



ANNUAL REPORT

2018



Dear Shareholders

2018 was a busy year for Biotec Pharmacon ASA and its employees.

At the beginning of the year, we set ourselves the goals of delivering overall organic growth, reducing cash-consumption and looking for a new go-to-market model for Woulgan.

During the year, the business grew organically in all high margin areas. This, combined with a 10% reduction in operating expenses, led to a 40% percent improvement in financial performance, including improved cash flow. We also reviewed our go-to-market model for Woulgan.

We signed contracts with high-calibre global companies underlining the excellent quality of our products, services and people. Our R&D efforts also resulted in the launch of several new products.

Like any business, we faced set-backs, but the overall position of the Company significantly improved during 2018, giving us a robust foundation going into 2019.

In June, we issued 10% new shares and were humbled by the response from several of our existing and new shareholders. Such support strengthens our commitment to build long term value.

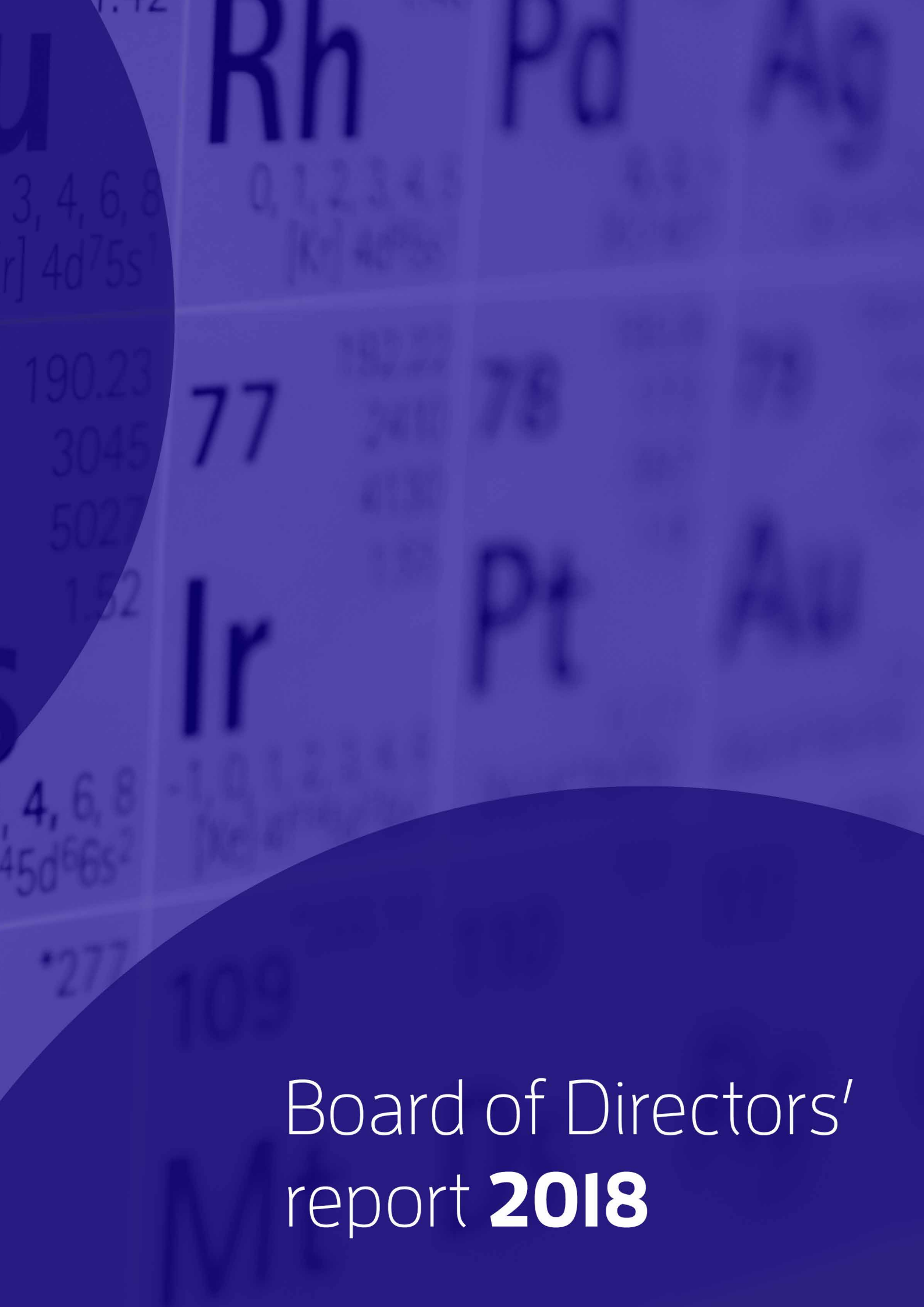
Going forward, we are focusing on building the Woulgan and ArcticZymes franchises whilst managing our other business areas to the benefit of our customers and shareholders.

I would like to thank you, our shareholders for your continued support, our customers for your trust in us and all my colleagues here at Biotec Pharmacon for your hard work and dedication.

Best regards
[Christian Jørgensen](#)

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Board of Directors'
report **2018**

1. About Biotec Pharmacon ASA

Biotec Pharmacon ASA (hereinafter "Biotec" or "the Company") is a Norwegian life sciences company focused on specialised, novel enzymes and immunomodulating beta-glucan technology.

The Company is creating value from innovation in life science markets via its subsidiaries, ArcticZymes AS and Biotec BetaGlucans AS. Its technologies capitalise on more than three decades of world-class research at the Arctic University of Norway to offer niche and high-tech products in several biotech segments.

Biotec's unique IP and capabilities are protected via a large portfolio of patents around both enzyme and beta-glucan products.

Biotec Pharmacon ASA

Biotec Pharmacon ASA is the holding company providing support functions to the subsidiaries including distribution, administration, finance, IT and QA. The headquarters and laboratories are located at the SIVA Innovation Centre close to the University and University Hospital in Tromsø, Norway, while the production facilities are in adjacent premises. Most employees work in Tromsø except for parts of the marketing and sales teams that are located in Central Europe and the US. In addition, the Company has established distribution centres in the US and in the Netherlands to serve its customers more efficiently.



3 decades of
groundbreaking
research

ArcticZymes AS

ArcticZymes develops, produces and markets novel recombinant enzymes for use in molecular research, In-Vitro Diagnostics (IVD) and therapeutics. The enzymes are primarily derived from cold-water marine species and offer novel functionality to its customers. Products include:

- **SAP and derived kits** – clean up prior to Sanger sequencing and Next Generation Sequencing processes
- **Cod UNG** – utilised in viral and other molecular diagnostic assays
- **Double-strand specific DNases and derived kits** – removal of DNA from RNA samples. Removal of DNA in PCR master mixes and reagents
- **Polymerases** – enabling technology development for Life Sciences, Molecular Diagnostics, NGS and Synthetic biology
- **Proteinase** – direct lysis and nucleic acid sample preparation. Enable applications in microbiological diagnostics and liquid biopsies
- **Salt Active Nuclease (SAN)** – removal of nucleic acids during manufacturing of vaccines, viruses, recombinant proteins and other reagents
- **Ligases** – joining DNA fragments together. Enabling broad range of molecular biology applications

Other polymerases, ligases and reverse transcriptase's and non-enzyme products represent additional key products that are more long-term in the development pipeline.

In addition, ArcticZymes is developing second generation products and supportive products within several categories based on input and collaboration with customers.

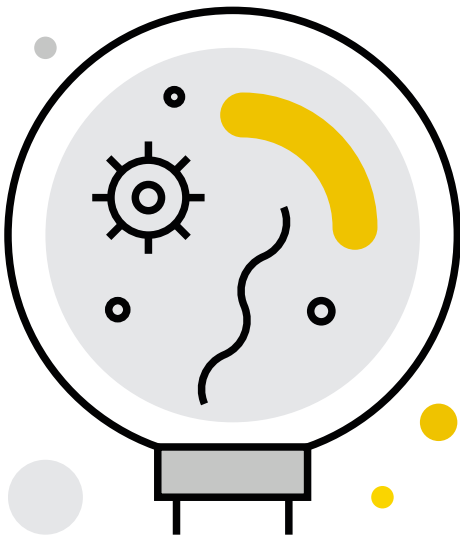
Biotec BetaGlucans AS

All products are based on immune modulating beta-1,3/1,6-glucans from yeast. Biotec BetaGlucans develops, produces and markets immunomodulating beta-glucans addressing high unmet healthcare needs, such as chronic wound healing and as an possible adjuvant in vaccines against certain types of cancer relapse. The end-user products are targeting the following segments:

- **Advanced wound care** – Woulgan® Gel which contains its proprietary SBG® (soluble beta-glucan) ingredient
- **Adjuvant to vaccines against cancer** – SBG® being used in a clinical trial for Neuroblastoma in children
- **Animal health** – to strengthen animal immune systems
- **Consumer health** – nutritional products used as functional ingredients

2. ArcticZymes

ArcticZymes AS develops, produces and markets a growing portfolio of novel recombinant enzymes primarily for use within molecular research, In-Vitro diagnostics and therapeutics. The total enzymes market for molecular diagnostics and bio-manufacturing is USD 1.8 billion, with a CAGR of 5-12% depending on enzyme type.



Markets

Traditionally molecular enzymes have been mostly applied to PCR-based methods (Polymerase Chain Reaction), which is still a growing market as the technology is constantly being developed and expanded into new applications. The market is complex as the technology includes multiple stages of specialised solutions, which allows for a vast multitude of possible variations. "PCR based methods" as well as other amplification technologies are fundamental for DNA sequencing technologies, molecular diagnostics and synthetic biology, and gene-based therapeutics.

Leading focus for the industry is towards fast-paced innovation of Next Generation Sequencing (NGS) technologies with the prospect of wide adoption and accessibility. It is the clinical utility of the technology that makes DNA sequencing the fastest growing molecular technology today. ArcticZymes existing as well as newly designed enzymes are attractive, integral key components and offer unique properties that are exploited by leading international companies. In most cases, ArcticZymes enzymes are integrated into and are critical components driving other companies technologies, molecular diagnostic tests or platforms.

Growing portfolio
of novel enzymes

Portfolio of products

New product innovations represent the most important driver to accelerate growth of the business. A broader synergistic portfolio is key in mitigating risk and making the business more resilient to fluctuations and headwinds. The incremental addition of new synergistic products to the portfolio continue to increase the impact and relevance to customers across the market segments ArcticZymes serve.

ArcticZymes specialises in enzymes originating from organisms that have evolved in cold Arctic water environments. Its innovation extends beyond enzymes originating in cold aquatic environments and discovery efforts are underway to prospect other harsh environments for unique enzymes with synergistic and commercially attractive properties.

To develop new product candidates, ArcticZymes participates actively in scientific collaborations, which includes universities and international partners. The Norwegian Research Council often supports such cooperation through grants. ArcticZymes is a partner in an EU Horizon2020 project.

ArcticZymes has developed a solid knowledge in genetic modification to adapt the enzymes ability to specific market needs. All enzymes are produced in-house by recombinant technology which ensures complete control over the production process. This makes the company independent of supplies for biological raw materials and thereby lowers the environmental impact.

Recombinant production also enables the production of far more consistent, robust and cleaner enzymes compared to natural sources. It also facilitates scalable manufacturing and economies of scale ensuring uninterrupted and security of supply.

Customer focused

ArcticZymes has upgraded its ISO 13485 quality standard to the newer 2016 version following a successful external audit at the end of 2018.

In addition to developing unique enzymes and production methods based on its proprietary technology, developments are driven by engaging customer' on their current and future needs. ArcticZymes works by consultation with its customers by combining its enzymes with customer's application-based technologies. This puts ArcticZymes in a unique position to offer customers a more comprehensive and functionalised solution.

The company has strong patent protection for its products and is marketing several unique genetically modified enzymes derived from diverse organisms, as well as enzyme-based kits and non-enzyme support products.

ArcticZymes has local business development and customer support representatives in Europe, North America and Asia to assist global business coverage.

To support sales activities, ArcticZymes has established strategically located warehouses and logistic centres in Europe and in the United States. These logistics centres have made it possible to standardize products, build inventories and safety stocks, improve cost effectiveness of logistics, and most importantly, ensure on demand delivery to customers on a global basis.

