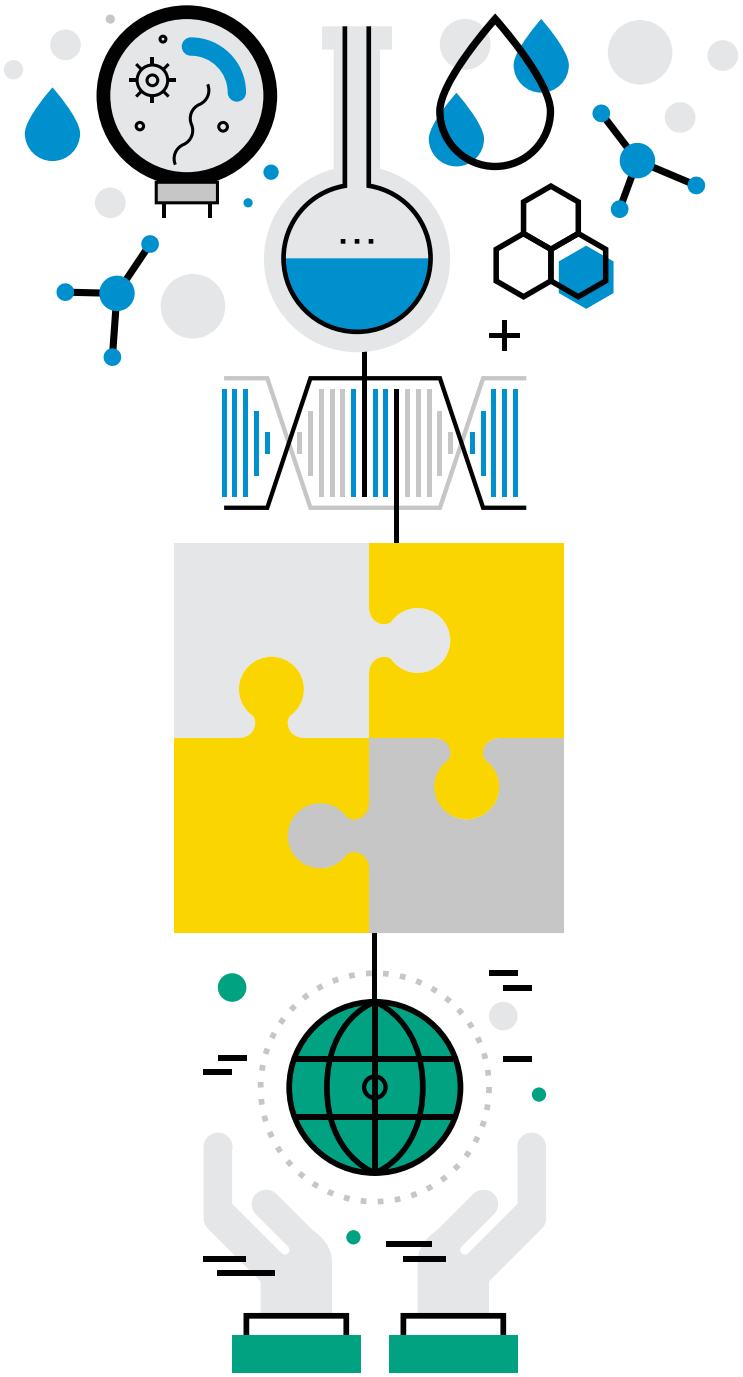
ANNUAL REPORT

2016



BIOTEC
PHARMACON

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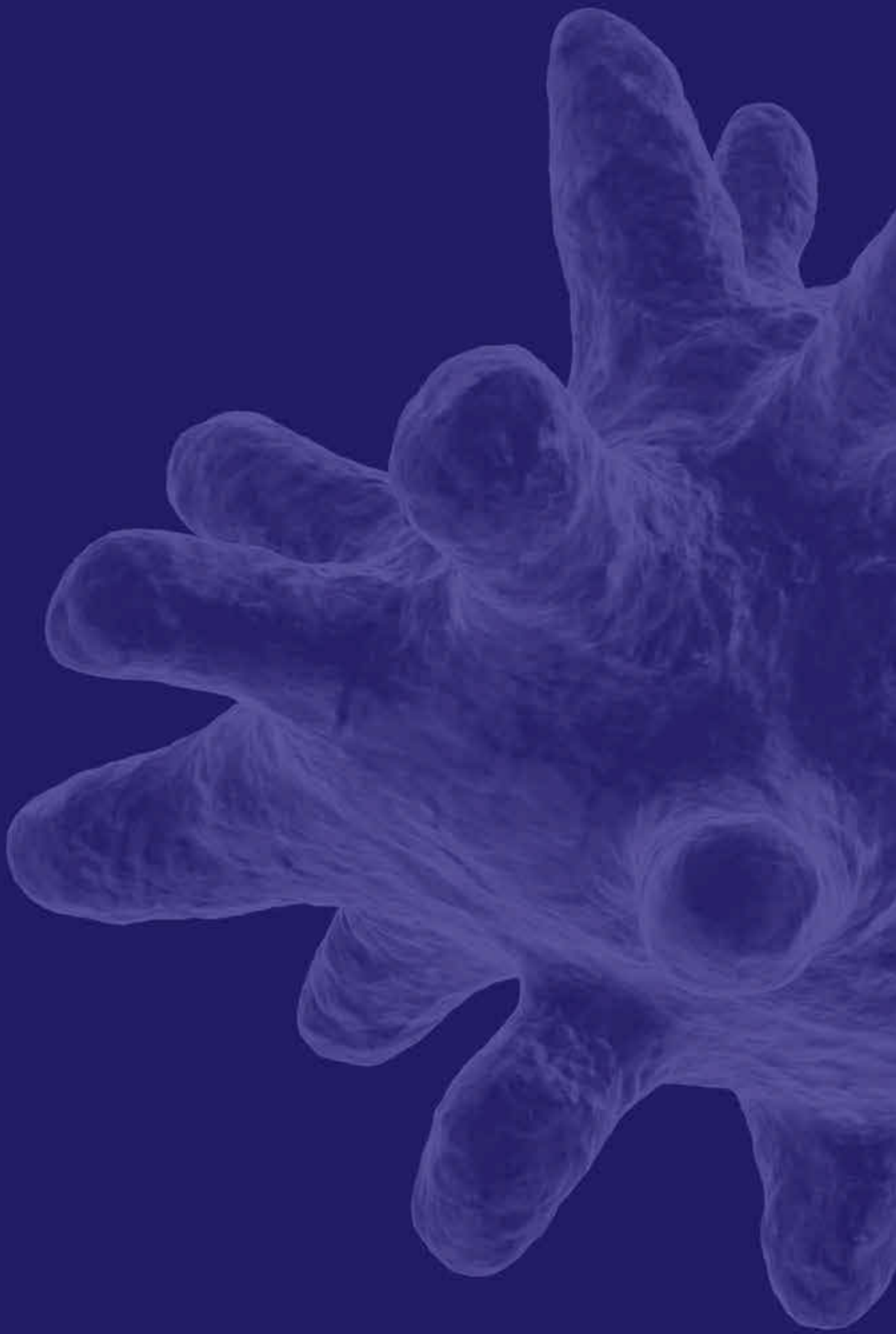


Board of Directors' Report 2016

1. About Biotec Pharmacon ASA

Biotec Pharmacon ASA is a scientific-based industrial company that are developing, producing and marketing immune modulating beta-glucans and cold adapted enzymes, including special formulated products derived from these ingredients. The Company operates in two business areas managed by two separate operating units:

Biotec BetaGlucans AS

All products are based on l,3/l,6 yeast beta-glucans. The Company has developed and has partly in-house production of a variety of ingredients and end user products primarily targeting the following segments:

- **Advanced wound care** – the Company has launched *Woulgan® Gel* which contains its proprietary *SBG®* (soluble beta-glucan) ingredient
- **Animal health** e.g. in fish farming – to strengthen the animal's immune system
- **Human health** – and nutritional products including cosmetics – various qualities are used as ingredients
- **Antibody – and vaccine treatments of cancer** – the *SBG®* is used as an adjuvant in a clinical trial

Improved commercial traction

Global presence

ArcticZymes AS

The Company develops and markets recombinant enzymes for use in life science research and in the molecular diagnostics sector. The enzymes are derived from cold-water marine species and offer novel functionality to customer products, including:

- **SAP and derived kits** – clean up in Sanger sequencing and Next Generation Sequencing
- **Cod UNG** – viral and other molecular diagnostic assays
- **DNase and derived kits** – removal of DNA from RNA samples. Removal of DNA in PCR master mixes and reagents
- **Polymerases** – enabling technology development for life science and MDx (Molecular diagnostics)

In addition, the Company is developing products as follows:

- **Proteinase** – direct lysis and nucleic acid sample prep
- **Salt Active Nuclease (SAN)** – removal of nucleic acids during manufacturing of vaccines, viruses, recombinant proteins and other reagents
- **Ligases and reverse transcriptases** – other key enzymes that are more long-term in the development pipeline.

