted to SEK -24 thousand (-2) for the second quarter and SEK -46 thousand (3) for the first half of the year.

No tax was recognised for the second quarter or first half of 2018 or for 2017.

The result for the second quarter amounted to SEK -35,678 thousand (-16,297) and the result for the first half of the year to SEK -59,630 thousand (30,020).

Financial position

Cash and bank balances at the end of the second quarter totalled SEK 13,931 thousand (29,242). The corresponding figure at the beginning of the quarter was SEK 135,718 thousand (2,270). The issue proceeds generated for the company in the first quarter of 2018 were invested in a short-term fixed-income fund amounting to SEK 67,976 thousand (0) at the end of the second quarter and used to repay a short-term interest-free loan from Nexttobe AB totalling SEK 24,989 thousand on 31 March 2018.

To finance the acquisition of Umbrella, the company raised a short-term interest-free loan of SEK 12,800 thousand (0) from the principal owner, Nexttobe AB. The loan is to be repaid on the next planned financing date. The loan is measured at amortised cost and amounted to SEK 11,978 thousand (0) plus interest of SEK 822 thousand (0), which was recognised as a shareholder contribution.

In conjunction with the acquisition of Umbrella, certain assets and related acquisitions were also acquired (description in Note 5). The credit agreements assumed from Umbrella extend from 1 July 2018, with a current variable interest rate of 2.95% per year and repayment plans extending for 25 to 48 months.

At the end of the quarter, equity amounted to SEK 76,243 thousand (28,903), the equity/assets ratio to 69% (78) and the debt/equity ratio to -90% (-101). The change in equity/assets ratio and debt/equity ratio was primarily attributable to the new share issue carried out in the first quarter of 2018.

Cash flow and investments

Cash flow from operating activities amounted to SEK -28,361 thousand (-13,029) for the second quarter and SEK -54,065 thousand (-28,150) for the first half of the year. The increased cash outflow from operating activities was mainly due to a lower operating result compared with the year-earlier period. Changes in working capital totalled SEK 6,800 thousand (2,917) for the second quarter and SEK 4,697 thousand (978) for the first half of the year. Changes in working capital were primarily attributable to increased accounts payable and accrued expenses.

Cash flow from investing activities amounted to SEK -81,237 thousand (0) for the second quarter and SEK -81,327 thousand (138) for the first half of the year. Investments mainly comprised an investment of the issue proceeds generated for the company late in the first quarter, which amounted to SEK 67,976 thousand (0), in a short-term fixed-income fund. In addition, the company acquired the Umbrella business and the purchase consideration totalled SEK 12,800 thousand (0). Investments in tangible assets comprised investments in production equipment.

Cash flow from financing operations amounted to SEK -12,189 thousand (40,000) for the second quarter and SEK 142,734 thousand (50,000) for the first half of the year. Cash flow from financing activities during the quarter comprised a repayment of an interest-free loan to Nexttobe AB totalling SEK 24,989 thousand (10,000). The company raised a new short-term interest-free loan with Nexttobe AB of SEK 12,800 thousand (0) to finance the acquisition of Umbrella.

During the first half of the year, the company conducted a private placement that generated SEK 132,934 thousand (50,000 thousand) in cash and cash equivalents for the company. In conjunction with the private placement, the company repaid an existing short-term interest-free loan of SEK 3,000 thousand, net, from the company's largest owner, Nexttobe AB. The company raised a new short-term interest-free loan with Nexttobe AB of SEK 12,800 thousand to finance the acquisition of Umbrella.

Financing

To provide the company with sufficient liquidity to continue operating and developing according to the company's strategic plan, the company conducted a new share issue during the first quarter of 2018, which generated SEK 132,934 thousand (50,000) in cash and cash equivalents.

The company raised a short-term interest-free loan with Nexttobe AB of SEK 12,800 thousand to finance the acquisition of Umbrella.

Future financing

Q-linea does not yet have any approved products and thus does not generate its own positive cash flow. Efforts are continuously being made to identify other financing alternatives. This work includes negotiations with new and existing investors, financiers, lenders and potential business partners to secure resources for the company's continued development.

In March 2018, the company conducted a private placement (described under "Financing" above) and taking into account the proceeds generated for the company, the Board considers the company's prospects to finance the operations over the current financial year to be favourable.