3. BetaGlucans

Biotec BetaGlucans AS (BetaGlucans) develops applications based on different qualities of beta-glucans including the patent protected soluble beta-1,3/1,6-glucon (SBG®). BetaGlucans produces the active ingredient SBG® at its facilities in Tromsø, which are certified according to GMP as well as ISO 13485. The Company has also GMP+ certification for feed ingredient products.

Woulgan®

Woulgan® Gel is CE-certified as a class III, rule I3, medical device with a pharmaceutical ingredient indicated for use in wounds such as diabetic foot ulcers, venous leg ulcers and pressure ulcers, but also burns and other acute wounds. Woulgan® Gel is an active treatment containing SBG® for wounds where healing is stalled or expected to progress slowly.

Woulgan® Gel is a unique and well documented premium product with a large market potential. It is documented to have both health and social economic benefits in the markets where it is sold.

BetaGlucans has commissioned clinical evaluations and efficacy studies in Germany, UK and the Nordics over the last two years. The largest study was in the UK where 150 patients with different wound types were treated with Woulgan® and compared with 150 patients treated with standard care. The results presented in March 2018 showed a substantial healing effect when treating stalled wounds with Woulgan®. The 12-week healing rate, with more than 60% healed wounds, is compelling and consistent with efficacy data from the randomised, controlled trial by Zykova et al, 2014. Results from this study were published in September 2018.

As of January 1st 2018, Woulgan was listed on the UK Drug Tariff and thus reimbursed for use in community treatment centres. In collaboration with BetaGlucans's UK partner, a small but dedicated sales team was established to increase commercial awareness. Moving from having reimbursement to actual usage takes time in the UK. Each region must test the product in certain centres, approve it and then list it on their formularies before products can be used. In a financially constrained environment, new innovative products are harder to push through than established habits and seemingly cheaper solutions. Therefore, Woulgan sales in the UK have progressed slowly.

The German market dynamics are different from the UK with less centralisation and during 2018 BetaGlucans experienced growth and repeated

orders from several customers in the homecare area. An uncertainty around reimbursement rules is still present even though the Ministry of Health did not accept G-BA's (the independent authority in charge of reimbursement) first recommendation of introducing new documentation criteria for some advanced wound care products. The situation is expected to be clarified during 2019 with implementation of changes (if agreed) in 2020. BetaGlucans believes in its strong documentation for Woulgan® and thus do not regard this as a problem. However, prolonged uncertainty of outcome in the discussions can create some "noise" in the market.

BetaGlucans and its Nordic partner continued to target key tenders to open the different regions for promotion of Woulgan®. Several case studies have been carried out to support commercial activities. Sales for the Nordic region were below expectations in 2018.

BetaGlucans received approval to reduce the number of patients in the ongoing Post-Market Clinical Follow-up study (PMCF) study. The PMCF study was a requirement by the Notified Body and MHRA when approving Woulgan® back in 2014. The aim of the study is to confirm safety and usefulness of Woulgan® compared to a treatment regime with a standard hydrogel. The study was completed in January 2019. BetaGlucans expects to have the results of the study in the second quarter of 2019.

BetaGlucans continued developing new wound care products using the beta-glucon technology platform. Several formulations for production of a dry layer product have been employed in the pilot equipment during 2018 and will continue into 2019. BetaGlucans is in discussions with potential contract manufacturers to establish commercial test production for a dry layer product.

In October 2018, Finn Ketler replaced Stuart Devine as VP for Wound Care. Mr. Ketler has broad experience within medical devices having worked (UK, Germany and Denmark) in Coloplast and being responsible for the wound care business unit for many years.

Repeat orders
from customers

+2 000
patients treated
with Woulgan®

Adjuvant in cancer treatment

The collaboration with Memorial Sloan Kettering Cancer Center (MSKCC) within immunotherapy of cancer continued in 2018 with a renewal of the clinical trial agreement. Biotec's SBG® is used in combination with a cancer vaccine against high-risk neuroblastoma in children. The study has been expanded several times and now covers 2 arms administering SBG® either at the same time as the vaccine or 6 weeks later. The purpose of this 2 arm study is to try to isolate the effect of SBG®. Results are expected sometime in 2020.

M-Glucan® (Animal health)

Biotec's animal health product M-Glucan® is well adopted in the market after re-introduction in 2014.

The market for animal feed products is competitive with margins under pressure. Despite this trend, a continuation of a supply agreement with a major customer was agreed during 2018. Furthermore, an agreement was signed with Biotec's raw material supplier to jointly investigate new areas of usage of M-Glucan® within the animal feed area.

M-Gard® (Consumer health)

M-Gard® is Biotec's brand for the consumer health market. M-Gard® is an immunomodulatory beta-glucan that has the ability to enhance the body's vital defence mechanisms against pathogens such as bacteria and virus. Biotec has signed agreements in both the US and Asia during 2018, where it acts as a sub-supplier to food/functional food companies.

Like the market for animal feed products, this market is highly competitive with pressure on pricing.

4. Consolidated financial statements

The financial statements for 2018 are prepared under the assumption of going concern. The basis for this assumption is the Company's plans, capital situation and the long-term forecasts.

The Board is not aware of any matters of significant importance for the Company's status beyond what is disclosed in the financial statements.

Consolidated statement of profit and loss

The financial statements for the Biotec Pharmacon group are prepared in accordance with International Financial Reporting Standards (IFRS). The Biotec Pharmacon group had sales revenues of NOK 66.8 million in 2018, compared to NOK 66.7 million in 2017. Distribution of sales revenues in 2018 was NOK 34.3 million in the beta-glucans' segment and 32.5 million in the enzymes' segment, compared to NOK 35.1 million and NOK 31.6 million in 2017 respectively. Beta-glucans' sales were 2% down compared to previous year, primarily due to lower sales of animal health products. The enzymes' segment had a sales growth of 3% compared to 2017.

Net profit after tax for the Group was NOK -13.8 million compared to NOK -24.8 million in 2017. The operating profit (EBIT) for the beta-glucan segment was NOK -14.8 million in 2018 compared to NOK -20.4 million in 2017. The enzymes' segment generated an operating profit of NOK 4.9 million versus NOK 4.6 million in 2017. Unallocated corporate overhead expenses for 2018 were NOK 4.3 million compared to NOK 9.1 million in 2017.

Total recognised expenses for R&D within the Group in 2018 was NOK 20.1 million, compared to NOK 23.5 million in 2017.

R&D expenses have been reduced by 15% compared to 2017, evenly distributed within both segments. Most of the R&D costs were expensed in 2018 except for NOK 1.4 million, which fulfilled the criteria for capitalisation. For 2017, NOK 2.4 million was capitalised.

Cash Flow

The Group had a cash flow from operating activities of NOK -18.3 million in 2018, compared to NOK -22.1 million in 2017. Cash flow from investing activities in 2018 was NOK -2.7 million compared to NOK -5.0 million in 2017. For 2018, investing activities were split between fixed assets of NOK 1.3 million and development of new products being prepared for sale of NOK 1.4 million. Net cash flow from financing activities was NOK 22.1 million compared to zero in 2017.

Net change in cash during 2018 was NOK 1.1 million, compared to NOK -27.1 million in 2017.

Net profit of
-13,8 MNOK

Deficit reduced
by 44%

Consolidated statement of financial position


Total equity for the Group amounted to NOK 53.9 million at the end of 2018, compared to NOK 44.8 million at the beginning of the year. Equity ratio was 79%. Cash and cash equivalents amounted to NOK 31.7 million at the end of 2018, compared to NOK 30.6 million at the end of previous year. The Group has no interest-bearing debt.

The parent company

Sales revenues for the parent company Biotec Pharmacon ASA was NOK 14.3 million in 2018. Net profit was a loss of NOK 115.3 million due to a write-down of investments in subsidiaries. Sales revenues are intercompany sales of services to the subsidiaries and rental income from leased offices. For 2018, intercompany sales revenues were NOK 14.3 million.

Deferred tax assets were excluded from the balance sheet at the end of 2009. At the end of 2018, the forecast for future taxable profit still remains uncertain, and the Company has therefore decided not to recognise this as an asset. A new assessment will be carried out during 2019.

The Board proposes that the 2018 loss in the parent company Biotec Pharmacon of NOK 115.3 million is covered by allocation from retained earnings.



Sales growth
in all high
margin areas

5. Shareholder matters



22,1 MNOK
in share issue

Biotec ended 2018 with a closing price of NOK 3.52, compared to NOK 6.70 at the end of 2017. NOK 3.52 was also the lowest closing price during the fiscal year, while the highest closing price was NOK 7.70 per share.

The Board encourages employees in the Group to become shareholders in the Company. At the end of 2018, employees in the Group held 1.4 million shares, equal to 2.9% of the share capital.

Share option programs have since 2010 been offered to employees in the Group. Outstanding share options per end of 2018 were 362,000. These share options were granted in 2016 the deadline for exercising these options is 31 May 2019. CEO Christian Jørgensen has been granted a separate option program for 500,000 shares whereas other senior executives have been

granted 600,000 options in a similar program. The share option program is described in note 15 "Executive remuneration policy".

Director Martin Hunt has been a member of the Board since 11th May 2017. Martin Hunt owns and operates Invictus Management Ltd in London. For services and expenses outside his board engagement, Invictus Management Ltd has invoiced NOK 0.1 million in 2018. No other transactions with close associates were carried out in 2018.

At the end of 2018, the Company had 48,334,673 shares registered with a nominal value of NOK 1.00, distributed on 2,400 VPS-registered shareholders.

6. Risk



The Group is exposed to various types of financial and operational risks.

Within the business area beta-glucans, the Company has signed agreements with partners for distribution and sales of the

Company's wound care product Woulgan® in UK, Scandinavia and certain channels in Germany. The Company is in a commercialisation phase and there is uncertainty related to sales until commercial viability is proven in these markets.

There are several barriers for small companies being a one-product supplier in a fragmented and highly competitive area despite having a superior product.

There are risks associated with further rollout of the product to other markets and regions. Regulatory processes and national reimbursement may be a factor that can delay commercial sales of Woulgan®.

Biotec is also a supplier of beta-glucans to the animal and consumer health markets. Both markets are limited in number of customers and the Company is accordingly dependent on these customers to maintain and grow sales.

The Company is dependent upon certain key suppliers, and especially the raw material supplier for production of beta-1,3/1,6-glucan. The Company may, if necessary, change supplier over time, but cannot exclude that such changes will have a temporary negative impact on the Company's operations within the beta-glucan area.

There are risks associated with development and sales in ArcticZymes. The Company has agreements with large multinational customers, but there is no purchase obligation attached to these agreements. The Company is actively entering new agreements

to broaden the revenue base. Success relating to introduction of new products to the portfolio is not guaranteed and sales will be dependent on customer implementation.

Future changes in taxes and regulations may represent a risk for the Company having a global scope for both business areas.

The Group seeks to protect its intellectual property through patent protection. There will always be a risk that other companies may dispute such rights or that other players secure rights that could restrict the technological freedom. There is also a risk that the Group must take on costs to defend its rights against patent infringement.

Biotec is a small company, with key personnel that are critical to the success of the Company's operations. Key personnel are involved in the development of products, technologies, production processes, quality control, purchasing, and marketing, as well as other activities of the Company. The Company is also dependent on recruiting new, qualified personnel. There is no guarantee that the company will be able to retain key personnel or to be able to recruit new key personnel in the future.

Currency risk arises since most of the Company's revenues are in USD and Euro, while most expenses are accrued in NOK. A higher exchange rate for the USD and Euro against the Norwegian krone will affect the outcome in a positive direction, while lower rates will have the opposite effect.

The Company has no interest-bearing debt. Financial investments are carried out only in the form of bank deposits, certificates or money market funds with short maturities. The Group is thus not very exposed to interest rate risk. The Company shall not be exposed to any financial risk in the stock market. The Group has limited credit risk and recognised no losses on accounts receivable neither in 2018 nor 2017.

The Board considers the liquidity situation to be acceptable, provided that the estimated cash flow from operations and investment activities follows established plans and budgets for 2019.

7. The working environment and staff



At the end of 2018, there were 43 full and part time employees in the Group. There were 10 employees in the parent company Biotec, 14 in BetaGlucans AS, 19 employees in ArcticZymes AS, a decrease of 1 employee during the year.

