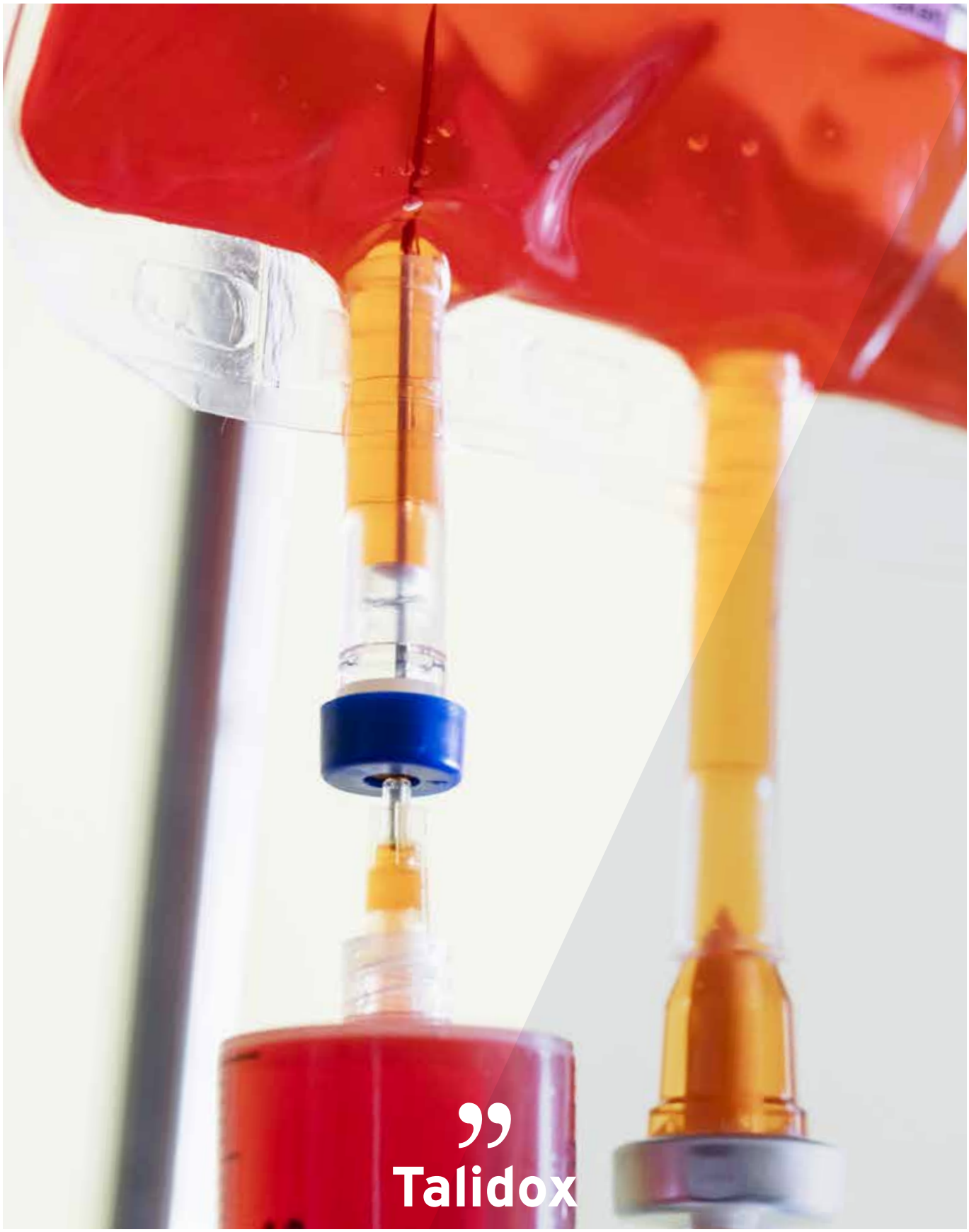
Annual Report 2017



The hope expressed by oncologists of SAKK that Talidox will replace the therapies Caelyx and free doxorubicin in the near future highlights not only medical progress, but also its great commercial potential.

Letter to Shareholders

InnoMedica looks back on a year in which major entrepreneurial advances have been achieved. As early as January 2017, InnoMedica and the Swiss Group for Clinical Cancer Research (SAKK) decided to conduct the clinical study after having screened preclinical data and initial evaluations of the toxicity of Talidox, and to initiate the necessary steps for the treatment of cancer patients in Swiss hospitals. This decision at the beginning of the year defined InnoMedica's entire financial year. Preparations for the submission of the study application to Swissmedic and the ethics committee were given priority. The focus of activities was on toxicological investigations, the development of the study protocol and stringent proof of product safety and quality.

Based on the preclinical data, InnoMedica defined the product design for clinical trials. This designated type of Talidox was investigated in spring and summer 2017 in a strictly monitored toxicology study conducted according to „Good Laboratory Practice" for possible side effects and maximum dosage in an animal model. The study, carried out by a company specialized in this field, was tailored to the needs of patients in cooperation with SAKK's oncologists. As Talidox uses doxorubicin, a clinically established active agent, which is already applied in a liposomal formulation under the brand of Caelyx, InnoMedica's results can be compared to corresponding results of free Doxorubicin and Caelyx. Based on the prior knowledge that treatments with Caelyx are often associated with hand-foot syndrome, the toxicology study focused on this side effect in particular. The results confirmed the positive findings of the preclinical studies. In contrast to Caelyx, Talidox showed no signs of hand-foot syndrome. The maximum dose of Talidox used was a factor of 12 higher than that of Caelyx. In addition to the findings on hand-foot syndrome, the results of blood count are also remarkable. In therapy with Talidox, the number of cells in the blood that are relevant for the defense against infectious diseases is reduced less than what doctors had expected from their preclinical experience. Regarding the defense against acute infections, this should have a positive effect on the course of treatment of patients.