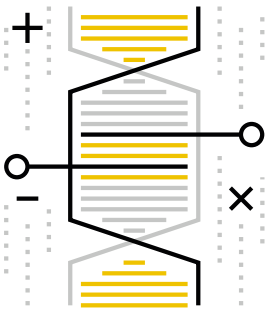
Biotec Pharmacon ASA

Biotec Pharmacon ASA is the parent holding company providing support functions to the operating companies, including administration, finance, IT, QA etc.

The headquarter and laboratories are located at the *SIVA Innovation Centre, Tromsø,* close to the Arctic University of Norway, while the production facilities are located in adjacent premises. Most of the employees and associates are located in Tromsø except for the marketing and sales teams that are located in their core markets in Europe and the US. In addition, *ArcticZymes* has established distribution centres in the United States and in the Netherlands in order to serve its customers efficiently. *Biotec Betaglucans AS* established a warehouse in Denmark at the end of 2016 to serve better its European distributors.

2. Beta-glucans

The Company develops applications based on different qualities of beta-glucans including the patent protected soluble beta-1,3/1,6-glucan (*SBG®*). Biotec produces the active ingredient *SBG®* at its facilities in Tromsø, which are certified according to ISO 13485 and certified according to GMP+ for feed.



The immunomodulatory properties of *SBG®* is considered as a medicinal product and may be used in treatment of immune related diseases. *Woulgan®* gel is an advanced topical medical product for stalled wounds and it contains *SBG®* and is CE-certified as a medical device. *Woulgan®* is indicated for the treatment of stalled wounds including diabetic foot ulcers, venous leg ulcers and pressure ulcers, but also burns and other acute wounds.

Woulgan

Woulgan® is regarded as one of the future value drivers for Biotec. It is a unique product with a large market potential. In the US alone, which represents one third of the total market, there are more than 6.5 million people with chronic and stalled wounds. The cost of treating these patients is estimated to NOK 200 billion, and 1-2% of the population is expected to obtain a chronic wound in the lifetime.

The main focus and efforts during 2016 have been to increase commercial awareness and to build a market platform in key markets. Key Opinion Leaders (KOL) support and commercial studies in Germany, UK and the Nordics have been prioritized.

Biotec submitted a drug tariff application for *Woulgan®* to the UK NHS at the end of 2015 and expected the approval process to take between 6-9 months, but due to several rounds of interaction with the authority, the process continues.

In parallel with the Drug Tariff application, Biotec conducted a systematic clinical focus group with 27 patients with stalled wounds. The results of the study showed a substantial reduction in the average wound surface area, 10 wounds showed complete healing and 20 had improved healing from a stalled entry. The study further demonstrated Woulgan's effectiveness in reactivating stalled wounds across a variety of wound types.

In June 2016, Biotec signed a distribution agreement for *Woulgan®* with the German distributor *Rogg Verbandstoffe (Rogg)*. *Rogg* focuses on general practitioners and pharmacies while Biotec manages the homecare sector. The first agreement with a homecare company was secured in the fourth quarter. Commercial sales of *Woulgan®* in Germany has started and is developing.

Navamedic AB, Biotec's Nordic region distributor has listed *Woulgan®* on several Nordic tenders during the year, and has experienced positive commercial traction, especially in Finland.

During 2016, Biotec focused on developing two new wound care products: a spray and an advanced gel-forming dressing. Both concepts were tested in animal models and focus groups with very good results, and positive feedback from test panels were obtained.

Different novel production technologies with high production capasity are under concideration.

The dressing product is prioritized going forward as this concept represents the largest value potential.

Woulgan sales in Germany

Buildig Key Opinion Leaders (KOL) support

Adjuvant in cancer treatment

The collaboration with Memorial Sloan Kettering Cancer Center (MSKCC) within immunotherapy of cancer continued through 2016. A clinical phase I/II study with MSKCC's self-designed cancer vaccine combined with *Soluble Beta Glucan (SBG®)* from Biotec has been used to treat patients with neuroblastoma. *SBG®* is used for its immunomodulatory properties and acts as an adjuvant therapy to the cancer vaccine. The study experienced promising effects during 2016 and it was decided to increase the study population from 115 to a total of 145 patients. The Company has secured patent protection for this application.

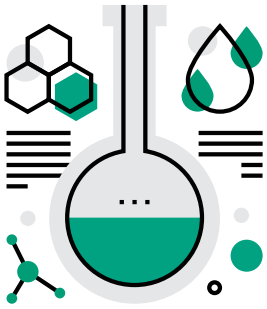
M-Glucan® (Animal health)

After Biotec launched its animal feed ingredient product *M-Glucan®* in 2014, Biotec experienced solid sales growth in both 2015 and 2016. A new 2-year supply agreement with one of the largest suppliers of feed to the fish farming industry was signed during 2016. Because of the strong demand for *M-Glucan®*, Biotec's supplier is getting close to its production capacity for this product and a discussion to expand the production capacity is ongoing.

M-Gard® (Consumer health)

M-Gard® is Biotec's product within consumer health and is an immunomodulator that enhances the body's vital defence mechanisms against pathogens such as bacteria, virus, fungus etc. Biotec had a non-exclusive supply agreement with *NutraQ* through 2016 after the exclusive supply agreement was terminated at the end of 2014. Biotec and *NutraQ* had a conflict regarding interpretation of IP rights that ended in arbitration in the first half of 2016. Biotec won the arbitration and obtained freedom to operate, but experienced a drop in demand following the arbitration. The Company is working to recover this business.

3. Enzymes



The subsidiary ArcticZymes AS develops and markets a growing portfolio of novel recombinant enzymes primarily for use within molecular diagnostics and research.

Scientists apply molecular diagnostics (MDx) in human diagnostics for detection of infections, markers for cancer and other illnesses. DNA or genetic tests are not only performed to diagnose disease but utilised to prevent disease and guide treatment. In addition, enzymes are used for veterinary diagnostics, forensic medicine, industrial biotechnology and various forms of research.

Most molecular analyses apply PCR-based methods, which is still a growing market as the technology is constantly being developed and expanded into new applications. The market is complex because the technology includes multiple stages with various specialized solutions, which allows for a large number of possible variations. PCR based methods as well as other amplification technologies, are fundamental to DNA sequencing technologies. With the advent of Next Generation Sequencing (NGS) innovations within DNA sequencing makes the fastest growing molecular technology today. The enzymes from *ArcticZymes* are key components and their unique properties are exploited by leading international companies integrating these enzymes into their manufacturing, kit based technologies and Molecular Diagnostic tests.

Key properties of the enzymes are:

- High activity, to reduce the number of enzymes to be used
- Flexibility with regards to working conditions (temperature, pH and composition)
- Easy inactivation after use to prevent unwanted side effects
- Robust performance, tolerant to varying reaction conditions

ArcticZymes specializes in enzymes originating from organisms that have evolved to live in the cold Arctic waters. Arctic organisms need enzymes which are optimally active at low temperatures. This often leads to a temperature sensitivity that makes the enzymes intolerable to heat. Therefore, the enzymes may quickly be inactivated after use, contrary to most competitive products that must be physically removed by time-consuming and polluting separation processes. The heat lability feature of such enzymes is particularly well suited to enhance molecular technologies. In particular, their procedures normally include several sequential steps with each step utilising an enzyme which must be inactivated before moving onto the next step. Heat labile enzymes will streamline molecular processes as inactivation is simply achieved by heating the sample prior to the next step. Other unique features such as activity at low temperatures, high-salt and unique specificities offer new and novel ways to utilize *ArcticZymes* enzymes in next generation technologies or new molecular assay product developments by its customers. *ArcticZymes* has developed a solid knowledge of genetic modification in order to adapt the enzyme's ability to specific market needs. Most of the enzymes are produced in-house by application of recombinant

First Polymerase launched

technology, giving complete control over the production process, and making the Company independent of supplies for biological raw materials and thereby lowering environmental impact. Recombinant production also enables the production of far more consistent, robust and cleaner enzymes than is possible from natural sources. It also facilitates scalable manufacturing allowing *ArcticZymes* to ensure uninterrupted supply as it mutually grows business with its customers.