Other information

Employees

Calculated on the basis of full-time equivalents, Q-linea had 48 (35) employees at the end of the period, 19 (14) of whom are women. The number of consultants at the end of the period amounted to 20 (11). The number of employees at the end of the first half of 2018 includes five individuals who joined Q-linea in conjunction with the acquisition of Umbrella, one of whom is a woman.

2018 Annual General Meeting

In addition to the standard matters addressed by the Annual General Meeting, the following resolutions were passed by the Annual General Meeting:

- To re-elect Erika Kjellberg Eriksson, Jon Heimer, Mats Nilsson Bernitz and Ulf Landegren as directors. Marcus Storch, Marianne Hansson, Nigel Darby and Per-Olof Wallström were elected as new directors and Erika Kjellberg Eriksson was elected as Board Chairperson.
- To increase the number of shares through a 1:20 share split and to authorise the Board to determine the record date for the share split through Euroclear Sweden AB. Following the share split, the company has a total of 14,818,680 shares outstanding, with a quotient value of SEK 0.05 per share.
- To adopt new Articles of Association adapted to the requirements imposed on public companies.
- To change the company category from private to public limited liability company.
- To authorise the Board of Directors¹⁾ to carry out new share issues, etc. by deciding, on one or more occasions during the period until the next Annual General Meeting, to increase the company's share capital by way of a new share issue by disapplying the preferential rights of the shareholders and/or with payment through contribution in kind, by offset or on other terms. This authorisation applies until the date on which the company's share is admitted to trading on a marketplace, but not later than the next Annual General Meeting.
- To authorise the Board of Directors¹⁾, on one or more occasions during the period until the next Annual General Meeting, to increase the company's share capital by way of a new issue of shares, warrants or convertibles by disapplying the preferential rights of the shareholders and/or with payment through contribution in kind, by offset or on other terms. This authorisation is to apply from the date on which the company's share is admitted to trading on a marketplace, and from the next annual general meeting. The authorisation is limited to an increase in the share capital by up to 10% in relation to the share capital existing when the issue authorisation was first utilised.
- To establish a Nomination Committee and adopt remuneration guidelines for senior executives.
- To approve the Board's proposal regarding the acquisition of Umbrella. It was noted that the company would finance the acquisition of Umbrella through a short-term loan from Nexttobe AB. The loan from Nexttobe AB will be repaid on the next planned financing date.

¹⁾ As of the publication date of this interim report, the Board of Directors had not utilised this authorisation.

Information about risks and uncertainties

Q-linea's management makes assumptions, assessments and estimates that impact the contents of the company's financial statements. As is stated in the company's accounting policies, actual outcomes may differ from these assessments and estimates.

The goal of the company's risk management is to identify, measure, control and limit the risks associated with its operations. Risks can be divided into financial risks and operational and business environment risks. Q-linea's operational and business environment risks mainly comprise: risks related to research and development, clinical trials and the dependence on key individuals. A detailed description of the company's risk exposure and risk management is presented on pages 7-9 of the 2017 Annual Report.

Definition of performance measures

In this financial report, Q-linea certain alternative performance measures that are not defined in accordance with IFRS. These performance measures are generic and are often used for the purpose of analysing and comparing different companies. Accordingly, the company believes that these alternative performance measures serve as an important supplement to enable readers to conduct a quick overview and assessment of Q-linea's financial situation. These financial performance measures are not to be considered independent and are not deemed to replace the presentation measures calculated in accordance with IFRS. Moreover, such performance measures, as defined by Q-linea, are not to be compared with other performance measures with similar names used by other companies. This is because the above performance measures have not always been defined in the same way and because other companies may not calculate them in the same way as Q-linea.

The performance measures "Net sales", "Result for the period", "Earnings per share" and "Cash flow from operating activities" are defined in accordance with IFRS.