The results of the toxicology study evaluated in the study report of autumn 2017 were very positively received by the doctors. If the favorable preclinical side effect profile is confirmed in clinical trials, this represents a major step forward for cancer patients: A more tolerable therapy that allows a longer treatment duration can significantly increase the probability of survival. The hope expressed by SAKK's oncologists of replacing the therapies Caelyx and free doxorubicin with Talidox in the near future highlights not only the medical progress, but also Talidox' great commercial potential on the international market.

Following the successful completion of the toxicology study, InnoMedica and SAKK jointly developed a Phase I study protocol. The protocol regulates the patient selection, administration pattern, dosage and post-administration medical analysis of tumor growth as well as distribution and degradation of the drug in the body. The study design optimally takes into account the benefits of Talidox documented in the preclinical dataset. For example, due to the good toxicological results with regard to hand-foot syndrome and blood count, the dose can be increased comparatively quickly in the initial phase of the clinical trial. Patients who have responded well to treatment with doxorubicin but had to discontinue treatment due to severe side effects are also eligible for the study. After completion of the protocol development, in December 2017 the two partners signed an approximately 130-page contract for the implementation of the clinical study.

In parallel with the protocol development, the InnoMedica production team has finalized the manufacturing process and methods to ensure the quality of Talidox by analytical measurements for the final product type envisaged in the clinical trial. For all analytical methods relating to product safety, validation, i. e. proof of suitability for use, must be provided. In addition to quality assurance, the production quantities and parts of the manufacturing process had to be adapted. The most important production steps of the innovative production process developed by InnoMedica were already technically scaled up in spring 2017. In the second half of the year, the entire production process was successfully converted to larger volumes. The production volume reaches 6 liters per production run and covers around 70 clinical treatment cycles or 52 months of treatment. Thus, the production capacity for the Phase I/IIa clinical trial is ensured. In addition, the modular structure of the production steps allows the production volume to be increased up to 72 liters per production run without further fundamental technical change. The established manufacturing process is documented together

with the analytical data and validations in the Pharmaceutical Quality Dossier for submission to the regulator. The entire dossier, consisting of the Toxicology Study, the Study Protocol and the Pharmaceutical Quality Dossier, will soon be submitted to Swissmedic for approval of the Phase I clinical trial. The toxicology study and study protocol were finalized in 2017. For the Pharmaceutical Product Dossier, validation by an external laboratory is still to be completed.

InnoMedica is convinced to have made the right judgement call with the decision to carry out the clinical trial to bring Talidox' great medical potential to the patient as soon as possible. To this end, InnoMedica continues to pursue independent clinical development and international marketing.

Risk assessment

InnoMedica was able to further reduce entrepreneurial risks in 2017 thanks to the favorable side-effect profile of the toxicology study and the successful manufacturing scale-up. The start of the clinical trial is therefore associated with only comparatively low risks, especially since the submission of the extensive study application for a study permit by Swissmedic and the ethics committee is imminent, according to today's estimates. However, until Talidox is ready to enter the market, the time required for clinical development and the necessary financing will pose further challenges.

The now established Parkinson's disease project has also contributed to risk reduction by diversifying the pipeline. The preclinical data show that the liposomes developed by InnoMedica successfully cross the blood-brain barrier, bringing drugs into the central nervous system for which this tissue would otherwise remain biologically inaccessible. Leading neurologists in Switzerland and Germany are taking a keen interest in this approach, especially as InnoMedica's liposomes can be administered orally and as there are no treatment options altering the cause of Parkinson's disease so far. A long-term neuroprotective approach, which is not limited to alleviating symptoms like current treatments, represents a real breakthrough in neurology. InnoMedica is currently preparing the toxicological study and clinical evaluation of this prototype in cooperation with the neurologists. The novel liposomes developed by InnoMedica to overcome the blood-brain barrier have been protected by a patent application, expanding the existing patent portfolio in the future.

The financial risks of young biotech companies are characterized by the natural circumstances of a comparatively long investment phase. InnoMedica is no exception. The financial ability to act is ensured by means of regular capital increases. In 2017, InnoMedica successfully completed a capital increase of 75,000 shares or CHF 7.7 million until May 31, 2017 with subscriptions in the amount of CHF 10.5 million. Following this financing round, the shareholder group now consists of more than 440 shareholders. More than 200 new investors have joined through the public offer and existing shareholders have further expanded their number of shares.

In 2017, InnoMedica recorded strong growth in personnel. The number of permanent employees rose from 11 to 22. Most recruiting was done in the areas of production, quality control, quality assurance and development. The areas of finance, administration and IT are deliberately kept lean. In order to cope with the growth in personnel, both the Berne and the Marly site had to be expanded. Both locations are of central importance to InnoMedica. In Marly, InnoMedica has the opportunity to expand the production facility due to available space and the optimized contractual relationship with the Marly Innovation Center. In Bern, the proximity to the university for joint research projects and further recruitment, the proximity to the hospital Inselspital and the SAKK for medical exchange, as well as the proximity to the authorities are strategically important locational advantages. The company's roots in Bern is also reflected in the election of Bernese advocate Manuel C. Frick as an additional member of the Board of Directors by the Annual General Meeting on June 20, 2017. Like in the previous year, there were no departures in terms of staff turnover in 2017. The main shareholders continue to provide a buy-in program that actively engages employees as shareholders. The well-established program is a significant motivational factor and should be maintained in order to keep staffing costs moderate and staff turnover low.

With regard to the upcoming clinical phase I with Talidox, patient safety is of particular importance. The manufacturing quality of Talidox is of the utmost importance to InnoMedica and SAKK. In addition, technical questions relating to the scale-up and the toxicological tests are also relevant for success. In order to limit liability risks, InnoMedica and SAKK have patient insurance, which includes both professional and product liability.

Still, InnoMedica considers the clinical trials phase I and II, the staff growth and the expansion of production capacity major challenges.