Since December 2015 *ArcticZymes* became ISO 9001 certified for the entire business. It is now considering moving into ISO 13485, in particular for the part of the business oriented towards diagnostics (devices). This process will benefit of the central QA competence already in place due from the beta-glucan operation. In addition to developing unique enzymes and their production with the use of proprietary technology, *ArcticZymes* places emphasise on developing new applications for its current enzymes. This in order to offer customers a more comprehensive and functionalized solution, and to improve patent protection.

The Company has strong patent protection for its products and is currently marketing a number of unique genetically modified enzymes derived from Arctic organisms, as well as enzyme-based kit products for specific uses.

ArcticZymes has representatives in the US for market development and customer support. The Company has signed an agreement with a company that provides office support, warehousing and logistics. Interim storage in the US has made it possible to standardize products, improve logistics and ensure shorter delivery time to customers. A similar EU warehouse was established in 2016 within the Netherlands with another company specialising in cold chain storage and logistics in Europe.

The products are sold mainly in bulk to larger players that use the enzymes in their own production, or sell products under a private brand name. *ArcticZymes* private label enzymes are also sold to end users via distributors and its own online store to promote the Company in the market. Contribution from the online store is limited in volume but still an important marketing route for the Company.

Marketing of the products are made through targeted contact with potential customers. In this industry, there is usually a long sales cycle from initial contact with a prospective customer until the first purchase orders arrives. *ArcticZymes* spends extensive time and resources on building relationships, offering dedicated consultation and support as needed from the very onset of a new relationship.

To develop new product candidates, *ArcticZymes* participates actively in several scientific collaborations including UiT, The Arctic University of Norway. The Norwegian Research Council often supports such cooperation, i.e. the MDxPol program. This contributes to the development of new product candidates for future commercialization and expansion of the academic environment. The latter is important for the development and application of novel products. The Company also receives project funding from the Research Council for independent projects. These are mainly projects that are further down the value chain, intending to develop enzymes from promising product candidates into marketable products. *ArcticZymes* received Horizion2020 funding during 2016. This puts *ArcticZymes* on the international map with more than 15 other partners.

Going forward, *ArcticZymes* is well positioned to launch new unique enzymes and kits for sale in the molecular biology market.

4. Consolidated financial statements

The financial statements for 2016 have been 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 have been prepared in accordance with International Financial Reporting Standards (IFRS). The Biotec Pharmacon group had sales revenues of NOK 71.9 million in 2016, compared with NOK 53.3 million in 2015. Distribution of sales revenues in 2016 was NOK 43.2 million in the beta-glucans' segment and 28.7 million in the enzymes' segment, compared with NOK 29.7 million and NOK 23.5 million in 2015 respectively. Beta-glucans had in 2016 a sales growth of 45% compared to previous year, primarily through increased sales of animal health products. The enzymes' segment had a sales growth of 22% compared to 2015.

Net profit after tax for the Group was NOK -20.4 million compared to NOK -17.3 million in 2015. In 2016, the operating profit (EBIT) for the Beta-glucan area was NOK -18.4 million compared to NOK -10.4 million in 2015. The enzymes area had an operating profit of NOK 3.3 million against NOK 2.3 million in 2015. Unallocated corporate overhead expenses for 2016 was NOK 5.9 million compared to NOK 9.2 million in 2015.

Total recognized expenses for R&D within the Group in 2016 was NOK 23.9 million, compared with NOK 24.0 million in 2015.

R&D expenses within both segments are close to unchanged in 2016 compared to 2015. A major part of the activities spent on continued development of the product *Woulgan®* has been expensed in 2016, with the exception of NOK 1.1 million, which was capitalized. For 2015, NOK 0.8 million was capitalized.

Consolidated statement of cash flow

The Group had a cash flow from operating activities of NOK -19.3 million in 2016, compared to NOK -12.9 million in 2015. Cash flow from investing activities in 2016 was NOK -1.3 million against NOK -1.5 million in 2015. For 2016, the investing activities were split between fixed assets of NOK 0.3 million and development of new products being prepared for sale of NOK 1.0 million. Net cash flow from financing activities was NOK 0.0 million in 2016, compared to NOK 4.4 million in 2015.

Net change in cash during 2016 was NOK -20.7 million, compared to NOK -9.9 million in 2015.

Net profit of -20,4 MNOK

23,9 MNOK in R&D expenses

Consolidated statement of financial position

Total equity of the Group amounted NOK 68.1 million at the end of 2016, compared to NOK 86.7 million at the beginning of the year. Equity ratio was 79%. Cash and cash equivalents amounted NOK 57.7 million per 31.12.2016, compared to NOK 78.3 million at the end of last year. The Group has no interest bearing debt.

The parent company

Sales revenue for the parent company *Biotec Pharmacon ASA* in 2016 was NOK 14.5 million. Net profit was NOK -4.4 million. Sales revenues are intercompany sales of services to the subsidiaries and rental income from leased offices. For 2015, sales revenues were NOK 9.9 million, and a net profit of NOK -6.6 million.

Deferred tax assets were excluded from the balance sheet at the end of 2009. As of 31.12.2016, the forecast for future taxable profit remains uncertain, and the Company has therefore decided not to recognize this as an asset. A new assessment will be carried out during 2017.

The Board proposes that this year's loss in the parent company Biotec Pharmacon of NOK 4.4 million is covered by allocation from other equity.

71,9 MNOK in sales revenues

5. Shareholder Matters

The Biotec share ended 2016 with a closing price of NOK 11.30, compared with NOK 12.90 at the end of 2015. The lowest closing price during the fiscal year was NOK 10.10, while the highest closing price was NOK 13.35 per share.

The Board encourages employees in the Group to become shareholders in the Company. All of the employees were also in 2016 offered to buy shares at a discounted rate within the current tax rules, which involves a set number of shares at a 20% discount limited to maximum NOK 1,500 per employee. The offer was accepted by 76% of the employees, acquiring 17,895 shares.

In 2014, the Company established a share option program for all employees. This program was continued with additional allocations in 2015 and 2016 and has a total allocation of 1,175,250 share options per end of 2016. The options can be exercised at the earliest on 1 June 2016, 2017, and 2018 respectively, with the final deadline of 31 May one year later. The share option programs are described in note 15 "Executive remuneration policy of the Company".

Director Olav Flaten has been a member of the Board since 27 May 2013. Olav Flaten owns and operates Hunemo AS. Hunemo AS advises *Biotec BetaGlucans AS* and billed services of NOK 8,500 incl. VAT in 2016, compared with NOK 21,250 incl. VAT in 2015.

Director Inger Rydin has been a member of the Board since 14 May 2014. Inger Rydin owns and operates Inger *Rydin AB*. Inger *Rydin AB* is an advisor to *Biotec BetaGlucans AS* and billed services for SEK 19,021 in 2016 compared with SEK 99,046 in 2015.

No other transactions with close associates were carried out in 2016.

As of 31.12.2016, the Company has 43,944,673 shares registered with a nominal value of NOK 1.00 and 2,311 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 *H & R Healthcare*. *Navamedic AS* and *Rogg* Verbandstoffe for distribution and sales of the Company's wound care product *Woulgan®* in UK, Scandinavia and certain channels in Germany. The Company is in an initial phase and there is uncertainty until one can prove commercial viability in those markets. There are also risks associated with further rollout of the product to other markets and regions. Regulatory processes and national reimbursement may also 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 terms of customers and the Company is accordingly dependent on a limited number of customers to maintain and grow sales.

The Company is dependent upon certain key suppliers, 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 could 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 are no purchase obligations attached to these agreements. The Company is actively entering into new agreements to broaden the revenue base and expanding its product portfolio.

Future changes in tax and regulations may present 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.

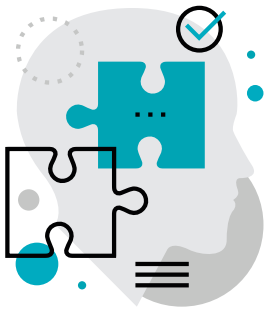
A number of key personnel are central to the success of the Company's operations. Key personnel are involved in the development of products, technologies, production processes, quality control, purchasing, and marketing, as well as other activities of the company. The Company is also dependent on recruiting 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 a majority of the Company's revenue is 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 Group's exposure to currency will in the long run be altered if new product releases provide a change in the currency mix.

The Company has no interest bearing debt. Financial investments are carried out only in the form of bank deposits, certificates or interest 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 no significant concentration of credit risk, and recognized losses on accounts receivable of NOK 5,000 in 2016.

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

7. The working environment and staff



At the end of 2016, there were 46 full- and part time employees in the Group. There were 9 employees in the parent company *Biotec Pharmacon ASA*, 17 in *Biotec BetaGlucans AS*, 20 employees in *ArcticZymes* AS, which is a total increase of 5 employees during the year.

