# ANNUAL REPORT

May 2010 - April 2011

Oasmia Pharmaceutical AB (publ)

oasmia

# TABLE OF CONTENTS

# The year in brief

## Operations

Over the past fiscal year, Oasmia took important steps closer to the market. Registration applications were submitted in the EU and the USA for the first product candidate, Paccal® Vet, for the treatment of mastocytoma in dogs. The applications were submitted in August 2010 and are currently under review by government agencies. No word on approval has been received as of yet.

During the fiscal year, there was extensive ramping up of the production facility in Uppsala. The facility is primarily intended for the manufacture of Oasmia drugs for clinical trials. It can also be used for the production of drugs intended for sale on the market, but only in a small scale. Production at this facility is part of the applications for Paccal® Vet.

To be able to supply the market with larger volumes of both Paccal® Vet and other products, Oasmia entered into a contract manufacturing agreement with Baxter Oncology in March 2011. Production of Paccal® Vet will later be transferred to Baxter Oncology. For Oasmia's second product candidate, Paclical®, production via Baxter Oncology will be included in the registration application. From a production standpoint, Paccal® Vet and Paclical® are the same product, which provides benefits in manufacturing.

The international Phase III study on ovarian cancer continued during the year. In the study, the company's pharmaceutical candidate Paclical® was compared with the well-known drug Taxol®. The study includes about 80 cancer clinics in 16 countries and is expected to include 650 patients. The first patients were included in the study in early 2009 and as of April 2011, the enrollment was nearly complete.

No new licensing and distribution agreements were entered into during the fiscal year but in May 2011 one agreement was signed for Paclical® in Israel and Turkey.

## Listings on the stock exchange

During the fiscal year, the Oasmia share was taken up for listing on two stock exchanges; NASDAQ OMX Stockholm in June 2010 and the Frankfurt Stock Exchange in Frankfurt in January 2011.

## Financing

At the end of 2010, the company carried out a fully underwritten share issue with preferential rights for current shareholders for MSEK 239. After the issue, all interest-bearing loans were paid off and the company retained its debt-free status as of the end of the fiscal year.

In July 2010, a Standby Equity Distribution Agreement (SEDA agreement) was entered into with YA Global Master SPV Ltd. With the agreement, YA Global undertakes to supply up to MSEK 75 through the purchase of newly issued Oasmia shares over a period of 36 months from the date of the agreement. No such issue occurred during the past fiscal year.

## Board of Directors

At the Annual General Meeting of September 2010, Björn Björnsson was elected as new board member, expanding the Board to five members. In February 2011, Björn Björnsson was appointed as the new Chairman of the Board following Bo Cederstrands indication that he wanted to step down from that position. Bo Cederstrand remained a member of the Board. Peter Ström, who has been a member of the Board since 2006, was also appointed Deputy Chairman.

# Quarterly data

## The Group

| TSEK (if not otherwise stated) | | Q 1 May-July | Q 2 Aug-Oct | Q 3 Nov-Jan | Q 4 Feb-Apr | Full year May-Apr |
|---|---|---|---|---|---|---|
| Net sales | 2010/11 | 42 | 0 | 64 | 0 | 106 |
| | 2009/10 | 24 657 | 253 | 326 | 5 505 | 30 741 |
| Capitalized development cost | 2010/11 | 20 017 | 18 896 | 26 846 | 20 291 | 86 049 |
| | 2009/10 | 24 438 | 20 331 | 14 864 | 21 010 | 80 643 |
| Operating expenses | 2010/11 | -31 302 | -34 801 | -42 477 | -42 200 | -150 778 |
| | 2009/10 | -38 471 | -29 303 | -26 870 | -31 703 | -126 345 |
| Operating income | 2010/11 | -11 216 | -15 832 | -15 542 | -21 764 | -64 353 |
| | 2009/10 | 10 624 | -8 719 | -11 679 | -5 187 | -14 961 |
| Income for the period | 2010/11 | -12 090 | -16 729 | -15 628 | -21 513 | -65 960 |
| | 2009/10 | 9 386 | -9 365 | -11 688 | -5 387 | -17 054 |
| Earnings per share, SEK* | 2010/11 | -0,31 | -0,44 | -0,33 | -0,41 | -1,50 |
| | 2009/10 | 0,27 | -0,26 | -0,31 | -0,14 | -0,47 |
| Weighted average number of shares, in thousands* | 2010/11 | 38 403 | 38 403 | 47 620 | 52 079 | 44 061 |
| | 2009/10 | 34 438 | 35 590 | 37 830 | 38 403 | 36 550 |
| Equity per share, SEK* | 2010/11 | 3,38 | 2,94 | 6,06 | 5,65 | 5,65 |
| | 2009/10 | 2,05 | 3,22 | 3,83 | 3,69 | 3,69 |
| Equity/assets ratio, % | 2010/11 | 67 | 52 | 93 | 92 | 92 |
| | 2009/10 | 53 | 82 | 87 | 79 | 79 |
| Net liability | 2010/11 | 41 428 | 74 209 | -91 041 | -51 895 | -51 895 |
| | 2009/10 | 24 130 | -3 737 | -17 054 | 9 467 | 9 467 |
| Debt/equity ratio, % | 2010/11 | 32 | 66 | - | - | - |
| | 2009/10 | 34 | - | - | 7 | 7 |
| Number of employees at the end of the period | 2010/11 | 69 | 70 | 72 | 68 | 68 |
| | 2009/10 | 56 | 60 | 58 | 64 | 64 |

*Recalculation of historical values has been made with respect to capitalization issue elements in the rights issue carried out in the second quarter of 2009/10 and the third quarter of 2010/11.

# Five-year highlights

## The Group

| TSEK (if not otherwise stated) | 2010/11 | 2009/10 | 2008/09 | 2007/08 | 2006/07 |
|---|---|---|---|---|---|
| Net sales | 106 | 30 741 | 79 357 | 71 158 | 22 387 |
| Capitalized development cost | 86 049 | 80 643 | 36 057 | 9 675 | 14 484 |
| Operating expenses | -150 778 | -126 345 | -122 794 | -85 754 | -47 856 |
| Operating income | -64 353 | -14 961 | -7 156 | -4 855 | -10 986 |
| Income for the period | -65 960 | -17 054 | -7 105 | -5 067 | -11 752 |
| Earnings per share, SEK* | -1,50 | -0,47 | -0,21 | -0,15 | -0,36 |
| Weighted average number of shares, in thousands* | 44 061 | 36 550 | 34 376 | 33 526 | 32 304 |
| Equity per share, SEK* | 5,65 | 3,69 | 1,78 | 1,89 | 2,13 |
| Equity/assets ratio,% | 92 | 79 | 63 | 74 | 79 |
| Net liability | -51 895 | 9 467 | 25 844 | 4 109 | -11 263 |
| Debt/equity ratio,% | - | 7 | 42 | 6 | - |
| Number of employees at the end of the period | 68 | 64 | 55 | 40 | 29 |

*Recalculation of historical values has been made with respect to capitalization issue elements in the rights issue carried out in the second quarter of 2009/10 and the third quarter of 2010/11.

# The share

The Oasmia share has been listed on NASDAQ OMX Stockholm since June 2010 and on the Frankfurt Stock Exchange since January 2011.

## Share price development (all figures regard the fiscal year May 1, 2010 - April 30, 2011)

In Stockholm, the highest price paid during the year was SEK 26,76 (May 4, 2010) and the lowest price paid was SEK 11,60 (February 23, 2011). The company's year-end market value was MSEK 716.

## Short name

| | |
|---|---|
| NASDAQ OMX Stockholm | OASM |
| Frankfurt Stock Exchange | OMAX |

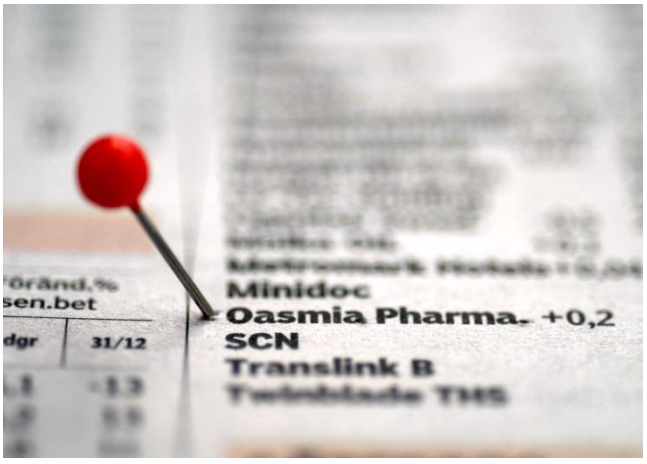
## Share capital

The number of shares is 52 079 341. Each share has a quota value of SEK 0,10 and share capital amounts to SEK 5 207 934.10. According to the Articles of Association, the share capital must amount to at least SEK 3 350 000 and at most SEK 13 400 000 distributed over at least 33 500 000 shares and at most 134 000 000 shares.

## Share capital development

| Year | Event | Quota value | Increase in the number of shares | Increase in share capital (SEK) | Total number of shares | Total share capital (SEK) |
|---|---|---|---|---|---|---|
| 1988 | Foundation | 100,00 | 500 | 50 000,00 | 500 | 50 000,00 |
| 1999 | New share issue[1] | 100,00 | 500 | 50 000,00 | 1 000 | 100 000,00 |
| 1999 | Split | 0,10 | 999 000 | - | 1 000 000 | 100 000,00 |
| 1999 | New share issue[1] | 0,10 | 30 000 000 | 3 000 000,00 | 31 000 000 | 3 100 000,00 |
| 2006 | New share issue[1] | 0,10 | 851 310 | 85 131,00 | 31 851 310 | 3 185 131,00 |
| 2007 | New share issue[1] | 0,10 | 1 523 690 | 152 369,00 | 33 375 000 | 3 337 500,00 |
| 2008 | New share issue[1] | 0,10 | 125 000 | 12 500,00 | 33 500 000 | 3 350 000,00 |
| 2009 | Preferential rights issue | 0,10 | 2 392 858 | 239 285,80 | 35 892 858 | 3 589 285,80 |
| 2009 | New share issue[2] | 0,10 | 1 720 000 | 172 000,00 | 37 612 858 | 3 761 285,80 |
| 2010 | Preferential rights issue | 0,10 | 14 466 483 | 1 446 648,30 | 52 079 341 | 5 207 934,10 |

[1] Private placement for Alceco International S.A. (formerly Oasmia S.A.)
[2] Private placement to a limited group of institutional actors and other large investors



## Shareholders

The company had 2 988 shareholders as of April 30, 2011. The ten largest shareholders in Oasmia are listed in the table below.

| Shareholder | Number of shares and votes (%) |
|---|---|
| Alceco International S.A. | 55.71 |
| Avanza Pension | 4.32 |
| Svenska Handelsbanken S.A. | 2.49 |
| Briban Invest AB | 2.01 |
| Nordnet Pensionsförsäkring AB | 1.57 |
| Banque Öhman S.A. | 1.33 |
| Banque Carnegie Luxembourg S.A. | 1.24 |
| Christer Ericson (private and company) | 1.12 |
| SEB S.A. | 0.93 |
| SIX SIS AG | 0.86 |
| Others | 28.42 |

## Principal owner

Alceco International S.A. (previously Oasmia S.A.) is a holding company based in Luxembourg, which is owned and controlled by Bo Cederstrand and Julian Aleksov. Alceco International S.A. conducts no business; it is only responsible for financial management.

## About the Oasmia share and shareholder rights

Oasmia's shares are issued in one series. Oasmia's Articles of Association contains a record day provision and the company shares are connected to Euroclear Sweden AB ("Euroclear", previously VPC AB), which means that Euroclear manages the company share register. The shareholders do not receive any physical share certificates, and transactions with the shares are made electronically by registration in the Euroclear system by authorized banks and other securities companies. All shares are denominated in SEK. The shares are regulated by the Companies Act (2005:551) and the shareholders' rights can only be changed in accordance with the provisions of this law. One share entitles to one vote at the Annual General Meeting. Shareholders have the right to vote to the full extent of owned shares without any restrictions. All shares enable the same rights to the company's assets and profits and can freely be transferred. In accordance with the Companies Act (2005:551), shareholders have preferential rights to share subscription in new share issues, subscription options, and convertibles, but these preferential rights can be bypassed after a resolution at a General Meeting. The shares in Oasmia are not subject to compulsory offers, redemption rights or purchase obligation. No public offers have been made with respect to the company shares in the current or previous fiscal year.

## Dividend

The company has not paid any dividend to date. As Oasmia will be in a phase involving development of the company's product portfolio in upcoming years, any surplus capital will be invested in operations.

# Description of operations

## Business concept

Oasmia's business concept focuses on developing novel formulations of well-established cytostatics that have better properties, a milder side-effect profile and a broader area of use than existing alternatives.

Examples of existing cytostatics are pharmaceuticals based on paclitaxel, docetaxel, doxorubicin, gemcitabine or carboplatin. For some time the market for cytostatics has been dominated by a small number of large pharmaceutical companies. During their period of market exclusivity, the previously patented products enjoyed sales of several billion USD or EUR. The patents for a number of drugs have now expired and generic copies have claimed a large percentage of sales.

Oasmia assesses that there is considerable scope for novel formulations of existing cytostatics. Novel formulations have the potential for administration in higher doses with the same and/or improved side-effect profiles. The company believes that physicians who are presented with this type of therapy alternative will extensively choose this alternative.

## Strategy

Oasmia operates in both the veterinary medicine and the human medicine fields, providing synergy effects in several areas. For example, it generates additional revenue opportunities and reduces financial risks.

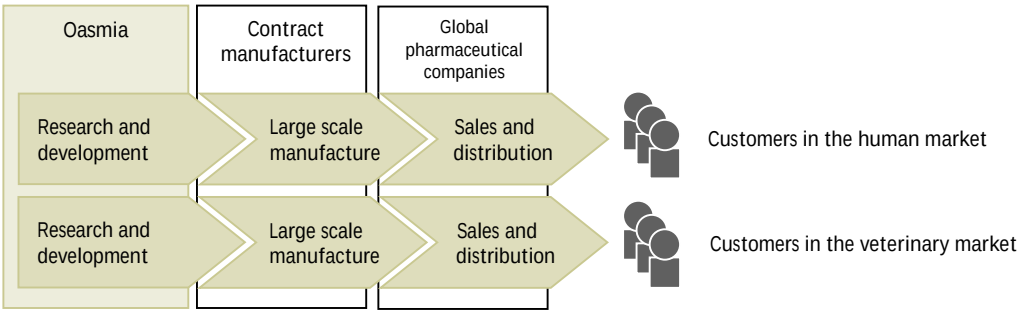
The synergy effects within clinical development occur primarily at an early stage. One step in the development of human products is to conduct studies on animals in order to investigate the safety of the product candidate. Such animal studies can serve as the basis for approval in veterinary medicine, while data from the studies can be used as the basis for studies on humans. Furthermore, genetic similarities between humans and dogs can be used to predict the effect and safety of the new pharmaceutical.

Synergy effects also occur in production. Oasmia can ensure that the production process is the same for both areas (provided that the substance is the same). This means that the same production facility and equipment can be used, which provides scale benefits. In addition, the same production documentation can be used for applications in both veterinary and human medicine.

One effect of working with well-known substances is that the company may use the extensive documentation already available on these compounds. This documentation includes methods of analysis, description of the metabolism and breakdown products, environmental impact, regulations for handling and other regulatory documentation. For Oasmia, this means that the development time can be shortened.

## Business model

Oasmia's business model is based on running projects under its own auspices up until the time of registration, and then licensing out sales and marketing rights to regional or multinational partners for sales-based royalties and milestone payments. Large-scale commercial production is handled by contract manufacturers.




*Description of Oasmias business model*

This model entails that Oasmia does not intend to establish any marketing and sales organisation. Such functions are instead handled by company partners. Agreements with contract manufacturers entail that Oasmia has free access to high-quality facilities that have undergone many official inspections and fulfil all requirements. This enables Oasmia to focus on the core business, in other words pharmaceutical development.

The point in time when licensing and distribution agreements are concluded with business partners depends primarily on the development stage of the product candidate and the market situation.

When it comes to choice of partner, the following criteria are particularly important:

- Market knowledge
- Company size
- Willingness to invest

Oasmia's model for profitability is based on gross royalties from licensees, own control over product costs, and ensuring that the resulting net royalty is sufficiently high. The company seeks to achieve gross royalties of about 40% of the licensee's net sales, while product costs should not exceed 15%. This must generate a net royalty of at least 25%. All existing agreements are in line with these conditions.

## Production

Oasmia has a permit from the EMA to manufacture Paclical® and Paccal® Vet for clinical trial. In March 2011, the company entered into an agreement with Baxter Oncology in Germany for contract manufacturing of Paclical® and Paccal® Vet. Oasmia will initially handle the commercial manufacture of Paccal® Vet itself, but will gradually transfer the technique and methods to Baxter. Commercial manufacturing of Paclical® will be handled by Baxter. Final labelling, packing and distribution to licensees will be carried out at the company's own premises. The agreement with Baxter can be expanded to include additional product candidates in Oasmia's product portfolio.

During the product candidates' development phase, Oasmia will handle production for clinical trials in its own production facility in Uppsala.

During the fiscal year, the company's facility for handling the initial market supply of Paccal® Vet was completed. Systems for water for injection (WFI) and clean steam were installed, along with a reactor for chemical synthesis. New quality assurance systems were also implemented.

## Platform XR-17

The basis for Oasmia's product portfolio within oncology is a group of unique, patented substances. These substances are all based on Oasmia's nanotechnological platform, called XR-17. The platform comprises a combination of semi-synthetic retinoids that have the capability to increase the solubility of highly insoluble substances. The combination between XR-17 and the active ingredient results in new drugs, with the difference that the active substances in these drugs are well documented and known.

XR-17 is a non-toxic platform that can create micelles of nano size in water solutions, for example Ringer solution, together with an active substance. XR-17 can act as a surfactant and make it possible for hydrophobic cytotoxic substances to pass through the cell membrane.

Toxic excipients that are currently used in pharmaceuticals, for example cytostatics, can be replaced with XR-17. The advantages for the patient include an improved side-effect profile and shorter care time after treatment.

All of Oasmia's pharmaceutical candidates are based on XR-17. The company's most critical patents are global and extend to 2023. Further patent applications have been submitted to protect Oasmia's technology and novel formulations. This means that patent protection can be extended to 2028.

# Oasmia Human Health

## Positive development in cancer care

Over the years, the chances of surviving cancer have improved significantly. Preventive measures to discover cancer at an early stage, together with improved diagnosis methods and more effective treatments are factors that have a positive impact on survival rates. For example, the relative survival rate for men has more than doubled in the last 35 years, from 30% to 67%, while the rate for women has increased from 42% to 67%.[1]

## Cancer the second most common cause of death

Millions of people around the world are affected by some form of cancer each year. The disease is the second most common cause of death in industrialized countries (second to cardiovascular disease) and the third most common cause of death in developing countries. Globally, cancer accounts for every one out of eight deaths and about 20 000 people die from cancer each day.[2]

On a global basis, the incidence of cancer was estimated at 12,4 million in 2008.[3] Each year, more than 50 000 new cases of cancer are diagnosed in Sweden. In 2009, there were 54 611 new cases of cancer.