Lost days due to sick leave in 2018 totalled 355 days, compared to 268 days in the previous year. Accumulated sick leave was 3.9% compared to 2.6% in 2017. No specific initiatives were taken during the year to influence the working environment. There were no work accidents causing injury to personnel or damage to machinery during 2018.

The Company is committed to recruit and develop employees of both genders. Equality between the genders is practiced in a way that men and women are considered equal regarding career opportunities and salary. At the end of the year, there were 18 women and 25 men employed within the Group. The Board consists of 5 directors, of which 2 of the 4 shareholder-elected representatives are women. The employee-elected representative is female whereas the employee-elected observer is male.

8. Natural environment

The Company's activities have limited negative impact on the environment. Excipients and chemicals that cannot be recycled in the production processes are collected and returned to an approved manufacturer for environmentally and sound recycling. Procedures for the collection of various types of waste from laboratories and for separation by source of waste from other operations are established. Use of energy in the production process is modest.

9. Principles of corporate governance

The Board has established principles for corporate governance in line with the Norwegian Accounting Act § 3-3 and the Norwegian Code of Practice for Corporate Governance. A detailed description of these principles is published on the Company's website www.biotec.no

10. Corporate social responsibility

The Company is committed to develop socially valuable products, such as health products to improve people's lives, and life science products making laboratory processes and diagnosis more efficient and cost effective. The Company avoids using scarce natural resources and emphasises this by approving suppliers. Ethical guidelines are established, and all employees have confirmed individually in writing that they, through their position will work to prevent discrimination, promote equality, promote human rights and combat all forms of corruption. Size and business scope of the Company is limited compared with most other listed companies.

Thus, thorough reporting in this area is not yet a priority.

A summary of relevant topics with status for Biotec at the end of 2018 is listed in the table below.

Product groups	Woulgan wound gel	Patient-friendly, without any harmful side effects, beneficial health economics to society
	Feed Ingredient (M-Glucan)	Natural immune-stimulating product without antibiotics for fish and animal feed
	Nutraceuticals (M-Gard)	Natural immune-stimulating ingredients to improve overall physical health
	Recombinant enzymes	Efficient products in micro scale for research and diagnostics
Customers	In Europe	Feed producers, distributors of drugs and devices, research and diagnostic companies, hospitals and home care providers
	In USA	Manufacturers of pharmaceuticals, nutraceuticals, and laboratory kits
Code of Conduct, Ethical guidelines	Policy established and adopted in writing by all employees	Integrated part of the Company's quality system
Combating corruption	Described in Code of Conduct	The Company is opposed to all forms of corruption. The Company's relatively small turnover limits possibilities for any corruption.
Human rights	This may be an issue for goods produced outside Norway	The Company uses a sub-supplier from the EU for raw materials for animal feed additives. Generally good follow-up of labour and human rights in this country.
Employees' labour rights	Norwegian labour rules apply to all employees	Employees are included in the management of the Company. Elected representatives are part of Board of Directors and the Working environment committee.
Climate impact	Marginal emissions to air and water, both in terms of production and transportation.	The Company's main raw material is a residual product from other industrial activities.

11. Outlook

The Company's ambitions for 2019 are to grow sales organically across both divisions and continue to reduce cash consumption in 2019.

Management expects revenue growth to be strongest in the second half. Long-term growth and focus are expected within ArcticZymes and Woulgan®.

Within ArcticZymes, the priority will be growing sales of the current portfolio as well as launching new products. ArcticZymes are also spending resources in identifying inorganic growth opportunities. The key to this business is to offer products with the highest customer demand.

Within BetaGlucans, the focus is on Woulgan®. Biotec will continue to work with country partners in order to build the franchise, especially in the Nordics and

Europe. The Company will also develop further Woulgan® products, to expand the portfolio across more stages of the wound healing process.

Considerable efforts have been made to strengthen the business and improve cost efficiencies. At the end of 2018, the business was in a stronger position and the goal is to drive business development efforts whilst managing the Company's resources carefully.

Overall, it is the Board's view that a number of important milestones were achieved during 2018, providing a good foundation for our ambitions in 2019.

The Board would like to thank all employees for their efforts in 2018.



Marie Ann Roskrow

Chairperson



Inger Rydin

Director



Martin Hunt

Director



Arne Reinemo

Director



Ingrid Skjæveland

Director, employee representative



Christian Jørgensen

CEO

Financial **statements**

Consolidated statement of profit & loss

I. January till 31. December

(Amounts in NOK 1 000)	Note	2018	2017
Sales revenues	5	66 769	66 686
Other revenues	19, 24	6 048	6 072
Total revenues		72 817	72 758
Cost of goods	11	-19 366	-21 927
Personnel expenses	15,18,21,23,25	-40 241	-46 030
Depreciation and amortisation	6,7,23	-2 272	-1 978
Other operating expenses	22, 23	-25 105	-27 738
Total operating expenses		-86 983	-97 673
Operating profit/loss(-)		-14 167	-24 915
Financial income, net	20	339	112
Profit/loss(-) before income tax		-13 828	-24 803
Income tax expense	16, 17	0	0
Net profit/loss(-)		-13 828	-24 803
Net profit/loss(-) distributable to:			
Non-controlling interests		161	135
Equity holders of Biotec Pharmacon ASA		-13 989	-24 938
Earnings per share:			
Basic EPS from net profit/loss	9	-0,30	-0,56
Diluted EPS from net profit/loss	9	-0,30	-0,56

Consolidated statement of other comprehensive income

(Amounts in NOK 1 000)	Note	2018	2017
Net profit/loss for the year		-13 828	-24 803
Items that may be reclassified to profit & loss		0	0
Total comprehensive income		-13 828	-24 803
Comprehensive income attributable to:			
-shareholders of parent company		-13 989	-24 938
-non-controlling interests		161	135
Total comprehensive income		-13 828	-24 803

Consolidated statement of financial position

As of 31. December

(Amounts in NOK 1 000)	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Machinery and equipment	6	4 597	4 589
Intangible assets	7	7 551	7 119
Other non-current assets	18	0	9
Total non-current assets		12 148	11 717
CURRENT ASSETS			
Inventory	11	6 560	5 011
Accounts receivable and other receivables	8, 10	17 645	14 363
Cash and cash equivalents	12	31 662	30 593
Total current assets		55 867	49 966
Total assets		68 014	61 683
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9,13	48 335	43 945
Premium paid in capital		151 039	133 378
Retained earnings		-146 352	-133 223
Non-controlling interests		876	715
Total equity		53 897	44 813
CURRENT LIABILITIES			
Accounts payable and other current liabilities	8,14	14 117	16 870
Total current liabilities		14 117	16 870
Total equity and liabilities		68 014	61 683

Tromsø, 13 March 2019

Marie Ann Roskrow
Chairperson

Martin Hunt
Director

Arne Reinemo
Director

Inger Rydin
Director

Ingrid Skjæveland
Director, employee
representative

Christian Jørgensen
CEO

Consolidated statement of changes in equity

I. January till 31. December

(Amounts in NOK 1 000)	Note	Share capital	Premium paid in capital	Retained earnings	Non-controlling interest	Total equity
Equity as of 01.01.2017		43 945	133 378	-109 815	579	68 087
Comprehensive income 2017				-24 938	135	-24 803
TRANSACTIONS WITH OWNERS:						
Employees' share options	13, 21			1 529		1 529
Total transactions with owners		0	0	1 529	0	1 529
Equity as of 31.12.2017		43 945	133 378	-133 224	715	44 813
Comprehensive income 2018				-13 989	161	-13 828
TRANSACTIONS WITH OWNERS:						
Share issue	13	4 390	17 661			22 051
Employees' share options	13,21			862		862
Total transactions with owners		4 390	17 661	862	0	22 912
Equity as of 31.12.2018		48 335	151 038	-146 351	876	53 897

Consolidated cash flow statement – Group

I. January till 31. December

(Amounts in NOK 1 000)	Note	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / loss(-) before tax adjusted for:		-13 828	-24 803
Depreciation and amortisation	6, 7	2 284	1 978
Employees' options, share-based payment expense	13, 21	862	1 529
Changes in working capital:			
Inventory	11	-1 549	-2 236
Account receivables and other receivables	10	-3 282	2 354
Trade and other payables	14	-2 766	-877
Net cash flow from operating activities		-18 279	-22 056
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in machinery and equipment	6	-1 269	-2 629
Investment in intangible assets	7	-1 444	-2 422
Changes in long-term receivables		9	28
Net cash flow from investing activities		-2 704	-5 024
CASH FLOW FROM FINANCING ACTIVITIES			
Share issue	13	22 051	0
Net cash flow from financing activities		22 051	0
Net change in cash during the year			
		1 069	-27 079
Cash and cash equivalents as of 1 January	12	30 593	57 672
Cash and cash equivalents as of 31 December		31 662	30 593

Notes to the financial statements for 2018

Note 1 General information

Biotec Pharmacon ASA (the Company) is a Norwegian life sciences company focused on specialised, novel enzyme and immunomodulating beta-glucan technology.

The Biotec Pharmacon Group creates value from innovation in life science markets via its subsidiaries, ArcticZymes and Biotec BetaGlucans. Its technologies capitalise on more than three decades of world-class research at the Arctic University of Tromsø to offer niche and high-tech products in several biotech segments.

ArcticZymes develops, manufactures and commercialises novel recombinant enzymes for use in molecular research, In Vitro Diagnostics (IVD) and therapeutics.

Biotec BetaGlucans develops, produces and markets immunomodulating beta-glucans addressing high unmet healthcare needs, such as chronic wound healing and as an adjuvant in vaccines against certain types of cancer relapse.

Listed on the Oslo Stock Exchange since 2005 under the "Biotec" ticker, Biotec Pharmacon is headquartered in Tromsø, in the SIVA Innovation Centre.

The Board approved the consolidated financial statements on 13 March 2019.

Note 2 Summary of significant accounting policies

The following describes the principal accounting policies applied in the preparation of the consolidated financial statements. These principles have been consistently applied to all periods presented, unless otherwise stated.

Note 2.1 Financial reporting framework

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations of IFRS as adopted by the EU. The consolidated financial statements are prepared on a historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of estimates. Furthermore, the application of the Company's accounting principles requires management to exercise judgment. For further information about this, see note 4.

The consolidated financial statements are prepared under the going concern assumption.

Note 2.2 Principles for consolidation Subsidiaries

The consolidated financial statements include the parent company Biotec Pharmacon ASA, a wholly owned subsidiary Biotec BetaGlucans AS, and the 96% owned subsidiary ArcticZymes AS. Reference is made to the parent company's note 8 for details on subsidiaries.

Subsidiaries are consolidated from the date of which control is transferred to the Group and deconsolidated when control ceases.

The acquisition method is used to account for acquisitions of subsidiaries. The cost of an acquisition is measured at the fair value of assets provided as consideration for the acquisition, equity instruments issued and liabilities incurred or assumed on transfer of control. Identifiable assets acquired, and liabilities assumed are recorded at fair value at the acquisition date, irrespective of any non-controlling interests. The acquisition cost above the fair value of identifiable net assets acquired is recorded as goodwill. If acquisition cost is below the value of its net assets, the difference is accounted under profit and loss.

Acquisition-related expenses are expensed when incurred.

When step-by-step acquisition of a business occurs, the equity from previous acquisition is re-measured at fair value on the acquisition date by recording the change in value in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated and may be considered as an impairment indicator for the asset transferred. Accounting policies of subsidiaries will be adjusted when deemed necessary to ensure consistency with the Group's accounting policies.

Note 2.3 Operating segment information

The operating segments in these statements are consistent with the internal reporting provided to the chief operating decision maker. The operating decision maker, who is responsible for allocating resources and for assessing performance of the business segments, has been identified as the Board of Directors. An operating segment is engaged in providing products or services that are subject to risks and returns that are different from other operating segments. Biotec Pharmacon presents segment information for the business's beta-glucans and enzymes under note 5.

Note 2.4 Foreign currency translation**Functional and presentation currency**

The accounts of the individual entities within the Group are measured by using the currency of the main economic environment in which the entity operates (its functional currency). The consolidated financial statements are presented in Norwegian kroner (NOK), which is the functional currency for all Group companies..

Transactions and financial position items

Foreign currency transactions are translated into the functional currency using the exchange rate at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary items (assets and liabilities) in foreign currency at year-end, are recorded in the consolidated statement of profit & loss.