Lost days due to sick leave in 2016 totalled 384 days, compared to 414 days in the previous year. Accumulated sick leave was 3.9% compared to 5.1% in 2015. One third of the absence was due to long-term illness in 2016. No specific initiatives have been taken during the year to influence the working environment, but risk analyses have been conducted to avoid work-related accidents. There were no work accidents causing injury to personnel or damage to machinery during 2016.

The Company is committed to recruiting and developing of employees of both sexes. Equality between the sexes 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 20 women and 26 men employed within the Group. The Board consists of 6 directors, of which 2 of the 5 shareholder-elected representatives are women. The employee representative is a woman.

8. Natural environment

The Company's activities have limited negative impact on the natural 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 application of these principles is published on the Company's website www.biotec.no under Investors / Corporate information

10. Social responsibility

Biotec Pharmacon ASA emphasizes the development of valuable products in the society, mainly health products and products that simplify laboratory processes and thus contribute to high quality and cost effective diagnosis. The Company avoids using scarce natural resources and emphasizes this by approving suppliers. It is implemented ethical guidelines for the Company where all employees has confirmed in writing that they, through their position will work to prevent discrimination, promote equality, promote human rights and combat all forms of corruption. The Company has limited size and business scope compared with most other listed companies. Thus, thorough reporting in this area is not yet a priority.

A summary of relevant topics with related status for Biotec Pharmacon at the end of 2016 is listed in the table below.

Product groups	Woulgan wound gel	Patient-friendly, without harmful side effects, beneficial health economics for society
	Feed Ingredient	Natural immune-stimulating product without antibiotics
	Cold adapted enzymes	Efficient products in micro scale for research and diagn ostics
Customers	In Europe	Feed producers, distributors of drugs and devices, manufacturers of pharmaceuticals and laboratory kits, hospitals
	In USA	Manufacturers of pharmaceuticals and laboratory kits, hospitals
Code of Conduct	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 relatively small turnover of the Company restricts itself possibilities.
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 applies to all employees	Employees are included in the management of the Company. Elected representatives in the Board of Directors, Working environment committee, Personnel handbook committee. Collective agreement with Tekna includes about 50% of all employees.
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

Biotec will continue to pursue its commercial focus of driving sales and achieving key operational milestones in 2017.

For *Woulgan®* and the advaced wound care segment, focus will be on generating sales growth and commercial traction in key markets, building on the achievements obtained in 2016.

Obtain UK drug tariff approval in order to secure reimbursement in UK will be a key milestone.

The animal health segment will continue to be an important contributor in 2017 where focus will be on customer satisfaction and expanding the opportunities. Biotec's sourcing partner in this segment is considering a renewal and expansion of its production capacity and the Company will assist them in all possible ways to give them confidence in this decision.

In the consumer health segment, Biotec will explore opportunities to build a commercial platform for long-term growth.

In the enzymes market, *ArcticZymes* has a strong product offering, valuable and long-term relationships with key customers, and a solid position for

Inger Rydin

Director

Olav Flaten

Director

Masha Strømme

Director

future growth. Its strong pipeline in development of novel enzymes will lead to new product launches during 2017.

Together with further development of the Company's commercial partnerships, it is expected that *ArcticZymes* should increase its market share.

Overall, it is the Board's view that the reached milestones and the priorities adopted during 2016 represents a good foundation for future growth and development of shareholders' values.

The Board would like to thank all employees for their efforts in 2016.

Erik Thorsen

Chairman

Richard Godfrey

Director

Gerd Nilsen

Director,
employee representative

Svein W. F. Lien

CEO

Financial statements

Consolidated statement of profit & loss

I. January till 31. December

(Amounts in NOK 1,000)	Note	2016	2015
Sales revenues	5	71 904	53 280
Other revenues	19, 24	6 702	7 354
Total revenues		**78 606**	**60 634**
Cost of goods	11	-26 736	-16 204
Personnel expenses	15, 18, 21, 23, 25	-43 151	-35 308
Depreciation and amortization	6, 7, 23	-1 912	-2 927
External services	23	-8 596	-6 747
Other operating expenses	22, 23	-19 168	-16 761
Total operating expenses		**-99 562**	**-77 947**
Operating profit/loss(-)		**-20 956**	**-17 313**
Financial income	20	601	1 100
Financial expenses	20	-34	-1 079
Profit/loss(-) before income tax		**-20 389**	**-17 292**
Income tax expense	16, 17	0	0
Net profit/loss(-)		**-20 389**	**-17 292**
Net profit/loss(-) tributable to:			
Non-controlling interests		91	52
Equity holders of Biotec Pharmacon ASA		-20 480	-17 344
Earnings per share:			
Basic from net profit/loss	9	-0,46	-0,39
Diluted from net profit/loss	9	-0,46	-0,39

Consolidated statement of other comprehensive income

(Amounts in NOK 1,000)	Note	2016	2015
Net profit/loss for the year		-20 389	-17 292
Items that may be reclassified to profit & loss		0	0
Total		**0**	**0**
Total comprehensive income		**-20 389**	**-17 292**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
-shareholders of parent company		-20 480	-17 344
-non-controlling interests		91	52
Total comprehensive income		**-20 389**	**-17 292**

Consolidated statement of financial position

As of 31 December

(Amounts in NOK 1,000)	Note	2016	2015
ASSETS			
NON-CURRENT ASSETS			
Machinery and equipment	6	3 168	4 118
Intangible assets	7	5 465	5 074
Other non-current assets	18	37	44
Total non-current assets		**8 671**	**9 236**
CURRENT ASSETS			
Inventory	11	2 775	2 904
Accounts receivable and other receivables	8, 10	16 716	10 589
Cash and cash equivalents	8, 12	57 672	78 343
Total current assets		**77 163**	**91 835**
Total assets		**85 834**	**101 072**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	13	43 945	43 945
Premium paid in capital		133 378	133 378
Retained earnings		-109 815	-91 062
Non-controlling interests		580	489
Total equity		**68 087**	**86 749**
CURRENT LIABILLITIES			
Accounts payable and other current liabilities	14	17 746	14 322
Total current liabilities		**17 746**	**14 322**
Total equity and liabilities		**85 834**	**101 072**

Tromsø, 16 March 2017

Erik Thorsen	**Inger Rydin**	**Olav Flaten**	**Masha Strømme**	**Richard Godfrey**	**Gerd Nilsen**	**Svein W. F. Lien**
Chairman	Director	Director	Director	Director	Director, employee representative	CEO

Consolidated statement of changes in equity

I. January till 31. December

(Amounts in NOK 1,000)	Note	Share capital	Premium paid-in capital	Other equity	Non-controlling interests	Total
Equity as of 01.01.2015		**43 623**	**129 224**	**-74 417**	**437**	**98 867**
Comprehensive income 2015				-17 344	52	**-17 292**
TRANSACTIONS WITH OWNERS:						
Share issue, share options exercised	12	322	4 154			**4 475**
Purchase own shares	12			-172		**-172**
Sale own shares	12			137		**137**
Employees' share options	12, 21			734		**734**
Total transactions with owners		**322**	**4 154**	**699**	**0**	**5 174**
Equity as of 31.12.2015		**43 945**	**133 378**	**-91 062**	**489**	**86 749**
Comprehensive income 2016				-20 480	91	**-20 389**
TRANSACTIONS WITH OWNERS:						
Purchase own shares	12			-230		**-230**
Sale own shares	12			184		**184**
Employees' share options	12 ,21			1 773		**1 773**
Total transactions with owners		**0**	**0**	**1 727**	**0**	**1 727**
Equity as of 31.12.2016		**43 945**	**133 378**	**-109 815**	**580**	**68 087**

Consolidated cash flow statement

I. January till 31. December

(Amounts in NOK 1,000)	Note	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / loss(-) after tax adjusted for:		-20 389	-17 292
Depreciation and amortization	6, 7	1 912	2 927
Employees' options, share-based payment expense	13, 21	1 773	734
Changes in working capital			
Inventory	11	129	1 488
Account receivables and other receivables	10	-6 127	-2 803
Trade and other payables	14	3 424	2 060
Net cash flow from operating activities		**-19 278**	**-12 886**
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in machinery and equipment	6	-300	-770
Investment in intangible assets	7	-1 054	-800
Changes in long-term receivables		7	77
Net cash flow from investing activities		**-1 347**	**-1 493**
CASH FLOW FROM FINANCING ACTIVITIES			
Share issue			4 475
Purchase own shares	13	-230	-172
Sale own shares	13	184	137
Net cash flow from financing activities		**-46**	**4 440**
Net change in cash during the year		-20 671	-9 939
Cash and cash equivalents as of 1 January	8,12	78 343	88 283
Cash and cash equivalents as of 31 December		**57 672**	**78 343**

Notes to the financial statements for 2016

Note 1 General information

Biotec Pharmacon ASA (the Company) is a scientific-based industrial company that develops and supplies immune modulating beta-glucans and cold adapted enzymes, including special formulated products derived from these ingredients. The Company has two business areas operated by two separate operating units:

- Beta-glucans for use in medical device, as nutrition supplements, as ingredients in cosmetics and animal health products
- Enzymes for use in molecular research and diagnostics

The beta-glucan segment is organized in the wholly owned subsidiary Biotec BetaGlucans AS, while the subsidiary ArcticZymes AS operates the marine enzymes' segment. The parent company Biotec Pharmacon ASA acts as a holding company with overall management and support functions, while the two subsidiaries carry out the operating activities.