Outlook

The most important upcoming milestone for InnoMedica is to establish Talidox' tolerability profile over the course of the Phase I clinical trial. The study protocol and the description of the preclinical data have been

finalized for the Phase I study submission dossier. The Pharmaceutical Quality Dossier can be completed by March according to the project plan. Subsequently, the entire dossier will be reviewed by SAKK and submitted to Swissmedic and the Ethics committee for study approval. The two authorities require a review period of at least 30 and no more than 60 days. The study approval can therefore be expected between May and July 2018, provided that no further inquiries are made by Swissmedic. A few weeks later, the first patient will be treated with the initial dose of approximately 8.5 ml Talidox. After a three-week monitoring period, the next patient will be enrolled in the study and treated with the next higher predefined dose. Dose escalation will be performed for about 5 months. If treatment shows a positive progression, up to 15 additional patients will promptly be treated with the targeted dose in one of the five hospitals in St. Gallen, Chur, Bellinzona, Basel or Bern.

The application in neurology, as a possible second pillar of InnoMedica, has a great medical potential according to the assessment of all parties involved. Over the next months, the preclinical dataset needs to be consolidated and the toxicological investigations will be carried out. At the same time, the protocol for an initial study with patients will be prepared. For production and scale-up, InnoMedica can rely on its experience with Talidox, thus gaining time. On the other hand, securing the supply chain in the required quality and at acceptable prices is demanding. In this context, InnoMedica is currently examining cooperation with suitable sourcing partners.

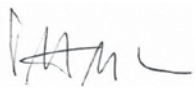
The two products for oncology and neurology cannot be produced in the same clean room. Furthermore, today's clean room is too small for the production of larger quantities of Talidox, as may be required in Phase II. InnoMedica has therefore planned out a second clean room in Marly and started construction work. The second clean room has roughly four times the floor area of the existing first clean room and will also allow the automation of central production steps. Thus, the production of Talidox can be moved to the new clean room and the existing smaller clean room can be used for innovation projects such as the neurology product.

InnoMedica's vision of setting new standards in chemotherapy was reaffirmed in 2017 by the results of the toxicology study. There is a real chance that Talidox will replace Doxorubicin and Caelyx as standard treatment in the near future. Other cytostatic drugs could also benefit from InnoMedica's liposomal transport system and be translated into clinics after successful results with Talidox. With the application in neurology, it is possible to establish a completely new treatment approach. For the first time, the up to date only symptomatically treatable Parkinson's disease could be treated causal while preventing progression.

With the planned expansion of production capacities, InnoMedica will be able to supply Talidox for a possibly faster growing number of patients. Ensuring supply capability in sufficient quantity and quality is a decisive success factor for a startup company. To secure this expansion, InnoMedica plans to carry out a capital increase of CHF 31.6 million (153,272 shares) until May 31, 2018. If the forthcoming clinical trials in oncology and neurology confirm the advantages of liposomal nanotechnology according to InnoMedica's expectations, collaborations with drug manufacturers are foreseeable, in addition to the production and distribution of in-house products. To fully exploit this potential, an independent company is a prerequisite.

The Board of Directors of InnoMedica Holding AG

Dr. Herbert Früh
Chairman of the Board



Dr. Peter Halbherr
Delegate of the Board

Financial Overview

The 2017 fiscal year was characterized by expansion for InnoMedica. The decisive factor here was the 36 percent oversubscribed capital increase with new financial resources in the amount of CHF 7.7 million, which further increased the company's financial strength. The expanded financial scope of action allowed InnoMedica to double its workforce, build a second mainstay in neurology, and invest in Talidox' clinical development and the infrastructure expansion at the manufacturing facility in Marly.

Notable items from balance sheet

Position	2016	2017	Changes
Cash and cash equivalents	3,574,898	6,960,178	+94.7 %
Equity	3,160,274	7,710,797	+144.0 %
Total assets	4,229,730	7,958,682	+88.2 %
Annual losses	-1,555,425	-3,160,327	+103.2 %
Operating cash flow	-1,478,286	-2,912,950	+97.0 %
Free cash flow	-1,648,169	-3,259,284	+97.8 %

The annual loss for the 2017 fiscal year amounted to CHF 3,160,327, and is thus around twice as high as in the previous year. Personnel expenses are the main cost driver, accounting for around half of the annual loss. Expenses of goods and services have increased disproportionately, particularly due to the scale-up of GMP production for Talidox in the light of the forthcoming clinical trial, as well as the preclinical studies for Talidox and the new Parkinson's disease project, contributing approximately one-quarter to the annual loss. Other operating expenses include infrastructure (in particular rental expenses), administrative costs and capital increase expenses (including issue tax), which accounts for around a fifth of the expenditure.

At the end of 2017, cash and cash equivalents amounted to CHF 6,960,178. A significant increase in liquidity compared to the previous year, primarily due to the successful capital increase in May 2017.

In May 2017, InnoMedica was able to raise a total of CHF 7,706,250 in the context of the authorized capital increase with a public offer. The capital increase took place in three phases. In a first step, the convertible bond of December 2016 was offset with shares at a share price of CHF 102.75 each, whereby the allotment was made exclusively via subscription rights of the pool shareholders. Subscription rights of the pool shareholders were also used in a preliminary round to secure larger subscriptions with a minimum of 1,000 shares to qualified investors. The capital increase was then completed with a public offer with a minimum subscription of 150 shares as of May 31, 2017 at CHF 10.5 million, thus oversubscribed by CHF 2.8 million. With this approach, numerous existing shareholders were able to expand their investment in InnoMedica, but also new shareholders joined InnoMedica. The shareholder base was extended by more than 200 new shareholders.