Foreign exchange gains and losses relating to loans, expenses, cash and cash equivalents are presented (net) as financial income or expenses. Foreign exchange gains and losses relating to sales or cost of goods are presented (net) under sales revenues or cost of goods.

Note 2.5 Machinery and equipment

Machinery and equipment in the Group include primarily production equipment, office equipment and furnishing. These assets have a carrying value of historical cost less depreciation and amortisation. Acquisition cost includes expenses directly attributable to the acquisition of the asset.

Subsequent expenses are included in the asset's carrying value or recognised as a separate asset, when it is deemed probable that future economic benefits associated with the item will benefit the Group and that expenses can be measured reliably. Other repair and maintenance expenses are recognised in the consolidated profit & loss statement for the period in which they are incurred.

Assets are depreciated by the linear method, depreciating the acquisition expense to the residual

value over the estimated useful life, which are for each group of assets:

Machinery / Equipment	5-10 years
Furniture and office equipment	2-5 years

The actual useful life and residual values of the assets are tested for impairment when there is indication of impairment and adjusted if necessary. If the carrying value of an asset exceeds the estimated fair value, the carrying value is amortised immediately to fair value. Reference is made to note 2.7.2

Gains and losses on disposals are recognised as the difference between selling price less transaction costs and the carrying value.

Note 2.6 Intangible assets**Research and development, patents and licenses**

Research expenses are expensed when incurred.

Development of products are capitalised as intangible assets when:

- It is technically feasible to complete the intangible asset enabling it for use or sale.
- Management intends to complete the intangible asset and use or sell it.
- The Company has the ability to make use of the intangible asset or sell it.
- A future economic benefit to the Company for using the intangible asset may be calculated.
- Available technical, financial and other resources are sufficient to complete the development and use of or sale of the intangible asset.
- The development expense of the intangible asset can be measured reliably.

Intangible assets are depreciated by the linear method, depreciating the acquisition expense to the residual value over the estimated useful life, which are for each group of assets:

Product rights	5-10 years
Own product development	10-12 years

Other development expenses are expensed when incurred. Previously expensed development costs are not recognised in subsequent periods. Capitalised development costs are depreciated linearly from the date of commercialization over the period in which they are expected to provide economic benefits. Capitalised development costs are tested by indication for impairment in accordance with IAS 36.

The Company has capitalised development expenses for Woulgan[®], rSAP, HL-dsDNase, SAN Elisa-kit, San HQ and Polymerases when they meet criteria for capitalisation. Other development costs are expensed when incurred.

Note 2.7 Financial assets**Note 2.7.1 Financial instruments****– recognition and measurement**

Subsequent measurement

Classification of financial assets and debts depends on the purpose of the instruments and are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets and debts at amortised cost

The category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect cash flow
- The contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gain and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets and debts at amortised cost includes cash, trade receivable, other receivables, account payable and other current payable.

Note 2.7.2 Impairment of financial instruments

The Group recognises an allowance for expected credit losses (ECLs) for all debts instruments not held at fair value through profit or loss. ECLs are based on difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ESLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors.

Note 2.7.3 De-recognition of financial instruments

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired; or the Company has transferred its rights to receive cash flows from the asset and either (i) the Company has transferred substantially all the risks and rewards relating to the instrument, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards relating to the instrument, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this is treated as de-recognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated profit & loss statement.

Note 2.8 Inventory

Inventory are stated at the lower of acquisition expense and net Realisable value. Acquisition expense is determined using the first-in, first-out (FIFO) method. Value of finished goods and work in progress comprises the expense of design, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Borrowing costs are not included. Net Realisable value is the estimated selling price less variable costs of completion and transaction expenses. .

Note 2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and other short-term liquid investments.

Note 2.10 Share capital and premium paid in capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options less taxes are recorded as a reduction in proceeds to equity. When purchasing own shares, the consideration paid including any transaction costs less tax, is deducted from equity (attributable to equity shareholders) until the shares are cancelled, reissued or sold. When such shares are subsequently sold or reissued, any consideration received less direct transaction costs and related income tax effects, is included in shareholders' equity.

Note 2.11 Current and deferred income tax

The tax expense is comprised of current and deferred tax. Tax is recognised, except when it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income.

The tax expense is measured in accordance with the tax laws and regulations that are enacted at the balance sheet date.

Deferred tax is measured as temporary differences between tax values and consolidated accounting values of assets and liabilities, using the liability method. If deferred tax arises from initial recognition of an asset or assets in a transaction that is not a business combination and that at the time of the transaction affects neither accounting nor taxable profit, it is not recognised. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the deferred tax asset is Realised, or the deferred tax liability is settled. Deferred tax is measured from temporary differences on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary differences and it is not likely they will be reversed in the near future.

Deferred tax is measured from temporary differences on investments in subsidiaries, except where the Group controls the timing of the reversal of the temporary differences and it is not likely they will be reversed in the near future.

Deferred tax assets are recognised to the extent that it is probable on the balance sheet date that future taxable profit will be available, and that the temporary differences can be offset against this income.

The Group has per 31.12.2018 not recognised deferred taxes as an asset in the balance sheet.

Note 2.12 Pension obligations, bonus schemes and other compensation schemes for employees

The Group has a defined contribution plan for all employees in Norway under which the Group pays a fixed percentage contribution of members' salaries. The Group has no further payment obligations once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction of future payments is possible.

The Group recognises liabilities and expenses for bonuses based on a review of key personnel achievement. The Group recognises a provision for bonuses based on contractually and probable liabilities.

Note 2.13 Share based options

The Group has a share-based option scheme. The fair value of the services received from the employees in return for the options granted is recognised as an expense in the consolidated profit & loss statement. Total expense for the options is accrued over the vesting period based on the fair value of the options granted, excluding impact of any vesting conditions that are not reflected in the market. Criteria not reflected in the market, affect the assumptions about the number of options expected to be exercised. At

the end of each reporting period, the Company revises its estimates of the number of options expected to be exercised. It recognises the importance of the revision of original estimates in the consolidated profit & loss statement with a corresponding adjustment in equity.

The net value of proceeds received less directly attributable transaction expenses are credited to the share capital (nominal value) and the share premium when the options are exercised. The Group has a cash-based option scheme. See note I3 and I5 for further details.

Note 2.14 Provisions

The Group recognises a provision when:

- There is a legal or constructive obligation as a result of past events,
- It is probable that the obligation will be settled by a transfer of financial assets,
- The obligation can be estimated with sufficient reliability.

Provisions for future operating losses are not recognised.

Provisions are measured as the present value of expected payments to settle the obligation, using a discount rate before tax reflecting current market assessments and the risks specific to the liability. Increase in the obligation due to time is recognised as an interest expense.

Provisions are measured at the present value of expected payments to settle the obligation.

Note 2.15 Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable, and represents amounts for goods supplied, stated net of discounts, returns and VAT. The Group recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. Sale of goods are recognised with a five-step approach that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognising revenue when or as performance obligations are satisfied. Normal credit term is 30-90 days upon delivery. Discounts or other variable considerations are not relevant for the Group.

IFRS 15 Revenue from contracts with customers was effective from 01.01.2018. The Group has evaluated the potential implications of the standard and have not identified any remunerative contracts which will change the practice for recognition and measurement of sale. The standard will have no influence on the

financial statements for valid/identified contracts the Group has at the end of 2018.

Note 2.16 Government grants

Government grants are recognised at fair value when it is reasonable sure that the grant will be received and that the Company will fulfil the conditions attached to the grant. The grants are recognised as other revenue in the period in order to match expenses they are intended to compensate. Government grants relating to the purchase of fixed assets are recorded as a reduction in the carrying cost. They are expressed in the profit and loss statement through lower annual depreciation over the expected life of the relevant fixed assets..

Note 2.17 Provisions

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed over the lease period. See note 2.19 for new, but not implemented IFRS standards.

Note 2.18 Revenue recognition

Dividends are classified as liabilities from the date approved by the General Assembly. No dividends for 2018 is proposed..

Note 2.19 Government grants

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The Group's will adopt the relevant new and amended standards and interpretations when they become effective.

IFRS 16 Leases regulates matters relating to leased assets. It requires all leases to be recognised in the statement of financial position as a right to use asset with subsequent depreciation. This standard was endorsed 31.10.2017 by the EU and will be effective as of 01.01.2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for financial leases under IAS 17. At the commencement date the lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees are required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has evaluated potential implications of the standard and have estimated the following effects for the 2018 financial statements. Agreements and contracts coming in under IFRS 16 shall be recognised as an asset and liability. This will have a positive impact on EBITDA and increase fixed assets for the Group. It will also effects KPI's. The Group's contracts contain same type of assets and is calculated using the same model. The Group has used a full retrospective method and a 3% discount rate based on 7 years SWAP rate plus a credit margin. The lease period includes options. Variable expenses are excluded from lease period and is not recognised.

Financial position (Amounts in NOK 1 000)	31.12.2018	31.12.2018 IFRS 16 adjusted	Changes
Leased assets	1	18 033	18 033
Fixed assets	12 148	12 148	
Total non-current assets	12 148	30 181	18 033
Lease liabilities	2	15 367	15 367
Current liabilities	3	17 216	3 098
Total current liabilities	14 118	32 583	18 465

1. Right of use is calculated from inception of contract
2. Net present value of liability maturing more than 12 months
3. Next years instalment is part of current liabilities

Profit & Loss statement (Amounts in NOK 1 000)	31.12.2018	31.12.2018 IFRS 16 adjusted	Changes
Sum revenues	72 817	72 817	
Property, plant & equipment	-6 263	-3 165	3 098
Other operating expenses	-78 436	-78 436	
EBITDA	-11 882	- 8 784	3 098
Depreciation	-2 284	-5 187	-2 903
EBIT	-14 166	-13 971	195
Net financials	339	-289	-628
Net Profit	-13 828	-14 260	-432

Note 3 Financial risk management

Note 3.1 Financial risk factors

Certain activities expose the Group to financial risks like market risk, credit risk, interest rate risk and liquidity risk. The Group's overall risk management wants to minimize potential adverse effects of any unpredictability of financial markets. For the reporting period, the Group had no interest-bearing loans. Financial instruments are normally not used for trading purposes. Interest-bearing investments beyond bank deposits can be made in certificates or bond funds with short maturities.

Note 3.1.1 Market risk

Foreign currency risk

Revenues for 2018 to the Group are mainly denominated in USD and EUR; distributed 24% at USD and 64% at EUR. Most of the Group's cost base is denominated in NOK (65%), while expenses in EUR amounts to 29%.

The Group had for 2018 a positive trade currency balance for both USD and EUR. A weaker NOK against the USD or EUR will influence the operating profit in a positive direction, while a stronger NOK against the USD or EUR will have the opposite effect.

If NOK relative to USD was 5% stronger / weaker at 31 December 2018 and all other variables held constant, this would lead to a lower / higher operating profit of NOK 226 000 (2017: NOK 46 000). For EUR would such currency changes have affected the result by NOK 98 000 (2017: NOK 27 000). The impact on equity would be correspondingly. The calculated effect is based on 5% change in receivables and payables denominated in USD and EUR as of 31.12.2018.

The Group exchanges foreign currency into NOK when the balance of a foreign currency exceeds outstanding liabilities. The Group tries to minimise the balance of foreign currencies in its accounts. When applicable, the Group aims to match payment terms of revenues to corresponding expenses.

Price risk

The Group is very little exposed to risks related to commodity prices.

The Group has little exposure to interest rate risk as the investment of liquid assets are in bank deposits, certificates and / or money market funds with short maturities. The Group has no interest-bearing debt.

Note 3.1.2 Credit risk

The Group is mainly exposed to credit risk related to accounts receivables. No single customer represents major outstanding credit records and the associated credit risk is considered to be low. The maximum exposure is expressed at the carrying value of accounts receivable.

Note 3.1.3 Liquidity risk

Rolling liquidity forecasts are performed at group level to secure sufficient cash for operational needs.

Based on planned activities and current cash position, the Group considers the liquidity risk to be medium.

The Group has its cash in bank deposits or in interest-bearing securities with low risk. The majority of cash is invested in Norwegian bank deposits and money market fund. At the reporting date, the Group had bank deposits and money market fund of NOK 31.7 million.