In 2010, an estimated 1,5 million people were diagnosed with cancer in the USA. About 22 000 of these, about 3 percent of the women affected, were diagnosed with ovarian cancer.[4] In 2002, 204 000 new cases of ovarian cancer were diagnosed globally.[5]

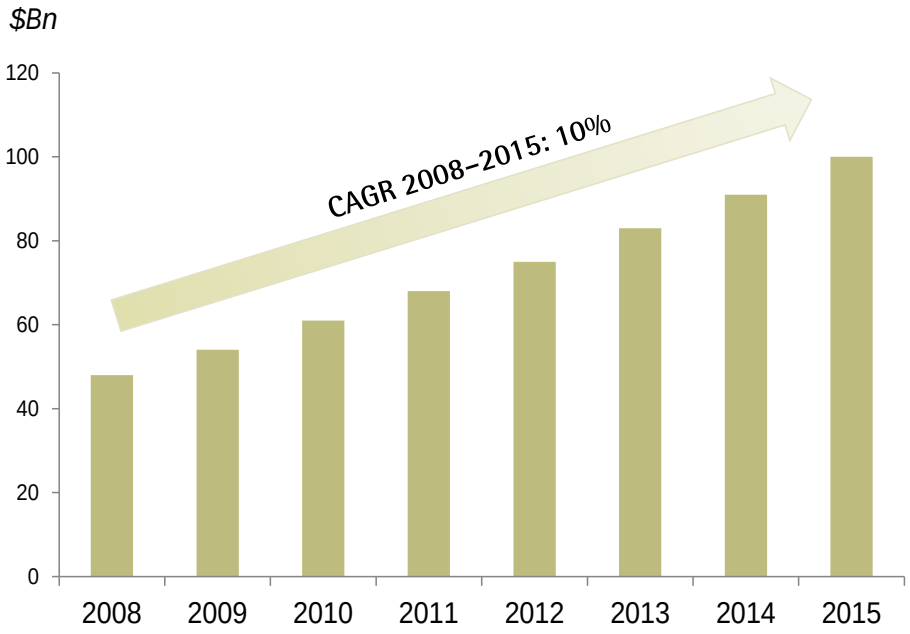
## The most common cancers

The five most common diagnoses of cancer in the world are lung cancer, breast cancer, colorectal cancer, stomach cancer and prostate cancer.[6]

[1] Swedish Cancer Society Report 2011, Swedish Cancer Society
[2] Swedish Cancer Society Report 2011, Swedish Cancer Society
[3] WHO, International Agency for Research on Cancer, World Cancer Report 2008
[4] American Cancer Society, 2010
[5] World Cancer Report 2008, International Agency Research on Cancer, WHO
[6] Swedish Cancer Society Report 2011, Swedish Cancer Society

## Continued growth in oncology

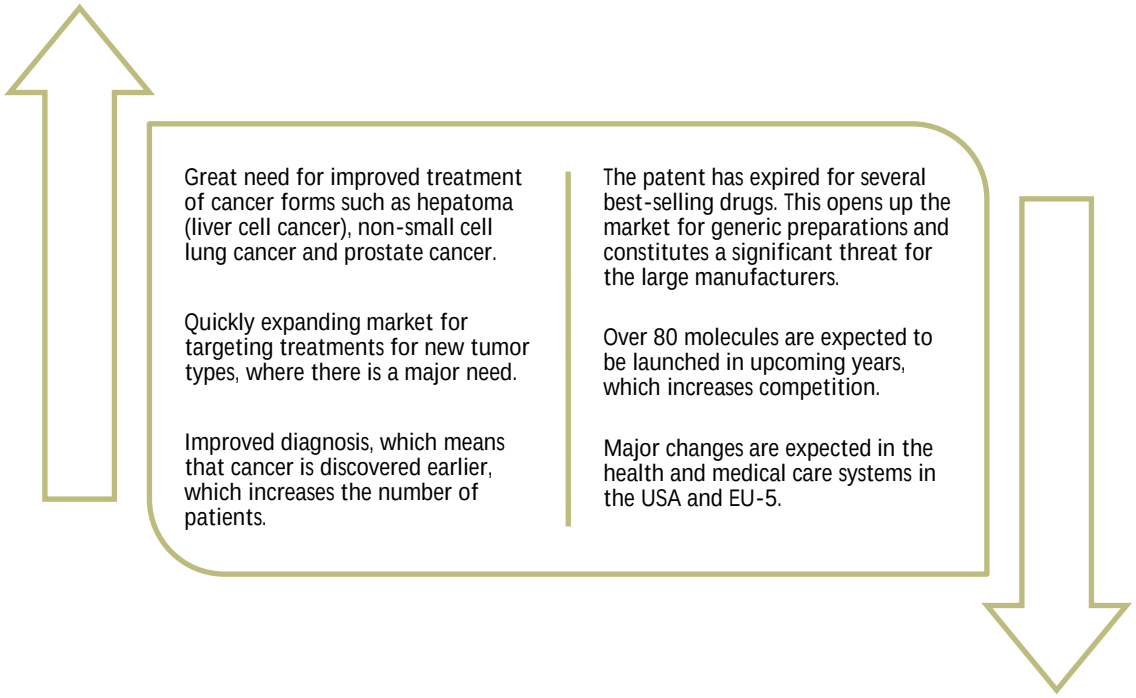
The market for oncologic treatment (all types of treatment given to fight a cancer disease) has grown by 16% per year between 2000 and 2008 and is expected to continue to grow by over 10% per year up to 2015, when the world market is expected to reach USD 100 billion.[7]




[7] GBI Research: The future of oncology therapeutics – Market forecasts to 2015

## Market drivers[8]

There are a number of factors indicating that the cancer treatment market will continue to grow in coming years. At the same time, there are several factors indicating the opposite. A selection of some central factors that may affect development is presented below.




## Treatment

Cancer can be treated with methods such as surgery, radiation therapy or cytostatics (chemotherapy). The most desirable is to be able to remove all tumor tissue with a surgical procedure. However, this may be difficult or even impossible if the disease spreads to other organs. Cancer treatments have developed and improved over time.

## Taxanes

Taxanes is a pharmaceutical group of cytostatics (cytotoxins). The drugs used most contain the active substance paclitaxel (a natural substance obtained from yew trees) or docetaxel.

Paclitaxel and docetaxel are used to treat several forms of cancer, such as non-small cell lung cancer (NSCLC), breast cancer, prostate cancer and ovarian cancer. Both paclitaxel and docetaxel can be administered in combination with other cytotoxins and/or other drugs that reduce tumor aggressiveness. The current recommended treatment for ovarian cancer is paclitaxel in combination with platinum.

The patents for paclitaxel (Taxol®) and docetaxel (Taxotere®) have expired. As a result, generics are continually being launched and product development is underway, primarily in the form of improved excipients that produce a more favorable side effect profile.

The taxane market in the USA, EU-5 and Japan was valued at about USD 4,2 billion in 2009.[9]

[8] GBI Research: The future of oncology therapeutics – Market forecasts to 2015
[9] Oasmias's calculation

## Competition - taxanes

The taxane market consists of a small number of major players as well as companies producing paclitaxel and docetaxel based generics.

Taxol® (Bristol-Myers Squibb)
Introduced in the USA in 1992, in the EU in 1995 and in Japan in 1997. Active substance is paclitaxel. The patent has expired and generic versions are out on the market.

Abraxane® (Celgene)
Introduced in the USA in 2005. Active substance is paclitaxel. Patent protected until 2013.

Taxotere® (Sanofi-Aventis)
Introduced on the market throughout the world in 1996. Active substance is docetaxel. The patent has expired in the USA and the EU and generic versions are out on the market.

## Anthracyclines

In addition to taxanes, there is another group of pharmaceuticals of great interest to Oasmia; anthracyclines. The most commony used anthracycline is doxorubicin. The substance is available in two different formulations; doxorubicin and liposomal doxorubicin. The substance is made by a fungus (Streptomyces), which has been used for decades for several indications.

## Competition - anthracyclines

The anthracycline market consists of a small number of major pharmaceutical companies as well as companies manufacturing generics.

Adriamycin®
Well-known brand introduced in the 1970s. Active substance is doxorubicin. The patent has expired and market players are now generic companies, such as Teva.

Doxil®/Caelyx® (Johnson & Johnson)
Introduced in the 1990s. Active substance is doxorubicin in a liposomal formulation. The product is patent protected (applies from 1995 with extension 2000) and is marketed through two brands; Doxil® and Caelyx®.

## Strategy

Oasmia will develop novel formulations of existing cytostatics for cancer treatment, with improved safety and/or efficacy, leading to an improved quality of life for the patient. Our strategy is to replace existing cytostatics by demonstrating improved safety and/or efficacy.

The introduction of Abraxane® was a breakthrough for nanoparticle-based products. The company predicts that Celgene and Oasmia will be the players which will replace a few of the cytostatics current available on the market. There may be an introductory advantage for Oasmia because of the fact that nanoparticle based product Abraxane® has been audited by the regulatory authorities in the EU and USA.

Oasmia's aim is to obtain market approval for one indication and then to expand usage to other indications for which the cytotoxin in question is an approved treatment. For this purpose, the company is conducting a study aimed at showing similarities between Paclical® and other products based on paclitaxel.

## Product candidates

### *Paclical®*

The product candidate is a novel formulation with the well-known substance paclitaxel. Paclitaxel inhibits cell division by stabilizing microtubules (a part of the cell). This is an anticancer substance within human medicine and is found in e.g. Taxol®/generics. Paclitaxel is approved for several indications, including ovarian cancer, breast cancer and non-small cell lung cancer.

Paclitaxel is practically insoluble in water. Cremophor® EL (polyethoxylated castor oil) and ethanol are used as solvents for paclitaxel in, for example, Taxol® and this may cause hypersensitivity reactions. In Oasmia's formulation, paclitaxel has been made water soluble by the properties of the excipient XR-17. Paclitaxel and XR-17 forms nanoparticle-sized micelles in an aqueous solvent. Paclical® is Cremophor® EL-free and therefore the patients do not need to be premedicated to avoid hypersensitivity reactions. Other advantages of Paclical® are shorter infusion times and the ability to administrate in higher doses.

Paclical® is designated as an orphan drug by the EMA and FDA. Orphan drug designation can be obtained for medicinal products intended for rare, life-threatening or seriously health-impairing disease as regards treatment, prevention and diagnosis. This status gives Oasmia regulatory and financial advantages, such as protocol assistance and market exclusivity.

Abraxane® is the main competitor for Paclical®, but is also the Cremophor® EL free formulation that paved the way for Paclical®.

Approved standard treatment with paclitaxel, both as Taxol®/generics and as Abraxane®, is treatment every three weeks. However, there is ongoing research on methods to treat each week with lower doses. The reason for wanting to administer paclitaxel on a weekly basis is that a lower dose means fewer side effects and even better efficacy for certain indications.

### *Doxophos®*

The product candidate is a novel formulation with doxorubicin, one of the most effective and most utilized substances for cancer treatment. The complete mechanism for doxorubicin's anticancer effect is not clear. However, it is likely that doxorubicin binds to DNA and thereby causes the cytotoxic effects that block the enzymatic system, which is vital to DNA replication and DNA transcription. Doxorubicin is currently used for the treatment of approximately 20 different cancer forms, such as breast cancer, glandular cancer, bladder cancer and acute leukemia.

Although the drug has high efficacy, it has a relatively narrow therapeutic window due to a number of serious side effects that limit its usage. The most serious side effect is chronic cardiac insufficiency. Oasmia's formulation with XR-17 is expected to have a good possibility of mitigating the side effect profile of doxorubicin. In Doxophos®, doxorubicin is formulated with XR-17 in nanoparticles at a size of 30-40 nanometers. These nanoparticles have been developed to optimize the therapeutic potential. Preclinical studies indicate that Doxophos® produces fewer cardiac effects.

Oasmia's first step in the development of Doxophos® is to determine the maximum tolerated dose when Doxophos® is given each week and every third week, respectively. The study is expected to start in the autumn. The pharmaceutical candidate will be developed in a human and/or a veterinary project if it can be verified that Doxophos® shows reduced cardiac effects compared to conventional doxorubicin, or if other advantages can be shown.

### *Docecal®*

The product candidate is a novel formulation with the taxane docetaxel, which is structurally similar to paclitaxel and prevents mitosis in a similar manner. The patent on docetaxel (Taxotere®) recently expired. Docetaxel is approved for several indications, including breast cancer, lung cancer, prostate cancer and head and neck cancer. The substance is poorly soluble in water, but has been made water soluble with the help of XR-17. When Docecal® is dissolved in water, XR-17 forms micelles with docetaxel. The product is expected to have the same benefits as Paclical®.

## Partners

Medison Pharma has acquired the licensing and distribution rights to Paclical® in Turkey and Israel. Medison Pharma specializes in niche drugs and has a number of strong partners.

Orion Corporation, Finland, owned marketing and distribution rights to Paclical® in the Nordic countries until August 2011, when the contract was terminated and all rights went back to Oasmia.

## The year in review

Oasmia continues to recruit patients to the international clinical Phase III study in which women suffering from ovarian cancer are treated with Paclical® or the comparator Taxol®, both in combination with the pharmaceutical carboplatin. Paclical® is given at a dose of 250 mg/m$^2$ and Taxol at a dose of 175 mg/m$^2$. The study is expected to include 650 patients. The recruitment is in the final stage and is expected to be completed soon. In August, Oasmia published an interim analysis of the study showing that Paclical® did not have less effect than Taxol®. The analysis included 400 patients. Standard treatment for ovarian cancer is currently Taxol® in combination with carboplatin.

During the year, a pharmacokinetic study was concluded. The study compared paclitaxel concentrations in the blood plasma when it is given as Paclical® and Taxol®, under identical conditions. The work on the study report is in progress and the results will be published in a scientific journal.

# Oasmia Animal Health

There are currently approximately 140 million dogs in the USA, EU and Japan.[10] The number of dogs is growing at the same pace as the number of inhabitants in these countries. An important reason behind the increase is of a social nature, since dogs are often considered an extra member of the family.

The world market for pharmaceuticals for pets amounts to about USD 7 billion. The largest percentage of this consists of human drugs used outside of the approved indication.[11] Pharmaceuticals for dogs represent almost one-third of this market.[12]

## Many dogs are affected by cancer

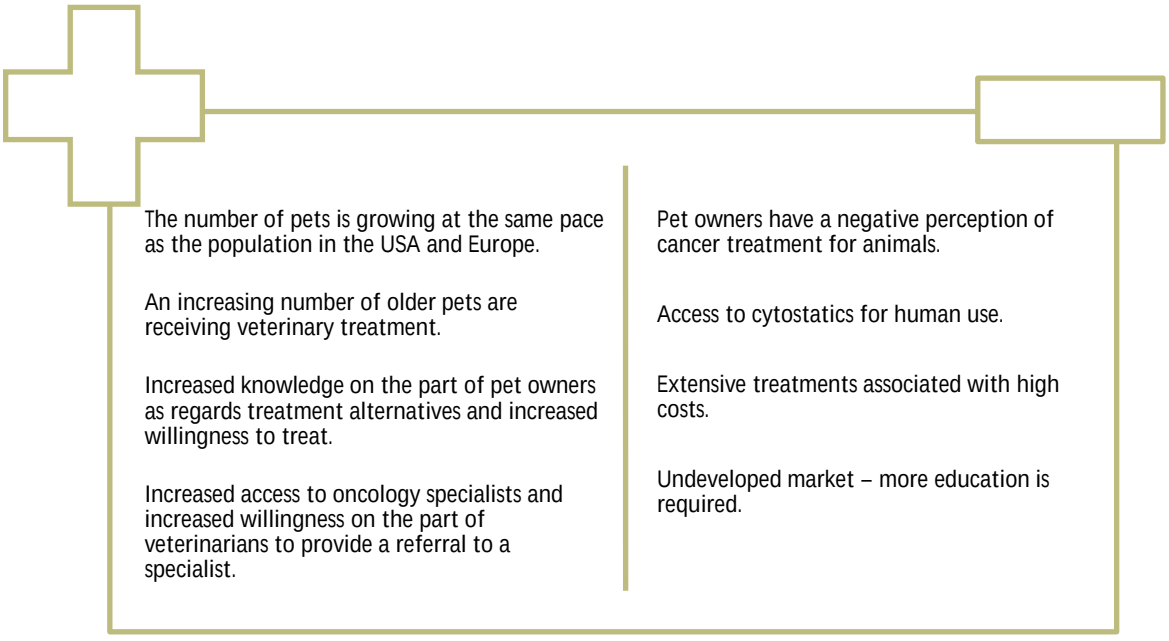
Cancer is a common disease in dogs. The frequency of cancer in dogs increases with age, just like in humans. Approximately 45% of all dogs over ten years old die from cancer. Counting dogs of all ages, one out of four dogs dies from cancer.[13]

## Treatment

Common treatment methods are surgery, pharmaceuticals (including cytostatics) and radiation therapy. When it comes to cytostatic treatment, there are few registered cytostatics for the treatment of dogs. Thus, drugs intended for humans are used.

## Market drivers[14]

The size and growth of the market for oncological treatment for pets is affected by several factors. Some of the most central factors are:




[10] Tuft University E-news, Nick Dodman 2009
[11] Oncology Insight, February 2008, Vetnosis Ltd
[12] Animal Pharm Reports, "Companion Animal Health Products: 2006 Edition". Note: Applies to the American market.
[13] Abbott Animal Health
[14] Oncology Insight, February 2008, Vetnosis Ltd

## Competition

The veterinary market is still at an early stage when it comes to cancer treatment and is thereby difficult to assess. Currently, there are two cancer drugs registered for the treatment of mastocytoma in dogs; Masivet® and Palladia™. Both are so-called protein kinase inhibitors. The use of these pharmaceuticals is limited due to the fact that tumors have to show a specific mutation in order for the treatment to be effective.

### Masivet® (AB Science)

AB Science is a French pharmaceutical company whose only registered product at present is Masivet®. The product was registered with the EMA for the indication mastocytoma in November 2008.

### Palladia™ (Pfizer)

Pfizer is one of the largest pharmaceutical companies in the world. Palladia™ was registered with the FDA for the indication mastocytoma in June 2009.

## Strategy

Oasmia will develop cytostatics for treatment of cancer in dogs, which is the pet that pet owners give the highest priority for medical treatment. Mastocytoma and lymphoma are incontestably the most common diagnoses in dogs and together account for close to 50% of all cancers in dogs. Oasmia will develop cytostatics for these two cancer types.

In order to be competitive Oasmia must:

- Register products that represent a clinical advantage.
- Replace the use of cytostatics that are only approved for treatment of humans with approved veterinary products.
- Position products as complements to surgery and radiotherapy.