List of previous and upcoming financing rounds

Financing round	Quantity of shares	Share price (CHF)	Total capital (CHF)	Total share capital (CHF)	Equity valuation (Mio. CHF)
Capital increases 2013-2016 [1]	186,728	11.50 – 68.50	6,636,209	1,171,728	80.3
Capital increase 2017 [2]	75,000	102.75	7,706,250	1,246,728	128.1
Capital increases 2018 [3]	*153,272*	206.00	*31,574,032*	*1,400,000*	*288.4*
Preliminary round March 2018	Minimum of 500 shares, via subscription rights of the pool of shareholders				
Public offering May 2018	Minimum of 75 shares				

[1] The business plan contains more detailed information.
[2] The capital increase 2017 consists of a convertible bond for the clinical trial phase I, a preliminary round and the public offering.
[3] Forecast values are shown in italics.

The available financial resources made it possible to cover costs in 2017, as well as to ensure expenditure in 2018 for:

- Phase I clinical trial for Talidox
- Investments in infrastructure expansion
- Further development of the Parkinson's disease project
- Preparations for market entry
- Additional operating expenses

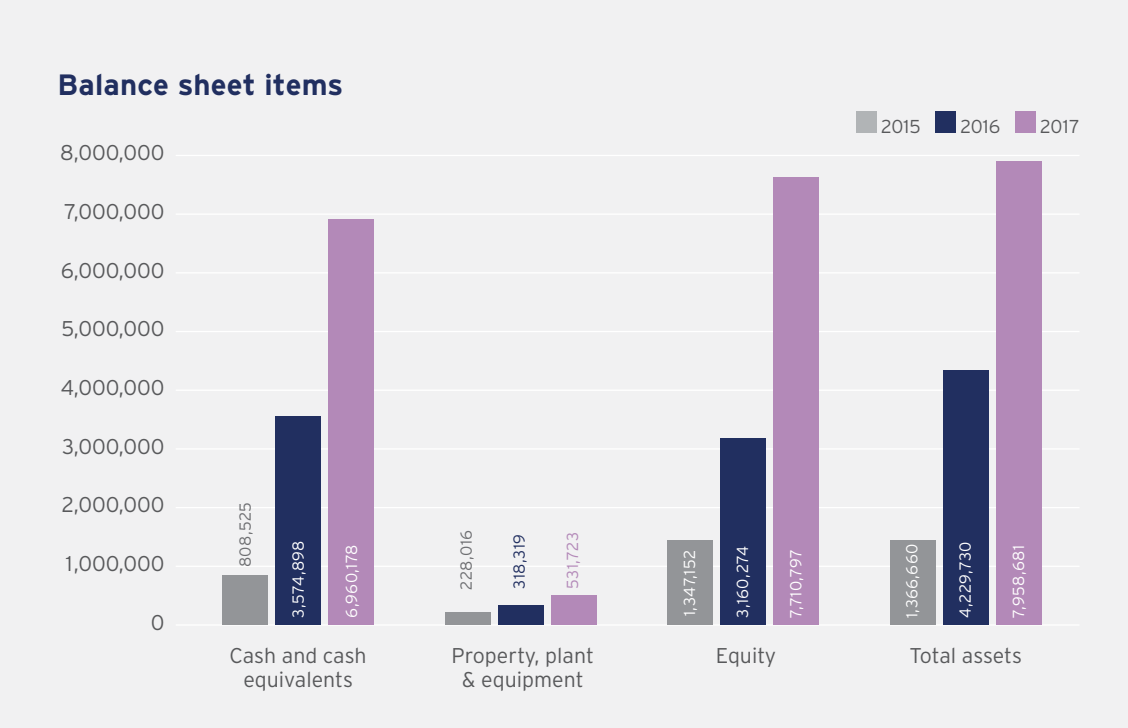
The implementation and presentation of the financial statements were carried out essentially unchanged from the previous year and prepared in accordance with the provisions of the Swiss Code of Obligations. The capital increase costs were separately disclosed in the income statement. This practice was applied retrospectively to fiscal year 2015 in this annual report. Individual deviations and other more detailed information are explained in the appendix. InnoMedica also maintains a service contract with IPAG Inter Personal AG (IPAG), which is responsible for the organization of the personnel as well as the infrastructure and IT in Bern and Zurich.

Balance sheet

Cash and cash equivalents amounted to CHF 6,960,178 at the balance sheet date, an increase of 94.7 percent compared to the previous year. In relative terms, cash and cash equivalents cover around double the free cash flow of CHF -3,259,284. This ratio remained stable year-on-year, which means that the risk of undercapitalization is also comparable. The financial planning envisages maintaining liquidity at around twice the free cash flow until Talidox is launched on the market, in order to avoid financial bottlenecks with respect to the clinical trial until break-even.

The position of **securities** in assets remained largely unchanged. In addition to dividend and small foreign exchange income, a price gain of CHF 11,802 was generated.

Property, plant and equipment in the amount of CHF 346,334 ware capitalized in the balance sheet for the 2017 financial year, which corresponds to an increase of 103.9 percent compared to the previous year. De-



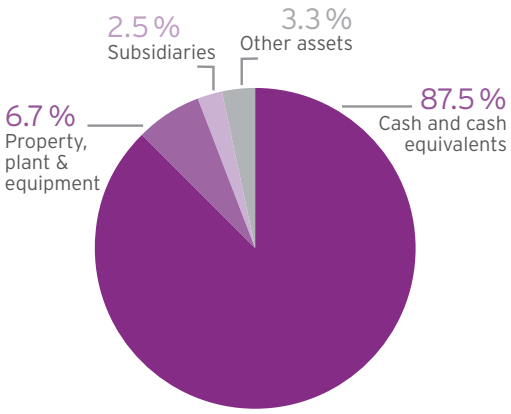
preciation on property, plant and equipment amounted to CHF 132,931 at the balance sheet date. Overall, this item increased by 67.0 percent year-on-year to CHF 531,723. For the expansion of GMP production and quality control in Marly, several major production and analytical devices were acquired in the 2017 financial year. In view of the upcoming clinical trial and the associated increase in production volume as well as the further development of the Parkinson's disease project, further acquisitions are planned for the coming year. According to financial planning, a further increase in this balance sheet item is therefore to be expected.