The Group's debt has maturity shorter than one year and will be settled at maturity:

Maturity (Amounts in NOK 1 000)	2018	2017
< 3 months	6 065	5 806
3 months – 12 months	10	2
Total accounts payable	6 075	5 808
Accrued public fees and withdrawals	8 042	11 062
Total accounts payable and other current liabilities	14 117	16 870

Note 3.2 Capital management

The Group's objectives when managing capital are to safeguard the continued operations of the Group to provide returns for shareholders and other stakeholders and to maintain an optimal capital structure to reduce capital costs.

To improve the capital structure, the Group may issue new shares or sell assets. The Group has no long-term debt and pays no dividends to shareholders as long as the Group is in a development phase.

The table below shows the Group's net cash position as of 31 December.

(Amounts in NOK 1 000)	2018	2017
Cash and cash equivalents	31 662	30 593
Less: Restricted cash equivalents	-627	-2 008
Net cash position	30 405	28 585

Note 4 Accounting estimates and judgments

Estimates and judgments undergo continuous evaluation based on historical experience and other factors, including expectations of future events believed to be reasonable under the present circumstances.

The Group makes estimates and assumptions concerning the future. Estimates and assumptions are based on parameters available when the financial statements were prepared, but these assumptions may change due to market changes or circumstances arising beyond the control of the Group. These changes are reflected in assumptions when they occur.

Estimates and assumptions that might have a significant risk for adjustment in the carrying value in the following years are addressed below:

Assessment of capitalisation of development:
Capitalisation of development expenses of a defined product assumes that future cash flows from sales of this product exceed the expenses of development. The expected future cash flows are still subject to uncertainties, and may, if reduced, result in impairment of capitalised development expenses.

Assessment of useful life of intangible assets:
Useful life of intangible assets are based on an assessment of each individual asset. Maximum expected useful lifetime of for capitalised development expense is the remaining lifetime of any related patents.

Assessing start up for amortisation of intangible assets:
Amortisation of intangible assets related to capitalised development costs begins when the product is ready for distribution / sales, including the presence of necessary government approvals. Amortisation of other intangible assets starts with acquisitions.

Note 5 Segment information

The Group has divided its business into two operating segments; enzymes and beta-glucans. The segment enzymes consists of sales revenues and operating expenses associated with the subsidiary ArcticZymes AS, while the segment beta-glucans is related to revenues and operating expenses of the subsidiary

Biotec BetaGlucans AS. The parent company provides a range of administrative services to the subsidiaries. Invoicing is based on service agreements. Corporate overhead cost within the parent company remains unallocated.

Management submits segment results regularly to the Board.

Net profit/loss(-) from the operating segments:

(Amounts in NOK 1 000)	2018				2017			
	Enzymes	Beta-glucans	Corporate	Total	Enzymes	Beta-glucans	Corporate	Total
Sales revenues	32 457	34 303	8	66 769	31 628	35 051	7	66 686
Cost of goods	-574	-18 792		-19 366	-44	-21 883		-21 927
Gross profit	31 883	15 511	8	47 403	31 584	13 168	7	44 759
Other revenues	3 428	2 621		6 048	3 481	2 591		6 072
Operating expenses	-29 627	-31 439	-4 267	-65 333	-29 856	-34 812	-9 101	-73 769
Depreciation and amortisation	-757	-1 510	-17	-2 284	-639	-1 329	-10	-1 978
Operating profit/loss(-)	4 927	-14 817	-4 276	-14 167	4 570	-20 382	-9 104	-24 915
Net financial income	155	-846	1 030	339	-138	-601	851	112
Profit/loss(-) before tax	5 081	-15 663	-3 246	-13 828	4 432	-20 982	-8 253	-24 803
Tax				0				0
Net profit/loss(-)	5 081	-15 663	-3 246	-13 828	4 432	-20 982	-8 253	-24 803

Assets, liabilities and investments distributed to the segments:

(Amounts in NOK 1 000)	2018				2017			
	Enzymes	Beta-glucans	Corporate	Total	Enzymes	Beta-glucans	Corporate	Total
Assets	25 221	31 661	11 132	68 014	21 204	19 923	20 556	61 683
Liabilities	5 073	7 118	1 926	14 117	5 576	7 109	4 185	16 870

Geographical distribution of sales revenues: :

(Amounts in NOK 1 000)	2018	2017
Norway	22 884	28 046
Europe	26 136	18 250
Asia/Australia/Africa	2 277	1 344
Americas	15 472	19 046
Total sales revenues	66 769	66 686

Sales revenues from the largest customer within each segment in 2018: Beta-glucan segment NOK 18.8 million, enzyme segment NOK 14.8 million.

Geographical distribution of investments in machinery and equipment:

(Amounts in NOK 1 000)	2018	2017
Norway	1 281	2 629
Total	1 281	2 629

Note 6 Machinery and equipment

(Amounts in NOK 1 000)	Machinery	Equipment	Total
AS OF 01.01.2017			
Historic cost	31 911	6 191	38 103
Accumulated depreciation	-29 559	-5 376	-34 935
Book value at 01.01.2017	2 353	815	3 168
FINANCIAL YEAR 2017			
Addition	1 995	634	2 629
Disposals	-64		-64
Accumulated depreciation on disposals	64		64
Depreciation	-810	-399	-1 209
Book value at 31.12.2017	3 537	1 051	4 589
AS OF 31.12.2017			
Historic cost	33 842	6 826	40 668
Accumulated depreciation	-30 305	-5 775	-36 080
Book value at 31.12.2017	3 537	1 051	4 589
FINANCIAL YEAR 2018			
Addition	1 273	-4	1 269
Disposals			0
Accumulated depreciation on disposals			0
Depreciation	-963	-298	-1 261
Book value at 31.12.2018	3 847	749	4 597
AS OF 31.12.2018			
Historic cost	35 115	6 822	41 937
Accumulated depreciation	-31 267	-6 072	-37 341
Book value at 31.12.2018	3 848	749	4 597
Linear depreciation over useful life	5 - 10 years	2 - 5 years	

The Company has rental agreements for all premises in use. The Company has at own expense adapted the production premises for internal purpose.

The rental agreement for the production premises runs till 31 December 2021 with an optional extension period. Expenses from rental agreements for premises amounted NOK 4.0 million in 2018 versus NOK 4.2 million in 2017.

Management considers that there are no impairment indicators at the group level, and that no write-downs of these assets are necessary.

Note 7 Intangible assets

(Amounts in NOK 1 000)	Own product development	Total
AS OF 01.01.2017		
Historic cost	7 928	7 928
Accumulated depreciation	-2 463	-2 463
Book value at 01.01.2017	5 465	5 465
FINANCIAL YEAR 2017		
Addition	2 422	2 422
Disposals	0	0
Depreciation	-769	-769
Book value at 31.12.2017	7 118	7 118
AS OF 31.12.2017		
Historic cost	10 350	10 350
Accumulated depreciation	-3 232	-3 232
Book value at 31.12.2017	7 118	7 118
FINANCIAL YEAR 2018		
Addition	1 444	1 444
Disposals	0	0
Depreciation	-1 011	-1 011
Book value at 31.12.2018	7 551	7 551
AS OF 31.12.2018		
Historic cost	11 794	11 794
Accumulated depreciation	-4 243	-4 243
Book value at 31.12.2018	7 551	7 551
Linear depreciation over useful life	5 - 10 years	10 - 12 years

Own product development is basically external services (including patent expenses) for development of rSAP, HL-dsDNase, SAN ELISA-kit, SAN HQ,

Polymerases and external costs related to development of Woulgan. (see Note 2.6)

Management considers that there are no impairment indicators, and that no write-downs of these assets are necessary.

Note 8 Financial assets and liabilities

The financial assets consists primarily of cash and cash equivalents obtained through equity issues and trade receivables.

Financial assets at amortised cost per 31.12

(Amounts in NOK 1 000)	2018	2017
Cash and cash equivalents	31 662	30 593
Accounts receivables	12 796	7 431
Other receivables	4 849	6 932
Total financial assets	49 307	44 956

The Group has no financial assets at fair value through OCI available for sale, assets held for trading or non-derivative financial assets. See note 10 for breakdown and assessment of accounts receivable.

Other financial liabilities at amortised cost per 31.12

(Amounts in NOK 1 000)	2018	2017
Accounts payable	6 075	5 808
Public taxes and withholdings	1 216	2 713
Other current payables	6 826	8 349
Total financial debts	14 117	16 870

NOK 1.048 million included in other liabilities as an upfront payment received from Horizon 2020 (Virus X) more than 12 months ago. The Group has no interest-bearing loans or debt

Note 9 Earnings per share

Earnings per share are calculated by dividing net income by the weighted average number of shares during the year, net of treasury shares (note 13)

(Amounts in NOK 1 000)	2018	2017
Profit attributable to ordinary shareholders of the parent	-13 989	-24 938
Profit attributable to non-controlling interests	161	135
Profit from continued operations	-13 828	-24 803
Weighted average number of shares issued (1 000 shares)	46 140	43 945
Weighted average number of shares and options (1 000 shares)	46 741	44 905
Earnings per share (NOK per share)	-0,30	-0,56

Since the company's net profit is negative, the earnings per share and diluted earnings per share coincide.

Note 10 Receivables

(Amounts in NOK 1 000)	2018	2017
Accounts receivables	12 796	7 431
Provisions for estimated losses on accounts receivables	0	0
Accounts receivables, net	12 796	7 431
Research grants	406	685
Tax grants	3 121	2 647
Prepayments	463	3 027
VAT	427	512
Other receivables	432	60
Total receivables	17 645	14 363

Fair value for accounts receivable equals book value. There are no significant concentrations of credit risk.

Age breakdown of accounts receivable per 31.12.2018:

Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	Total
10 764	1 345	117	449	121	12 796

A majority of accounts receivables overdue on 31 December have been settled subsequently.

Age breakdown of accounts receivable per 31.12.2017:

Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	Total
6 557	374	227	14	259	7 431

Fair value of receivables by currency:

	2018	2017
USD	5 886	1 443
EUR	7 126	9 111
GBP	0	142
NOK	4 633	3 667
Total receivables	17 645	14 363

Accounts receivables arise from the sale of goods or services within the normal operations. Settlements that are due in 12 months or less are classified as current assets. If this is not the case, they are classified as other current assets.

The Group has evaluated potential losses on receivables based on historic losses (table below):

Days of maturity	Not overdue	0-30	31-60	61-90	Over 90-
Outstanding 31.12.2018	10 764	1 345	117	449	121
Historical loss - %	0 %	0 %	0 %	0 %	0 %
Future estimation of losses - %	0 %	0 %	0 %	0 %	0 %
Expected loss	0	0	0	0	0
Provision for losses	0	0	0	0	0

Days of maturity	Not overdue	0-30	31-60	61-90	Over 90-
Outstanding 31.12.2017	6 343	374	227	14	259
Historical loss - %	0 %	0 %	0 %	0 %	0 %
Future estimation of losses - %	0 %	0 %	0 %	0 %	0 %
Expected loss - %	0 %	0 %	0 %	0 %	0 %
Provision for losses	0	0	0	0	0

Note 11 Inventory and cost of goods

(Amounts in NOK 1 000)	2018	2017
Raw materials	2 487	868
Semi-finished goods	503	1 436
Finished goods	3 571	2 707
Total inventories	6 560	5 011

(Amounts in NOK 1 000)	2018	2017
Change in inventories of goods in progress and in finished goods	-1 549	-681
Cost of goods manufactured	20 915	22 608
Total cost of goods	19 366	21 927

Note 12 Cash and cash equivalents

(Amounts in NOK 1 000)	2018	2017
Cash	21 754	15 583
Money marked found	9 278	13 000
Deposits, restricted	3	3
Tax withdrawal accounts	627	2 008
Total cash and cash equivalents	31 662	30 593

Note 13 Share capital, share premium, share options, and other equity

(Number of shares)	Shares	Whereof treasury shares
FINANCIAL YEAR 2017:		
Per 01.01.2017	43 944 673	
Purchase/sale own shares	0	0
Per 31.12.2017	43 944 673	0
FINANCIAL YEAR 2018:		
Share issue	4 390 000	0
Purchase/sale own shares	0	0
Per 31.12.2018	48 334 673	0

All shares are fully paid up. Par value is NOK 1.00 per share.

2017

The Annual General Meeting held on 11 May 2017 authorised the Board to increase the share capital by NOK 1,200,000 by one or more capital increases directed towards associates, as a part of the Company's share option program.