Biotec BetaGlucans AS has developed an advanced gel (Woulgan®) for treatment of stalled wounds like diabetic foot ulcers, venous leg ulcers and pressure ulcers, but also for burns and acute wounds. The regulatory authorities in Europe has formally approved Woulgan® by a CE-marking. Woulgan® is classified as a medical device, Class III, Rule 13 under the EU directive for medical devices. The Company entered into distribution agreements for Woulgan in the UK and Scandinavia during 2015 and signed a distribution agreement for parts of Germany during 2016.

The Company cooperates in an early stage project within immunotherapy of cancer.

The Company has in addition activities with beta-glucans for non-pharmaceutical purposes, including manufacturing and sales of proprietary beta-glucans, which strengthens the immune system in humans and animals.

The products in the enzyme segment are sold directly and through distributors to the research market and to larger laboratories for use in molecular biology, specifically related to testing of DNA and RNA samples.

Biotec Pharmacon ASA's headquarter is in Tromsø, Norway, co-located with the subsidiaries ArcticZymes AS and Biotec BetaGlucans AS.

Biotec Pharmacon ASA is listed on Oslo Stock Exchange under the ticker: BIOTEC.

The Board approved the consolidated financial statements on 16 March 2017.

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

Note 2.2.1 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 notes 8 and 9 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 unrealized 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 businesses beta glucans and enzymes. See note 5 for segment information.

Note 2.4 Foreign currency translation

Note 2.4.1 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). This is also the functional currency for the parent company.

Note 2.4.2 Transactions and balance sheet 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, cash and cash equivalents are presented (net) as financial income or expenses. All other foreign exchange gains and losses relating to settlement of current assets and current liabilities are presented (net) under other revenues.

Note 2.4.3 Group companies

The profit & loss statement and balance sheet for the companies within the group (none with hyperinflation) with a functional currency different from the presented currency, are translated as follows:

- The balance is translated at the closing rate.
- The income statement is translated at the average exchange.
- Currency translation differences are recognized under other comprehensive income, and specified separately under the changes in equity.

Note 2.5 Machinery and equipment

Machinery and equipment in the Group include primarily production equipment, office equipment and furnishing. These assets has a carrying value of historical cost less depreciation and amortization. Acquisition cost includes expenses directly attributable to the acquisition of the asset.
Subsequent expenses are included in the asset's carrying value or recognized 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 recognized 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
Vehicles	3-5 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 amortized immediately to fair value. Reference is made to note 2.7.

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

Note 2.6 Intangible assets

Note 2.6.1 Product rights

Through the acquisition of Marimol AS in 2010, intangible assets involved were classified as product rights. Marimol held an exclusive option on the

commercial exploitation of the research arising from the project MARZymes, which is the marine bioprospecting initiative by the Arctic University of Norway. The option gives the Company the opportunity to utilize these products commercially against a license fee, which may increase future earnings for the Company. After the acquisition, Marimol AS was merged into ArcticZymes AS. The project MARZymes ended in 2015. Parts of the Polymerase project launched in 2016 originates from MARZymes project. The Company is still evaluating if other enzyme candidates can be commercially attractive.

Note 2.6.2 Research and development, patents and licenses

Research expenses are expensed when incurred. Development of products are capitalized 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 recognized 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 annually by indication for impairment in accordance with IAS 36.

Until 2010, no development costs related to the Company's development activities in beta-glucans met the criteria for capitalization. During 2011-2015 the Company capitalized development costs for the product Woulgan® and development expenses for the products rSAP and HL-dsDNase. Other development costs are expensed when incurred.

Note 2.7 Financial assets

Note 2.7.1 Classification

Classification of financial assets depends on the purpose of the asset and is categorised according to IAS 39 in one of the following categories:

- *At fair value through profit and loss* are financial assets held for trading. A financial asset is classified in this category if acquired with the purpose to generate profit from short-term price fluctuations
- *Loans and receivables* are non-derivative financial assets with fixed or defined payments that are not quoted in an active market
- *Non-derivative financial assets* with fixed or determinable payments and fixed maturities are classified as Held to Maturity
- *Financial instruments available for sale* are investments short term debt and equity securities
- *Other liabilities* are most of the company's liabilities such as accounts payable and other current liabilities

The Company has financial instruments categorized under loans and receivables and other liabilities (note 8)

Note 2.7.2 Initial recognition and measuring

Loans and receivables are initially recognized at fair value plus directly attributable transaction expenses. Subsequently, these instruments are measured at their amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method.

Other liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Subsequently these liabilities are measured at their amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method.

Note 2.7.3 Impairment of financial assets

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets are impaired. An impairment loss of a financial asset or group of financial assets are recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition (a "loss event") and that loss event (or events) affects future estimated cash flows in a way that can be measured reliably.

The criteria used to determine whether there is objective evidence of an impairment loss include:

- Significant financial distress of the issuer or debtor.

- Breach of contract, such as breach of contract or non-payment of due interest or principal.
- The group, of economic or legal reasons relating to the borrower's financial difficulty, gives the borrower a concession that the lender would not otherwise have considered.
- It is likely the borrower will enter into bankruptcy or financial restructuring.
- Observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets after the initial recognition of those assets, although the decrease can not be identified with the individual financial assets in the group.

Under the category loans and receivables, measured amount of loss is the difference between the carrying amount and the net present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced and the amount of the loss is recognized in the consolidated profit and loss statement. If a loan or an investment held to maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practical, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If an impairment decreases and the decrease can objectively be related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previous loss is reversed through the consolidated profit and loss statement.

Note 2.7.4 De-recognition of financial instruments
A financial asset is de-recognized 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 derecognized 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 recognized in the consolidated profit and loss statement.

Note 2.8 Inventory
Inventory are stated at the lower of acquisition expense and net realizable 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 realizable value is the estimated selling price less variable costs of completion and transaction expenses.

Note 2.9 Accounts receivable and other receivables
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 non-current assets.

Accounts receivables are initially at fair value. Subsequently accounts receivables are measured at amortised cost using the effective interest method, less provision for impairment. Provisions for losses are recognized when there is objective evidence that the Group will not receive settlement in accordance with the original terms. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default or delinquency in payments are considered to indicate that the trade receivable is impaired. Provision is the difference between the nominal value and the recoverable amount, being the net present value of expected cash flows, discounted at the effective interest rate. Changes in provision are recognized under "Other operating expenses".

Note 2.10 Cash and cash equivalents
Cash and cash equivalents consist of cash, bank deposits and other short-term liquid investments with maximum of three months maturity.

Note 2.11 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 2.12 Account payables and other current liabilities
Account payables are obligations to pay for goods or services from suppliers. Account payables are classified as current liabilities if payment is due within 12 months. If this is not the case, it is classified as long-term debt. Account payables are measured at fair value upon initial recognition. Subsequently amortized cost is measured using the effective interest method.

Note 2.13 Loans
Loans and borrowings are initially at fair value when they are disbursed, less any transaction costs. In subsequent periods, loans are recorded at amortized cost using the effective interest rate. The Group has no interest bearing debt per 31.12.2016.

Note 2.14 Current and deferred income tax
The tax expense is comprised of current and deferred tax. Tax is recognized, except when it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized 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 different from integration of enterprises, and that at the time of the transaction affects neither accounting nor taxable profit, it is not capitalized. 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 realized or the deferred tax liability is settled.

Deferred tax assets are recognized 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.

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.

Note 2.15 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 recognized as an asset to the extent that a cash refund or reduction of future payments is possible.