## Product candidates

### *Paccal® Vet*

Until now, it has been impossible to give paclitaxel to companion animals (especially dogs) due to the serious side effects caused by the excipient Cremophor® EL. In earlier studies of dogs with various tumor diseases, Taxol® (a formulation with Cremophor® EL) caused serious allergic reactions in 64% of the dogs treated.[15] These reactions occurred despite use of an extremely slow infusion rate (up to six hours) and rigorous premedication with antihistamines and corticosteroids to prevent hypersensitivity reactions. Twelve percent of the dogs died due to the medication.

Paccal® Vet does not cause the hypersensitivity reactions associated with conventional paclitaxel formulations and Oasmia aims to register the first paclitaxel preparation for the veterinary market.

In Oasmia's formulation, paclitaxel has been made water soluble through the properties of the excipient XR-17. In a water solution, XR-17 forms nanoparticle sized micelles with paclitaxel. Paccal® Vet is Cremophor® EL-free and therefore the dogs do not need to be premedicated to avoid hypersensitivity reactions. With Paccal® Vet, it will be possible for the veterinarian to treat dogs with paclitaxel, which previously could not be used due to the side effect profile.

The initial Phase III study was performed on 29 dogs with mastocytoma of type II and III that were treated with Paccal® Vet. The results showed that the treatment was effective for over 70% of the dogs. Mastocytoma is one of the most common forms of cancer in dogs.

### *Doxophos® Vet*

The product candidate is a novel formulation with doxorubicin, a very effective and well-used substance for the treatment of various cancer forms within veterinary medicine. The complete mechanism behind the cytotoxic

---

[15] Poirier VJ, Hershey AE, Burgess KE, Phillips B, Turek MM, Forrest LJ, Beaver L, Vail DM. J Vet Intern Med. 2004 Mar-Apr;18(2):219-22

effect is not known. However, it is generally accepted that doxorubicin binds to DNA and thereby hinders the enzymatic system, which is vital to DNA replication and DNA transcription.

Within veterinary medicine, doxorubicin is used for the treatment of lymphoma, malignant melanoma, leukemia, sarcoma and solid tumours, for example. Unfortunately, treatment with doxorubicin causes the incurable and fatal heart disease cardiomyopathy if too high a *cumulative* dose is given. In pre-clinical studies on rats, treatment with Doxophos® Vet has indicated that the dynamic alterations concerning cardiac side effects were less than conventional preparations of doxorubicin.

## Partners

The rights to Paccal® Vet have been licensed to Orion Corporation in Europe, Abbott Laboratories in the USA/Canada and Nippon Zenyaku Kogyo in Japan.

## The year in review

In autumn 2010, Oasmia concluded the analysis and processing phase of a clinical, randomized, multicenter, Phase III study on dogs suffering from mastocytoma (skin cancer). The study was conducted in five countries at 24 centers, of which five centers were located in Europe and 19 in the USA. The study included 249 dogs suffering from mastocytoma. All dogs had a measurable disease that could not be treated surgically. In the study, the efficacy of the test preparation Paccal® Vet was compared to the pharmaceutical lomustine, a human-registered cytostatic that is currently used within veterinary healthcare. Lomustin has previously been reported as effective on mastocytoma in dogs.

The results of the study showed significantly better efficacy and similar frequency of side effects. Also, the negative impact on the liver function was significantly lower in dogs treated with Paccal® Vet than in dogs treated with lomustine.

The market approval application was submitted to the American and European pharmaceutical authorities in the autumn of 2010. The company is maintaining an open dialogue with the authorities and answers questions as they are received.

In 2010, a pilot study designed to establish the dose and investigate the pharmacokinetic profile of Doxophos® Vet in dogs was completed. The study showed that Doxophos® Vet could be administered in a somewhat higher dose compared to what is currently used.

# The company

## Employees

As of April 30, 2011, Oasmia had 68 employees, most of them in production, quality assurance and quality control. During the fiscal year, the company has strengthened the workforce within several departments.

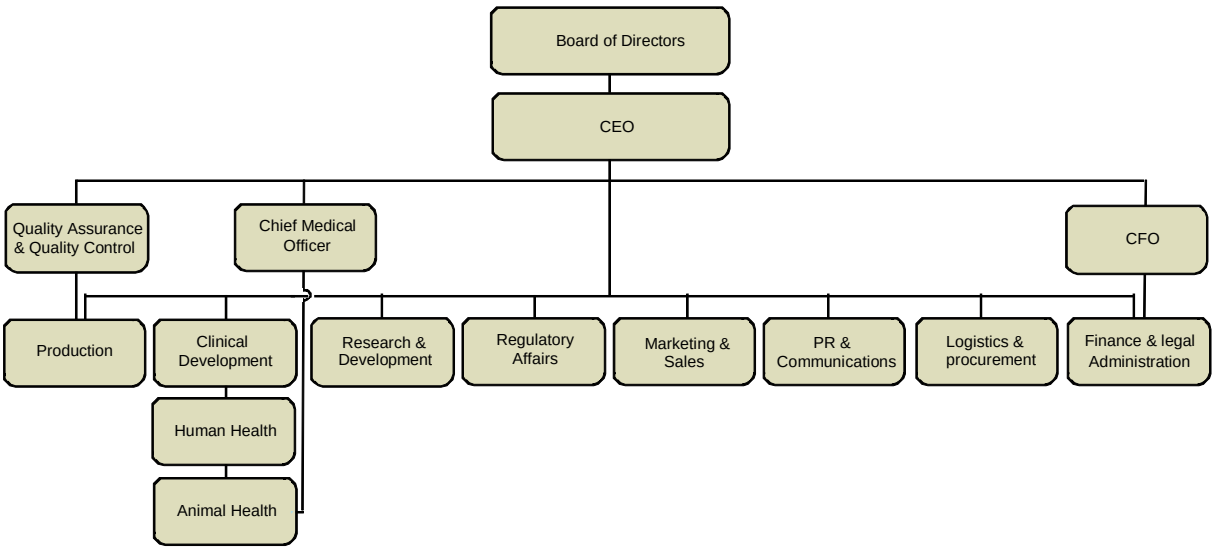
## Number of employees by department *(as of April 30, 2010)*

| | |
|---|---|
| CEO | 1 |
| Research & development | 8 |
| Production | 31 |
| Clinical development | 6 |
| Regulatory affairs | 5 |
| PR & communications | 3 |
| Logistics & procurement | 4 |
| Finance & legal | 5 |
| Administration | 5 |
| Total | 68 |

## Experience and education

Most employees have an academic degree and experience in industrial pharmaceutical development. The company also has employees with extensive experience in regulatory affairs, which is crucial for obtaining necessary regulatory approvals.

## Organization



# Board of Directors

Björn Björnsson (born 1946)
Member since 2010. Chairman since 2011. Also Chairman of the Board in, for instance, Bure Equity AB and Skrindan AB. Member of the Board in, for instance, Carnegie Investment Bank and Max Matthiessen AB. Has during the last five years worked as Chairman of the Board in Försäkringsaktiebolaget Skandia and Skanditek Industriförvaltning AB, as well as member of the Board, CEO and liquidator in Trustor AB.
Share holdings: -

Peter Ström (born 1952)
Member since 2006. Vice Chairman since 2011. Also member of the Board in Comtax AB, Lidds AB and Stockholm Corporate Finance AB.
Share holdings: 218 886

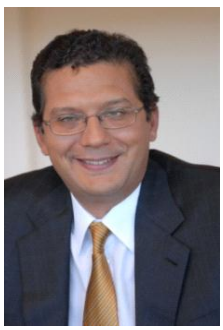
Claes Piehl (born 1950)
Member since 2005. Also member of the Board in Alfaros Aktiebolag. Has during the last five years worked as a management consultant for PA Management Consulting and Indevo, for instance.
Share holdings: 124 940

Bo Cederstrand (born 1939)
Chairman 2000-2011. Member since 2011. One of the founders of Oasmia. About 40 years' experience as CEO and partner in a number of small and mid-sized companies, mainly within trade. Has extensive experience in international business and production. Has been very active in the trade association context. Has during the last five years worked as member of the Board in the Arken-stores (ended) as well as deputy board member in Fruges AB (ongoing).
Share holdings: Private 126 000 Through company 29 028 685

Julian Aleksov (born 1965)
Member since 1999. CEO of Oasmia and one of the founders of the company. Has extensive experience in coordinating research projects and strategic development of global intellectual property. Also Chairman of the Board in Qdoxx Pharma AB and GlucoGene Pharma AB.
Share holdings: Private 148 650 Through company 29 028 685







# Management

Julian Aleksov
*CEO*
Born: 1965
One of the founders of Oasmia
Share holdings: Private 148 650 Through company 29 028 685

Hans Sundin
*Executive Vice President*
Born: 1945
Employed since 2008
Share holdings: 3 500

Weine Nejdemo
*Chief Financial Officer*
Born: 1948
Employed since 2009
Share holdings: Private 10 000 Through company 14 834

Annette Ljungmark
*Head of Accounting and Human Resources*
Born: 1950
Employed since 2005
Share holdings. -

# Auditors

Ernst & Young AB
Portalgatan 2 B
Box 23036, 750 23 Uppsala, Sweden
Tel +46 18 19 42 00
Fax +46 18 19 42 50

*Principal auditor:*
Björn Ohlsson
Born 1960
Authorized Public accountant and member of FAR SRS

# Administration report

## GENERAL INFORMATION

The Group comprises the Parent Company Oasmia Pharmaceutical AB and the subsidiaries Qdoxx Pharma AB and GlucoGene Pharma AB. The Parent Company is developing a new generation of pharmaceuticals within human and veterinary oncology. Both subsidiaries are mainly inactive.

At the commencement of the financial year the Oasmia share was listed on NGM Equity in Stockholm, but during the fiscal year instead became listed on NASDAQ OMX Stockholm and the Frankfurt Stock Exchange in Frankfurt, Germany.

## BUSINESS ACTIVITIES DURING THE YEAR

### Oasmia human health

#### Paclical®

The international Phase III study on ovarian cancer that began in February 2009 continued during the year. In the study, the company's pharmaceutical candidate Paclical® is compared with the well-known drug Taxol®. The study currently involves 87 clinics in 16 countries in Europe and the number of patients will be 650. It was expected that patient recruitment would be completed before the end of the financial year. It is now in the final stage.

#### Doxophos®

Doxophos® is a new patented formulation of doxorubicin, one of the most effective and most utilized active substances for cancer treatment. Doxorubicin is currently used for the treatment of 20 different types of cancer.

#### Docecal®

Docecal® is a new patented formulation of docetaxel (Taxotere®) with improved chemical characteristics compared to Taxotere®. Oasmia intends to focus on the same indications as Taxotere®, which are prostate cancer and breast cancer.

#### Licensing and distribution agreements

No new licensing and distribution agreements were entered into during the year for Human Health, but an agreement was concluded after the close of the financial year.

### Oasmia animal health

#### Paccal® Vet

In August 2010, Oasmia submitted registration applications in the EU and the USA for Paccal® Vet for the treatment of mastocytoma in dogs. The registration documentation states that the product will be produced in the company's own facility in Uppsala, Sweden. The authorities' review is pending and at the end of the financial year none of these approvals had been acquired.

#### Doxophos® Vet

Doxophos® Vet is intended for the treatment of lymphoma in dogs. Osamia has received approval from the pharmaceutical authorities in Germany and Austria for the commencement of a Phase I study.

#### Licensing and distribution agreements

Oasmia has already concluded licensing and distribution agreements for the key world markets. No further agreements were concluded during the year.

# THE COMPANY

## Agreement with Baxter Oncology for future commercial production

In March 2011, Oasmia entered into an agreement with Baxter Oncology to ensure the future large-scale commercial production of the company's products. The agreement at present concerns the commercial production of the product candidates Paccal® Vet and Paclical® for the global market. Paccal® Vet will initially be produced at Oasmia's facility in Uppsala. Technology and processes are being transferred to Baxter's plant in Halle, Westphalia, Germany. The cooperation with Baxter is a very important step in Oasmia's growth strategy. The cooperation may be expanded to include other product candidates from Oasmia's product portfolio and is an important step in launching these products.

## Stock-exchange listings

During the financial year the Oasmia share was listed on two stock exchanges and the company thus holds a "dual listing". The first listing was in June 2010 on NASDAQ OMX Stockholm and the second was in January 2011 on the Frankfurt Stock Exchange, General Standard. The background to this "dual listing" is that Oasmia's products are intended for the world market and that listing in Frankfurt can attract international investors to the company. The co-sponsor in Frankfurt was Silvia Quandt & Cie. AG, together with biw Bank für Investments und Wertpapiere AG. Oasmia is the first Swedish company to be listed on the Frankfurt ordinary exchange (General Standard).

## Issue authorization

At the Annual General Meeting 2010 it was decided to authorize the Board on one or more occasions during the period until the next Annual General Meeting, with or without deviation from the shareholders' preferential right, to make a decision regarding a new share issue against cash payment and/or with a provision regarding in kind or offset or otherwise with terms in accordance with Chap. 13, Sect. 7 of the Companies Act, plus an issue of convertibles against cash payment and/or with a provision regarding in kind or offset or otherwise with terms in accordance with Chap. 15, Sect. 5 of the Companies Act. In the event of a deviation from the preferential right, the new shares and convertibles shall be issued at an amount that concurs with the share price at the time of implementing the new share issue, minus any market-related discount that the Board deems to be required.

The reason for the authorization is to facilitate the procurement of operating capital. The reason for deviating from the shareholders' preferential right is to broaden the ownership group. The total number of shares that it shall be possible to issue with the support of the authorization must not exceed 15 000 000. The total number of convertibles that it shall be possible to issue with the support of the authorization must not exceed more convertibles than entitle conversion to 15 000 000 shares. It is also proposed that the Board or the party the Board appoints for the task shall have the right to make the minor changes that may be brought about by the registration thereof with the Swedish Companies Registration Office or Euroclear Sweden AB.

## Issue

At the end of 2010, Oasmia carried out a fully underwritten rights issue for approximately MSEK 239.
The issue was for approximately 14.5 million shares and the subscription price was SEK 16.50 per share. Prior to the issue, there were 37,612,858 shares, and after the issue 52,079,341 shares.

## Credit facilities

In February 2010, the principal owner, Alceco International S.A. (formerly Oasmia S.A.) made a further credit facility of MSEK 40 available to Oasmia Pharmaceutical AB. A previous credit facility from the principal owner for MSEK 60 was terminated in December 2010 and expired in March 2011.

## SEDA agreement

In July 2010, the company entered into a Standby Equity Distribution Agreement (SEDA agreement) with YA Global Master SPV Ltd (YA Global), which is controlled by USA-based Yorkville Advisors LLC. The agreement entails that YA Global undertakes to supply up to MSEK 75 through the purchase of newly-issued Oasmia shares over a period of 36 months from the date of the agreement. No such issue took place during the past financial year.

FINANCIAL INFORMATION

## Net sales

Net sales for the financial year amounted to TSEK 106 (30,741) and solely comprised the licensed prescription of pharmaceuticals. Unlike the previous year the Group had no license revenue.

## Capitalized development cost

Capitalized development cost consists of the company's investments in clinical Phase III trials. They amounted to TSEK 86,049 (80,643) for the year. Capitalized development costs per product candidate are disclosed in Note 6.

## Operating expenses

The total operating expenses affecting cash flow amounted to TSEK 145,970 (122,667). Of these, 59% (66) were capitalized as Capitalized development cost. The ratio of capitalized development costs has decreased successively since Paccal® Vet was submitted for registration in August 2010.

The number of employees increased from 64 to 68 during the year and personnel expenses rose to TSEK 37,370 (29,413).

Research and development costs, including such personnel expenses, which are not capitalized, increased during the year to TSEK 35,105 (18,073).

The increase in operating expenses was generally attributable to the wider scope of preclinical studies, increased intensity of the Paclical® study, production development and increased personnel.

## Income for the period

The income for the period for the financial year was TSEK -65,960 (-17,054). The decrease in income was due to the fact that no license revenue was received during the year (TSEK 28,421 for the previous year), the expansion that resulted in higher operating expenses, and a lower level of capitalized development costs.

The activities of the Group were not affected by seasonal variation or cyclical effects.

## Cash flow and capital expenditure

The cash flow from operating activities amounted to TSEK -57,598 (-11,235) for the year. The change from the previous year consisted mainly of license revenues in the previous year and increased expenditure in operations.

Capital expenditure amounted to TSEK 98,663 (85,315) for the year, of which investments in intangible assets amounted to TSEK 88,342 (81,773), and investments in property, plant and equipment amounted to TSEK 10,321 (3,541). Investments in intangible assets consisted of capitalized development costs of TSEK 86,049 and patents of TSEK 2,292. Investments in property, plant and equipment concerned the production facility in Uppsala. During the financial year an extensive upscaling of the production facility was achieved.

## Financing

Financing during the financial year was by an increase in loans up to the end of 2010 when a rights issue was undertaken. The cash element of the issue amounted to TSEK 148,328 after issue expenses. The remainder of the share issue, TSEK 70,000, was paid by the company's principal owner, Alceco International S.A., by offset of a claim on the company for a corresponding amount. After the share issue the company settled all interest-bearing loans.

## Financial position

At the close of the financial year equity amounted to TSEK 294,171 (141,803). At the same time the equity/assets ratio was 92% (79) and the debt/equity ratio was 0% (7).

The consolidated liquid assets amounted to TSEK 51,895 (5,372) at the end of the financial year. At the same time existing credit facilities were TSEK 45,000 (65,000), of which the utilized element was TSEK 0 (14,839).

The Board of Directors assesses that liquid funds, unutilized credit facilities and the existing SEDA agreement are an adequate financing basis for the upcoming year.

## The Parent Company

The Parent Company's net sales for the financial year amounted to TSEK 106 (28,817) and the income before taxes was TSEK -65 998 (-18 401). The Parent Company's liquid assets amounted to TSEK 51,884 (5,320) at the end of the year. For information on employees, salaries and remuneration, see Note 11.

## Key ratios and other information

*For definitions see Note 33*

| | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|
| Number of shares at the close of the period (in thousands) before and after dilution* | 52 079 | 38 403 |
| Weighted average number of shares (in thousands) before and after dilution* | 44 061 | 36 550 |
| Earnings per share, before and after dilution, SEK* | -1,50 | -0,47 |
| Equity per share, SEK* | 5,65 | 3,69 |
| Equity/assets ratio,% | 92 | 79 |
| Net liability, TSEK | -51 895 | 9 467 |
| Debt/equity ratio, % | - | 7 |
| Return on total assets, % | neg | neg |
| Return on equity, % | neg | neg |
| Number of employees at the end of the period | 68 | 64 |

*Recalculation of historical values has been made with respect to capitalization issue elements in the rights issue carried out in the second quarter of 2009/10 and the third quarter of 2010/11.