Performance measures	Definition	Purpose
EBITDA	Operating result before depreciation/amortisation and impairment.	This performance measure provides an overall view of profit for the operating activities.
Operating result	Result before financial items according to the income statement.	This earnings measurement is used for external comparisons.
Equity/assets ratio, %	Equity plus untaxed reserves less the tax portion of untaxed reserves in relation to total assets.	This performance measure shows the amount of the balance sheet that has been financed by equity and is used to measure the company's financial position.
Debt/equity ratio	Net debt divided by equity. Net debt is defined as total borrowing (comprising the items short-term borrowing and long-term borrowing in the balance sheet, including borrowing from related parties/Group companies and provisions, less cash and cash equivalents and any short-term investments). Equity according to the balance sheet.	This performance measure is a measure of capital strength and is used to determine the relationship between adjusted liabilities and adjusted equity.
Equity per share before and after dilution	Equity attributable to the company's shareholders in relation to the number of shares at the end of the period.	This performance measure shows the amount of the company's equity that can be attributed to a share.

Reconciliation of alternative performance measures

The following is a reconciliation of certain alternative performance measures showing the various performance measure components that make up the alternative performance measures.

EBITDA

SEK thousand (unless otherwise stated)	2018 Apr-Jun	2017 Apr-Jun	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Operating result	-35,654	-16,295	-59,584	-30,022	-67,869
<i>Depreciation, amortisation and impairment</i>	476	422	941	845	1,720
EBITDA	-35,178	-15,873	-58,644	-29,178	-66,149

Equity/assets ratio

SEK thousand (unless otherwise stated)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Total assets	111,076	36,895	18,397
Equity	76,243	28,903	1,511
Equity/assets ratio (%)	69%	78%	8%

Debt/equity ratio

SEK thousand (unless otherwise stated)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Total borrowing	13,515	-	3,000
- Less cash and cash equivalents	-13,931	-29,242	- 6,588
- Less short-term investments	-67,976	-	-
Net debt	-68,392	-29,242	-3,588
Total equity	76,243	28,903	1,511
Debt/equity ratio (%)	-90%	-101%	-237%

Equity per share

SEK thousand (unless otherwise stated)	30 Jun 2018	30 Jun 2017	31 Dec 2017
Total equity	76,243	28,903	1,511
Total number of shares outstanding ¹⁾	14,818,680	9,857,060	11,499,920
Equity per share, SEK ¹⁾	5.15	2.93	0.13

¹⁾ Calculated on the number of shares outstanding at the end of the period taking into account the registered 1:20 share split. The total number of shares after the share split amounts to 14,818,680.

Performance measures and other information

SEK thousand (unless otherwise stated)	2018 Apr-Jun	2017 Apr-Jun	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Earnings					
Net sales	250	–	500	–	1,500
EBITDA	-35,178	-15,873	-58,644	-29,178	-66,149
Operating result (EBIT)	-35,654	-16,295	-59,584	-30,022	-67,869
Result for the period	-35,678	-16,297	-59,630	-30,020	-67,879
Per share					
Equity per share, SEK ¹⁾	5.15	2.93	5.15	2.93	0.13
Earnings per share before and after dilution, SEK ²⁾	-2.41	-1.65	-4.51	-3.05	-6.50
Total number of shares outstanding ¹⁾	14,818,680	9,857,060	14,818,680	9,857,060	11,499,920
Average number of shares ²⁾	14,818,680	9,857,060	13,223,475	9,857,060	10,442,188
Cash flow					
Cash flow from operating activities	-28,361	-13,029	-54,065	-28,150	-62,865
Cash flow from investing activities	-81,237	0	-81,327	138	-800
Cash flow from financing activities	-12,189	40,000	142,734	50,000	63,000

SEK thousand (unless otherwise stated)	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017	31 Dec 2017
Financial position					
Total assets	111,076	36,895	111,076	36,895	18,397
Cash and cash equivalents	13,931	29,242	13,931	29,242	6,588
Equity	76,243	28,903	76,243	28,903	1,511
Equity/assets ratio, %	69	78	69	78	8
Debt/equity ratio, % ³⁾	-90	-101	-90	-101	-237

¹⁾ Calculated on the number of shares outstanding at the end of the period taking into account the registered 1:20 share split. The total number of shares after the share split amounts to 14,818,680.

²⁾ Calculated on the average number of shares taking into account the registered 1:20 share split.

³⁾ The definition of debt/equity ratio has been corrected since the 2017 Annual Report to correspond more closely with the accepted definition and the performance measure for 31 December 2017 has thus been restated in accordance with the new definition.

The Board of Directors and the President hereby certify that this interim report provides a fair and true overview of the company's operations, financial position and earnings and describes the material risks and uncertainties facing the company.