Items such as the Talidox project expenses or the capital increase expenses are not activated for the current fiscal year. The activation of further items has been dispensed due to unsecured and unattempted disposability.

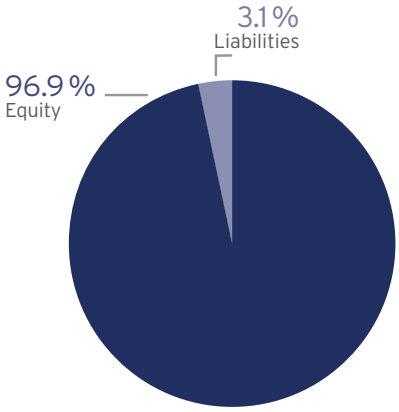
In contrast to the previous year, there were no **short-term interest-bearing liabilities** at the balance sheet date in the financial year 2017.

Within the scope of the authorized capital increase with a public offer, 75,000 shares were newly issued in fiscal year 2017, which led to an increase in **share capital** by 6.4 percent. In addition, 80 treasury shares were offset against operating expenses at fair value. The final year's stock of **treasury shares** amounts to 1,628 shares at a book value of CHF 2.50. Overall, **equity** increased by 144.0 percent to CHF 7,710,797 as a result of the inflow of capital and the disposal of treasury shares, net of the annual loss of 2017.

Assets (100 %)



Liabilities (100 %)



Income statement

Compared to the previous year, expenses increased significantly in the financial year 2017. The **loss for the year** as of the balance sheet date was CHF 3,160,327, which is 103.2 percent higher than in the previous year. In view of the start of the clinical trial for Talidox, a further increase in costs is expected for the year 2018. **Operating income** will only be generated after Talidox has been approved and launched on the market (see business plan).

Goods and services expenses rose by 235.6 percent year-on-year to CHF 778,207. This increase is primarily due to the toxicology study for Talidox. In addition, the production volume of Talidox has increased steadily with the upcoming clinical trial. Higher expenditure was also incurred for the expansion of GMP production and analytics. In addition, the Parkinson's disease project was also included in the pipeline as a new product in 2017, which caused an additional increase in this item by CHF 22,932. In 2018, a further increase in goods and services expenses for the development of the Parkinson's disease project is expected. External costs relating to Talidox will also continue to increase. A contractual agreement of CHF 1,078,556 for the following year already exists for the Phase I clinical trial.

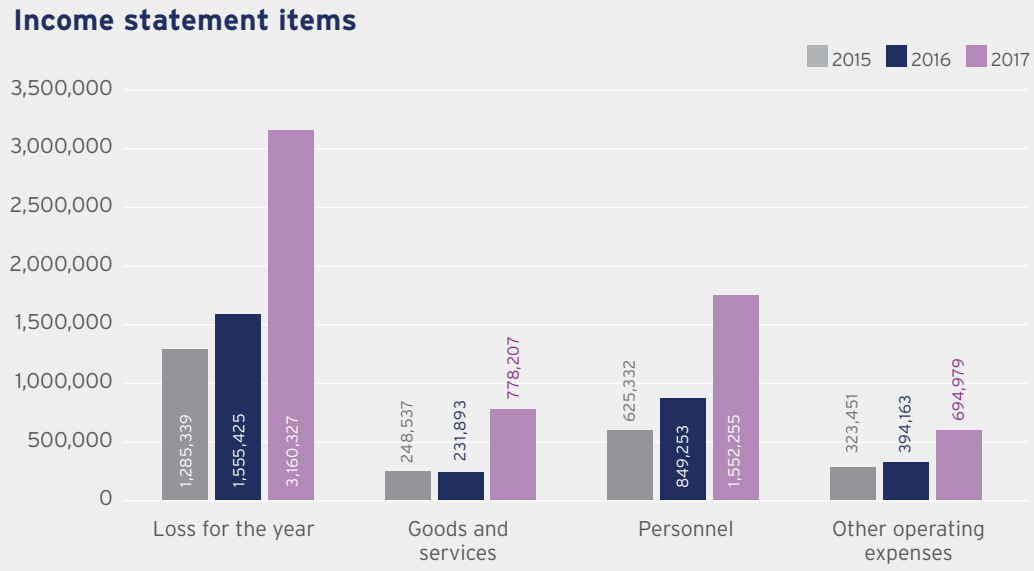
As of the balance sheet date, **personnel expenses** amounted to CHF 1,552,255, an increase by 82.8 percent compared to the previous year. In 2017, the number of staff doubled from 11 to 22 people, and the percentage of jobs rose from 1,080 to 2,100. Board of Directors' fees of CHF 24,000 were paid in the financial year 2017. Further jobs and a moderate adjustment of the still rather low salaries are planned for the coming year. Therefore, a further increase in this position is to be expected.

Infrastructure expenditure increased by 28.0 percent year-on-year to CHF 185,952. This increase is due to the increase in staffing levels in particular and the associated expansion of the office space in Bern and Marly. In addition, production in Marly will be further expanded to allow larger production volumes of Talidox to be manufactured in view of the clinical trial and market launch. With the signing of the new lease agreement for the expanded premises, the infrastructure expenditure will continue to grow moderately for the next year.

Administration expenditure rose by 70.2 percent to CHF 222,206. Administrative expenses include, in addition to general office expenses, the variable employee costs paid to IPAG, audit fees, accounting costs of YAMAZAKI-DDS Co., Ltd. and costs of the General Meeting.

The **capital increase expenditure** in 2017 amounted to CHF 209,804 and is reported separately. This includes all costs and fees in connection with the capital increase. The issue tax of the 2017 capital increase of CHF 76,291 is also included in this income statement item. The cost of the capital increase rose by 107.5 percent compared to the previous year. In view of the planned capital increase, a further increase in this cost item is expected in 2018.

The **interest expense convertible bond** is the interest paid of 3.0 percent p. a. for the convertible bond fully converted into equity in May 2017.