The General Meeting approved the allocation of up to 1,200,000 share options to the Company's associates for the period until the next Annual General Meeting to cover outstanding options until the next Annual General Meeting in 2018, but not later than 30 June 2018. The Board shall decide on the principles for and the allocation of the options.

2018

2018 The Annual General Meeting on 7 May 2018 granted three authorisations to the Board:

1. Authorisation to issue 4,390,000 shares. The authority does not include non-cash share issues or capital increases in connection with mergers. The shareholders' rights in accordance with the Public Limited Companies Act §10-4 may be waived. Other terms of the issue of new shares are determined by the Board. This authorisation was exercised in June 2018.
2. Authorisation to issue up to 1,900,000 shares in connection with share schemes for associates. The authorisation is valid until the Annual General Meeting in 2019.
3. Authorisation to purchase up to 150,000 treasury shares. Lowest price per share

is NOK 1 and maximum NOK 100. The Board may decide when and how the shares may be disposed of. The company held no treasury shares as at 31 December 2018. The authorisation is valid until the Annual General Meeting in 2019.

3. Authorisation to purchase up to 150,000 shares at a total nominal value of NOK 150,000. The authorisation is to be used by purchasing shares through the stock exchange. The disposal is done by redemption of share options or by offering employees to purchase shares. The authorisation is valid until the Annual General Meeting in 2019, but not later than 30 June 2019.

Share options

Share options have been awarded all employees of the company since 2010. The scheme is intended as an incentive to stay with the company, and the assignment is graded according to the ability the employee is believed to have to contribute to a positive value development for the company's shares. In 2016, a total of 519,500 options were allocated to the employees, of which 80,000 to the CEO. The options allocated to the CEO expired on his resignation. The options have a 2-year vesting period, and average strike is NOK 11.93.

In 2017 and 2018 no options were granted to the employees. CEO Christian Jørgensen has an agreement giving him the right to receive 500,000 options (note 15). See note 21 regarding expensed amount for share options..

	2018		2017	
	Average exercise price	Number of share options	Average exercise price	Number of share options
As of 01.01.	15,01	927 000	15,41	1 175 250
Elapsed		-45 000		-45 000
Expired		-520 000		-203 250
Outstanding at 31 December		362 000		927 000

Expiry date, exercise price, and outstanding options at year end

Expiry date	Average exercise price	Number of share options 2018	Number of share options 2017
2017, 31 May	18.42		440 000
2019, 31 May	11,93	362 000	487 000
Outstanding at 31 December		362 000	927 000
Exercisable options at 31 December		362 000	440 000

The fair value of employee share options are calculated according to the Black-Scholes method. The most important parameters are share price at grant date, exercise prices shown above, volatility (66.3%), expected dividend yield (0%), expected term of 3 years, annual risk free interest rate (1.50%). The volatility is based on market data from the last year. The fair value is expensed over the vesting period. Adjustements have been made

for employees leaving their position during the year. Per 31.12.2018 a total of NOK 17.8 million (NOK 16,9 million 2017) had been expensed, of which NOK 0.9 million applies to 2018 (NOK 1,5 million 2017). The Company has no obligations, legal nor implied, to settle the options in cash unless the general assembly declines to renew its authorisation to issue new shares.

The 20 largest shareholders as of 31 Dec 2018

Ownership information:	Shares	Ownership
Tellef Ormestad	3 581 931	7,41 %
Pro AS	2 307 216	4,77 %
Aka AS	1 450 000	3,00 %
Clearstream Banking S.A.	1 394 519	2,89 %
Danske Bank A/S	1 224 468	2,53 %
MP Pensjon PK	1 173 239	2,43 %
Odd Knut Birkeland	1 030 000	2,13 %
Belvedere AS	971 647	2,01 %
Nordnet Bank AB	837 024	1,73 %
Progusan AS	750 026	1,55 %
Isar AS	699 853	1,45 %
Hartvig Wennberg III AS	696 033	1,44 %
Nordnet Livsforsikring AS	657 315	1,36 %
Dragesund Invest AS	597 891	1,24 %
Nordea Bank Abp	566 500	1,17 %
Middelboe AS	588 173	1,22 %
Spar Kapital Investor AS	578 714	1,20 %
Rolf Einar Engstad	550 774	1,14 %
Spiralen Industrier AS	474 639	0,98 %
Catilina Invest AS	470 000	0,97 %
20 largest shareholders aggregated	20 599 962	42,62 %

The 20 largest shareholders as of 31 Dec 2017

Ownership information:	Shares	Ownership
Tellef Ormestad	3 127 969	7,12 %
AKA AS	1 450 000	3,30 %
Danske Bank AS	1 214 794	2,76 %
Clearstream Banking S.A.	1 168 114	2,66 %
Odd Knut Birkeland	1 030 000	2,34 %
Nordnet Bank AB	876 303	1,99 %
MP Pensjon	873 239	1,99 %
Pro AS	874 169	1,99 %
Progusan AS	750 026	1,71 %
Nordea Bank Denmark AS	750 785	1,71 %
Belvedere AS	700 095	1,59 %
Isar AS	699 853	1,59 %
Hartvig Wennberg II AS	696 033	1,58 %
Arne Ketil Kyrkjebø	694 119	1,58 %
Nordnet Livsforsikring AS	661 648	1,51 %
Middelboe AS	481 660	1,10 %
Spiralen Industrier AS	474 639	1,08 %
Catilina Invest AS	470 000	1,07 %
Rolf Einar Engstad	370 774	0,84 %
Tarago AS	344 787	0,78 %
20 largest shareholders aggregated	17 709 007	40,30 %

Note 14 Accounts payable and other current liabilities

(Amounts in NOK 1 000)	2018	2017
Accounts payable	6 075	5 808
Accrued public fees and withdrawals	1 216	2 714
Accrued holiday pay, bonus, and salaries	3 981	5 346
Miscellaneous other accrued costs	2 844	3 002
Total accounts payable and other current liabilities	14 117	16 870

Book value of accounts payable and other current liabilities is close to fair value.

Age breakdown of accounts payable per 31.12.2018:

Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	Total
5 504	560	1	0	10	6 075

A majority of accounts payable overdue on 31 December have been settled subsequently.

Age breakdown of accounts payable per 31.12.2017:

Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	Total
5 077	729	0	0	2	5 808

Book value of accounts payable and other current liabilities measured by currency

(Amounts in NOK 1 000):	2018	2017
NOK	9 064	9 880
EUR	4 239	5 169
USD	442	1 366
GBP	163	415
DKK	209	0
SEK	0	39
Total accounts payable and other current liabilities	14 117	16 870

Note 15 Executive remuneration policy

Note 15.1. General

According to the Public Limited Companies Act § 6-16a, the Board shall prepare a statement on determination of salaries and other remuneration to the CEO and other senior executives and account for the executive remuneration policy that has been applied in the previous fiscal year.

The statement contains guidelines for determining salaries and other remuneration, including the main principles for the executive remuneration policy. The guidelines are only recommendations for the Board. If the Board deviates from the guidelines on determination of salaries, the reason for this will be recorded in the board minutes. Allocated share options referred to in paragraph 2.5 is binding for the Board and the Company until expiry of the options. The annual general meeting renews the options every year.

Biotec Pharmacon ASA defines the following positions as senior executives: CEO, CFO, CSO and VP Wound Care, and Managing .

Note 15.2. Guidelines for salaries and other benefits for 2018

Note 15.2.1 The main principles for executive remuneration policy

The main principles behind the company's executive remuneration policy is to promote value creation in the company and to create common interests between owners and senior executives. Executive pay should not be of such nature or extent that it may damage the company's reputation. The Company will seek arrangements that encourage long-term value creation, while compensation schemes are competitive with schemes in comparable companies.

The Board has appointed a compensation committee that acts as a preparatory body in connection

with the Board's responsibility for determining the remuneration to the CEO and for establishing guidelines for salaries to other senior executives.

As long as the Company is in a development phase, with limited opportunities for profit, the Board will assign a reasonable number of share options to stimulate ownership and value creation.

Note 15.2.2 Determination of salaries

It is the company's policy that executive salaries are defined as a combination of fixed and a variable performance related pay on an annual basis, reflecting level of the position and experience. The basic salary for senior executives is individually determined. A fixed salary is determined by the following considerations:

- Experience and competence
- Responsibilities
- Competitive situation and local market practice

Other criteria may be used, reflecting each subsidiary's tasks and goals.

The Board determines the CEO's remuneration. The CEO determines salary adjustments for other senior executives in consultation with the Board's compensation committee.

The remuneration of senior executives follows the same principles that apply to all employees with respect to annual limits for salary adjustments, assessment of individual performance and timing of regulation.

Note 15.2.3 Benefits in kind

Senior executives receive benefits such as mobile phone expenses, internet access, and journals based on need.

Note 15.2.4 Performance related pay

Performance related pay for senior executives:

Maximum performance related pay

	Maximum bonus
CEO	50 % of fixed annual salary
CFO	20 % of fixed annual salary
CSO, Biotec BetaGlucans AS	25 % of fixed annual salary
VP Wound Care, Biotec BetaGlucans AS	20 % of fixed annual salary
Managing Director, ArcticZymes AS	25 % of fixed annual salary

Performance related pay depends on the Company and the individual achieving predefined measurable objectives and will be determined by the Board. Performance related payments in 2018 were based on the objectives achieved during 2017. Total average performance related payment in 2018 amounted to 15% of the maximum.

Note 15.2.5 Allocated options to senior executives and other employees

A share option scheme for all employees was established in the second quarter of 2016, with a two-year vesting period and one year for declaration period. The option scheme provide an incentive to stay with the company and the size of the award depends on each employee's opportunity to contribute to shareholder value. The main principle for the option scheme is that the strike price should be equal or higher than the market price at grant. In total 519.500 share options were issued in the second quarter 2016 at a strike price of NOK 11.93 per share. The first exercise date was on 1 June 2018.

Senior executives, i.e. CFO B. Sørvoll holds 35,000 options, CSO R. Engstad holds 40,000 options, Managing Director ArcticZymes J. Holter holds 40,000 options and VP Marketing S. Devine (resigned in Oct. 2018) holds 30,000 options related to this program.

CEO Christian Jørgensen has an agreement giving him the right to receive 500,000 options, or equivalent cash compensation, with the following plan:

Options	Option strike price	Options earned at share price
100 000	NOK 8.00 per share	NOK 11.00 per share
100 000	NOK 8.00 per share	NOK 14.00 per share
100 000	NOK 8.00 per share	NOK 17.00 per share
100 000	NOK 8.00 per share	NOK 20.00 per share
100 000	NOK 8.00 per share	NOK 23.00 per share

Christian Jørgensen's options have a three-year vesting period and a two-year declaration period after award.

CFO B. Sørvoll, CSO R. Engstad and MD ArcticZymes J. Holter has been awarded 200.000 options each under the same program as the CEO. The vesting period is three years (2018-2020), with an additional two-year declaration period (until 2022).

At 31 December 2018 the total number of options outstanding is 362,000. This does not account for potential options not earned. See note 13 in the financial statements for details. The Board will from year to year propose to the annual general meeting to obtain an authorisation to issue a sufficient number of new shares or to purchase own shares in the market to match the options that can be exercised during the same period.

Note 15.2.6 New options

The Board proposes that a maximum of 100,000 options are allocated to other employees, based on Board of Director's discretion. Exercise price for these allocated options will be five-days average closing price prior to the date they are awarded. The options have a vesting period of three-years and an additional one-year declaration period.

Note 15.2.7 Pensions

Pension schemes for senior executives will basically be the same as for employees in general. The Company has a defined contribution pension scheme. There are no contributions made for salaries exceeding 12G. All employees contribute with additional 2% of own salary to the pension scheme.

Note 15.2.8 Severance schemes

CEO Christian Jørgensen employment contract entitles him to 6 months' severance payment beyond the 6 months' notice period if the company terminates the employment. CFO Børge Sørvoll and Managing Director ArcticZymes AS Jethro Holter are entitled to 6 months' severance pay from the Company. Severance schemes for other senior executives are not established.

Note 15.2.9 Other remuneration

There are no other elements in remuneration to senior executives.

Note 15.3. Executive salary policy for the fiscal year 2018

During 2018 Biotec Pharmacon ASA's objective was to offer competitive terms to senior executives. The principles described in previous sections were used in salary adjustments and for allocating other benefits in 2018. The CEO's salary was unchanged in 2018. The position as Managing Director of Biotec BetaGlucans AS has been held by the CEO of the Group in 2018..