UPPSALA, 23 August 2018

<hr/> Jonas Jarvius President	<hr/> Erika Kjellberg Eriksson Chairperson	<hr/> Jon Heimer Director
<hr/> Mats Nilsson Director	<hr/> Ulf Landegren Director	<hr/> Marcus Storch Director
<hr/> Marianne Hansson Director	<hr/> Per-Olof Wallström Director	

This report has been prepared in both Swedish and English. In the event of any discrepancies between the two, the Swedish version is to apply.

Upcoming reporting dates

8 November 2018	Interim report	January to September 2018
14 February 2019	Year-end report	January to December 2018
3 May 2019	Interim report	January to March 2019
22 May 2019	Annual General Meeting	
18 July 2019	Interim report	January to June 2018
7 November 2019	Interim report	January to September 2018

About the company

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FINANCIAL STATEMENTS

Unless otherwise stated, all amounts in the financial statements and accompanying notes are presented in thousands of kronor (SEK thousand).

INCOME STATEMENT

Amounts in SEK thousand	Note	2018 Apr-Jun	2017 Apr-Jun	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
<i>Operating income</i>						
Net sales	1	250	–	500	–	1,500
Other operating income		46	109	32	270	585
Total operating income		296	109	532	270	2,085
<i>Operating expenses</i>						
Raw materials and consumables		-5,611	-1,582	-10,863	-3,135	-10,610
Other external costs		-17,331	-6,170	-26,415	-10,423	-27,857
Personnel costs	3	-12,481	-8,230	-21,847	-15,890	-29,764
Depreciation/amortisation of tangible and intangible assets		-476	-422	-941	-845	-1,720
Other operating expenses		-51	–	-51	–	-3
Total operating expenses		-35,950	-16,404	-60,116	-30,292	-69,955
Operating result		-35,654	-16,295	-59,584	-30,022	-67,869
Other interest income and similar profit items		14	0	14	4	14
Interest expenses and similar loss items		-38	-2	-60	-2	-24
Profit/loss from financial items		-24	-2	-46	3	-10
Result before tax		-35,678	-16,297	-59,630	-30,020	-67,879
Tax on loss for the year		–	–	–	–	–
Result for the period		-35,678	-16,297	-59,630	-30,020	-67,879

Statement of comprehensive income

Amounts in SEK thousand	Note	2018 Apr-Jun	2017 Apr-Jun	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Result for the period		-35,678	-16,297	-59,630	-30,020	-67,879
Other comprehensive income, net after tax		–	–	–	–	–
Total comprehensive income		-35,678	-16,297	-59,630	-30,020	-67,879
Earnings per share before and after dilution, SEK ¹⁾		-2.41	-1.65	-4.51	-3.05	-6.50
Average number of shares ¹⁾		14,818,680	9,857,060	13,223,475	9,857,060	10,442,188

¹⁾ Calculated on the average number of shares taking into account the registered 1:20 share split.

BALANCE SHEET

Amounts in SEK thousand	Note	30 Jun 2018	30 Jun 2017	31 Dec 2017
ASSETS				
Non-current assets				
<i>Intangible assets</i>				
Licences		881	1,667	1,274
Technology and customer relationships	5	835	–	–
Goodwill	5	7,605	–	–
<i>Tangible assets</i>				
Equipment, tools, fixtures and fittings	5	8,741	2,357	2,812
<i>Financial assets</i>				
Other securities held as non-current assets		2,997	–	2,997
Other long-term receivables		50	–	–
Total non-current assets		21,109	4,024	7,083
Current assets				
Accounts receivable		–	–	793
Inventories	5	165	–	–
Other receivables		6,537	1,314	2,375
Prepaid expenses and accrued income		1,357	2,315	1,558
Short-term investments	4	67,976	–	–
Cash and cash equivalents		13,931	29,242	6,588
Total current assets		89,967	32,871	11,314
TOTAL ASSETS		111,076	36,895	18,397
EQUITY				
Restricted equity				
Share capital		741	493	575
Unregistered share capital		–	82	–
Unrestricted equity				
Share premium reserve		190,648	57,880	57,880
Retained earnings		-56,516	468	10,936
Net loss for the year		-59,630	-30,020	-67,879
Total equity		76,243	28,903	1,511
LIABILITIES				
Long-term liabilities				
Loans from credit institutions	5	893	–	–
Total long-term liabilities		1,537	–	–
Current liabilities				
Loans from credit institutions	5	644	–	–
Accounts payable		10,053	2,376	7,242
Current tax liabilities		347	286	234
Liabilities to Group companies	2,5	11,978	–	3,000
Other liabilities		2,286	1,006	1,150
Accrued expenses and deferred income		8,632	4,323	5,260
Total current liabilities		33,940	7,991	16,886
TOTAL LIABILITIES AND EQUITY		111,076	36,895	18,397