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

Note 2.16 Share based options
The Group has a share based option scheme. Per 31.12.2016, there were 1,175,250 outstanding options comprising of 41 employees in the Group. The fair value of the services received from the employees in return for the options granted is recognized as an expense in the consolidated profit and loss statement. Total expense for the options are 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 recognizes the importance of the revision of original estimates in the consolidated profit and 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.

Note 2.17 Provisions
The Group recognizes 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 recognized.
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 recognized as an interest expense.
Provisions are measured at the present value of expected payments to settle the obligation.

Note 2.18 Revenue recognition
Revenues are measured at the fair value of the consideration received or receivable, and represents amounts for receivable for goods supplied, stated net of discounts, returns and VAT. The Group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefit will flow to the entity, and when the specific criteria have been met, as described below.

Note 2.18.1 Sale of goods
Sale of good are recognized when significant risk and rewards of ownership of the goods is passed on to the buyer, usually on delivery of goods and when there is no unfulfilled obligation that could affect the

customers' acceptance of the products. Delivery is governed by sales contracts, but usually occurs when the product is delivered to the customer.

Note 2.19 Government grants
Government grants are recognized 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 recognized as other revenue in the period in order to match the expenses they are intended to compensate. Government grants relating to the purchase of fixed assets are recorded as a reduction in the carrying cost, and is expressed in the profit and loss statement through lower annual depreciation over the expected life of the relevant fixed assets.

Note 2.20 Leases
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.

Note 2.21 Dividends
Dividends are classified as liabilities from the date approved by the General Assembly. No dividends for 2016 is proposed.

Note 2.22 Changes in accounting policies and disclosures
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 intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued.

Standards, amendments and interpretations to existing standards that are not yet effective and which the Group has not early adopted

- *IFRS 9 Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective as of 01.01.2018. IFRS 9 will replace IAS 39 Financial Instrument: recognition and Measurement. The parts of IAS 39 that have not been amended has been transferred and included in IFRS 9. The standard shall be implemented retrospectively, but it is not a requirement to prepare comparative figures. The Group has no plans regarding early implementation of the standard and implementation of the standard is not assumed to have material impact on the Group.
- *IFRS 15 Revenue from contracts with customers*. The standard is effective as of 01.01.2018. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is for companies to 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. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets. The Company is evaluating potential implications of the standard and has recognized some areas where the standard might have a limited impact. The Company will continue analysing the impact of the new standard.
- *IFRS 16 Leases* regulates matters relating to leased assets. It requires all leases to be recognized in the statement of financial position as a right to use asset with subsequent depreciation. This standard is not ratified by the EU but is expected to be effective as of 01.01.2019. The Group has not yet completed the analysis of the impact of the new standard and has no plans regarding early implementation of the standard.

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 3.2 Market risk
Foreign currency risk
Revenues for 2016 to the Group are mainly denominated in USD and EUR; distributed 30% at USD and 60% at EUR. Most of the Group's cost base is denominated in NOK (about 55%), while expenses in EUR amounts to about 33%.
The Group had for 2016 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 2016 and all other variables held constant, this would lead to a lower / higher operating profit of NOK 102,000 (2015: NOK 43,000). For EUR would such currency changes have affected the result by NOK 124,000 (2015: NOK 121,000) in the opposite direction.

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 31.12.2016.

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

Interest rate risk
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 3.3 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 3.4 Liquidity risk
Cash flow forecasts are made for each company in the Group. Rolling forecasts are assessed at group level if they meet the Group's liquidity requirements, i.e. that one has sufficient cash to meet operational needs. Based on planned activities and current cash position, the Group considers the liquidity risk to be low.

The Group places its cash in bank deposits or interest-bearing securities with low risk. The majority of cash is placed in Norwegian bank deposits. At the reporting date, the Group had bank deposits of NOK 57.7 million as a liquidity buffer.
The Group's debt has maturity shorter than one year and will be settled at maturity:

(Amounts in NOK 1,000)	2016	2015
MATURITY		
< 3 months	6,885	9,317
3 months – 12 months	296	3,012
Total	**7,181**	**12,329**
Accrued public fees and withdrawals	10,566	1,993
Total accounts payable and other current liabilities	**17,746**	**14,322**

Note 3.5 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 chart below shows the Group's net cash position as of 31 December:

(Amounts in NOK 1,000)	2016	2015
Cash and cash equivalents	57,672	78,343
Less: Restricted cash equivalents	-1,460	-1,448
Net cash position	**56,212**	**76,895**

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 capitalization 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 capitalized 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 capitalized development expense is the remaining lifetime of any related patents.

Assessing start up for amortization of intangible assets:
Amortization of intangible assets related to capitalized development costs begins when the product is ready for distribution / sales, including the presence of necessary government approvals. Amortization 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. 2015 figures are reallocated with the column for unallocated corporate for comparison purposes.

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

(Amounts in NOK 1,000)	2016				2015			
	Enzymes	Beta-glucans	Unallocated corporate	**Total**	Enzymes	Beta-glucans	Unallocated corporate	**Total**
Sales revenues	28 714	43 190		**71 904**	23 546	29 734		**53 280**
Cost of goods	-794	-25 942		**-26 736**	-1 293	-14 911		**-16 204**
Gross profit	27 920	17 249		**45 169**	22 253	14 823		**37 076**
Other revenues	4 224	2 479	-1	**6 702**	6 040	1 316	-2	**7 354**
Operating expenses	-28 297	-36 821	-5 797	**-70 915**	-25 156	-24 609	-9 051	**-58 816**
Depreciation and amortization	-540	-1 316	-56	**-1 912**	-847	-1 978	-102	**-2 927**
Operating profit/loss(-)	**3 307**	**-18 409**	**-5 854**	**-20 956**	**2 290**	**-10 448**	**-9 155**	**-17 313**
Net financial income	23	-872	1416	**567**	-1095	-1570	2686	**21**
Profit/loss(-) before tax	**3 330**	**-19 281**	**-4 438**	**-20 389**	**1 195**	**-12 018**	**-6 469**	**-17 292**
Tax				**0**				**0**
Net profit/loss(-)	**3 330**	**-19 281**	**-4 438**	**-20 389**	**1 195**	**-12 018**	**-6 469**	**-17 292**

Assets, liabilities and investments distributed to the segments:
Assets and liabilities for 2015 have been redistributed in accordance with new segment split as from 2016.

(Amounts in NOK 1,000)	2016				2015			
	Enzymes	Beta-glucans	Unallocated corporate	**Total**	Enzymes	Beta-glucans	Unallocated corporate	**Total**
Assets	20 680	34 702	30 451	**85 834**	17 135	68 619	15 318	**101 072**
Liabilities	5 728	9 956	2 063	**17 746**	4 457	7 003	2 863	**14 322**

Geographical distribution of sales revenues:

(Amounts in NOK 1,000)	2016	2015
Norway	41 069	28 175
Europe	9 104	7 228
Asia/Australia/Africa	1 850	858
USA/Canada	19 881	17 018
Sales revenues, total	**71 904**	**53 280**

Sales revenues from the largest customer within each segment in 2016: Beta-glucan segment TNOK 27 869, enzymes segment TNOK 10 284.

Geographical distribution of investments in machinery and equipment:

(Amounts in NOK 1,000)	2016	2015
Norway	300	770
Total	**300**	**770**

Note 6 Machinery and equipment

(Amounts in NOK 1,000)	Machinery	Equipment	Total
AS OF 01.01.2015			
Historic cost	32 826	5 254	39 513
Accumulated depreciation	-28 725	-3 996	-34 048
Book value at 01.01.2015	**4 101**	**1 257**	**5 359**
FINANCIAL YEAR 2015			
Addition	168	602	770
Disposals	0	0	0
Accumulated depreciation on disposals	0	0	0
Depreciation	-1 487	-524	-2 011
Book value at 31.12.2015	**2 782**	**1 336**	**4 118**
AS OF 31.12.2015			
Historic cost	32 994	5 856	40 283
Accumulated depreciation	-30 212	-4 520	-36 059
Book value at 31.12.2015	**2 782**	**1 336**	**4 118**
FINANCIAL YEAR 2016			
Addition	237	62	299
Disposals	0	0	0
Accumulated depreciation on disposals	0	0	0
Depreciation	-808	-441	-1 249
Book value at 31.12.2016	**2 212**	**956**	**3 168**
AS OF 31.12.2016			
Historic cost	33 231	5 917	40 582
Accumulated depreciation	-31 020	-4 961	-37 308
Book value at 31.12.2016	**2 212**	**956**	**3 168**
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 2018 with an optional extension period. Expenses from rental agreements for premises amouted NOK 4.0 million in 2016 versus NOK 3.9 million in 2015.