Statement of shareholders' equity

Year	2016	2017
Balance, January 1st	1,347,152	3,160,274
Common stock issued	48,559	75,000
Change in capital reserves	3,318,281	7,635,650
Change in treasury shares	1,708	200
Balance, December 31st (without net income)	4,715,699	10,871,124
Net income	-1,555,425	- 3,160,327
Balance, December 31st	3,160,274	7,710,797

Parkinson's Disease Project

Leading neurologists show great interest in InnoMedica's long-term neuroprotective approach, which, unlike current therapies, is not limited to alleviating symptoms, but rather slows down disease progression through causal treatment.

Financial Statements

Balance sheet

Year	2016	2017
Assets	CHF	CHF
Cash and cash equivalents	3,574,898	6,960,178
Securities	101,995	112,573
Receivables	-	-
Other current receivables	30,245	122,869
Deferred charges	4,272	31,338
Total current assets	**3,711,411**	**7,226,958**
Financial assets	-	-
Subsidiaries (YDDS)	200,000	200,000
Property, plant and equipment	318,319	531,723
Total non-current assets	**518,319**	**731,723**
Total assets, December 31st	**4,229,730**	**7,958,681**
Liabilities		
Payables	-	185,378
Short-term interest-bearing liabilities (convertible bond)	1,045,995	-
Accruals	23,461	62,506
Total short-term liabilities	**1,069,456**	**247,884**
Long-term liabilities	**-**	**-**
Share capital	1,171,728	1,246,728
Total legal reserves	7,357,332	14,992,982
Reserves from capital contribution	5,711,666	13,265,731
Other legal reserves	1,645,666	1,727,251
Loss brought forward	-3,809,091	-5,364,516
Loss of the year	-1,555,425	-3,160,327
Treasury shares	-4,270	-4,070
Total shareholders' equity	**3,160,274**	**7,710,797**
Total liabilities, December 31st	**4,229,730**	**7,958,681**

Income statement

Year	2016	2017
Operating income	CHF	CHF
Total operating income	**-**	**-**
Goods and services expenses		
Development expenses	-231,893	-778,207
Total goods and services expenses	**-231,893**	**-778,207**
Personnel expenses		
Total personnel expenses	**-849,253**	**-1,552,255**
Other operating expenses		
Infrastructure expenditure	-145,227	-185,952
Vehicle and transport costs	-1,146	-6,805
Property insurance and fees	-1,069	-3,148
Administration expenditure	-130,571 [4]	-222,206
Capital increase expenditure [5]	-101,114	-209,804
IT expenditure	-5,388 [4]	-30,476
Advertising expenditure	-9,649	-36,589
Total other operating expenses	**-394,163**	**-694,979**
EBITDA	**-1,475,310**	**-3,025,441**
Depreciation	-79,580	-132,931
Allowance securities	433	11,802
Translation differences	1,848	6,463
EBIT	**-1,552,608**	**-3,140,107**
Financial expense	-1,191	-3,052
Interest expense convertible bond	-959	-15,691
Financial income	603	632
EBT	**-1,554,155**	**-3,158,219**
Direct taxes	-1,270	-2,108
Loss for the year	**-1,555,425**	**-3,160,327**

[4] In this annual report, the **IT expenditure** of the 2016 financial year was subsequently extracted from the item **administration expenditure** for comparability with the 2017 financial year item.
[5] The income statement item **capital increase expenditure** was reported including the issue tax of CHF 32,920 in 2016 and CHF 76,291 in 2017.

Cash flow statement

Year	2016	2017
Net income	-1,555,425	-3,160,327
Depreciation	79,580	132,931
Non-cash expenses	959	20,289 [6]
Change in current assets	-6,394	-130,267
Change in accrued expenses and deferred income	2,994	224,424
Cash Flow from operative activities	**-1,478,286**	**-2,912,950**
Investments in property, plant and equipment	-169,884	-346,334
Cash flow from investment activities	**-169,884**	**-346,334**
Uptake of convertible bond	1,045,995	-
Interest expense convertible bond	-	-15,691
Equity contributions	3,366,840	6,660,255
Disposing of treasury shares	1,708	- [6]
Cash flow from financing activities	**4,414,543**	**6,644,564**
Increase in cash and cash equivalents	**2,766,373**	**3,385,280**
Cash and cash equivalents, January 1st	808,525	3,574,898
Cash and cash equivalents, December 31st	3,574,898	6,960,178
Change in cash and cash equivalents	**2,766,373**	**3,385,280**

[6] The **disposing of treasury shares** in the 2016 financial year was still included in the cash flow from financing activities. Due to the operational nature by using treasury shares to offset existing invoices, this practice changed and the item was allocated to cash flow from operating activities under **non-cash expenses.**

Notes to the Financial Statements 2017

The present financial statements have been prepared in accordance with the provisions of the Swiss Code of Obligations (OR) on commercial bookkeeping and accounting as of April 1, 2017. The balance sheet and income statement correspond to the minimum breakdown (Article 959a and Article 959b OR) prescribed by the Swiss Code of Obligations and are based on the value of continuation (Article 958a para 1 OR). The income statement was compiled using the total cost method and the cash flow from operating activities using the indirect method.

Valuation principles

Securities: Securities are valued at market values on the balance sheet date. Exchange rate gains and losses as well as currency differences are recorded as such in the income statement. These are short-term disposable shares and securities in different currencies. The positions and valuation principles remained the same as in the previous year.

Shareholdings: Positions such as direct shareholding in YAMAZAKI-DDS Co., Ltd. and property, plant and equipment are recognized at cost, less depreciation and amortization. If there are indications of impairment based on market information or the development of the operating business, appropriate value adjustments are made.