CHANGES IN EQUITY

Amounts in SEK thousand	Note	Share capital	Unregistered share capital	Share premium reserve	Retained earnings	Loss for the year	Total equity
Opening balance, 1 January 2017		493	–	155,757	-87,705	-60,091	8,455
Comprehensive income							
Result for the period						-30,020	-30,020
Appropriation of profits in accordance with AGM decision				-147,796	87,705	60,091	0
Total comprehensive income		493	–	7,962	0	-30,020	-21,565
Transactions with shareholders							
New share issue			82	49,918			50,000
Warrant scheme					468		468
Total transactions with shareholders		–	82	49,918	468	–	50,469
Closing balance, 30 June 2017		493	82	57,880	468	-30,020	28,903
Opening balance, 1 January 2017		493	–	155,757	-87,705	-60,091	8,455
Comprehensive income							
Net loss for the year						-67,879	-67,879
Appropriation of profits in accordance with AGM decision							
- Profit/loss deducted from share premium reserve				-147,796	87,705	60,091	0
Total comprehensive income		–	–	-147,796	87,705	-7,789	-67,879
Transactions with shareholders							
New share issue		82		49,918			50,000
Shareholder contribution received					10,000		10,000
Warrant scheme	3				936		936
Total transactions with shareholders		82	–	49,918	10,936	–	60,936
Closing balance, 31 December 2017		575	–	57,880	10,936	-67,879	1,511
Opening balance, 1 January 2018		575	–	57,880	10,936	-67,879	1,511
Comprehensive income							
Result for the period						-59,630	-59,630
Appropriation of profits in accordance with AGM decision							
- Carried forward to unrestricted equity					-67,879	67,879	0
Total comprehensive income		–	–	–	-67,879	8,249	-59,630
Transactions with shareholders							
New share issue		166		141,346			141,512
Issue costs				-8,578			-8,578
Shareholder contribution received	5				822		822
Warrant scheme	3				605		605
Total transactions with shareholders		166	–	132,768	1,428	–	134,362
Closing balance, 30 June 2018		741	–	190,648	-55,516	-59,630	76,243

CASH FLOW STATEMENT

Amounts in SEK thousand	Note	2018 Apr-Jun	2017 Apr-Jun	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
					+	
Cash flow from operating activities						
Operating result		-35,654	-16,295	-59,584	-30,022	-67,869
Adjustments for non-cash items						
- Depreciation reversal		476	422	941	845	1,720
- Employee share options	3	321	234	605	468	936
- Licensing revenue paid through shares		-250	–	-500	–	-1,497
- Accrued acquisition costs		130	–	130	–	–
Interest received		14	–	14	4	14
Interest paid		-38	-2	-60	-2	-24
Tax paid		-160	-306	-307	-421	-479
Cash flow from operating activities before changes in working capital		-35,161	-15,947	-58,762	-29,128	-67,199
<u>Changes in working capital</u>						
Increase/decrease in accounts receivable		26	1,028	793	1,073	280
Increase/decrease in other current receivables		-2,494	-1,612	-3,962	-101	-404
Increase/decrease in other current liabilities		4,631	3,275	5,055	1,764	1,351
Increase/decrease in accounts payable		4,637	227	2,811	-1,758	3,107
Changes in working capital		6,800	2,917	4,697	978	4,334
Cash flow from operating activities		-28,361	-13,029	-54,065	-28,150	-62,865
Cash flow from investing activities						
Investments in tangible assets		-410	–	-500	–	-938
Acquisition of business	5	-12,800	–	-12,800	–	–
Short-term investments	4	-67,976	–	-67,976	–	–
Investments in financial assets		-50	–	-50	–	–
Sales of financial assets		–	–	–	138	138
Cash flow from investing activities		-81,237	–	-81,327	138	-800
Cash flow from financing activities						
New share issue		–	50,000	132,934	50,000	50,000
Shareholder contribution received		–	–	–	–	10,000
Loans raised	2.5	12,800	–	12,800	–	3,000
Repayment of loans	2	-24,989	-10,000	-3,000	–	–
Cash flow from financing activities		-12,189	40,000	142,734	50,000	63,000
Cash flow for the period		-121,737	26,971	7,342	21,988	-665
Cash and cash equivalents at the beginning of the period		135,718	2,270	6,588	7,254	7,254
Cash and cash equivalents at the end of the period		13,981	29,242	13,981	29,242	6,588