# OTHER INFORMATION

## The Oasmia share

At the close of the financial year Oasmia's share capital amounted to SEK 5,207,934, distributed on 52,079,341 shares with a par value of SEK 0.10 per share. Each share carries one vote and all shares entail equal rights to a share of the company's assets and results. There are no limits to the shares' negotiability, voting rights, or entitlement to attend the Annual General Meeting. The company is not part of any agreement that becomes effective, is modified or terminated if control of the company changes as a consequence of a public takeover bid. Oasmia has no knowledge of agreements between shareholders that could limit the right to transfer the shares. There are furthermore no provisions in the Articles of Association concerning the appointment and dismissal of members of the Board of Directors, or agreements between the company and members of the Board of Directors or employees that require them to receive compensation if they resign from their positions, are given notice of termination without reasonable grounds, or their employment is terminated as a consequence of a public takeover bid for the shares in the company.

As of April 30, 2011 the number of shareholders was approximately 3,000, which was a significant increase from approximately 1,800 shareholders one year before. The principal owner in voting terms was Alceco International S.A. with 55.7% of the votes and shares, followed by Avanza Pension with 4.3%. The ten largest owners together held 71.6% of the total number of votes and shares.

## Legal issues

Oasmia is not, and has not during the past financial year, been involved in any legal disputes of significance to the company's position. The Board of Directors is not aware of any circumstances which could lead to legal proceedings, or which could affect the company's position significantly.

## Environmental activities

Oasmia's business activities consist of research, development and production at the facility in Uppsala, where large quantities of chemicals are handled. The activities are subject to registration in accordance with regulation (1998:899) on environmentally hazardous activities and protection of health. The Environmental Office of Uppsala Municipality has made the assessment that there are no objections to the activities, subject to the condition that the activities are conducted in accordance with the information disclosed in the registration.

The impact of the company's activities on the wider environment is minimal. Chemicals and solvents used in the activities do not seep into the surroundings from ventilation systems or via sewage. The ventilation in the building laboratories is not connected to the general ventilation plant. The processes are closed to a high degree and residual chemicals and solvents are managed by Kemstationen, Uppsala Vatten & Avfall AB for final destruction and recycling.

The company fulfills the environmental requirements made and seeks to conduct its activities in a way which benefits sustainable development within the environmental area. In addition to complying with the norms, guidelines and regulations which govern the work, the company does its utmost to continuously improve the business by, for example, offering internal training within quality and the environment.

## Employees

The average number of employees in the financial year was 66 (56). Of these, 37 (30) were women, and 29 (26) men. The number of employees at the end of the year was 68 (64). Salaries and remuneration amounted to TSEK 28,936 (22,788). For further information see Note 11.

## Guidelines for remuneration to senior executives

Guidelines for the establishment of salaries and other remuneration for senior executives were adopted at the Annual General Meeting in 2010. They are disclosed below.

*Salaries and other benefits*

The remuneration of the CEO and other senior executives shall comprise a fixed salary. In addition to the fixed salary, no other remuneration or benefits shall be paid and no pension provisions shall be made.

*Term of notice and severance pay*

If notice is given by the company, the term of notice for the CEO will be at most 24 months. If notice is given by the CEO, the term of notice shall be at most six months. For other senior executives, the term of notice shall

normally be six months if notice is given by the company and three months if notice is given by the executive. No separate severance pay shall be given.

*Incentive programme*
Decisions on possible share and share-price related incentive programmes aimed at senior executives shall be made by the General Meeting.

*Remuneration committee*
The Board of Directors has not established a remuneration committee. The Board considers that it can fulfil the duties which normally would be performed by a remuneration committee. The detailed principles for salaries concerning the CEO and other senior executives shall be stated in a policy established by the Board.

*Deviation in specific cases*
The Board of Directors has the right to deviate from these guidelines if there are special circumstances in a specific case. If such a deviation is made, information about the case, and the reason for the deviation, must be presented at the next Annual General Meeting.

### Other information concerning the Board of Directors and Management
A resolution was adopted at the 2010 Annual General Meeting that a member of the Board of Directors not employed by the company shall receive remuneration of SEK 25,000 per meeting attended by the member. By special agreement with Oasmia Pharmaceutical AB, directors' fees are invoiced via a company wholly-owned by the member. In such case the invoiced directors' fees must be increased by an amount equivalent to social security expenses and VAT.

For more information about the remuneration of the Board of Directors and management, see note 11.

## PROPOSALS FOR THE ANNUAL GENERAL MEETING 2011

The complete proposals from the Board of Directors for the 2011 Annual General Meeting are presented in connection with the notice convening the Annual General Meeting.

### Dividend
The Board of Directors does not intend to propose dividends for the fiscal year 2010/2011.

### Guidelines for remuneration to senior executives
The Board of Directors proposes that the 2011 Annual General Meeting approves that the current principles for remuneration and other terms of employment for the CEO and other senior executives shall apply until the 2012 Annual General Meeting. The principles shall be applied to employment agreements signed after the 2011 Annual General Meeting, and also to revisions of current employment agreements concluded up to the 2012 Annual General Meeting. The remuneration of the management is determined by the Board of Directors.

### Amendment of the Articles of Association
The Board of Directors proposes that the Annual General Meeting adopts a resolution to amend Article 8 of the Articles of Association, in accordance with new rules in the Swedish Companies Act concerning the convening of general meetings in listed companies.

# EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

## Licensing agreement signed

Oasmia has signed a licensing agreement with Medison Pharma Ltd for Paclical® in Israel and Turkey. The agreement entails milestone payments of EUR 200,000 on the conclusion of the agreement, and EUR 200,000 on market approval of Paclical® within the EU. Oasmia's net royalty from the sales of the licensees is intially 25%, with a possible increase to maximum 30% with increasing sales. Registration of Paclical® in Israel and Turkey can be based on the same documentation as within the EU.

## Concentration of the development programme

In order to realize Oasmia's full potential, all chosen product candidates must be in a stage of ongoing clinical trials by the end of the current financial year at the latest. In order to achieve this, the management has decided to concentrate the development programme.

Within Human Health the development is now driven by three product candidates: Paclical®, Doxophos® and Docecal®. Carbomexx® is no longer a prioritized product candidate. The reason is that Carbomexx® is based on a new active substance and entails a considerably more extensive development programme.

Product development within Animal Health is now concentrated on two product candidates, directed at cancer in dogs. They are Paccal® Vet, for the treatment of mastocytoma, and Doxophos® Vet, for the treatment of lymphoma. These two types of cancer account for around half of the cancer incidence in dogs, and Oasmia estimates that this investment is sufficient for the veterinary market. Carbomexx® Vet and Docecal® Vet are no longer prioritized product candidates.

## Interim analysis of Phase III study

Oasmia has conducted an interim analysis of the ongoing Phase III study on ovarian cancer. The analysis was based on a total of 400 patients. The results meet the clinical demands that Paclical® is at least as effective as Taxol®. In the study, patients are treated with either Paclical® or Taxol®. The selection process is random. Patients treated with Taxol® require heavy premedication to avoid hypersensitivity reactions due to the solvent Cremophor® EL. This premedication is not required during treatment with Paclical® since Paclical® does not contain Cremophor® EL. Paclical® is given at a dose of 250 mg/m$^2$ and Taxol at a dose of 175 mg/m$^2$. The infusion time for Paclical® is one hour and three hours for Taxol®.

## Termination of contract

The licensing and distribution agreement with Orion Corporation, Finland, for the rights to Paclical® in the Nordic countries has been terminated and all rights have reverted to Oasmia.

# FINANCIAL PROSPECTS

Crucial for Oasmia's financial prospects are the registration dates for the products that the company develops. After submission of the application for registration, Oasmia is dependent on the pharmaceutical authorities' handling of the case. The company cannot expedite the process in any other way than to submit answers to the authorities' questions, which may be asked at various times in the registration process, as quickly as possible

The company aims to launch its first product for the veterinary market, Paccal® Vet, in 2011. Licensing and distribution agreements are in place for the main world markets.

The company aims to launch its first product for the human market, Paclical®, in 2012. The Board of Directors assesses the conditions for licensing in the human market to be very favorable.

The Board of Directors has set the goal that the debt/equity ratio must not exceed 50%. At the end of the financial year (April 30), the debt/equity ratio was 0%.

The business is financed with equity, credits and licensing. The management is continuously working with these instruments.

# RISKS

Oasmia's activities are subject to a number of factors that can be influenced by the company only partly, or not at all. The risks entailed by Oasmia's activities can be divided into financial and operational risks. The financial risks, and how they are handled, are described in more detail in Note 3. The key operational risks are described below. The outcome of these risks can influence the timing of the company's establishment in different markets, and its rate of expansion, income, result and financial position.

## Product development

Oasmia develops pharmaceuticals, which is associated with high risk. A large number of conditions and regulations entail that there is a significant risk of failure. For product development that is nevertheless successful there is always the risk that complexity entails delays and additional costs. Below, stages of product development are presented where such risk is significant.

The development of a pharmaceutical requires preclinical and clinical studies. The result of a study may be less favorable and lead to the discontinuation, or reconsideration and supplementing, of the study. Patients must be recruited for clinical studies via clinics and hospitals and various pharmaceutical companies compete for access to these patients. It is common for recruited patients to withdraw, requiring them to be replaced with other patients. Both of these factors can entail that a study takes longer and is more expensive than anticipated.

Oasmia enters into agreements with suppliers of patient recruitment services, and it cannot be excluded that such agreements are terminated and are difficult to replace. This can lead to delays.

There is a risk that patients that participate in clinical trials, or in other ways come into contact with Oasmia's products, may experience serious side effects. The consequence can be that further clinical studies must be performed, which could prolong product development. Another consequence which cannot be ruled out is that Oasmia could be sued by patients who have experienced side-effect or by their relatives.

In order for a pharmaceutical to be marketed and sold, a market approval from the pharmaceutical authority concerned is required in the respective territory. An application for market approval includes extensive documentation. The pharmaceutical authorities have a lot of freedom concerning processing times. They may ask for supplementary information or present questions for the company to answer. This processing entails that the dates by which approval may be achieved are subject to considerable uncertainty. It cannot be excluded that an application must be supplemented with further information, with the related additional time and costs. It cannot be ruled out either that approval is not obtained at all.

## Intellectual property rights

Oasmia estimates that its patents have adequate protection on essential markets. It cannot be guaranteed, however, that continued product development will lead to patentable products, that current or future patent applications will lead to patents, or that approved patents are enough to protect Oasmia's rights.

It cannot be excluded that patents exist whose protection supersedes Oasmia's patent protection. If this is the case, the holder of such a superseding patent can potentially prevent Oasmia's exploitation of the relevant products, in spite of Oasmia's own patent protection. If Oasmia within the framework of its research were to use substances or procedures which are patented, or the object of a patent submission by other party, the holder of these rights may seek legal action against Oasmia.

There is also the risk that competitors infringe in Oasmia's patent rights and that disputes may arise. As it can never be said with full certainty that a patent is valid, it is hard to predict the outcome of judicial processes concerning patents. The costs for such processes are often considerable.

## Relations with authorities

Oasmia's business activities are dependent on permissions from authorities. There is a risk that necessary permits cannot be obtained without extensive investigations or costly adjustments of the business. In the event that critical permits are recalled, Oasmia may be forced to discontinue its activities.

## Competitors and prices

There are a large number of players in the markets targeted by Oasmia, and there are probably more on their way in. As a new player Oasmia will face competitors that command the advantages of established products and

marketing channels. This makes it difficult to predict how quickly Oasmia's pharmaceutical candidates can become established after market approval has been acquired. There is also uncertainty concerning an adequate price level for Oasmia's product candidates compared to competing products in the market. This uncertainty entails a risk of erroneous investment estimations.

### Untested veterinary market

The market for cancer drugs for dogs is new and untested. It is thus difficult to estimate the extent and speed at which cancer drugs can be accepted by veterinarians.

### Remuneration from third party

Many pharmaceuticals entail the right for the end customer to obtain reimbursement from the paying third party such as the public sector or private insurance companies. Changes in such third party policies and the ability to affect the prices and demand for pharmaceuticals may affect Oasmia either negatively or positively.

### Cooperation

Oasmia's business model includes collaboration with large pharmaceutical companies on the further development, commercialization and sale of product candidates. Oasmia's growth is thereby highly dependent on the establishment of such collaboration and on the partner's success in penetrating markets. If important collaborations cannot be established, or are terminated or do not function satisfactorily, this can have a negative impact on Oasmia's ongoing development. A customary term of such agreements is that the product's market price is determined by Oasmia's partners and not by Oasmia.

### Onerous contract provision

The licensing and distribution agreements concluded by Oasmia contain certain onerous provisions. They mainly concern repayment of the entire or parts of the milestone payments received if Oasmia does not successfully apply for and obtain market approval within the time agreed with licensees.

### Non-sustainable revenue sources

Oasmia's business model includes licensing and distribution agreements which entail milestone payments. They comprise the dominant revenue source until the point where Oasmia has gained market approval, and for a few years thereafter. They fall unevenly over time and therefore result in significant fluctuations in net sales and results. Milestone payments are unsustainable revenues, so that in the longer term Oasmia is dependent on the successful commercialization and market introduction of its pharmaceutical candidates.

### Production

Oasmia's own production facility allows production up to pilot scale of both development substances and finished product. Full-scale manufacture is carried out by contract manufacturers. Technology transfer entails a risk of the spreading and copying of concepts, methods and processes attributable to Oasmia's products. If the technology proves to be more difficult to scale up than estimated, this may delay full-scale production and affect the launch dates. In connection with upscaling, validation of the full-scale production must be performed and documentation submitted to the relevant authorities. These authorities must approve the products at the manufacturer chosen by Oasmia. If the documentation is not complete, there is a risk that product launch is delayed. Oasmia has not yet started production at contract manufacturer's site. There is therefore a degree of uncertainty concerning manufacturing costs and thereby the profitability of the company's products.

### Dependence on few products

A large part of Oasmia's estimated asset value is attributable to the development, market approval and commercialization of Paccal® Vet and Paclical®. This dependence entails the risk of a negative impact if the development and commercialization of these two product candidates does not proceed as planned.

### Key personnel and recruitment

Oasmia is to a high degree dependent on key employees. If Oasmia were to lose any of its key personnel, this might delay or interrupt a research programme or development, or the licensing or commercialization of product candidates. Oasmia is dependent on qualified staff and expects to continue to expand in coming years. There is a need for recruitment within the departments of production and regulatory affairs, and there is a risk that Oasmia will not able to recruit the new qualified employees that are needed.

### Employment agreements and intellectual property rights

The appointment of new key employees during the past two financial years is subject to the provision that any inventions made by employees, and/or other intellectual property rights that employees may acquire, shall belong to the company. Such provision was not made in previous employment agreements. No employment agreements contain competition or non-recruitment clauses for key employees after the end of their employment. These circumstances entail a risk for negative impact on the company if any of its key employees leave Oasmia and choose to engage in a competing business.

## CORPORATE GOVERNANCE REPORT

This Administration Report does not contain a corporate governance report. Oasmia has instead, supported by Section 8, Chapter 6 of the Annual Accounts Act, chosen to establish a corporate governance report on a separate basis from the annual report. The corporate governance report is reviewed by the company's auditors and is available at the Oasmia website, www.oasmia.com.

# Financial statements

## Consolidated Income Statement

| TSEK | Note | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|---|
| Net sales | 5 | 106 | 30 741 |
| Capitalized development cost | 6 | 86 049 | 80 643 |
| Other operating income | 7 | 269 | - |
| Raw materials, consumables and goods for resale | 8 | -16 120 | -18 842 |
| Other external expenses | 9,10 | -92 479 | -74 412 |
| Employee benefit expenses | 11 | -37 370 | -29 413 |
| Depreciation/amortization and impairment | 12,13 | -4 674 | -3 612 |
| Other operating expenses | 13 | -133 | -68 |
| Operating income | 14,15 | -64 353 | -14 961 |
| | | | |
| Financial income | | 484 | 411 |
| Financial expenses | | -2 097 | -2 505 |
| Financial items, net | 14,16 | -1 613 | -2 094 |
| | | | |
| Income before taxes | | -65 967 | -17 055 |
| | | | |
| Taxes | 17 | 7 | 0 |
| Income for the period | | -65 960 | -17 054 |
| | | | |
| Income for the period attributable to: | | | |
| Equity holders of the Parent Company | | -65 960 | -17 016 |
| Non-controlling interest | | - | -38 |
| | | | |
| Earnings per share, before and after dilution, SEK | 18 | -1,50 | -0,47 |

## Consolidated Statement of Comprehensive Income

| TSEK | Note | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|---|
| Income for the period | | -65 960 | -17 054 |
| Comprehensive income for the period | | -65 960 | -17 054 |
| | | | |
| Comprehensive income for the period attributable to: | | | |
| Equity holders of the Parent Company | | -65 960 | -17 016 |
| Non-controlling interest | | - | -38 |
| | | | |
| Comprehensive earnings per share, before and after dilution, SEK | 18 | -1,50 | -0,47 |

# Consolidated Statement of Financial Position

| TSEK | Note | 2011-04-30 | 2010-04-30 |
|---|---|---|---|
| ASSETS | | | |
| | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 27 243 | 20 665 |
| Capitalized development cost | 6 | 226 909 | 140 860 |
| Other intangible assets | 13 | 9 276 | 8 047 |
| Financial assets | | 2 | 2 |
| Total non-current assets | | 263 430 | 169 574 |
| | | | |
| Current assets | | | |
| Inventories | 8 | - | 94 |
| Trade receivables | 20 | - | 60 |
| Other current receivables | 21 | 2 141 | 2 090 |
| Prepaid expenses and accrued income | 20 | 2 853 | 2 460 |
| Liquid assets | 22 | 51 895 | 5 372 |
| Total current assets | | 56 889 | 10 076 |
| | | | |
| TOTAL ASSETS | | 320 319 | 179 650 |
| | | | |
| EQUITY | | | |
| Equity attributable to equity holders in the Parent Company | | | |
| Share capital | 23 | 5 208 | 3 761 |
| Other capital provided | | 413 375 | 196 493 |
| Retained earnings | | -124 411 | -58 509 |
| Total | | 294 171 | 141 746 |
| Non-controlling interest | | - | 57 |
| Total equity | | 294 171 | 141 803 |
| | | | |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Other non-current liabilities | 24 | 15 373 | 15 397 |
| Deferred tax liabilities | 25 | - | 7 |
| Total non-current liabilities | | 15 373 | 15 404 |
| | | | |
| Current liabilities | | | |
| Liabilities to credit institutions | 26 | - | 4 289 |
| Short-term borrowings | 27 | - | 10 550 |
| Trade payables | | 3 831 | 2 076 |
| Other current liabilities | 28 | 1 399 | 1 197 |
| Accrued expenses and prepaid income | 29 | 5 545 | 4 332 |
| Total current liabilities | | 10 775 | 22 443 |
| | | | |
| Total liabilities | | 26 148 | 37 847 |
| | | | |
| TOTAL EQUITY AND LIABILITIES | | 320 319 | 179 650 |

| | | |
|---|---|---|
| Contingent liabilities | 30 | |
| Pledged assets | 30 | |