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)	Product rights	Own product development	Total
AS OF 01.01.2015			
Historic cost	1 663	6 074	7 737
Accumulated depreciation	-1 331	-1 216	-2 547
Book value at 01.01.2015	**332**	**4 858**	**5 190**
FINANCIAL YEAR 2015			
Addition	0	800	800
Disposals	0	0	0
Depreciation	-332	-583	-916
Book value at 31.12.2015	**0**	**5 075**	**5 075**
AS OF 31.12.2015			
Historic cost	1 663	6 874	8 537
Accumulated depreciation	-1 663	-1 799	-3 462
Book value at 31.12.2015	**0**	**5 075**	**5 075**
FINANCIAL YEAR 2016			
Addition	0	1 054	1 054
Disposals	0	0	0
Depreciation	0	-664	-664
Book value at 31.12.2016	**0**	**5 465**	**5 465**
AS OF 31.12.2016			
Historic cost	1 663	7 928	9 591
Accumulated depreciation	-1 663	-2 463	-4 126
Book value at 31.12.2016	**0**	**5 465**	**5 465**
Linear depreciation over useful life	5 - 10 years	10 - 12 years	

Product rights were acquired through the acquisition of Marimol AS in 2010. Marimol AS was then merged into ArcticZymes AS. The rights include an exclusive option on the commercial exploitation of the research results that come out of the project MARZymes, the marine bioprospecting project of UiT – the Arctic University. The project was completed in 2015. Parts of the Polymerase project launched in 2016 originates from MARZymes project. The Company is still evaluating if other enzyme candidates can be commercially attractive. UiT shall be compensated by a license fee for any commercial sale of products from this project. Aquisition cost for the product rights has been amortized over the period 2011 – 2015.

Own product development is basically external services (including patent expenses) for the development of rSAP which is amortized over 12 years, as well as costs regarding the development of HL- dsDNase (10-year amortization period), and the external costs of developing Woulgan. Depreciation of development costs for Woulgan started when CE marking was obtained in April 2014 spread over the product's estimated useful life, see Note 2.6b.

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 consits primarily of cash and cash equvalents obtained through equity issues.

(Amounts in NOK 1,000)	2016	2015
Assets per 31.12		
LOANS AND RECEIVABLES:		
Accounts receivables	11 957	5 487
Other receivables	4 759	5 102
Total loans and receivables	**16 716**	**10 590**

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

(Amounts in NOK 1,000)	2016	2015
Liabilities per 31.12		
OTHER LIABILITIES		
Accounts payable	7 181	6 496
Public taxes and withholdings	2 087	1 993
Other current payables	8 479	5 833
Total accounts payable and other current liabilities	**17 746**	**14 322**

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)	2016	2015
Profit attributable to ordinary shareholders of the parent	-20 481	-17 344
Profit attributable to non-controlling interests	92	52
Profit from continued operations	**-20 389**	**-17 292**
Weighted average number of shares issued (1,000 shares)	43 945	43 864
Weighted average number of shares and options (1,000 shares)	44 903	44 520
Earnings per share (NOK per share)	**-0,46**	**-0,39**

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)	2016	2015
Accounts receivables	11 957	5 487
Provisions for estimated losses on accounts receivables	0	0
Accounts receivables, net	**11 957**	**5 487**
Research grants	1 344	1 886
Tax grants	2 589	2 207
Prepayments	126	513
VAT	657	399
Other receivables	42	97
Total receivables	**16 716**	**10 589**

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

Age breakdown of accounts receivable per 31.12.2016:					
Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	**Total**
11 254	565	34	4	100	**11 957**

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

Age breakdown of accounts receivable per 31.12.2015:					
Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	**Total**
2 607	2 570	65	230	15	**5 487**

A majority of accounts receivable overdue on 31 December (less provisions for losses) have been settled subsequently.

Note 11 Inventory and cost of goods

(Amounts in NOK 1,000)	2016	2015
Raw materials	449	340
Semi-finished goods	641	1 335
Finished goods	1 684	1 229
Total inventories	**2 775**	**2 904**

(Amounts in NOK 1,000)	2016	2015
Change in inventories of goods in progress and in finished goods	201	1 931
Cost of goods	26 535	14 272
Total cost of goods	**26 736**	**16 204**

Note 12 Cash and cash equivalents

(Amounts in NOK 1,000)	2016	2015
Cash and bank accounts	56 209	76 895
Deposits, restricted	3	3
Tax withdrawal accounts	1 460	1 445
Total cash and cash equivalents	**57 672**	**78 343**

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

(Number of shares)	Shares	Whereof treasury shares
FINANCIAL YEAR 2015:		
Per 01.01.2015	43 623 373	
Share issues	321 300	
Purchase own shares	14 400	14 400
Sale own shares	-14 400	-14 400
Per 31.12.2015	**43 944 673**	**0**
FINANCIAL YEAR 2016:		
Purchase own shares	17 895	17 895
Sale own shares	-17 895	-17 895
Per 31.12.2016	**0**	**0**

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

2015

During the year 2015, the remaining part of employee share options from 2011/2012 was exercised, resulting in issuance of 321,300 shares to employees. In December 2015 the company acquired 14,400 treasury shares and resold these to interested employees at a 20% discount on the market price of NOK 11.92.
The Annual General Meeting held on 12 May 2015, granted three authorizations to the Board:

1. Authorization to issue 4,360,000 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 is determined by the Board. The authorization had not been exercised as at 31 December 2015. This authorization replaced the authorization granted by the General Meeting on 14 May 2014 and was valid until the Annual General Meeting in 2016.
2. Authorisation to issue up to 750,000 shares in connection with share schemes for employees. The authorization was valid until the Annual General Meeting in 2016. This authorization was not exercised as of 31 December 2015.
3. Authorization to purchase up to 300,000 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 2015. The authorization was valid until the Annual General Meeting in 2016.

2016

The Annual General Meeting on 11 May 2016 granted three authorizations to the Board:

1. Authorization 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. The authorization had not been exercised as at 31 December 2016. This

authorization replaced the authorization granted by the General Meeting on 12 May 2015 and is valid until the Annual General Meeting in 2017.
2. Authorisation to issue up to 1,200,000 shares in connection with share schemes for employees. The authorization is valid until the Annual General Meeting in 2017. This authorization was not exercised as of 31 December 2016.
3. Authorization to purchase up to 300,000 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 holds no treasury shares as at 31 December 2016. The authorization is valid until the Annual General Meeting in 2017. In November 2016 the company acquired 17,895 treasury shares and vresold these to interested employees at a 20% discount on the market price of NOK 12.86.

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 2011 the Board allocated options with 3-year vesting period and a strike price of NOK 13.96. Within the final deadline for declaration of these options on 31.03.2015, the employees had exercised 451,500 options.

In the second and fourth quarter of 2014, a total of 203,250 share options were allocated to employees with a 2-year vesting period and average strike price of NOK 17.61. In the second quarter of 2015, a total of 452,500 options were allocated to the employees, of which 80,000 to the CEO. The options have a 2-year vesting period, and the strike is NOK 18.42. In 2016, a total of 519,500 options were allocated to the employees, of which 80,000 to the CEO. These options have a 2-year vesting period, and average strike is NOK 11.93. Criterias for allocation of options have not been changed over the last 3 years. See note 21 regarding expensed amount for share options.

(Amounts in NOK 1,000)	2016		2015	
	Average exercise price	Number of share options	Average exercise price	Number of share options
As of 01.01.	18,17	655 750	15,06	676 050
Granted during the year	11,93	519 500	18,42	452 500
Forfeited			13,96	-151 500
Exercised			13,96	-321 300
Outstanding at 31 December		**1 175 250**		**655 750**

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 (2016: 66,3%, 2015: 44.0%), expected dividend yield (2016/2015: 0%), expected term of 3 years, annual risk free interest rate (2016:1.53%, 2015: 1.94%). The volatility is based on market data from the last year. The fair value is expensed over the vesting period. Per 31.12.2016 a total of NOK 15.362 million had been expensed, of which NOK 1.773 million applies to 2016. The Company has no obligations, legal nor implied, to repurchase or settle the options in cash unless general assembly declines to renew its authorization to issue new shares.