REPORTING POLICIES AND VALUATION PRINCIPLES

This interim report has been prepared in accordance with the Swedish Annual Accounts Act and RFR 2.

Compliance with IFRS

Q-linea AB has prepared its financial statements in accordance with the Swedish Annual Accounts Act (1995:1554) and the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

RFR 2 entails that Q-linea applies all of the EU-endorsed International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the EU and statements, with the limitations that follow the Swedish Financial Reporting Board's recommendation RFR 2, Accounting for Legal Entities.

The most significant accounting policies applied when this interim report was prepared are set out below. Unless otherwise stated, these policies have been applied consistently for all years presented.

Standards, amendments and interpretations that took effect on 1 January 2018

IFRS 9 Financial Instruments

The standard is applied as of the financial year commencing on 1 January 2018. The company applies the exemptions set out in RFR 2 and the company's analysis shows that the standard will not therefore have any effect on the company's income statement and balance sheet.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 outlines how revenue is recognised. The underlying principles of IFRS 15 are to provide users of financial statements with sufficient information about the company's revenue. The expanded disclosure requirements entail that the nature, timing and uncertainty of revenue and cash flows attributable to the company's customer contracts must be disclosed. Under IFRS 15, revenue is recognised when control over the promised goods or service is transferred to the customer, and the customer is able to use and obtain the benefits of the goods or service. IFRS 15 supersedes IAS 18 Revenue Recognition and IAS 11 Accounting for Construction Contracts and the related SIC and IFRIC interpretations. IFRS 15 took effect on 1 January 2018.

The company's revenue mainly derives from licences under which a customer acquires a licence to utilise the company's technology to manufacture and sell products. These licences grant the customer with access rights for which revenue is recognised over time. The company has a performance obligation that is recognised over time since the customer simultaneously receives and utilises the benefits associated with the company providing the customer with access to its intangible assets as this occurs.

Revenue from licences is recognised on a straight-line basis over the contract period.

Under fixed-price agreements, the customer pays the agreed price on agreed payment dates. If the services delivered by the company exceed the payment, a contract asset is recognised. If the payment exceeds the services delivered, a contract liability is recognised.

The transition to IFRS 15 has not any impact on the company's earnings or balance sheet. The company has not therefore identified any accounting differences in the transition to IFRS 15, except for the expanded disclosure requirements.

Business combinations

The company's business combinations are recognised according to the acquisition method. The purchase consideration for a business combination comprises the fair value of the transferred assets and liabilities. The assets acquired and liabilities assumed in a business combination are initially measured at fair value on the acquisition date.

Goodwill

Goodwill arises in business combinations and pertains to the amount by which the purchase consideration exceeds the fair value of the identifiable net assets acquired. Goodwill is recognised at cost less accumulated amortisation. Amortisation takes place on a straight-line basis in order to distribute the cost of goodwill over the estimated useful life of seven years.

Acquired intangible assets

Technology (software protocol) and customer relationships acquired through a business combination are measured at fair value on the acquisition date. Technology (software protocol) and customer relationships have a determinable useful life and are recognised at cost less accumulated amortisation. Amortisation takes place on a straight-line basis in order to distribute the cost of technology (software protocol) and customer relationships over their estimated useful lives:

- Technology (software protocol) 7 years
- Customer relationships 3 years

Financial assets (fixed-income fund) and liabilities

IFRS 9 is not applied by the company and financial instruments are initially measured at cost in accordance with RFR2. In subsequent periods, financial assets acquired with the intention of being held over the short term are recognised at the lower of cost and market value.