## Consolidated Statement of Changes in Equity

| | | Attributable to equity holders in the Parent Company | | | | |
|---|---|---|---|---|---|---|
| TSEK | Note | Share capital | Other paid-up capital | Retained earnings | Non-controlling interest | Total equity |
| Opening balance as of May 1, 2009 | | 3 350 | 99 254 | -41 493 | 95 | 61 207 |
| Comprehensive income for the year | | - | - | -17 016 | -38 | -17 054 |
| New share issues | 23,31 | 411 | 102 410 | - | - | 102 821 |
| Issue expenses | | - | -5 171 | - | - | -5 171 |
| Closing balance as of April 30, 2010 | | 3 761 | 196 493 | -58 509 | 57 | 141 803 |
| Opening balance as of May 1, 2010 | | 3 761 | 196 493 | -58 509 | 57 | 141 803 |
| Comprehensive income for the year | | - | - | -65 960 | - | -65 960 |
| Non-controlling interest | 32 | - | - | 57 | -57 | 0 |
| New share issue | 23,31 | 1 447 | 237 250 | - | - | 238 697 |
| Issue expenses | | - | -20 369 | - | - | -20 369 |
| Closing balance as of April 30, 2011 | | 5 208 | 413 375 | -124 411 | 0 | 294 171 |

## Consolidated Cash Flow Statement

| TSEK | Note | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|---|
| Operating activities | | | |
| Operating income before financial items | | -64 353 | -14 961 |
| Depreciation and amortization | 12,13 | 4 650 | 3 612 |
| Impairment of inventory | 8 | 94 | 300 |
| Disposals of intangible assets | 13 | 133 | 68 |
| Interest received | 16 | 484 | 411 |
| Interest paid | 16 | -1 392 | -2 178 |
| Cash flow from operating activities before working capital changes | | -60 385 | -12 748 |
| Change in working capital | | | |
| Change in inventories | 8 | - | 2 383 |
| Change in trade receivables | 20 | 60 | 2 277 |
| Change in other current receivables | 20,21 | -445 | -1 722 |
| Change in trade payables | | 1 756 | -950 |
| Change in other current liabilities | 28,29 | 1 415 | -475 |
| Cash flow from operating activities | | -57 598 | -11 235 |
| Investing activities | | | |
| Investments in intangible assets | 6,13 | -88 342 | -81 773 |
| Investments in property, plant and equipment | 12 | -10 321 | -3 541 |
| Cash flow from investing activities | | -98 663 | -85 315 |
| Financing activities | | | |
| Decrease in liabilities to credit institutions | 26 | -4 289 | -3 067 |
| Increase in long-term liabilities | 24 | - | 15 373 |
| New share issues | 23,31 | 168 697 | 74 083 |
| Issue expenses | 23,31 | -20 369 | -5 171 |
| New loans | 27 | 58 745 | 25 007 |
| Amortization of loans | 27 | - | -5 290 |
| Cash flow from financing activities | | 202 784 | 100 934 |
| Cash flow for the period | | 46 523 | 4 384 |
| Cash and cash equivalents at the beginning of the period | | 5 372 | 988 |
| Cash and cash equivalents at the end of the period | 22 | 51 895 | 5 372 |

## Parent Company Income Statement

| TSEK | Note | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|---|
| Net sales | 5 | 106 | 28 817 |
| Capitalized development cost | 6 | 86 049 | 80 643 |
| Other operating income | 7 | 245 | 125 |
| Raw materials and consumables | | -16 080 | -15 869 |
| Other external expenses | 9,10 | -92 271 | -74 051 |
| Employee benefit expenses | 11 | -37 370 | -29 413 |
| Depreciation/amortization and impairment of property, plant, equipment and intangible assets | 12,13 | -4 486 | -3 385 |
| Operating income | | -63 806 | -13 133 |
| Result from participations in Group companies | 32 | -578 | -3 570 |
| Other interest revenues and similar revenues | 14,16 | 483 | 411 |
| Interest costs and similar costs | 14,16 | -2 097 | -2 109 |
| Financial items, net | | -2 192 | -5 268 |
| Income before taxes | | -65 998 | -18 401 |
| Taxes | 17 | - | - |
| Income for the period | | -65 998 | -18 401 |

## Parent Company Statement of Comprehensive Income

| TSEK | Note | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|---|
| Income for the period | | -65 998 | -18 401 |
| Comprehensive income for the period | | -65 998 | -18 401 |

## Parent Company Balance Sheet

| TSEK | Note | 2011-04-30 | 2010-04-30 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | | |
| Capitalized development cost | 6 | 226 909 | 140 860 |
| Concessions, patents, licenses, trademarks and similar rights | 13 | 9 180 | 7 630 |
| Property, plant and equipment | | | |
| Equipment, tools, fixtures and fittings | 12 | 27 243 | 20 665 |
| Financial assets | | | |
| Participations in Group companies | 32 | 110 | 298 |
| Receivables from Group companies | | 5 | 4 |
| Other securities held as non-current assets | | 1 | 1 |
| Total non-current assets | | 263 448 | 169 458 |
| | | | |
| Current assets | | | |
| Inventories | | | |
| Raw materials and consumables | 8 | - | 94 |
| | | 0 | 94 |
| Current receivables | | | |
| Trade receivables | 20 | - | 60 |
| Receivables from Group companies | 31 | 89 | 370 |
| Other current receivables | 21 | 2 140 | 2 019 |
| Prepaid expenses and accrued income | 20 | 2 748 | 2 332 |
| | | 4 977 | 4 782 |
| | | | |
| Cash and bank balances | 22 | 51 884 | 5 320 |
| Total current assets | | 56 861 | 10 196 |
| | | | |
| TOTAL ASSETS | | 320 309 | 179 653 |
| | | | |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Restricted equity | | | |
| Share capital | 23 | 5 208 | 3 761 |
| Statutory reserve | | 4 620 | 4 620 |
| | | 9 828 | 8 381 |
| Non-restricted equity | | | |
| Share premium reserve | | 413 375 | 196 493 |
| Retained earnings | | -63 030 | -44 628 |
| Income for the period | | -65 998 | -18 401 |
| | | 284 347 | 133 464 |
| Total equity | | 294 175 | 141 845 |
| | | | |
| Non-current liabilities | | | |
| Other non-current liabilities | 24 | 15 373 | 15 373 |
| Total non-current liabilities | | 15 373 | 15 373 |
| | | | |
| Current liabilities | | | |
| Short-term borrowings | 27 | - | 10 550 |
| Trade payables | | 3 818 | 2 068 |
| Liabilities to credit institutions | 26 | - | 4 289 |
| Other current liabilities | 28 | 1 399 | 1 197 |
| Accrued expenses and prepaid income | 29 | 5 545 | 4 332 |
| Total current liabilities | | 10 761 | 22 435 |
| | | | |
| TOTAL EQUITY AND LIABILITIES | | 320 309 | 179 653 |
| | | | |
| Contingent liabilities and pledged assets | | | |
| Contingent liabilities | 30 | - | - |
| Pledged assets | 30 | 8 000 | 5 000 |

## Parent Company changes in equity

| | | Restricted equity | | | |
|---|---|---|---|---|---|
| TSEK | Note | Share capital | Statutory reserve | Non-restricted equity | Total equity |
| Opening balance as of May 1, 2009 | | 3 350 | 4 620 | 54 626 | 62 596 |
| New share issues | 23,31 | 411 | - | 102 410 | 102 821 |
| Issue expenses | | - | - | -5 171 | -5 171 |
| Income for the period | | - | - | -18 401 | -18 401 |
| Closing balance as of April 30, 2010 | | 3 761 | 4 620 | 133 464 | 141 845 |
| | | | | | |
| Opening balance as of May 1, 2010 | | 3 761 | 4 620 | 133 464 | 141 845 |
| New share issue | 23,31 | 1 447 | - | 237 250 | 238 697 |
| Issue expenses | | - | - | -20 369 | -20 369 |
| Income for the period | | - | - | -65 998 | -65 998 |
| Closing balance as of April 30, 2011 | | 5 208 | 4 620 | 284 347 | 294 175 |

## Parent Company Cash Flow Statement

| TSEK | Note | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|---|
| Operating activities | | | |
| Operating income before financial items | | -63 806 | -13 133 |
| Depreciation/amortization | 12,13 | 4 486 | 3 385 |
| Impairment of inventory | 8 | 94 | - |
| | | | |
| Interest received | 16 | 483 | 411 |
| Interest paid | 16 | -1 392 | -2 013 |
| Cash flow from operating activities before working capital changes | | -60 135 | -11 350 |
| | | | |
| Change in working capital | | | |
| Change in inventories | 8 | - | -9 |
| Change in trade receivables | 20 | 60 | 41 |
| Change in other current receivables | 20,21,31 | -645 | -3 883 |
| Change in trade payables | | 1 750 | 371 |
| Change in other current liabilities | 28,29 | 1 415 | -3 797 |
| Cash flow from operating activities | | -57 555 | -18 628 |
| | | | |
| Investing activities | | | |
| Investments in intangible assets | 6,13 | -88 342 | -81 773 |
| Investments in property, plant and equipment | 12 | -10 321 | -3 541 |
| Investments in financial assets | | -1 | -4 |
| Cash flow from investing activities | | -98 664 | -85 319 |
| | | | |
| Financing activities | | | |
| Increase in liabilities to credit institutions | 26 | - | 4 289 |
| Decrease in liabilities to credit institutions | 26 | -4 289 | - |
| Increase in long-term liabilities | 24 | - | 15 373 |
| New share issues | 23,31 | 168 697 | 74 083 |
| Issue expenses | 23,31 | -20 369 | -5 171 |
| New loans | 27 | 58 745 | 25 007 |
| Amortization of loans | 27 | - | -5 290 |
| Cash flow from financing activities | | 202 784 | 108 290 |
| | | | |
| Cash flow for the period | | 46 565 | 4 344 |
| Cash and cash equivalents at the beginning of the period | | 5 320 | 975 |
| Cash and cash equivalents at the end of the period | 22 | 51 884 | 5 320 |

# Notes to the financial statements

## Note 1 General information

Oasmia Pharmaceutical AB (the Parent Company in the Oasmia Group) is a limited liability company seated and registered in Stockholm, Sweden. The company's address is Vallongatan 1, Uppsala where the Parent Company's office, research and production facility is situated. The Group's operations are presented in the Administration Report on pages 24-33. The Annual Report for Oasmia Pharmaceutical AB for the fiscal year, ending on April 30, 2011, was approved for publication by the Board of Directors on August 25, 2011. The Income statements and Balance Sheets of the Group and the Parent Company will be presented for adoption by the Annual General Meeting on September 30, 2011.

## Note 2 Accounting policies

The Group
The most important accounting policies applied when these consolidated accounts were established are described below.

Basis for the presentation of the reports
The Consolidated Accounts are presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC) such as they have been adopted by the EU. Furthermore, the recommendation RFR 1, Supplementary accounting regulations for Groups, issued by the Swedish Financial Reporting Board, has been applied.

The Parent Company applies the same accounting policies as the Group, except in the cases disclosed below in the section "Parent Company accounting policies". The deviations between the policies applied by the Parent Company and the Group respectively are a result of limitations to the opportunities to apply IFRS in the Parent Company with respect to the Annual Reports Act and Safeguard legislation and in some cases tax reasons.

The presentation of reports in accordance with IFRS requires the utilization of a number of important estimations for accounting purposes. Furthermore, it is required that the management makes certain assessments on the application of the Group accounting policies. Areas which require several estimations, are complex or for which assumptions and estimations are of significant importance for the Consolidated Accounts, are disclosed in note 4.

Revised accounting policies

*New policies 2010/11*

IFRS 3 (Revision), Business combinations and consequential amendments in IAS 27, Consolidated and separate financial statements
The standard has been applied as from the financial year that commenced on May 1, 2010. The amendment applies to acquisitions as from the standard's coming into effect. The application entails a change in how future acquisitions are recognized, for instance recognitions of transaction costs, any conditional considerations and successive acquisitions. The amendments have affected the recognition of the successive acquisitions made when Oasmia on April 30, 2011 acquired the remaining interests in the subsidiary GlucoGene Pharma AB. In accordance with the revised IFRS 3 and re-drafted IAS 27 the acquisition of further interests in a subsidiary after a controlling influence is gained is recognized as a transaction with the owners affecting own capital.
The re-drafting of IAS 27 has also entailed that "minority interest" has been amended to "non-controlling interest".

*New IFRS and interpretations applicable to the financial year 2010/11 or later*

Improvements to IFRS (May 2010)
Annual review of minor changes and clarifications, which in this instance concerned seven standards and interpretations with certain consequential amendments. Oasmia applies these as from the financial year commencing on May 1, 2011, but they are not expected to have any significant impact on the Group's financial reports.

IFRS 7 (amendment) Financial instruments
The amendment has not yet been adopted by the EU. Applied to the financial year beginning on July 1, 2011 or later. Earlier application is permitted.
Further quantitative and qualitative information must be provided on the derecognition of financial assets from the balance sheet. If a transfer of assets does not result in full derecognition this must be disclosed. If the company retains an exposure in the derecognized asset the company must disclose this.

IFRS 9 Financial instruments
The standard has not yet been adopted by the EU. IFRS 9 is intended to replace IAS 39 Financial instruments as from 2013 at the latest. The elements of IFRS 9 published so far concern the classification and assessment of financial instruments, whereby today's four categories are replaced by the two categories "accrued acquisition value" and "fair value". Early application of the published elements is permitted. Oasmia has not yet taken a decision on early application.

IAS 24 (amendment) Related party disclosures
Applies to the financial year beginning on January 1, 2011 or later. Earlier application is permitted.
The re-drafted standard simplifies the disclosure requirement for publicly owned companies and amends and clarifies the definition of related party. Oasmia will apply the re-drafted IAS 24 as from the financial year beginning on May 1, 2011, but it is not assessed to entail any change in Oasmia's related parties.

IFRIC 19 Extinguishing financial liabilities with equity instruments
Applies to the financial year beginning on July 1, 2010 or later. The interpretation clarifies the recognition of the renegotiation of loan terms so that all or part of the loan is repaid from issued shares. The shares must be assessed at fair value and the difference between fair value and the book value of the loan must be recognized in the income statement. If the fair value of the shares cannot be reliably calculated it must instead be calculated to reflect the fair value of the loan. Oasmia is not currently affected by IFRIC 19.

## Consolidated accounts

### Subsidiaries

Subsidiaries are companies where the Group has the right to design financial and operative strategies in a way which is customary for a shareholding equivalent to more than half of the votes. Subsidiaries are included in the Consolidated Accounts as from the day on which the controlling interest is transferred to the Group. They are excluded from the Consolidated Accounts as from the day on which the controlling interest ended.

The acquisition method is applied to the recognition of the Group's acquisitions of subsidiaries. Acquisitions made before 2010/11 are recognized in accordance with the previous acquisition method. As from the 2010/11 financial year the Group applies the revised IFRS Business combinations, as one of the amendments is that acquisition-related costs are carried as costs instead of being included in acquisition value.

Identifiable acquired assets and liabilities in an operational acquisition are initially assessed at fair value on the date of acquisition. For each acquisition the Group determines how far a non-controlling interest in the acquired company is recognized at fair value, or at the holding's proportional share of the net assets of the acquired company. The excess, as the difference between the acquisition value and the fair value of the Group's share of identifiable acquired assets, liabilities and contingent liabilities, is recognized as goodwill. If the acquisition value is less than the fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, the difference is recognized directly in the income statement.

Eliminations are made for intra-Group transactions and balance-sheet items, and for unrealized gains on intra-Group transactions.

### Non-controlling interest

For the 2010/11 financial year transactions with minority shareholders are treated as transactions with third parties. As from the 2010/11 financial year the Group treats transactions with holders of non-controlling interests as transactions with the Group's shareholders. On the acquisition of non-controlling interests, the difference between the acquisition cost and the actual acquired share of the recognized value of the subsidiary's net assets is carried to equity.

### Segment reporting

An operating segment is a part of a company that conducts business activities from which revenues can be generated and costs can be incurred, and for which independent financial information is available. Furthermore, the operating results of the segment are reviewed on a regular basis by the company's chief executive officer as the basis for the decision on allocation of resources to the segment and the evaluation of its result. The Group currently has only one segment and therefore does not include segment information in the accounts.

### Translation of foreign currency

The Group companies use SEK as their functional currency and reporting currency. Transactions in foreign currency are translated to the functional currency according to the exchange rates on the transaction date. Translation profits or losses arising from payments for such transactions and from translation of monetary assets and liabilities in foreign currency at the exchange rates on the closing date are recognized to operations. Currency gains and losses arising from the translation of bank accounts in foreign currencies are recognized under Net financial items.

### Property, plant and equipment

Property, plant and equipment is recognized at acquisition cost, with deductions for depreciation. The acquisition cost includes expenses directly attributable to the acquisition of the asset.

Additional expenses are added to the carrying amount of the asset or are recognized as a separate asset, depending on what is most suitable, only when it is probable that the future economic benefits connected with the asset will prove beneficial to the Group and the acquisition cost of the asset can be measured in a reliable way. The carrying amount of the replaced part will be removed from the Balance Sheet. All other types of repairs and maintenance are recognized as expenses in the Income Statement in the period in which they arise.

Property, plant and equipment which is acquired by conditional sale is recognized at acquisition cost, i.e. the total discounted amount of all future payments. A liability is recognized at the same time concerning the purchase sum not yet paid. The liability is initially valued at its fair value and thereafter at amortised cost with application of the effective interest method. The liability is divided into a non-current part and a current part and recognized in the item Borrowings.

The Group applies component depreciation, which means that every part of an asset related to property, plant and equipment with a significant acquisition cost in relation to the total acquisition cost of the asset, is depreciated separately. Component depreciation is mostly applied to the Group's production equipment.

Assets are depreciated on a straight-line basis in order to distribute their acquisition cost on the calculated residual value over the calculated utilization period, as follows:

- Vehicles 3 years
- Inventories 5 years
- Production equipment 12-15 years
- Improvement expenses for third party's property 20 years

The residual values and utilization period of the assets are reviewed at every balance-sheet date and are adjusted as required. A carrying amount of an asset is immediately depreciated to its recoverable amount if the carrying amount exceeds its estimated recoverable amount.

Profits and losses from disposals are established by a comparison between the sales revenue and the carrying amount and are recognized in Other operating income or Other operating expenses.

### Intangible assets

*Capitalized development cost*

Expenditures for research are written off immediately. Development costs which are attributable to production and tests of novel or improved products, are capitalized to the extent that they are expected to generate future economic benefits. Depreciation is made on a straight-line basis over the period that the expected benefits are expected to generate earnings for the company, which is from the date that

commercial sale to final customers is commenced. The utilization period for such capitalized development costs is estimated to be at most 10 years.