Note 16 Deferred tax asset

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities assuming that the deferred taxes relate to the same taxation authority..

Temporary differences

(Amounts in NOK 1 000):	2018	2017	Change
Non current assets	-17 993	-26 616	-8 623
Unrealised loss	-78		78
Gains and loss account	16 577	20 721	4 144
Total temporary differences	-1 493	-5 894	-4 401
Tax assessment loss carried forward	-448 332	-425 913	22 419
Calculation base deferred tax asset	-449 825	-431 807	18 018
Deferred tax asset, 22%/23%	-98 961	-99 316	-354

The Group has excluded from the financial position deferred tax asset of NOK 98,9 million related to temporary differences and tax loss carryforwards, as the company did not meet the criteria for capitalisation under IAS 12. On approval date of this report, there was insufficient data available to predict reliable future earnings in order incorporate deferred tax asset in the financial position.

Note 17 Tax expense

(Amounts in NOK 1 000)	2018	2017
Profit before income tax	-13 828	-24 740
Non deductible expenses	-970	18
Non taxable income	-3 130	-2 653
Utilisation of tax loss carried forward	-978	
Changes in temporary differences	-4 401	-5 047
Tax expense	-23 307	-32 422

Note 18 Pension costs

The Group has established a defined contribution pension plan compliant to requirements for compulsory occupational pension in Norway. The employer's contribution to the plan is 5% for salaries between 0 G and 7.1 G, and 8% for salaries between 7.1 G and 12 G. In addition, employees pay 2% of their salary to the pension plan. As of 31.12.2018 the Group paid for 37 members of the scheme.

(Amounts in NOK 1 000)	2018	2017
Total pension costs	1 389	1 452

Note 19 Other operating revenues

(Amounts in NOK 1 000)	2018	2017
Government grants (note 24)	1 485	1 675
Tax grants "Skattefunn" (note 24)	3 086	2 600
Other grants	1 477	1 796
Total other operating revenues	6 048	6 072

Note 20 Financial income and expense

(Amounts in NOK 1 000)	2018	2017
Interest income	267	807
Other financial income / expense(-)	72	-695
Total financial income and expense, net	339	112

Note 21 Personnel expenses

(Amounts in NOK 1 000)	2018	2017
Salaries	35 644	40 193
Employer's social security contribution	2 346	2 856
Estimated value of share options granted, incl provisions for future options (note 13)	862	1 529
Pension costs (note 18)	1 389	1 452
Total personnel expenses	40 241	46 030
Number of employees at 31 December:	43	44
Number of FTEs	38.3	44.0

The pension scheme (note 18) complies with the requirements for compulsory occupational pensions in Norway.

Note 22 Other operating expenses

(Amounts in NOK 1 000)	2018	2017
Marketing expenses	1 073	1 735
Patent and licensing expenses	2 759	2 997
Rental and operation of premises	7 691	8 269
Other operating expenses	6 199	6 077
External services	7 384	8 660
Total other operating expenses	25 105	27 738

Note 23 Research and development expenses

According to the Group's accounting policies (note 2.6), the development of Woulgan Gel is the only development project that meets the IFRS criteria for capitalisation in 2018. In 2017 it was the development of Woulgan, rSAP, HL-dsDNase, Elisa-kit, San HQ and Polymerases that met the IFRS criteria for capitalisation. The Group capitalised NOK 1.4 million in 2018 and NOK 2.4 million in 2017. Other expenses related to research and development are expensed when incurred.

(Amounts in NOK 1 000)	2018	2017
RESEARCH AND DEVELOPMENT EXPENSES:		
Personnel expenses	13 006	16 505
Purchase of external services	2 597	2 065
Other operating expenses	2 212	2 960
Depreciation and amortisation	2 267	1 968
Total R&D expenses, not capitalised	20 082	23 500

Note 24 Government grants

A significant part of the Group's activities is research-based and complies with regulations for grants from the Research Council of Norway. A grant is settled based on annual financial reporting. From time to time the company applies for grants from other available sources. The following grants for research and development activities are included in other operating income (note I9):

(Amounts in NOK 1 000)	Grants expiry	2018	2017
FROM RESEARCH COUNCIL OF NORWAY (FORSKNINGSRÅDET):			
Enabling new concepts for marine enzymes	2017		263
Phd funding program	2018	100	378
X-press	2019	1 385	1 034
FROM MABIT:			
Increased protection against sea lice infestation with an activated immune system		392	344
FROM INNOVATION NORWAY:			
Increased protection against sea lice infestation with an activated immune system	2020	19	
FROM TROMS COUNTY (VRI):			
Better protection against viruses by activating the immune system	2017		103
FROM REGIONAL RESEARCH FUND:			
Reduced sea lice infestation by adding beta-glucan	2017		167
FROM NORINNOVA TECHNOLOGY TRANSFER:			
MdxPol	2018	428	654
FROM HORIZON 2020 (EU):			
Virus X	2020	635	529
Tax grants "Skattefunn":	Annually	3 089	2 600
Total grants		6 048	6 072

Note 25 Related party disclosures

Director Martin Hunt has been a member of the Board since 11 May 2017. Martin Hunt owns and operates Invictus Management Ltd in London. For services and expenses beyond his board remuneration, Invictus Management Ltd has invoiced NOK 0.1 million in 2018. Beyond this, the Group had no transactions with related parties.

Remuneration of Board of Directors and Management

(Amounts in NOK 1 000)	2018				2017			
	Salaries paid	Bonus paid	Pension costs	Other benefits	Salaries paid	Bonus paid	Pension costs	Other benefits
Marie Ann Roskrow, Chairperson	255							
Erik Thorsen, former Chairperson	170				415			
Inger Rydin, Director	200				200			
Martin Hunt, Director	175				105			
Arne Reinemo, Director	120							
Ingrid Skjæveland, Director / Employee	75				45			
Masha LG Strømme, former Director	70				171			
Jan Raa, former Director					39			
Richard Godfrey, former Director					66			
Gerd Nilsen, former Director					30			
Olav Flaten, former Director					70			
Christian Jørgensen, CEO	2 333		95	10	1 111		23	3
Svein Lien, former CEO	1 116	283	22	3	2 825	873	82	25
Børge Sørvoll, CFO	1 201	22	78	11	1 180	157	75	11
Rolf Engstad, CSO Biotec BetaGlucans AS	1 457	81	100	12	1 420	167	90	18
Jethro Holter, Managing Director ArcticZymes AS	1 347	84	80	14	1 304	259	77	11
Stuart Devine, VP Wound Care, Biotec BetaGlucans AS	1 899	74			1 828	178		
Finn Kettler, VP Wound Care, Biotec BetaGlucans AS	380							

See note 13 in reference to share options for executives and note 15 regarding executive remuneration policy. The Group has a bonus scheme for key employees. Bonus will depend on achieving defined objectives (Key Performance Indicators) for the current year. The maximum bonuses for 2018 are 50% of salary for Christian Jørgensen, 20% of salary for Børge Sørvoll, 25% of salary for Rolf Engstad, 25% for Jethro Holter and 20% for Stuart Devine (resigned in Oct 2018). The criteria for bonus payments for 2018 are partly fulfilled. Provisions made in the financial accounts according to best estimate.

Shares owned or controlled by directors and senior management per 31.12.2018:

	Options *	Shares
Ingrid Skjæveland, Director, employees' representative	17 500	16 087
Christian Jørgensen, CEO*		77 000
Rolf Engstad, CSO*	40 000	550 774
Børge Sorvoll, CFO*	35 000	25 428
Jethro Holter, Managing Director ArcticZymes AS*	40 000	564

*has the right to receive additional options. See note 15 for further details on programme

External auditor: Auditing fees and expenses ex VAT:

(Amounts in NOK 1 000)	2018	2017
Statutory audit	209	274
Attestation of tax papers	5	
Other attestation services	25	10
Other services beside auditing	5	31
Total auditing fees and expenses	243	315

Note 26 Events after balance sheet date, 31 December 2018

There are no events of significance to the financial statements for the period from the financial position date to the date of approval; 13. March 2019.



Financial **statements**
– parent company

Financial statement of profit & loss – parent company

I. January till 31. December

(Amounts in NOK 1 000)	Note	2018	2017
Sales revenues	5	14 310	15 075
Other revenues		0	0
Total revenues		14 310	15 075
Personnel expenses	6, 13	12 167	15 840
Depreciation and amortisation	1	5	10
Other operating expenses		6 414	8 328
Total operating expenses		18 586	24 178
Operating profit / loss (-)		-4 276	-9 104
Financial expenses/income, net	11	-111 007	851
Profit/loss(-) before income tax		-115 283	-8 253
Income tax expense	2	0	0
Net profit/loss(-)		-115 283	-8 253
Transferrals			
Transferred to other equity		-115 283	-8 253

Financial statement of comprehensive income – parent company

(Amounts in NOK 1 000)	Note	2018	2017
Net profit/loss for the year		-115 283	-8 253
Other income & costs after tax		0	0
Comprehensive income		-115 283	-8 253

Statement of financial position – parent company

As of 31. December

(Amounts in NOK 1 000)	Note	2018	2017
ASSETS			
NON-CURRENT ASSETS			
Office equipment	1	0	5
Investments in subsidiaries	8, 9	195 500	244 537
Total non-current assets		195 500	244 542
CURRENT ASSETS			
Accounts receivables	4, 9, 12	618	1 476
Other receivables	4, 12	452	375
Cash and cash equivalents	3, 12	10 063	54 869
Total current assets		11 132	56 720
Total assets		206 632	301 262
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	48 335	43 945
Premium paid in capital		151 039	133 378
Other paid-in capital		47 143	46 282
Retained earnings		-41 811	73 472
Total equity		204 706	297 076
CURRENT LIABILITIES			
Accounts payable	12	117	29
Public fees and tax withholdings	12	37	1 399
Other current liabilities	10, 12	1 773	2 758
Total current liabilities		1 926	4 185
Total equity and liabilities		206 632	301 262

Tromsø, 13. March 2019

Marie Ann Roskrow
Chairperson

Inger Rydin
Director

Martin Hunt
Director

Arne Reinemo
Director

Ingrid Skjæveland
Director

Christian Jørgensen
CEO

Statement of changes in equity – parent company

I. January till 31. December

(Amounts in NOK 1 000)	Share capital	Premium paid in capital	Other paid in capital	Retained earnings	Total
Equity as of 01.01.2017	43 945	133 378	44 754	81 724	303 801
Employees' share options			1 529		1 529
Net profit for the year 2017				-8 253	-8 253
Equity as of 31.12.2017	43 945	133 378	46 282	73 472	297 076
Share issue	4 390	17 661			22 051
Employees' share options			862		862
Net profit for the year 2018				-115 283	-115 283
Equity as of 31.12.2018	48 335	151 039	47 143	-41 811	204 706

The Company's share capital consists of 48,334,673 shares as of 31.12.2018.

Statement of cash flow

– parent company

I. January till 31. December

(Amounts in NOK 1 000)		2018	2017
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / loss(-) after tax adjusted for:		-115 283	-8 253
Amortisation investment subsidiary		112 038	
Depreciation and amortisation	1	5	10
Employees' options, share-based payment expense	6	862	1 529
Changes in working capital			
Account receivables and other receivables	4	782	-390
Trade and other payables		-2 259	797
Net cash flow from operating activities		-3 856	-6 307
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in subsidiary		-63 000	
Changes in long-term receivables			41
Net cash flow from investing activities		-63 000	41
CASH FLOW FROM FINANCING ACTIVITIES			
Share issue		22 051	
Net cash flow from financing activities		22 051	
Net change in cash during the year	3, 12	-44 805	-6 266
Cash and cash equivalents as of 1 January	3, 12	54 868	61 135
Cash and cash equivalents as of 31.12		10 063	54 869

Notes to the financial statements for 2018 – parent company

ACCOUNTING PRINCIPLES

Biotec Pharmacon ASA has decided to adopt simplified IFRS in the company accounts according to the Norwegian Accounting Act § 3-9. Simplified adoption of IFRS in the company accounts means that value estimates and accounting principles applied in the consolidated financial statements for the Group also apply to the parent company Biotec Pharmacon ASA. Reference is made to the accounting principle note for the Group. Regarding lay-out and note information, a simplified adoption of IFRS allows this to be in accordance with the Norwegian Accounting Act. The lay-out of the statement and the notes for the parent company are thus prepared in accordance with the above mentioned, with the exception of comprehensive income which is in accordance with IFRS.