Loan receivables and accounts receivable are recognised after the acquisition date at amortised cost using the effective interest method. For the purpose of the financial statements, an interest rate has been calculated for the interest-free loan and classified as a shareholder contribution.

Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the operating activities less applicable variable selling expenses.

For a more detailed description of the accounting policies applied in this interim report, refer to page 17 of the Annual Report for the 2017 financial year. The interim report comprises pages 1-22 and pages 1-12 thus comprise an integrated component of this financial report.

Standards, amendments and interpretations of existing standards that came into force in 2019 or later and that may affect, or have already affected, the financial statements

Under IFRS 16, which will come into effect on January 1, 2019, the lessee is required to recognise assets and liabilities for all leases, except for leases with a term of 12 months or less and/or leases of low-value assets. The standard supersedes IAS 17 Leases and related interpretations. The implications are that the distinction between an operating lease and a finance lease no longer applies, and is replaced by the right-of-use approach and the obligation to make lease payments.

As with the current standard, IAS 17 Leases, legal entities are not required to apply IFRS 16, so Q-linea does not expect the new standard to have any material effect on the company's financial statements.

NOTES

Note 1 Specification of net sales

Amounts in SEK thousand	2018 Apr-Jun	2017 Apr-Jun	2018 Jan-Jun	2017 Jan-Jun	2017 Jan-Dec
Sweden	250	–	500	–	1,500

Note 2 Related-party transactions

Related parties are defined as owners with a significant or controlling influence, senior executives in the company, meaning directors and members of the management team, and their close family members. Disclosures concerning transactions between the company and other related parties are presented below.

Related-party transactions are performed on an arm's length basis. No fees were paid to the Board of Directors during the period.

Q-linea raised a short-term interest-free loan of SEK 12,800 thousand (0) from Nexttobe AB, Q-linea's largest owner with a holding of 59.3% (69.1). The liability to Nexttobe is to be paid on the next planned financing date. During the quarter, a short-term interest-free loan from Nexttobe AB of SEK 24,989 thousand (10,000) was repaid.

A licensing agreement was signed between EMPE Diagnostics AB and Q-linea and SEK 250 thousand (0) was recognised as revenue in the second quarter and SEK 500 thousand (0) in the first quarter. One of EMPE Diagnostics AB's co-founders, shareholders and directors is Mats Nilsson, who is also a co-founder, shareholder and director of Q-linea AB.

During the 2017 financial year and until Q-linea acquired the business, Umbrella was owned by parties including Jonas Jarvius and Nexttobe AB, who are also shareholders and/or senior executives of Q-linea. The valuation of the company was carried out by an external supplier and the decision to acquire Umbrella was made by the Annual General Meeting. Q-linea was invoiced for SEK 3,007 thousand (230) during the second quarter and SEK 4,213 thousand (230) during the first half of the year. Q-linea had no unpaid invoices from Umbrella on the balance sheet date.

Note 3 Shared-based option programme

Q-linea has an ongoing performance-based employee share option programme that encompasses senior executives and other key individuals at the company. The programme encompasses senior executives and other key individuals at Q-linea. There is also a programme for employees who joined the company within four years after it was founded (2008-2012). The programme encompasses a total of 7,778 employee share options, of which 7,645 (7,185) employee share options were outstanding on 30 June 2018 and were allotted free of charge to programme participants. Vesting is based on employment terms and the fulfilment of agreed targets. No employee share options were allotted, forfeited or expired during the second quarter or the first half of the year.

The employee share options could originally be exercised to subscribe for shares up to an including 31 December 2016. However, the conditions of the employee share options were changed in 2016 with the

term being extended up to and including 31 December 2019. In connection with this, the term of the underlying warrants was also extended.

The company has issued warrants to ensure the delivery of the shares to the appropriate employees when they exercise the employee share options.

The employee share options originally carried entitlement to subscription for one share per employee share option and the exercise price for the employee share options originally amounted to SEK 300 per share. In light of the share split implemented by the company in connection with the 2018 Annual General Meeting, the employee share options and the underlying warrants were subject to recalculation in accordance with signed employee share option agreements and the conditions of the underlying warrants. This means that each employee share option carries entitlement to subscription for 20 shares for an exercise price of SEK 15 per share (provided that no further recalculation takes place) and that each registered warrant carries entitlement to subscription for 20 shares.