Treasury shares: At the balance sheet date, 1,245,100 of 1,246,728 shares were placed and 1,628 shares were held by InnoMedica. The current stock of 1'628 own shares is valued as of the balance sheet date with the effective purchase price of CHF 2.50. Gains from the disposal of treasury shares are recognized as other legal reserves. At the beginning of the period under review, InnoMedica still owned 1,708 treasury shares. In fiscal year 2017, a total of 80 treasury shares were offset against outstanding invoices. No buybacks were made. In the previous year, 803 treasury shares were sold, and no buybacks were made either.

Property, plant, and equipment: Tangible assets are depreciated using a declining balance method with a maximum of 20 percent, a rate unchanged from the previous year. InnoMedica's machines and equipment from the laboratory, production and analytics in Marly, as well as three vehicles for staff transport, constitute this category.

Classifications and explanations

Accrual and deferral: On the assets side, the accrual/deferral accounts contain operational credits as well as costs already incurred on the liabilities side.

Subsidiaries (YDDS): YAMAZAKI-DDS Co., Ltd. has the purpose of maintaining patents in the field of the liposomal drug delivery system. The share capital of YAMAZAKI-DDS Co., Ltd. is 10,000,000 Japanese yen. YAMAZAKI-DDS Co., Ltd. based in Ibaraki, Japan is 100% directly owned by InnoMedica and is still listed at an acquisition cost of CHF 200,000 in fixed assets.

OTC stock matching: In the financial year 2017, the Investor Relations department brought together interested parties for the purchase and sale of InnoMedica shares. InnoMedica acted as asset manager until the completion of the transaction. In return, transaction fees were collected to reimburse personnel expenses. All transactions were completed as of the balance sheet date.

Short-term interest-bearing liabilities: A first phase of the capital increase in 2017 consisted of a convertible bond and was issued in December 2016. As of the balance sheet date, all lenders converted their convertible bonds into shares during the capital increase in May 2017.

Reserves from capital contributions: The capital contribution reserves have been approved by the Federal Tax Administration (FTA) up to the financial year 2016. The reserves from capital contributions 2017 can only be declared after the annual statement has been audited and therefore have a provisional character until recognition by the FTA.

Financial expenses and incomes: Financial expenses include bank charges and expenses. The interest expenses consist of the interest for the convertible bond. Costs for the capital increase are disclosed separately. The financial income includes dividends as well as interest from bank balances.

Additional information

Annual average of full-time positions: As in previous years, the employees are recruited via an outsourcing agreement with IPAG Inter Personal AG (IPAG). InnoMedica has no other personnel contacts. As of the balance sheet date, 22 persons with a workforce of 2,100 percent full-time equivalent positions were employed at IPAG. The annual average was less than 50 full-time equivalent positions. As of the balance sheet date of 2016, 1,080 percent of full-time contracts were active at IPAG.

Talidox project costs: The cumulative project expenditure since 2012 has been recorded to document the investments made so far for the Talidox project. All expenses related to the project are counted for the project. This includes costs for personnel and infrastructure used, depreciation of equipment used, but not expenses for administration, finances, capital increases, taxes and various operating expenses. An activation of the project effort in the balance sheet can be considered if the drug Talidox has proven itself in the use in the patient and the registration as a cashable drug is present. The cumulative project costs amounted to CHF 4,029,999 at the end of 2016 and rose to CHF 6,851,550 at the end of 2017.

Trust shares: In addition to treasury shares, InnoMedica manages 166,946 shares belonging to shareholders by the end of 2017. In the previous year, 167,106 trust shares were held for InnoMedica's shareholders.

Remuneration of Board members: A total of CHF 24,000 was paid as fee to the Board of Directors. As part of the IPAG service agreement, Dr. Peter Halbherr received a salary of CHF 116,192 in accordance with his execution of the duties as general manager.

Significant shareholders: On the reporting date, Dr. Peter Halbherr had 302,897 (24% of 1,246,728) and Dr. Herbert Früh 116,115 shares (9%). No other shareholder had more than 5% of the shares on December 31, 2017.

Business transactions with related parties: Transactions with related persons and companies are based on standard forms of business and are concluded at normal market conditions.

Events after the balance sheet date: SAKK and InnoMedica have contractually agreed on the details of the implementation of the Phase I clinical trial and its related costs. The costs of CHF 1,078,556 for the coming financial year are not yet included in the financial statements 2017. There are no events that need to be taken into account after the balance sheet date that have a significant influence on the financial statements.

Auditor's fee: In addition to auditor services, the auditor also provided additional consultancy services relating to the accounting and the capital increase. A flat-rate of CHF 15,000 (without VAT) was set for the auditor's fee.

Going concern: Half of the share capital and legal reserves as of December 31, 2017 are no longer covered – pursuant to Art. 725 Paragraph 1. Ensuring the financial health of the company is the duty of the Board of Directors, whom have authorized a capital increase for the 2018 fiscal year. The capital increase includes the issuance of a maximum of 153,272 shares at a stock price of CHF 206. If the stock issuance is fully purchased, a total of CHF 31,574,032 new equity will be obtained. Due to this measure, the company is able to continue as going concern.

Carrying forward of net loss

The loss of CHF 3,160,327 is added to the loss carried forward of CHF 5,364,516 and the balance transferred to the new account.

Report of the statutory auditor

to the General Meeting of InnoMedica Holding AG

Zug

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of InnoMedica Holding AG, which comprise the balance sheet, income statement, cash flow statement and notes (pages 11 to 15), for the year ended 31 December 2017.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
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Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We recommend that the financial statements submitted to you be approved.

In addition, we emphasize that half of the share capital and legal reserves are no longer covered (art. 725 para. 1 SCO).