Pharmaceuticals in development pass through two stages, the preclinical stage and the clinical stage. In the preclinical stage, pharmaceutical candidates are selected from possible future pharmaceuticals. The priorities which govern the selection are demand and profitability. Furthermore, the production process for the novel pharmaceutical to a test version and studies of the pharmaceutical for specificity, efficacy and safety are included. The work in this phase is concluded with submission of an IND (Investigative New Drug) application to the authorities in order to obtain permission to test the pharmaceutical on humans. When an application has been approved, the process continues in the clinical stage. This stage can be divided into four phases: in Phase I, the pharmaceutical is tested on healthy volunteers; in Phase II, the pharmaceutical is tested on a group of people with the disease the pharmaceutical is intended to treat; and in Phase III, the pharmaceutical is tested on a larger group of patients whereby both efficacy and safety and studied. Corresponding methods are used for pharmaceuticals for veterinary use. After market launch of the final product, rare side-effects are studied in Phase IV.

The company has adopted the principle of capitalizing development costs in Phase III for two pharmaceutical candidates for which all conditions for capitalization have been fulfilled. Other development costs are written off as they arise. Development costs previously written off, are not carried forward as assets in later periods.

*Other intangible assets*
The Group capitalizes fees to authorities for patents and sales rights to the extent they are expected to generate future economic benefits. They are recognized at acquisition cost, reduced by the accumulated amortizations. Amortization is performed on a straight-line basis in order to distribute the cost over the estimated utilization period. The amortization periods applied are as follows:

- Patents 20 years
- Sales rights 5 years

The capitalized patent expenses comprise registration costs such as initial expenses for e.g. authorities and legal fees. Sales rights comprise fees to authorities for the right to sell parallel-imported pharmaceuticals.

Inventories
The inventory is recognized at the lowest of acquisition cost and net realisable value. The acquisition cost is established by using the first in, first out method (FIFO). The acquisition cost consists of purchase costs and costs of own work. The net realisable value is the estimated sales price in the operating activities, with deductions for applicable variable sales expenses.

Impairment of non-financial assets
The capitalized development costs which are not yet current are not depreciated, but are instead evaluated annually for any impairment needs. The Group performs an estimation of the expected utilization period of the assets at every financial statement. If there are indications of that an asset's value has diminished, the Group establishes the recoverable amount of the asset. This amount is the highest net realisable value of the asset, with deductions for sales costs and its value in use. The asset is depreciated by the amount by which the carrying amount of the asset exceeds the recoverable amount. In order to establish the impairment need, the assets are grouped into cash generating units, which is the smallest group of assets that enables positive cash flows that are essentially independent of the cash flow from other assets or groups of assets. The Group presently has no assets with indeterminable utilization periods.

Financial instruments
The Group's financial instruments comprise trade receivables, derivative instruments, other current receivables, certain accrued income, liquid assets, borrowing, liabilities to credit institutions, trade payables, other current liabilities and certain accrued expenses. With the exception of derivative instruments, all Oasmia's financial instruments are recognized at acquisition cost with the addition of transaction costs. The classification of the items in the balance sheet is disclosed in note 19.

*Trade receivables*
Trade receivables are initially recognized at fair value and thereafter at amortised cost with application of the effective interest method, reduced by any impairment provision. A provision for impairment of trade receivables is made when there is objective evidence that the Group will not be able to receive all amounts which are due according to the initial terms of the claims. Significant financial difficulties of the debtor, a risk that the debtor will become bankrupt or undergo a financial reconstruction, and cancelled or delayed payments (more than 30 days overdue) are considered to be indicators that there is need to write down a trade receivable. The size of the provision is determined by the difference between the carrying amount of the asset and the present value of future estimated cash flow, discounted at the original effective interest rate. The recognized value of the asset is reduced by the utilization of a depreciation account and the loss is recognized in the income statement in the item Other external expenses. When a trade receivable cannot be collected, it is written off against the depreciation account for trade receivables. Recycling of amounts previously written off is credited to Other operating income in the income statement.

*Derivative instruments*
The derivative instruments in the Group consist of forward contracts for purchase of USD. Derivative instruments are recognized on first recognition at their fair value at the time of contract signing. Thereafter continuous revaluation to fair value is made. Changes in the fair value of derivatives are recognized as financial items in the income statement.

*Liquid assets*
Liquid assets include cash and bank balances. Utilized credit facilities are recognized as Liabilities to credit institutions in the balance sheet.

*Borrowings*
Borrowings are initially recognized at fair value, net after transaction costs. Borrowings are thereafter recognized at accrued acquisition value and any difference between the amount received (net after transaction costs) and the repaid amount is recognized in the income statement, distributed over the term of the loan, by applying the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to postpone payment of the liability for at least 12 months after the balance-sheet date. The Group has a credit line from the principal owner S.A. The utilized part of this is recognized as a current liability.

*Trade payables*
Trade payables are initially recognized at fair value and thereafter at accrued acquisition value by applying the effective interest rate method.

Impairment of financial assets
The value of financial assets is reviewed as of every reporting date. If there are indications that an asset has depreciated in value, the recoverable amount is tested. The recoverable amount for assets belonging to the category "Loan receivables and trade receivables", which are recognized at the amortised acquisition costs, is calculated as the present value of future cash flow, discounted at the effective interest rate which applied with the asset was recognized for the first time. Assets with a short term to maturity are not discounted. An impairment write-down will affect the income statement.

Share capital
Common stock is classified as equity. Transaction costs which can be attributed directly to new share issues or options are recognized, net after tax, in equity as a deduction of the issue payment.

Deferred income tax
Deferred taxes are recognized according to the balance sheet method, on temporary differences which arise between the taxation value of assets and liabilities and their carrying amounts in the consolidated accounts. The deferred tax is not recognized if it arises as a result of a transaction which comprises the first recognition of an asset or liability which is not an business combination and which, at the time of the transaction, does not affect the recognized or fiscal result. Deferred income tax is calculated by applying tax rates (and tax laws) which have been decided or announced as of the balance-sheet date and which are expected to apply when the deferred tax asset concerned is realized or the deferred tax liability is paid.

Deferred tax assets are recognized to the extent that there are convincing reasons that a future fiscal surplus will be available, against which the temporary differences can be used.

Remuneration to employees
*Current remuneration*
Current remuneration to employees is calculated without discounting and is recognized as an expense when the services concerned services are obtained.

*Pension obligations*
The Group companies have no pension obligations.

*Severance pay*
Severance pay is awarded when notice is given to an employee by the Group before normal pension date, or when an employee accepts voluntary resignation in exchange for such payments. The Group recognizes severance pay when it is obliged either to give notice to the employee according to a detailed formal plan without the possibility of recall, or to pay remuneration when notice is given as a result of an offer made to encourage voluntary resignation. Benefits which are due more than 12 months after the balance-sheet date are discounted to the present value.

Revenue recognition
Revenues comprise the fair value of what is received or will be received for sold goods and services in the activities of the Group. Revenue is recognized without value added tax, and after elimination of inter-Group sales. The Group recognizes revenue when the amount can be measured in a reliable way, it is likely that future economic benefits will accrue to the company and certain criteria have been fulfilled for each of the business activities of the Group described below.

*a) Sales of self-developed pharmaceuticals*
The Parent Company Oasmia Pharmaceutical AB conducts sales of pharmaceuticals before they are registered. It is called compassionate use, but consists of delivery and invoicing of products according to a price list. Delivery and invoicing is performed at the same time and the revenue is recognized at this time. Sales of pharmaceuticals before they are registered can occur in the following two cases. In the first case, the buyer is a hospital pharmacy or veterinary clinic where our clinical trials are conducted. In the second case the buyer is a clinic which has decided to test a pharmaceutical (in cancer treatment) which is not yet approved, because the registered pharmaceuticals have not performed well.

*(b) License revenue*
The Parent Company signs licensing and distribution agreement with other companies for the rights to market and sell Oasmia's pharmaceutical candidates in different world regions. Licensing and distribution agreements contain milestone payments and royalties from sales. As a rule, milestone payments are recognized as revenue when licensing has been agreed and other criteria according to agreements have been fulfilled by Oasmia. However, each item will be assessed individually with regard to any factor of uncertainty that can entail a risk of repayment in full or in part, if a current license agreement may include such a clause. When such factors of uncertainty have been eliminated the amount is recognized as intact. Royalties are hereafter recognized as revenue in step with recognized sales.

*c) Sales of parallel imported pharmaceuticals*
The subsidiary Qdoxx Pharma AB previously parallel-imported pharmaceuticals from EU member states for sale in Sweden. The basis for such activities is price differences within the EU, but due to exchange-rate fluctuations these activities were discontinued, and the existing inventory was sold during the fiscal year.

Leasing
Leasing whereby a significant part of the risks and benefits of ownership is retained by the lessor is classified as operational leasing. Payments made during the lease term (after deduction of any incentives from the lessor) are carried as an expense in the income statement on a straight-line basis over the term of the lease. The company has no financial leasing.

Dividends
Dividends to the Parent Company's shareholders are recognized as liabilities in the Group's financial statements in the period when the dividend is approved by the Parent Company's shareholders.

Cash flow
Cash flow statements are established in accordance with the indirect method.

Parent Company accounting policies
The Parent Company's accounts are presented in accordance with the Annual Accounts Act (1995:1554) and the recommendation RFR 2 Accounting for legal entities, issued by the Swedish Financial Reporting Board. RFR 2 states that in the annual report for the legal entity the Parent Company shall apply all IFRS and announcements adopted by the EU as far as possible within the framework of the Annual Accounts Act, and with regard to the connection between accounting and taxation. The recommendation lists which exceptions and additions are to be made from IFRS. The differences between the accounting policies of the Group and the Parent Company are described below. In accordance with p. 3 of RFR 2 concerning IAS 39, the company has chosen not to apply the Annual Accounts Act chapter 14, sections a-e, which allows for an estimation of certain financial instruments at fair values.

The accounting policies stated below for the Parent Company have been applied consistently to all periods presented in the Parent Company's financial statements.

*Classification and presentation forms*
The Parent Company uses the terms Balance Sheet, Changes in Equity and Cash Flow Analysis for the reports that in the Consolidated Accounts are named the Report on Financial Position, Report on Changes in Equity, and Report on Cash Flows.
The form of presentation of the Parent Company's income statement and balance sheet is based on the table presented in the Annual Accounts Act, which entails differences compared to the Consolidated Report, as the presentations based on IAS 1, Presentation of Financial Statements, are mainly applicable to the classification of equity and the naming of certain items.

*Revenues*
Dividends
Dividend revenue is recognized when the right to receive payment is judged to be safe.

*Derivative instruments*
Forward contracts are not recognized until they are due.

*Participation in group companies and shareholder contribution for legal entities*
The company recognizes group contributions and shareholder contributions in accordance with the announcement from the Swedish Financial Reporting Board. The shareholder contributions are carried directly against the recipient's equity and are capitalized in shares and in giver's shares.

Participation in group companies is recognized according to economic significance. This means that participation in group companies made to minimise the total tax for the Group is recognized directly against retained earnings after deductions for the current tax effect.

Participation in group companies comparable to dividends is recognized as dividends. This means that a Group contribution received and its current tax effect is recognized to the income statement. Group contribution paid and its current tax effect is recognized directly against retained earnings.

Group contributions which are comparable to shareholder contributions are recognized, with consideration of the current tax effect, directly against the recipient's retained earnings. The supplier accounts for the Group contribution and its current tax effect as an investment in participation in Group companies.

## Note 3 Financial risk management

The Group is exposed to various financial risks. In the Group´s finance policy, continuous identification and management of these risks are included. The Group is also exposed to operational risks, which is more closely described in the Administration Report, pages 24 – 33.

The key financial risks are:

- Financing and liquidity risks
- Capital risk
- Currency risk
- Price risk
- Interest rate risk
- Credit and counterparty risks

Below the extent of the Group's exposure to these risks and how the risks are managed are described.

*Financing and liquidity risk*
Financing risk is the risk that financing of Oasmia's capital requirement and refinancing of utilized credit facilities become difficult, impossible or more expensive Liquidity risks concern situations where liquid assets may not be sufficient for the operations that the company has planned. The Group is exposed to these risks because the current business activities have a very fluctuating cash flow, from operations and from investments. The Group manages these risks via a continuous high activity level within the areas of financing via equity, agreements on credit lines and licensing. Short term liquidity is secured by a liquidity reserve, the unutilized part of confirmed credit lines, and the unutilized part of standby equity distribution agreements (SEDA)

The table below depicts the utilized credit amounts with the Bank as of the balance-sheet date (TSEK)

| | 2011-04-30 | | | 2010-04-30 | | |
|---|---|---|---|---|---|---|
| Counter party Bank | Credit limit | Utilized amount | Liquidity reserve | Credit limit | Utilized amount | Liquidity Reserve |
| | 5 000 | 0 | 5 000 | 5 000 | 4 289 | 711 |

The table below depicts the financial liabilities of the Group, divided after the time remaining from the balance-sheet date to the agreed due date (TSEK).

| As of April 30, 2011 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years |
|---|---|---|---|---|
| Trade payables and other borrowings[1] | 10 775 | - | - | - |

| As of April 30, 2011 | Less than 1 years | Between 1 and 2 years | Between 2 and 5 years | More than 5 years |
|---|---|---|---|---|
| Liabilities to credit institutions | 4 289 | - | - | - |
| Trade payables and other borrowings[1] | 7 628 | - | - | - |
| Borrowings | 10 550 | - | - | - |

[1] Trade payables and other liabilities consist of Trade payables, Other current liabilities and Accrued expenses and prepaid income.
[2] Borrowings last year consisted of utilized credit line from Oasmia's principal owner (note 27).

The Group recognizes Other non-current liabilities of TSEK 15,373, which consists of prepaid income attributable to a licensing and distribution agreement that may be subject to a repayment obligation if the company does not achieve market registration of Paccal® Vet before May 1, 2014 (Note 24).

*Capital risk*
Capital risk is connected to situations where the capital structure is different to what is optimal. With an optimal structure, the cost of capital is kept at low level and a return can be generated to shareholders. The Group is exposed to such risk because of a very fluctuating cash flow. The capital structure can be judged from the debt/equity ratio. The objective for this ratio not to exceed 50% (50). The debt/equity ratio as of April 30, 2011 was 0% (7).

The table below depicts the net liabilities and debt/equity ratio of the Group (TSEK) (definitions, Note 33) as of the balance-sheet date.

| | 2011-04-30 | 2010-04-30 |
|---|---|---|
| Total borrowing[1] | 0 | 14 839 |
| Deducted liquid assets | -51 895 | -5 372 |
| Net liability | -51 895 | 9 467 |
| Total equity | 294 171 | 141 803 |
| | | |
| Debt/equity ratio | 0% | 7% |

[1]Containing the balance sheet items short-term and long-term borrowing and liabilities to credit institutions.

*Currency risk*
Currency risks arise when future business transactions or recognized assets or liabilities are expressed in a currency which is not the functional currency of the company, which is SEK. The Group makes current payments in EUR, USD and CZK, but only very few payments have been received in these currencies during the last two financial years. Currency risks are handled by limiting the number of trading currencies and seeking to minimise the net exposure in each currency as far as possible. Both of these situations can be affected by Oasmia's choice of contract currency with business partners. There is no regular forward hedging as the currency exposure is dominated by the purchased product development services, which are very irregular and difficult to plan.

*Price risk*
Price risks consist of changes in purchase prices from suppliers for the raw materials used to produce pharmaceuticals. By far the majority of these raw materials are purchased in the currencies EUR, USD and CZK, so that the underlying prices can vary. Oasmia usually has several alternative suppliers of these raw materials to choose between and uses the opportunities to exert price pressure that are available in the current competitive situation.

*Interest rate risk*
Interest rate risk is connected to changes in market rates that have an influence on the Group´s net financials. The Group has an interest rate risk on utilising credit facilities where the utilized amount is exposed to floating interest rates. The Group does not continuously utilize such credit facilities, and does so only for relatively small amounts. If the floating interest rates had been 1.0% higher/lower, with all other variables constant, net income after tax as of April 30, 2011 would have been TSEK 0 (43) lower/higher, as a result of recalculated utilized bank credits. The credit facility available to Oasmia from Alceco International S.A carries a fixed interest rate of 6% on utilization, and therefore does not entail any interest rate risk. The Group does not have any significant interest-bearing assets so that there is no such interest rate risk.

*Credit and counterparty risks*
Credit and counterparty risks are connected to the risk of loss if a counterparty does not fulfil its obligations. Group revenues are received from only a few customer and partners, where sales are mainly to Apoteket in Sweden and license revenues are received from a few corporations selected by Oasmia. These counterparties have good credit ratings, so that the credit and counterparty risks are assessed to be very low.

## Note 4 Important estimates and assessments for accounting purposes

Estimates and assessments are continuously reviewed and based on historical experience and other factors, including expectations of future events which are considered reasonable in the current circumstances.

Important estimates and assessments for accounting purposes
The Group makes estimates and assessments about the future. The resulting estimates for accounting purposes will be definition seldom correspond to the actual result. The estimates and assessments that entail a considerable risk of significant adjustments in the carrying amounts for assets and liabilities in the next financial year are listed below.

*(a) Impairment test for intangible assets*
The capitalized development costs for the financial year amounted to TSEK 86,049 (TSEK 80,643). The company annually performs an assessment of whether there is a need for impairment of the capitalized development cost. Oasmia has made the judgment that there is no need for impairment since registration of the two pharmaceutical candidates that are capitalized lies within the foreseeable future, and the expected future profits motivate the value of the assets. If these products are not approved, or the probability of approval is diminished, the capitalized expenditures would be carried as expenses. As of April 30, 2011, the capitalized expenditures amounted to 77% (99) of the equity at the same time.

The Group annually evaluates whether a need for impairment exists for all intangible assets, in accordance with the accounting policies described in note 2.

*(b) License revenues*

The Parent Company enters into licensing and distribution agreements with other companies. Such agreements include certain milestone payments with a risk of repayment, depending on success in product development and registration. The Parent Company continuously evaluates whether such conditions have changed, been eliminated or been realized, in accordance with the accounting principles described in note 2.

*(c) Taxes*
The group is liable to pay tax in Sweden. The Group companies have so far shown negative fiscal results as significant fiscal deficits exist in the Group. There are presently no convincing reasons that fiscal surpluses will exist in the future to defend a capitalization of the deficits. Accumulated fiscal deficits in the group are described in note 25.

Important judgments when applying the company's accounting policies
The Group capitalizes expenditures for patents and sales rights because they are expected to generate future economic benefits. If the Group should make the judgment that they will no longer generate future economic benefits, these assets would be written off against the Group's profit. As of April 30, 2011 the carrying amount for patents and sales rights in the Group amounted to TSEK 9,276 (8,047).

The Group capitalizes development costs for two pharmaceutical candidates for which the Group assesses that all criteria for capitalization are fulfilled. If the Group should make the judgment that all capitalization criteria are no longer fulfilled, these assets would be written off against the Group profit.