The cost recognised amounted to SEK 321 thousand (234) for the second quarter and SEK 605 thousand (468) for the first half of the year.

Note 4 Short-term investments

Cash and cash equivalents not used in the daily operations have been placed in a fixed-income fund that invests in secured interest-bearing securities and other interest-rate instruments. Since most of the securities in this fund have a remaining term of more than three months, the securities have recognised as short-term investments in the balance sheet and measured at cost.

Note 5 Business combinations

Q-linea acquired the business Umbrella Science AB for SEK 12.8 million on 30 June 2018. Umbrella Science AB is a strategically important supplier focusing on the design, development and production of highly specialised plastic disposables for customers in the life sciences industry. Synergy effects are mainly expected derive from the expertise of the company's employees and more efficient use of production facilities. The purchase consideration was paid in cash and was financed through a short-term interest-free loan in a corresponding amount from the company's principal owner, Nexttobe AB. No earn-out will be paid. The agreement also contains standard guarantees and liability clauses. More information about the purchase consideration, acquired net assets and goodwill is presented in the table below.

The following assets and liabilities have been recognised as a result of the acquisition:

Preliminary acquisition analysis, assets and liabilities Amounts in SEK thousand	Fair value
Technology (software protocol)	590
Customer relationships	245
Tangible assets	5,977
Inventories	165
Interest-bearing liabilities	-1,537
Accrued expenses and deferred income	-244
Acquired identifiable assets and liabilities	5,195
Goodwill	7,605
Acquired net assets	12,800

The difference between the purchase consideration paid and the identified assets and liabilities has been allocated to goodwill. Goodwill is deemed to be attributable to synergy effects and expertise in the company and is to be amortised over an estimated useful life of seven years. Since the goodwill arose through the acquisition of assets and liabilities, it is deemed to be tax deductible.

Acquired technology refers to a software protocol adapted for mould injection that is expected to be used in the production of new structures and is to be amortised on an estimated useful life of seven years. Customer relationships refer to a customer register and customer orders on hand and are amortised over three years.

The acquisition was completed on 30 June 2018. If the acquisition had taken place on 1 January 2018, management deems that the company's net sales and net income for the period 1 January to 30 June 2018 would not have increased significantly, since Q-linea AB was Umbrella Science AB's main customer during this period.

The impact on the company's cash flow comprises the paid purchase consideration of SEK 12.8 million and the raising of a short-term interest-free loan in a corresponding amount. No cash was assumed in connection with the acquisition.

Impact on the company's cash flow	2018
Amounts in SEK thousand	Jan-Jun
Cash consideration	12,800
Cash and cash equivalents in the acquired company	–
Net outflow of cash and cash equivalents – investing activities	-12,800
Loans raised	12,800
Net inflow of cash and cash equivalents – financing activities	12,800
Cash flow for the period	–

Acquisition-related expenses of SEK 130 thousand are included in other external costs in profit or loss, but did not impact operating activities in the cash flow statement during the second quarter.

Note 6 Risk management

The company is exposed to various types of risks during the course of its operations. By creating an awareness of the risks associated with the operations, such risks can be limited, controlled and managed while allowing business opportunities to be utilised in order to increase the company's earnings. The material risks associated with Q-linea's operations are presented in the Annual Report for the 1 January to 31 December 2017 financial year. Other than these risks, no material risks arose during the quarter.

Note 7 Future financing

Q-linea does not yet have any approved products and thus does not generate its own positive cash flow. Efforts are continuously being made to identify other financing alternatives. This work involves, for example, Q-linea assessing various financing alternatives, including a stock market listing.

In March 2018, the company conducted a private placement (described under "Financing") and taking into account the proceeds generated for the company, the Board considers the company's prospects to finance the operations over the current financial year to be favourable.

Note 8 Significant events after the end of the period

Nigel Darby stepped down from his position as director due to other competing commitments. Following the registration of the 1:20 share split approved by the Annual General Meeting in June, the number of shares in the company increased to a total of 14,818,680 shares outstanding, with a quotient value of SEK 0.05 per share. Anders Lundin was employed as CFO as of 1 August 2018.