PricewaterhouseCoopers AG

Simon Bandi

Audit expert
Auditor in charge

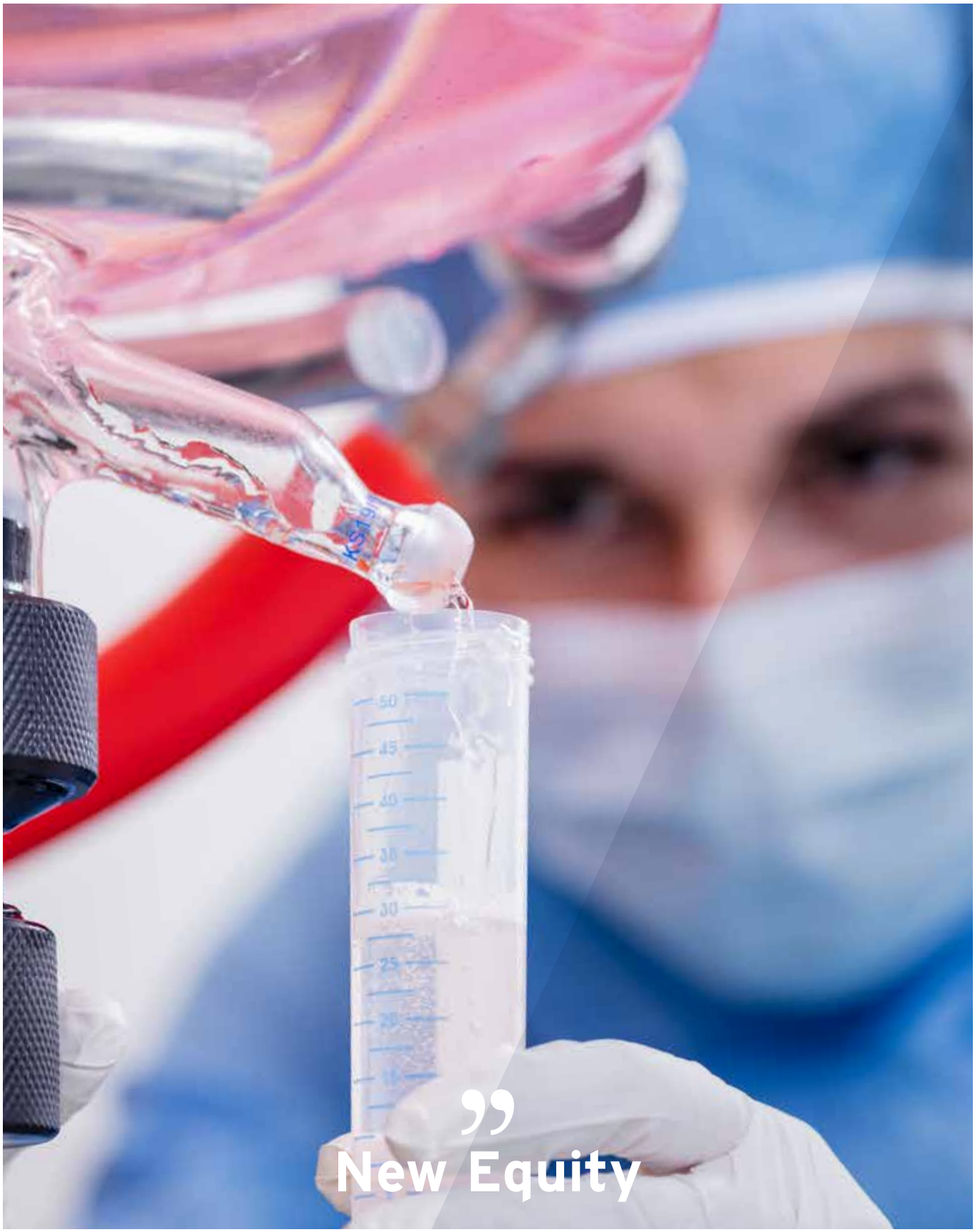
Andreas Scheibli

Audit expert

Zürich, 12 February 2018

General Information

Business idea	InnoMedica Holding AG has developed a new generation of drugs, based on an innovative transport system, which has a targeted effect on the distribution of the active agent in the body. In January 2013, InnoMedica Holding AG initiated the project Targeted Liposomal Doxorubicin (Talidox). This first application in oncology is intended to treat cancer much more effectively, while reducing the side effects for the patient. The strategy envisages the development and commercialization of novel therapeutics for the treatment of tumor diseases. In addition, the patented technology platform will also be used to improve the bio distribution of known active substances for other indications such as neurodegenerative diseases, arteriosclerosis etc.
Corporation	InnoMedica Holding AG is an incorporated limited company based in Zug. The company aims to hold, purchase, sell, and manage investments in (listed and unlisted) companies from the sectors of biotechnology and medicine and related sectors or industries. Change of purpose since 2012 AGM (additional): The company seeks in particular to establish and develop investments in the fields of biotechnology and medicine. Furthermore, the company offers management services and consultancy for companies in the sectors of biotechnology and medicine.
Investment of cash	InnoMedica Holding AG has evolved from a finance company to an operating company and invested in production and development of its own pharmaceutical products. An active management of liquidity is no longer seen as a priority and replaced by a passive investment strategy.
Board	Dr. Herbert Früh (Chairman), Dr. Peter Halbherr (Delegate), Dr. Noboru Yamazaki, Manuel C. Frick
Legal structure	Incorporated Limited Company
Established	July 05, 2000
Shares outstanding	1,246,728 stock at nominal value of CHF 1
Capital increase	Planned; until May 31, 2018 (153,272 shares)
Listing / Trade	OTC by investor relations, Ms. Andrea Zurkirchen
Security number	001108236
ISIN-Number	CH0011082366
Investor relations	Andrea Zurkirchen, phone +41 (0)44 383 88 22
Headquarter	InnoMedica Holding AG, Baarerstrasse 34, CH-6300 Zug
Internet	www.innomedica.ch
E-Mail	info@innomedica.ch



The capital increase 2017 by 75,000 shares / CHF 7.7 million was oversubscribed by 36 percent with payments of CHF 10.5 million. With the planned capital increase in 2018, a total of CHF 31.6 million in new equity can be acquired with a full subscription.

InnoMedica Holding AG

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The English version of InnoMedica's Annual Report 2017 was translated from the original German version which shall be binding in case of disparities.