## Note 5 Net sales per revenue category

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 | 2009-05-01 | 2010-05-01 | 2009-05-01 |
| TSEK | -2011-04-30 | -2010-04-30 | -2011-04-30 | -2010-04-30 |
| License revenues | - | 28 421 | - | 28 421 |
| Net sales of pharmaceuticals | 106 | 396 | 106 | 396 |
| Parallel import sales | - | 1 924 | - | - |
| Total | 106 | 30 741 | 106 | 28 817 |

## Note 6 Capitalized development costs

Total for the Group and Parent Company

| | 2010-05-01 - 2011-04-30 | | |
|---|---|---|---|
| TSEK | Paclical | Paccal Vet | Total |
| Opening balance acquisition value | 76 227 | 64 633 | 140 860 |
| Capitalized expenditures for the year | 69 631 | 16 418 | 86 049 |
| Closing balance accumulated acquisition value | 145 858 | 81 051 | 226 909 |
| Opening balance accumulated depreciation | - | - | 0 |
| Depreciation for the year | - | - | 0 |
| Closing balance accumulated depreciation | 0 | 0 | 0 |
| Closing balance carrying amounts | 145 858 | 81 051 | 226 909 |

Research and development costs which are not capitalized, increased during the year to TSEK 35,105 (18,073).

| | 2009-05-01 - 2010-04-30 | | |
|---|---|---|---|
| TSEK | Paclical | Paccal Vet | Total |
| Opening balance acquisition value | 20 755 | 39 462 | 60 216 |
| Capitalized expenditures for the year | 55 472 | 25 171 | 80 643 |
| Closing balance accumulated acquisition value | 76 227 | 64 633 | 140 860 |
| | | | |
| Opening balance accumulated depreciation | - | - | 0 |
| Depreciation for the year | - | - | 0 |
| Closing balance accumulated depreciation | 0 | 0 | 0 |
| | | | |
| Closing balance carrying amounts | 76 227 | 64 633 | 140 860 |

## Note 7 Other operating income

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
| Net sales to Group companies | - | - | - | 125 |
| State support (new start jobs) | 245 | - | 245 | - |
| Deleted prescribed debt | 24 | - | - | - |
| Total | 269 | 0 | 245 | 125 |

## Note 8 Inventories

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Acquisition value | | | | |
| Raw materials | - | 94 | - | 94 |
| Total | 0 | 94 | 0 | 94 |

The inventories expenses that are recognized as costs are included in Raw materials, consumables and goods for resale, and in Other external expenses, and amounted to TSEK 0 (2,996). Write-down of inventories amounted to TSEK 94 (300) in the financial year, which is carried to the Income Statement item Raw materials, consumables and goods for resale.

## Note 9 Remuneration to auditors

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 | 2009-05-01 | 2010-05-01 | 2009-05-01 |
| TSEK | -2011-04-30 | -2010-04-30 | -2011-04-30 | -2010-04-30 |
| Ernst & Young AB | | | | |
| Audit | 370 | 225 | 370 | 225 |
| Audit activities in addition to auditing | 158 | 727 | 158 | 727 |
| Tax consulting | - | 48 | - | 48 |
| Total | 528 | 1 000 | 528 | 1 000 |

Audit concerns reviews of the Annual Report, accounting records, and the management by the Board of Directors and CEO, and other tasks that the company's auditors are required to undertake.
Audit activities in addition to auditing include review of interim reports and quality assurance services in connection with share issues and stock-exchange prospectus.

## Note 10 Leasing

The Group has no financial leasing agreements, but has operational leasing agreements that primarily consist of leases for facilities. There are no variable fees. The future minimum lease payments for operational leases are as follows (TSEK).

| Fiscal year | Operational leasing |
|---|---|
| 2011/2012 | 4 229 |
| 2012/2013 | 4 229 |
| 2013/2014 | 4 229 |
| 2014/2015 | 4 229 |
| 2015/2016 | 4 229 |
| Total | 21 144 |

Leasing costs (minimum lease payments) were TSEK 3,887 (TSEK 3,801) for the financial year.

## Note 11 Employees and remuneration

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
| Average number of employees per gender: | | | | |
| Women | 37 | 30 | 37 | 30 |
| Men | 29 | 26 | 29 | 26 |
| Total | 66 | 56 | 66 | 56 |
| | | | | |
| Salaries and remuneration amounted to (TSEK): | | | | |
| Board of Directors, | 220 | 75 | 220 | 75 |
| CEO and other senior executives | 2 967 | 2 397 | 2 967 | 2 397 |
| Other employees | 25 749 | 20 315 | 25 749 | 20 315 |
| Total salaries and remuneration | 28 936 | 22 788 | 28 936 | 22 788 |
| | | | | |
| Social security contributions by law and agreement | 8 467 | 6 625 | 8 467 | 6 625 |
| Total salaries, remuneration and social security | 37 403 | 29 413 | 37 403 | 29 413 |

SALARIES AND REMUNERATION TO THE BOARD OF DIRECTORS AND OTHER SENIOR EXECUTIVES

| | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
|---|---|---|
| CEO Julian Aleksov | 837 | 669 |
| Chairman of the Board Björn Björnsson | 25 | - |
| Chairman of the Board/Board member Bo Cederstrand | 63 | 25 |
| Board member Peter Ström | 63 | 25 |
| Board member Claes Piehl | 63 | 25 |
| Other senior executives (3 persons) | 2 131 | 1 728 |
| Total | 3 180 | 2 472 |

Board of Directors and Board Committees
Remuneration of the Chairman of the Board of Directors and Board members is adopted by the Annual General Meeting. There is no remuneration for participation in the nomination committee. Remuneration to Björn Björnsson is invoiced through a by Björn Björnsson wholly-owned company, in accordance with a decision from the Annual General Meeting and after a special agreement with Oasmia Pharmaceutical AB. Except what is described in Transactions with senior management in note 31, no other remuneration such as salary, pension premium or other benefits have been paid.

CEO
Remuneration of the CEO consists of a fixed salary and statutory pension and insurance benefits. The remuneration of the CEO is revised annually as of April 1. The CEO's right to individual health and pension insurance according to agreement has not been utilized. If notice is given by the employer, a 24 month term of notice applies. If notice is given by the CEO, the term of notice is 3 months.

Terms of employment for other senior executives
Remuneration to other senior executives consists of a fixed salary and statutory pension and insurance benefits. The salaries are revised annually as of April 1.

Gender profile of the corporate management

| | 2011-04-30 Number on the balance-sheet date | Of whom men | 2010-04-30 Number on the balance-sheet date | Of whom men |
|---|---|---|---|---|
| The Group | | | | |
| Members of the Board of Directors | 5 | 5 | 4 | 4 |
| CEO and other senior executives | 4 | 3 | 4 | 3 |
| | | | | |
| The Parent Company | | | | |
| Members of the Board of Directors | 5 | 5 | 4 | 4 |
| CEO and other senior executives | 4 | 3 | 4 | 3 |

Healthcare and medical care
The Group has an agreement with a corporate healthcare provider for regular health assessment of all staff. There are no other health benefits for the employees in addition to this.

| Absence due to illness | The Parent Company | |
|---|---|---|
| | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
| Total absence due to illness | 1,9% | 1,2% |
| - Long-term absence due to illness | 0,0% | 0,0% |
| - Absence due to illness of men | 1,2% | 1,3% |
| - Absence due to illness of women | 2,5% | 1,1% |
| - employees aged -29 | 1,0% | 1,8% |
| - employees aged 30-49 | 2,0% | 1,4% |
| - employees aged 50- | 2,1% | 0,3% |

* Long-term illness is absence due to illness for a continuous period of 60 days or more.

## Note 12 Property, plant and equipment

Property, plant and equipment consists of vehicles, equipment, production equipment and leasehold improvements.

| | The Group 2010-05-01 - 2011-04-30 | | | | |
|---|---|---|---|---|---|
| TSEK | Vehicles | Equipment | Production plant | Leasehold improvements | Total |
| Opening balance acquisition value | 148 | 11 019 | 16 613 | 4 466 | 32 246 |
| Capital expenditures for the year | - | 6 676 | - | 3 645 | 10 321 |
| Closing balance accumulated acquisition value | 148 | 17 695 | 16 613 | 8 112 | 42 567 |
| Opening balance accumulated depreciation | -148 | -5 659 | -4 801 | -973 | -11 582 |
| Depreciation for the year | - | -2 468 | -984 | -292 | -3 743 |
| Closing balance accumulated depreciation | -148 | -8 127 | -5 785 | -1 265 | -15 325 |
| Closing balance carrying amounts | 0 | 9 568 | 10 828 | 6 847 | 27 243 |

| | The Group 2009-05-01 - 2010-04-30 | | | | |
|---|---|---|---|---|---|
| TSEK | Vehicles | Equipment | Production plant | Leasehold improvements | Total |
| Opening balance acquisition value | 148 | 8 361 | 16 613 | 3 583 | 28 705 |
| Capital expenditures for the year | - | 2 658 | - | 883 | 3 541 |
| Closing balance accumulated acquisition value | 148 | 11 019 | 16 613 | 4 466 | 32 246 |
| Opening balance accumulated depreciation | -140 | -4 093 | -3 808 | -806 | -8 847 |
| Depreciation for the year | -8 | -1 567 | -993 | -167 | -2 735 |
| Closing balance accumulated depreciation | -148 | -5 659 | -4 801 | -973 | -11 582 |
| Closing balance carrying amounts | 0 | 5 360 | 11 812 | 3 493 | 20 665 |

| | The Parent Company 2010-05-01 - 2011-04-30 | | | | |
|---|---|---|---|---|---|
| TSEK | Vehicles | Equipment | Production plant | Leasehold improvements | Total |
| Opening balance acquisition value | 148 | 11 019 | 16 613 | 4 466 | 32 246 |
| Capital expenditures for the year | - | 6 676 | - | 3 645 | 10 321 |
| Closing balance accumulated acquisition value | 148 | 17 695 | 16 613 | 8 112 | 42 567 |
| Opening balance accumulated depreciation | -148 | -5 659 | -4 801 | -973 | -11 582 |
| Depreciation for the year | - | -2 468 | -984 | -292 | -3 743 |
| Closing balance accumulated depreciation | -148 | -8 127 | -5 785 | -1 265 | -15 325 |
| Closing balance carrying amounts | 0 | 9 568 | 10 828 | 6 847 | 27 243 |

| | The Parent Company 2009-05-01 - 2010-04-30 | | | | |
|---|---|---|---|---|---|
| TSEK | Vehicles | Equipment | Production plant | Leasehold improvements | Total |
| Opening balance acquisition value | 148 | 8 361 | 16 613 | 3 583 | 28 705 |
| Capital expenditures for the year | - | 2 658 | - | 883 | 3 541 |
| Closing balance accumulated acquisition value | 148 | 11 019 | 16 613 | 4 466 | 32 246 |
| Opening balance accumulated depreciation | -140 | -4 093 | -3 808 | -806 | -8 847 |
| Depreciation for the year | -8 | -1 567 | -993 | -167 | -2 735 |
| Closing balance accumulated depreciation | -148 | -5 659 | -4 801 | -973 | -11 582 |
| Closing balance carrying amounts | 0 | 5 360 | 11 812 | 3 493 | 20 665 |

## Note 13 Other intangible assets

Other intangible assets consist of expenditures for patents and sales rights.

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 | 2009-05-01 | 2010-05-01 | 2009-05-01 |
| TSEK | -2011-04-30 | -2010-04-30 | -2011-04-30 | -2010-04-30 |
| Opening balance acquisition value | 14 974 | 13 994 | 13 768 | 12 638 |
| Capitalized expenditures for the year | 2 292 | 1 130 | 2 292 | 1 130 |
| Disposals | -218 | -150 | - | - |
| Closing balance accumulated acquisition value | 17 048 | 14 974 | 16 060 | 13 768 |
| | | | | |
| Opening balance accumulated depreciation | -6 926 | -6 132 | -6 137 | -5 487 |
| Depreciation for the year | -931 | -877 | -743 | -651 |
| Disposals | 85 | 83 | - | - |
| Closing balance accumulated depreciation | -7 772 | -6 926 | -6 880 | -6 137 |
| | | | | |
| Closing balance carrying amounts | 9 276 | 8 047 | 9 180 | 7 630 |

## Note 14 Currency differences - net

Currency differences are recognized in the income statement as follows:

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 | 2009-05-01 | 2010-05-01 | 2009-05-01 |
| TSEK | -2011-04-30 | -2010-04-30 | -2011-04-30 | -2010-04-30 |
| Other operating income | - | - | | - |
| Raw materials, consumables and goods for resale | 129 | 717 | 130 | 694 |
| Financial items, net | 14 | -1 052 | 15 | -1 051 |
| Total | 144 | -335 | 144 | -358 |

## Note 15 Operating income

Operating income for the fiscal year 2010-05-01 – 2011-04-30 was TSEK -64,353 (-14,961). Of the Group's recognized expenses, TSEK 150,778 (126,345), TSEK 86,049 (80,643) was recognized as capitalized development costs.

## Note 16 Financial revenues and expenses

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 | 2009-05-01 | 2010-05-01 | 2009-05-01 |
| TSEK | -2011-04-30 | -2010-04-30 | -2011-04-30 | -2010-04-30 |
| Financial revenues: | | | | |
| Interest revenues in bank accounts | 464 | 23 | 463 | 23 |
| Currency differences in bank accounts | 20 | 388 | 20 | 388 |
| Total | 484 | 411 | 483 | 411 |
| | | | | |
| Financial expenses | | | | |
| Interest expenses on utilized credits and other interest expenses | -2 091 | -767 | -2 091 | -604 |
| Interest expenses on instalment purchases | - | -67 | - | -67 |
| Currency differences for bank accounts | -6 | -1 440 | -6 | -1 439 |
| Fair value – losses on derivative instruments | - | -231 | - | - |
| Total | -2 097 | -2 505 | -2 097 | -2 109 |

## Note 17 Taxes

All Group companies have their fiscal domicile in Sweden, where the tax rate for the 2010/11 fiscal year is 26.3% (26.3%). The income tax on Group earnings before tax is shown in the table below.

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| | 2010-05-01 | 2009-05-01 | 2010-05-01 | 2009-05-01 |
| TSEK | -2011-04-30 | -2010-04-30 | -2011-04-30 | -2010-04-30 |
| Income before taxes | -65 967 | -17 055 | -65 998 | -18 401 |
| Income tax according to current tax rates in Sweden | 17 349 | 4 485 | 17 357 | 4 839 |
| Non-taxable revenues | 1 | - | - | - |
| Non-deductible expenses | -134 | -93 | -134 | -91 |
| Write-down of participation in Group companies | | | -578 | -3 570 |
| | | | | |
| Taxable deficits for which no deferred tax is recognized | -17 216 | -4 392 | -16 645 | -1 178 |
| Tax costs | 0 | 0 | 0 | 0 |

## Note 18 Earnings per share

Earnings per share are calculated by dividing the profit attributable to equity holders in the Parent Company by a weighted number of ordinary shares outstanding during the period. Earnings per share are calculated before and after dilution, since there are no potential ordinary shares outstanding that would lead to a dilution effect

| | The Group | |
|---|---|---|
| | 2010-05-01 -2011-04-30 | 2009-05-01 -2010-04-30 |
| Earnings contributable to equity holders in the Parent Company (TSEK) | -65 960 | -17 016 |
| Weighted average number of ordinary shares outstanding (thousands)* | 44 061 | 36 550 |
| Earnings per share (SEK per share)* | -1,50 | -0,47 |

*Recalculation of historical values has been made with respect to capitalization issue elements in the rights issues carried out in the second quarter of 2009/10 and the third quarter of 2010/11.

## Note 19 Financial instruments by category

The accounting policies for financial instruments have been applied to the items below:

The Group April 30, 2011

| TSEK | Loans and trade receivables | Other financial liabilities | Total |
|---|---|---|---|
| Financial assets | | | |
| Trade receivables | - | - | 0 |
| Other current receivables | 2 141 | - | 2 141 |
| Accrued income | 131 | - | 131 |
| Liquid assets | 51 895 | - | 51 895 |
| Total financial assets | 54 168 | 0 | 54 168 |
| | | | |
| Financial liabilities | | | |
| Borrowing | - | - | 0 |
| Liabilities to credit institutions | - | - | 0 |
| Trade payables | - | 3 831 | 3 831 |
| Other current liabilities | - | 1 399 | 1 399 |
| Accrued expenses and prepaid income | - | 5 545 | 5 545 |
| Total financial liabilities | 0 | 10 775 | 10 775 |

The Group April 30, 2010

| TSEK | Loans and trade receivables | Other financial liabilities | Total |
|---|---|---|---|
| Financial assets | | | |
| Trade receivables | 60 | - | 60 |
| Other current receivables | 2 090 | - | 2 090 |
| Liquid assets | 5 372 | - | 5 372 |
| Total financial assets | 7 523 | 0 | 7 523 |
| | | | |
| Financial liabilities | | | |
| Borrowing | - | 10 550 | 10 550 |
| Liabilities to credit institutions | - | 4 289 | 4 289 |
| Trade payables | - | 2 076 | 2 076 |
| Other current liabilities | - | 1 197 | 1 197 |
| Accrued expenses and prepaid income | - | 4 220 | 4 220 |
| Total financial liabilities | 0 | 22 332 | 22 332 |

## Note 20 Trade receivables and Prepaid expenses and accrued income

The book value of trade receivables represents the fair value, since no reservations have been necessary for uncertain trade receivables.

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Trade receivables | - | 60 | - | 60 |
| Prepaid expenses and accrued income | 2 853 | 2 460 | 2 748 | 2 332 |
| Total | 2 853 | 2 520 | 2 748 | 2 393 |

The Group's trade receivables in foreign currency amounted to TSEK 0 (TSEK 0) on the balance-sheet date of April 30, 2011.
Trade receivables due for the Group amounted to TSEK 0 (TSEK 0) on the balance-sheet date of April 30, 2011.

Prepaid expenses and accrued income consist of the following:

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Prepaid rent | 670 | 582 | 670 | 582 |
| Prepaid leasing fees | 73 | 13 | 73 | 13 |
| Prepaid insurance premiums | 100 | 282 | 100 | 282 |
| Other prepaid expenses | 1 879 | 1 584 | 1 774 | 1 456 |
| Accrued interest income | 131 | - | 131 | - |
| Total | 2 853 | 2 460 | 2 748 | 2 332 |

## Note 21 Other current receivables

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Tax account | 26 | 26 | 26 | - |
| VAT receivable | 2 102 | 2 040 | 2 101 | 2 019 |
| Receivable on supplier | 6 | 24 | 6 | - |
| Receivable on employee | 7 | - | 7 | - |
| Total | 2 141 | 2 090 | 2 140 | 2 019 |

## Note 22 Liquid assets

Liquid assets consist of bank balances.