Shares held in subsidiary companies are valued according to historical cost in the annual accounts.

Note 1 Depreciation fixed assets

(Amounts in NOK 1 000)	Office equipment 2018	Total 2018	Office equipment 2017	Total 2017
Accumulated costs as of 01.01.	471	471	471	471
Addition	0	0	0	0
Disposals	0	0	0	0
Accumulated depreciation	471	471	466	466
Book value as of 31.12.	0	0	5	5
This year's depreciation	5	5	10	10
Depreciation rate	3-5 years			

Note 2 Tax expense & deferred tax

Temporary differences

(Amounts in NOK 1 000)	2018	2017	Change
Non current assests	-3 904	-4 973	1 069
Gains and loss account	-16 577	-20 721	4 144
Total temporary differences	-20 481	-25 694	5 213
Tax assessment loss carried forward	188 867	189 846	-978
Calculation base deferred tax asset	168 386	164 152	4 235
Deferred tax asset, 22%	37 045	37 755	-710

Tax expense

(Amounts in NOK 1 000)	2018	2017
Profit before income tax	-115 283	-8 253
Permanent differences	111 048	5
Change temporary differences	5 213	6 418
Profit before tax loss carried forward	978	-1 830
Utilisation of tax loss carried forward	-978	1 830
Tax base	0	0
Change in deferred tax asset	0	0
Tax expense	0	0

Deferred tax asset has not been incorporated in the financial position for 2017 nor 2018.

Note 3 Cash and cash equivalents

(Amounts in NOK 1 000)	2018	2017
Cash and bank accounts	10 242	53 764
Tax withdrawal accounts	-179	1 106
Cash and cash equivalents, gross	10 063	54 869
Joint liability for debt of the subsidiary Biotec BetaGlucans to DNB in accordance with bank account terms for the Group.	0	-34 526
Total cash and cash equivalents, net	10 063	20 343

The Company's bank deposits are included in the group account agreement with DNB. See note I2 for the Group showing the Group's net cash equivalents. See note I2 for the parent company.

Note 4 Receivables

(Amounts in NOK 1 000)	2018	2017
Accounts receivables	618	1 476
Other receivables	452	375
Total receivables	1 070	1 851

The fair value of accounts receivable and other receivables equals book value.

The Company has no long term debt. There are no significant concentrations of credit risk

Note 5 Sales revenue

(Amounts in NOK 1 000)	2018		2017	
GEOGRAPHICAL DISTRIBUTION:				
Norway	100 %	14 310	100 %	15 075
Total sales revenues	100 %	14 310	100 %	15 075

Note 6 Personnel expenses

(Amounts in NOK 1 000)	2018	2017
Salaries	9 799	12 600
Employer's social security contribution	862	1 098
Pension costs	434	457
Estimated value of share options granted to employees (note 13)	862	1 529
Other benefits	210	158
Total personnel expenses	12 167	15 840

2018: 9.5 FTE split between 4.1 men and 5.4 women. 2017: 9.2 FTE split between 4.45 men and 4.75 women. The company's pension scheme complies with the requirements in regard to compulsory occupational pensions in Norway.

(Amounts in NOK 1 000)	2018	2017
Statutory auditing	111	160
Other services beside auditing	7	28
Total auditing expenses	118	188

Remuneration of the Board of Directors and management:

(Amounts in NOK 1 000)	2018				2017			
	Salaries paid	Bonus paid	Pension costs	Other benefits	Salaries paid	Bonus paid	Pension costs	Other benefits
Marie Ann Roskrow, Chairperson	255							
Erik Thorsen, former Chairperson	170				415			
Inger Rydin, Director	200				200			
Martin Hunt, Director	175				105			
Arne Reinemo, Director	120							
Ingrid Skjæveland, Director / Employee	75				45			
Masha LG Strømme, former Director	70				171			
Jan Raa, former Director					39			
Richard Godfrey, former Director					66			
Gerd Nilsen, former Director					30			
Olav Flaten, former Director					70			
Christian Jørgensen, CEO	2 333	0	95	10	1 111		23	3
Svein Lien, former CEO	1 116	283	22	3	2 825	873	82	25
Børge Sørvoll, CFO	1 201	22	78	11	1 180	157	75	11

The Company has a bonus scheme for key employees. Bonus will depend on achieving defined objectives (Key Performance Indicators) for the current year. The maximum bonuses for 2018 are 50% of salary for Christian Jørgensen and 20% of salary for Børge Sørvoll. The criterias for bonus payments for 2018 are partly fulfilled. CEO Christian Jørgensen received a sign-on fee when joining the Company in 2017.

See note 13 in the accounts for the Group regarding share options to employees, and note 15 for matters concerning the CEO. There are no loans, prepayments or guarantees in favour of senior executives in the Company.

Note 7 Share capital

	Number of shares	Whereof treasury shares
Share capital as of 01.01.2017	43 944 673	
Changes during 2017	0	
Share capital as of 31.12.2017	43 944 673	0
Share capital issue	4 390 000	
Share capital as of 31.12.2018	48 334 673	0

The Annual General Meeting on 7 May 2018 granted three authorisations to the Board:

- 1) Authorisation to issue up to 4,390,000 shares in connection with capital increase
- 2) Authorisation to issue up to 1,900,000 shares in connection with share option programs for associates
- 3) Authorisation to purchase up to 150,000 of own shares

The authorisations are valid until the AGM in 2019 or at the latest 30.06.2019.

Authorisation no. 1 was exercised in June 2018, while the other two remain unexercised as of 31 December 2018.

See Group note I3 for an overview over largest shareholdings.

Note 8 Investments in subsidiaries

(Amounts in NOK 1 000)	Main office location	Share capital & premium	Shareholding	Book value	Net profit	Equity
ArcticZymes AS	Tromsø	24 296	96 %	45 500	4 026	22 355
Biotec BetaGlucans AS	Tromsø	72 000	100 %	150 000	-21 933	38 560

At the end of 2018, the share price of Biotec Pharmacon exceed booked value of investments in subsidiaries. This is an objective indication of impairment according to IAS 36. Biotec carried out an impairment test in compliance with IAS 36 and concluded indications of impairment. Per 31.12.2018, Biotec recognised a loss of 112 MNOK in connection with investment in Biotec BetaGlucans AS. Impairment test: Biotec considered all of the cash generating segments individually. Budgets, strategies and historic performance for the individual parts were considered. The discounting rate used is based on weighted average cost of capital (WACC) for the group. The cost of equity is derived from the 10-year interest rate for state bonds (risk free interest rate), market risk premium analysis from a third party and a 5-year average beta for health care sector on the Oslo Stock exchange. The Group is 100% equity financed, hence cost of debt is not part of calculations. The discount rate used was 8.4%. Assumptions for revenues were based on approved budgets, strategies and historic performance. Projections covered a period of 5 years as reliable projections beyond this timeframe inhibits great uncertainty. Biotec has not added a growth element in the terminal value calculation. Expenses have a modest growth in the model. Personnel is expected to grow by 3%, while other expenses such as marketing and travel is expected to grow by 5-8% percent in the coming years as revenues expected to grow. Cost of goods is based on actual and observed margins. Cost of goods for new products is based on internal estimates and feedback from potential producers. Sensitivity analysis: A 1% and 2% increase in WACC would lead to an additional impairment of NOK 20 and 38 million. Inclusion of a growth element in the terminal value will have a positive effect of NOK 7.5 million.

Note 9 Group internal accounts

(Amounts in NOK 1 000)	2018	2017
Receivables from subsidiaries	608	1 476
Liabilities to subsidiaries	0	0

The Company has entered into service agreements with the subsidiaries ArcticZymes AS and Biotec BetaGlucans AS where the subsidiaries purchase services within management, finance, administration, quality assurance, business development and IPR.

Note 10 Other current liabilities

(Amounts in NOK 1 000)	2018	2017
Accrued salaries and holiday payment	1 168	1 639
Other accrued costs	605	1 119
Total other current liabilities	1 773	2 758

Book value of current liabilities equals fair value.

Note 11 Financial income and expense

(Amounts in NOK 1 000)	2018	2017
Interest income	1 054	867
Total financial income	1 054	867
Impairment loss on unlisted shares	-11	-15
Net loss on currencies, not realised	-112 038	
Interest expense	-13	-1
Total financial expense	-112 062	-16
Total financial income and expense, net	-111 007	851

Note 12 Financial instruments by category

The financial instruments in the financial position have been grouped as follows for subsequent measurement:

Assets per 31.12

(Amounts in NOK 1 000)	2018	2017
DEPOSITS AND RECEIVABLES		
Accounts receivable	1 070	1 851
Money market fund	9 278	13 000
Cash and cash equivalents	785	41 869
Total financial instruments	11 132	56 720

Liabilities per 31.12

(Amounts in NOK 1 000)	2018	2017
FINANCIAL LIABILITIES AT AMORTISED COST		
Accounts payable	117	29
Public fees and tax withholdings	37	1 399
Other current liabilities	1 773	2 758
Total current liabilities	1 926	4 185

Note 13 Pensions

The Company has established a defined contribution pension plan compliant to requirements for compulsory occupational pension in Norway. The employer's contribution to the plan is 5% for salaries between 0 G and 7.1 G, and 8% for salaries between 7.1 G and 12 G. In addition employees pay 2% of their salary to the pension plan. As of 31.12.2018 the Company paid for 10 members of the scheme.

(Amounts in NOK 1 000)	2018	2017
Total pension costs	434	457

Note 14 Events after balance sheet date, 31 December 2018

There are no events of significance to the financial statements for the period from the financial position date to the date of approval; 13. March 2019.

Statement by the Board of Directors and CEO

We confirm, to the best of our knowledge, that the financial statement for the period 1. January to the 31. December 2018 have been prepared in accordance with current accounting standards and that the information in the accounts gives a true and fair view of the Company and the Group's assets, liabilities, financial position and results of operation.

We also confirm, to the best of our knowledge, that the annual report includes a true and fair overview of the Company's and the Group's development, results and position, together with a description of the most important risks and uncertainty factors the Company and the Group are facing.

Tromsø, 13 March 2019
Board of Directors Biotec Pharmacon ASA

Marie Roskrow
Chairperson

Inger Rydin
Director

Arne Reinemo
Director

Martin Hunt
Director

Ingrid Skjæveland
Director, employee
representative

Christian Jørgensen
CEO



Statsautoriserte revisorer
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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Biotec Pharmacon ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Biotec Pharmacon ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statement of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2018, the statement of other comprehensive income, income statement, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations;
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.



Impairment evaluation of shares in subsidiaries

Investments in subsidiaries is a material asset for the parent company. During 2018 the market capitalisation for Biotec Pharmacon ASA was below the carrying value of net assets of the parent company. This was considered an indication of impairment of assets that required an impairment test. The company performed an impairment test for the carrying value of the investment in subsidiary Biotec Betaglucons AS. Estimating the recoverable amount of the investment in Biotec Betaglucons AS involved management judgement about various assumptions, including future revenues to be generated by the subsidiary, gross margins, operating costs, growth rates in terminal value, capital expenditures, net working capital developments and discount rate. A write down of NOK 112 037 000 was recorded on Biotec Betaglucons AS. Impairment evaluation of shares in subsidiaries is considered a key audit matter due to the market capitalisation of Biotec Pharmacon ASA, the complexity of the assessments, and significant estimation uncertainties.

We evaluated the valuation methodology, assessment of cash generating units and assumptions applied in the calculations. We compared revenues, expenses, capital expenditures, net working capital developments used in the model to budgets, plans and prognoses approved by management. We compared the assumptions for the terminal value, the expected inflation, beta values and risk premiums used for discount rate with available market data. We tested the mathematical accuracy of the valuation model and recalculated the carrying values for the cash generating unit. We involved a specialist in our team to assist us with these procedures.

We refer to note 8 Investments in Subsidiaries to the Parent company.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the



aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.



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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Tromsø, 13 March 2019
ERNST & YOUNG AS

A handwritten signature in blue ink that reads 'Kai Astor Frøseth'.

Kai Astor Frøseth
State Authorised Public Accountant (Norway)

Biotec Pharmacon ASA

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