## Note 23 Share capital

Specifications of changes in equity are presented in this report for the Group and the Parent Company, after their respective statements of financial position. The total number of shares as of 2011-04-30 was 52,079,341 of type A (37,612,858 as of 2010-04-30) with a quota value of SEK 0.10 per share. All shares issued are fully paid for. The development in the number of shares since 2009-05-01 is presented below.

| | Number of shares | Share capital (SEK) |
|---|---|---|
| Opening balance 2009-05-01 | 33 500 000 | 3 350 000 |
| 2009 Rights issue | 2 392 858 | 239 286 |
| 2009 Directed new issue[1] | 1 720 000 | 172 000 |
| Opening balance 2010-04-30 | 37 612 858 | 3 761 286 |
| 2010 Rights issue | 14 466 483 | 1 446 648 |
| Opening balance 2011-04-30 | 52 079 341 | 5 207 934 |

[1] Restricted to a small number of institutional players and other major investors.

## Note 24 Other non-current liabilities

The Group and the Parent Company recognize Other non-current liabilities of TSEK 15,373 (15,373), which is a prepaid revenue derived from the licensing and distribution agreement that was signed with Abbott Laboratories in July 2009. According to this agreement, MUSD 2 of the MUSD 5 received as a first milestone payment may be subject to repayment if Oasmia has not achieved market approval for Paccal® Vet before May 1, 2014.

## Note 25 Deferred taxes

The Group has accumulated losses for tax purposes amounting to TSEK 162,806 (96,979) as of April 30, 2011. These are subject to no limitations in time and are deductible against future gains. Of the total losses carried forward for the Group, TSEK 17,881 (17,881) are prohibited to be utilized via Group contributions. This prohibition will lapse as from the 2014 tax return. There are currently no arguments convincing enough that there will be future profits for tax purposes to justify the capitalization of tax losses carried forward as an asset. Accumulated losses for tax purposes carried forward in the Parent Company amounted to TSEK 153,607 (88,321) as of April 30, 2011.

## Note 26 Liabilities to credit institutions

Approved credit facilities amount to TSEK 5,000 (5,000) in the Group and the Parent Company.
Utilized credits are described in the table below.

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Credit facilities | - | 4 289 | - | 4 289 |
| Total | 0 | 4 289 | 0 | 4 289 |

## Note 27 Borrowing

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| *Short term* | | | | |
| Utilized credit | - | 10 550 | - | 10 550 |
| Total | 0 | 10 550 | 0 | 10 550 |

As of the balance-sheet date the Group and the Parent Company had no borrowing. Utilized credit in the previous year consisted of the utilized part of the approved credit line from Alceco International S.A. Luxemburg (note 31).

## Note 28 Other current liabilities

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Employee withholding taxes and social security | 1 399 | 1 197 | 1 399 | 1 197 |
| Total | 1 399 | 1 197 | 1 399 | 1 197 |

## Note 29 Accrued expenses and prepaid income

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Accrued vacation salaries | 3 878 | 3 097 | 3 878 | 3 097 |
| Accrued social security contributions | 1 219 | 1 073 | 1 219 | 1 073 |
| Accrued interest expenses | - | 50 | - | 50 |
| Other items | 448 | 111 | 448 | 111 |
| Total | 5 545 | 4 332 | 5 545 | 4 332 |

## Note 30 Contingent liabilities and pledged assets

Contingent liabilities
The Group and the Parent Company had no contingent liabilities during the period.

Pledged assets
The Parent Company is subject to a mortgage charge of TSEK 8,000 (5,000) to a bank as security for an overdraft facility of TSEK 5,000 (5,000), and as the limit for a foreign currency derivative of TSEK 3,000.

| | The Group | | The Parent Company | |
|---|---|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 | 2011-04-30 | 2010-04-30 |
| Mortgage charge | 8 000 | 5 000 | 8 000 | 5 000 |
| Total | 8 000 | 5 000 | 8 000 | 5 000 |

## Note 31 Transactions with related parties

*Group companies*
The Group consists of the Parent Company Oasmia Pharmaceutical AB and the subsidiaries QDoxx Pharma AB and GlucoGene Pharma AB. The subsidiaries are controlled by the Parent Company and are therefore considered to be related parties. The Parent Company's shareholding and other shares in subsidiaries are disclosed in note 32.

*Intercompany sales*
During the 2010/11 financial year there were no sales between the Parent Company and the subsidiaries. During the 2009/10 financial year the Parent Company's sales to the subsidiary Qdoxx Pharma AB amounted to TSEK 125 and concerned premises and management provided by Oasmia to the subsidiary.

*Transactions with senior management*
Concerning salaries and remuneration to the Board of Directors and senior executives, see note 11. In addition to what is disclosed in that note, remuneration to Björn Björnsson Konsult AB amounted to TSEK 99 concerning advice on capital procurement issues.

*Financial loan transacti0ons with related parties*
The principal owner Alceco International S.A. has made a credit facility of MSEK 40 available to Oasmia. The credit facility runs until August 2011 and is renewed automatically for 12 months, unless terminated by one party at the latest 3 months before expiry. The contract interest rate is 6%. During the period March – October 2010 the company drew on some elements of the credit facilities, which at that time amounted to MSEK 100. In the rights issue in November 2010 Alceco International S.A. used outstanding loans and interest for a total of TSEK 70,000 as payment for the subscribed shares. As of April 30, 2011 the company had no debt to Alceco International S.A. (as of April 30, 2010 the company had utilized TSEK 10,550 of the credit granted by Alceco International S.A.).

During the financial year, Oasmia has contributed working capital and group contribution to the subsidiary Qdoxx Pharma AB. Oasmia's receivable from the subsidiary QDoxx amounted to TSEK 89 (370) as of the balance-sheet date.

*Group contribution from Oasmia to Qdoxx*
During the 2010/11 financial year, Group contributions were made totalling TSEK 390 (1,750). See also note 32.

*Other transactions with related parties*
Ardenia Investment LTD is the owner and proprietor of the patents which form the basis for the activities of the Parent Company. By an agreement between Ardenia and Oasmia, closed in 2001, the rights to these patents have been transferred to Oasmia. Oasmia has no commitments towards Ardenia.

## Note 32 Participations in Group companies

| The Parent Company | Swed. org. no. | Domicile | Owner-ship% | Votes % | Book value 2011-04-30 | Book value 2010-04-30 |
|---|---|---|---|---|---|---|
| Qdoxx Pharma AB | 556609-0154 | Uppsala | 100 | 100 | 100 | 100 |
| GlucoGene Pharma AB | 556519-8818 | Uppsala | 100 | 100 | 10 | 198 |
| Total | | | | | 110 | 298 |

| | The Parent Company | |
|---|---|---|
| TSEK | 2011-04-30 | 2010-04-30 |
| Opening balance acquisition value | 298 | 2 118 |
| Acquisition of participation | 0 | - |
| Capital contribution | - | - |
| Group contribution | 390 | 1 750 |
| Closing balance accumulated acquisition value | 688 | 3 868 |
| Amortization | -578 | -3 570 |
| Closing balance carrying amounts | 110 | 298 |

On April 30, 2011 Oasmia acquired the remaining 49% of the shares in the subsidiary GlucoGene Pharma AB. The purchase price was SEK 1. The recognized value of the net assets of GlucoGene Pharma AB was TSEK -3 and the recognized value of the acquired additional holding was TSEK
-2. The difference of TSEK -2 between the purchase price paid and the recognized value of the acquired holding was recognized in retained earnings. After the acquisition Oasmia owns 100% of the shares and votes in the subsidiary GlucoGene Pharma AB.

The write-down of shares in the subsidiary GlucoGene Pharma AB as of the balance-sheet date totals TSEK 188 (-).

Write-down of shares in the wholly-owned subsidiary Qdoxx Pharma AB in the period corresponded to the Group contribution made of TSEK 390 (3,570) as the purpose of the Group contribution was to cover losses in the subsidiary.
The write-downs are recognized in the Parent Company's income statement under the item Result from participations in Group companies.

## Note 33 Definitions of key ratios

*Earnings per share*
Income for the period attributable to the equity holders of the Parent Company divided by the weighted average number of shares, before and after dilution, in the period.

*Equity per share*
Equity as a ratio of the number of shares at the end of the period.

*Equity/assets ratio*
Equity as a ratio of total assets.

*Net liability*
Total borrowing (comprising the balance sheet items Short-term and Long-term borrowings and Liabilities to credit institutions) with deduction of liquid funds.

*Debt/Equity ratio*
Net liability as a ratio of equity.

*Return on total equity*
Income before interest expenses pertaining to the average balance sheet total.
*Return on equity*
Income before tax as a ratio of average equity.

# Proposal for allocation of non-restricted equity

The following non-restricted equity is available for distribution by the Annual General Meeting:

| | |
|---|---|
| Share premium reserve | SEK 413,374,526 |
| Retained earnings | SEK 63,029,528 |
| Income for the period | SEK 65,998,058 |
| Total | SEK 284,346,940 |

The Board of Directors proposes that the 2011 Annual General Meeting adopts a resolution to dispose of the above amounts as follows:

Carry forward of SEK 284,346,940

# Signing of the annual report

The Board of Directors and Chief Executive Officer ensure that the Consolidated Accounts have been presented in accordance with international financial reporting standards, IFRS, as they have been adopted by the EU, and give a true and fair view of the financial position and result of the Group. The Annual Report is presented in accordance with generally accepted accounting principles and gives a true and fair view of the financial position and result of the Parent Company. The Administration Report for the Group and Parent Company gives a true and fair view of the development in the Group and Parent Company's activities, position and result, and describes significant risks and uncertainty factors to which the Parent Company and the companies that are part of the Group are subject.

Income Statements and Balance Sheets will be presented for adoption by the Annual General Meeting on September 30, 2011.

Uppsala, August 25, 2011

Björn Björnsson, Chairman

Claes Piehl, Board member

Peter Ström, Board member

Bo Cederstrand, Board member

Julian Aleksov, Board member and CEO

Our audit report was submitted on August 25, 2011
Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

# Audit report

To the Annual General Meeting of Oasmia Pharmaceutical AB (publ)

Swed. org. no. 556332-6676

We have audited the Annual Accounts, Consolidated Accounts and accounting records, and the management by the Board of Directors and CEO of Oasmia Pharmaceutical AB (publ) for the financial year 2010-05-01 – 2011-04-30. The company's Annual Accounts and Consolidated Accounts are included in the printed version of this document on pages 24-55. The Board of Directors and the CEO are responsible for the preparation and presentation of the accounts and for ensuring that the Annual Accounts Act is applied to the preparation of the Annual Accounts, and that the international financial and reporting standards, IFRS, as adopted by the EU, and the Annual Accounts Act, are applied to the presentation of the Consolidated Accounts. Our responsibility is to express an opinion on the Annual Accounts, Consolidated Accounts and administration on the basis of our audit.

Our audit was performed in accordance with approved accounting practice in Sweden. This entailed that we planned and performed our audit in order to obtain reasonable, but not absolute, assurance that the Annual Accounts and Consolidated Accounts are free of material misstatement. An audit involves performing procedures to obtain audit evidence for the amounts and other disclosures in the accounts. An audit also includes evaluating the appropriateness of the accounting policies applied and the application thereof by the Board of Directors and CEO, as well as assessing the significant estimates made by the Board of Directors and CEO on their preparation of the Annual Accounts and Consolidated Accounts, and evaluating the overall presentation of the Annual Accounts and Consolidated Accounts. As the basis for our opinion concerning discharge we have reviewed significant decisions, activities and circumstances in the company in order to assess whether any Board member or the CEO holds any compensation liability to the company. We have also examined whether any Board member or the CEO have otherwise acted in conflict with the Companies Act, the Annual Accounts Act, or the Articles of the Association. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Annual Accounts are presented in accordance with the Annual Accounts Act and give a true and fair view of the financial position and result of the company, in accordance with approved accounting practice in Sweden. The Consolidated Accounts are presented in accordance with international financial reporting standards, IFRS, as they have been adopted by the EU, and the Annual Accounts Act, and give a true and fair view of the financial position and result of the Group. The Administration Report is in accordance with the Annual Accounts and the other elements of the Consolidated Accounts.

We recommend adoption by the Annual General Meeting of the Income Statement and Balance Sheet of the Parent Company, and the Income Statement, Statement of Comprehensive Income and Statement of Financial Position of the Group, the allocation of profit of the Parent Company in accordance with the proposal in the Administration Report, and the granting of discharge for the financial year to the members of the Board of Directors and CEO.

Uppsala, August 25, 2011

Ernst & Young AB

Björn Ohlsson
Authorized Public Accountant

# Annual General Meeting 2011

The Annual General Meeting of Oasmia Pharmaceutical AB will be held on Friday September 30, 2011 at 2 pm in Oasmia's offices at office building Skeppet, Vallongatan 1, Uppsala.

## Registration

Shareholders wishing to participate in the Annual General Meeting must:

- be entered in the share register administrated by Euroclear Sweden AB as of Saturday September 24, 2011.
- notify the company of attendance no later than Monday September 26, 2011, specifying the number of assistants.

## Notification of attendance

Notification can be made:

- via e-mail to info@oasmia.com
- via post to Oasmia Pharmaceutical AB, Vallongatan 1, 752 28 Uppsala
- via fax at +46 18-51 08 73
- via the company website: www.oasmia.com

When providing notification of attendance, the shareholder must specify name, social security or company registration number, address, phone number and number of shares. The data received will be processed and used only for the Annual General Meeting 2011.

Participants who use a proxy should send the proxy to the above address before the meeting. Proxy forms are available from Oasmia.

## Shares held in trust

In order to be entitled to participate in the Annual General Meeting, shareholders who have their shares held in trust must request that their own name be temporarily entered into the share register. The registration must be implemented by Saturday September 24, 2011.

## Dividend

The Board of Directors does not intend to propose a dividend for the fiscal year 2010/2011.

# Contact information

Oasmia Pharmaceutical AB
Vallongatan 1
SE-752 28 Uppsala
Sweden
Tel +46 18 50 54 40
Fax +46 18 51 08 73
info@oasmia.com
www.oasmia.com

This report has been prepared in both Swedish and English. In the event of any discrepancy in the content of the two versions, the Swedish version shall take precedence.

# History

1990
- Private research project about the ageing of the cell is initiated

1999
- Oasmia Pharmaceutical AB is founded

2004
- Clinical trials with Paclical® begin

2005
- Clinical trials with Paccal® Vet begin
- The company is listed on NGM Nordic

2006
- Parallel import in Qdoxx Pharma is initiated
- Oasmia obtains SME status from EMEA
- EMEA grants Paclical® Orphan Drug designation for treatment of ovarian cancer in the EU

2007
- Oasmia changes stock list from NGM Nordic to NGM Equity
- A license and distribution agreement is signed with Orion Corporation, Finland, concerning Paclical® in the Nordic countries

2008
- Clinical Phase III trials with Paccal® Vet and Paclical® commence
- Oasmia expands the cooperation with Orion Corporation concerning Paccal® Vet to include all of Europe

2009
- A distribution agreement is signed with Abbott Laboratories, U.S., concerning Paccal® Vet in the U.S. and Canada
- FDA grants Paclical® Orphan Drug designation for treatment of ovarian cancer in the U.S.

2010
- A license agreement is signed with Nippon Zenyaku Kogyo Co. Ltd for Paccal® Vet in Japan
- Oasmia changes stock list from NGM Equity to Nasdaq OMX Stockholm
- A SEDA-agreement of MSEK 75 is signed with YA Global Master SPV Ltd., U.S.
- A clinical study shows good tolerance for Doxophos® Vet
- Oasmia submits the registration dossier for Paccal® Vet to EMA (for the EU) and FDA (for the U.S.)

2011
- Oasmia is listed on the Frankfurt Stock Exchange
- An agreement is signed with Baxter Oncology GmbH for large scale manufacturing
- Results from the interim analysis shows that Paclical® meets the clinical requirement of equal efficacy as Taxol®

# Glossary

| | |
|---|---|
| Alkylating substance | Chemical which reacts with DNA by attaching hydrocarbon chains, alkyl chains, to the DNA molecule. This causes cell death. |
| Alkylating agent | See alkylating substance |
| Anthracyclines | A type of antibiotics derived from certain fungi. Several anthracyclines are used as cytostatics in cancer treatment. |
| Carboplatin | Chemotherapeutic substance containing the precious metal platinum. Acts as alkylating agent. |
| Chemotherapy | Treatment of cancer using cytostatics (cytotoxins). |
| Clinical phase | Tests of a drug candidate in humans (in a veterinary context, in animals). |
| Clinical phase I | During clinical development of a drug the drug is tested in humans for the first time in phase I. The efficacy and safety of the drug is studied in a limited group ( 25-100 people) of healthy volunteers. The compounds for treatment of cancer that Oasmia is working on constitute an important exception. These candidates are also tested on volunteers but on a patient group that has the disease concerned. |
| Clinical phase II | A developed study in patients (50-300 people) with the disease against which the intended drug will be used. Study of efficacy and safety. |
| Clinical phase III | The final phase comprises a larger patient group (300-3.000 people) and the aim is to verify the efficacy and safety and identify any previously observed side effects. |
| Clinical phase IV | After the market launch the finished drug is monitored with respect mainly to rare side effect symptoms. |
| Cytostatics | Cytotoxins, drugs against tumour disease. |
| Cytotoxic | Toxic to cells. |
| Cytotoxins | See cytostatics. |
| EMA | European Medicines Agency. |
| EU-5 | France, Germany, Italy, Spain and the United Kingdom. |
| Excipient | Platform, carrier molecule. |
| FDA | Food and Drug Administration. The US drug regulator. |
| Incidence | The number of diagnosed cases of disease in one year. |
| Infusion | A route of administering a drug in liquid form. Infusion is often intravenous, i.e. the drug is administered into a vein. |
| Malignant melanoma | A serious and metastasizing form of skin cancer. |
| Mastocytoma | A form of skin cancer. |
| Micelle | Spherical structures with the ability to form aggregates. |
| Microtubules | Tubular structures in the cytoplasm, are part of the cell skeleton and give it its shape. |
| Nanometre | One billionth of a metre. Similar in size to molecules and molecular structures. |
| Nanoparticle | A particle whose size is measured in nanometres, $10^{-9}$ m. |
| NSCLC | Non-small cell lung carcinoma. |
| Oncology | The branch of science dealing with tumour diseases. |
| Paclitaxel | The first taxane to be isolated from a yew tree. One of the most common cytostatics used today. |
| Pharmacokinetics | The study of the distribution and metabolism over time of a drug or other substance in the body. |
| Preclinical phase | Selection of drug candidates. The selected candidate is tested with respect to specificity, efficacy and safety. |
| Premedication | Prophylactic treatment with certain drugs before and/or during the main treatment against a disease. This is done because the side effect of the main treatment would otherwise be too drastic. |
| Retinoid | An acid similar to vitamin A. |
| SME | Small and Medium Enterprises. |
| Taxane | A group of chemicals originally derived from a yew tree. The group is one of the most commonly used compounds against tumour diseases today. |
| Toxic | Poisonous. |
| WHO | World Health Organization, the UN agency for global health. |