Expiry date	Average exercise price	Number of share options 2016	Number of share options 2015
2015, 31 March	18,42		452 500
2017, 31 May	17.61	203 250	203 250
2018, 31 May	18.42	452 500	
2019, 31 May	11,93	519 500	
Outstanding at 31 December		**1 175 250**	**655 750**
Exercisable options at 31 December		203 250	0

The 20 largest shareholders as of 31 Dec 2016

Ownership information:	Shares	Ownership
Tellef Ormestad	3 220 756	7,33 %
AKA AS	1 450 000	3,30 %
Danske Bank AS	1 218 496	2,77 %
Nordnet Bank AB	1 031 746	2,35 %
Clearstream Banking S.A.	869 654	1,98 %
MP Pensjon	822 931	1,87 %
Progusan AS	750 026	1,71 %
Nordea Bank Denmark AS	736 250	1,68 %
Belvedere AS	700 095	1,59 %
Hartvig Wennberg AS	696 033	1,58 %
Nordnet Livsforsikring AS	681 746	1,55 %
Arne Kjetil Kyrkjebø	621 020	1,41 %
Nordea Bank Danmark A/S	528 036	1,20 %
Trapesa AS	521 048	1,19 %
Ivar Hjørungnes	490 000	1,12 %
Odd Knut Birkeland	431 400	0,98 %
Spiralen Industrier AS	429 639	0,98 %
KLP Aksje Norge Indeks	404 704	0,92 %
Pro AS	364 821	0,83 %
Euro Hage og Anlegg AS	350 000	0,80 %
20 largest shareholders	**16 318 401**	**37,13 %**

The 20 largest shareholders as of 31 Dec 2015

Ownership information:	Shares	Ownership
Tellef Ormestad	3 007 065	6,84 %
SEB Enskilda ASA	2 160 064	4,92 %
AKA AS	1 450 000	3,30 %
Danske Bank AS	1 319 895	3,00 %
Nordnet Bank AB	1 166 342	2,65 %
MP Pensjon	822 931	1,87 %
Nordea Bank Denmark AS	786 618	1,79 %
Clearstream Banking S.A.	775 764	1,77 %
Progusan AS	750 026	1,71 %
Hartvig Wennberg AS	696 033	1,58 %
Nordnet Livsforsikring AS	649 758	1,48 %
Nordea Bank Danmark A/S	579 810	1,32 %
Ivar Hjørungnes	550 010	1,25 %
Arne Kjetil Kyrkjebø	438 909	1,00 %
Spiralen Industrier AS	399 639	0,91 %
KLP Aksje Norge Indeks	383 282	0,87 %
Verdipapirfondet DNB SMB	367 500	0,84 %
Jan Raa	365 000	0,83 %
Euro Hage og Anlegg AS	357 700	0,81 %
Pro AS	355 758	0,81 %
20 largest shareholders	**17 382 104**	**39,55 %**

Note 14 Accounts payable and other current liabilities

(Amounts in NOK 1,000)	2016	2015
Accounts payable	7 181	6 496
Accrued public fees and withdrawals	2 086	1 993
Accrued holiday pay, bonus, and salaries	5 846	3 012
Miscellaneous other accrued costs	2 633	2 821
Total accounts payable and other current liabillities	**17 746**	**14 322**

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

Age breakdown of accounts payable per 31.12.2016:					
Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	**Total**
6 881	300	0	0	0	**7 181**

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

Age breakdown of accounts payable per 31.12.2015:					
Not yet due	1 – 30 days	31 – 60 days	61 – 90 days	Over 90 days	**Total**
6 183	309	0	0	4	**6 496**

A majority of accounts payable overdue on 31 December (less provisions for losses) have been settled subsequently.

(Amounts in NOK 1,000)	2016	2015
NOK	9 961	10 156
EUR	7 160	2 915
USD	235	460
CHF		449
GBP	232	263
DKK	50	
JPY		51
SEK	108	28
Total accounts payable and other current liabillities	**17 746**	**14 322**

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 Marketing Woulgan, and Managing director ArcticZymes.

Note 15.2 Guidelines for salaries and other benefits for 2016

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 as many employees as possible to stimulate ownership and value creation.

Note 15.2.2 Determination of salaries

It is company policy that executive salaries are fixed on a monthly 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 other 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 Bonuses

Bonus schemes for senior executives:

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

Bonus depends on the company achieving predefined measurable objectives (Key Performance Indicators) and will be determined by the Board. Bonus payments in 2016 were based on the objectives achieved during 2015. Total average bonus payment in 2016 amounted to 75% of the maximum bonus.

Note 15.2.5 Allocated options to executive management and other employees

A share option scheme for all employees was established in the second quarter of 2014, 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 203,250 share options were issued in the second and fourth quarter 2014 at an average strike price of NOK 17.61 per share. The first exercise date was on 1 June 2016.

A second share option scheme for all employees was established in the second quarter of 2015. The option scheme follows the same outline as the program in 2014 with two-year vesting period and one-year declaration period. In total 452,500 options were issued in the second quarter of 2015 at a strike price of NOK 18.42 per share. The first exercise date is 1 June 2017.

A third share option scheme for all employees was established in the second quarter of 2016. The option scheme follows the same outline as the program in 2014 with two-year vesting period and one-year declaration period. In total 519,500 options were issued in the second quarter of 2016 at a strike price of NOK 11.93 per share. The first exercise date is 1 June 2018.

Senior executives, i.e. CEO S. Lien holds 160,000 options, CFO B. Sørvoll holds 82,500 options, CSO R. Engstad holds 110,000 options, Managing Director ArcticZymes J. Holter holds 80,000 options and VP Marketing S. Devine holds 30,000 options within the aforementioned programs.

At 31 December 2016 the total number of options outstanding is 1,175,250. 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 authorization 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 wants to continue to use options to all employees based on principles previously defined, see section 2.5. The Board proposes allocation of up to 260,000 new share options for the period up to annual general meeting in 2017. Allocation to senior executives will be included in this scheme. Exercise price for the allocated options will be market price at date of grant, and the options may be exercised 24 to 36 months from the date of grant.

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.

Note 15.2.8 Severance schemes

CEO Svein W. F. Lien's employment contract entitles him to 6 months severance payment beyond the 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 2016

During 2016 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 2016. The CEO's salary was adjusted by 1.8% in 2016. The position as Managing Director of Biotec BetaGlucans AS has been held by the CEO of the Group in 2016.

Note 16 Deferred tax asset

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

(Amounts in NOK 1,000)	2016	2015	Change
Non current assets	-36 843	-47 769	-10 926
Gains and loss account	25 902	32 377	6 476
Pensions	16	42	26
Added value non current assets, group consolidated	30 876	49 586	18 710
Total temporary differences	**19 950**	**34 236**	**14 286**
Tax assessment loss carried forward	-393 554	-365 729	27 825
Calculation base deferred tax asset	-373 604	-331 493	42 111
Deferred tax asset, 24% / 25%	**-89 665**	**-82 873**	**6 792**

The Group has excluded from the financial position deferred tax asset of NOK 89.7 million related to temporary differences and tax loss carryforwards, as the company did not meet the criteria for capitalization 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)	2016	2015
Profit before income tax	-20 389	-17 292
Group profit consolidation	-18 645	-17 819
Non deductable expenses	55	19
Non taxable income	-2 551	-1 389
Utilisation of tax loss carried forward	-3 673	-3 556
Changes in temopray differences	14 302	14 876
Tax base	**-30 901**	**-25 161**
Tax expense	0	0

Tax payable is not calculated. Deferred tax asset is not recognized and tax expense thus constitutes NOK 0.

Note 18 Pension costs

The Group has established a defined contribution pension plan compliant to requirements for compulsory occupational pension in Norway. Capitalised pension funds are accounted at fair value. Value as of 31 December 2016 is NOK 37,000. The amount may be used for future payments of pension contributions. The employer's contribution to the plan is 5% between 0 G and 7.1 G, and 8% for salaries between 7.1 G and 12 G.

As of 31.12.2016 the Group paid for 42 members of the scheme.

(Amounts in NOK 1,000)	2016	2015
Total pension costs	**1 366**	**1 173**

Note 19 Other operating revenues

(Amounts in NOK 1,000)	2016	2015
Government grants (note 24)	4 102	4 033
Tax grants "Skattefunn" (note 24)	3 124	2 145
Other grants	208	
Currency gains / losses (-)	-731	1 175
Total other operating revenues	**6 702**	**7 354**

Note 20 Financial income and expense

(Amounts in NOK 1,000)	2016	2015
Interest income	601	1 100
Other financial income / expense(-)	-34	-1 079
Total financial income and expense, net	**567**	**21**

Note 21 Personnel expenses

(Amounts in NOK 1,000)	2016	2015
Salaries	37 406	31 051
Employer's social security contribution	2 606	2 349
Estimated value of share options granted to employees (note 13)	1 773	734
Pension costs (note 18)	1 366	1 173
Total personnel expenses	**43 151**	**35 308**
Number of employees on 31 December:	46	41
Number of FTEs	41,2	35,6

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

Note 22 Other operating expenses

(Amounts in NOK 1,000)	2016	2015
Marketing expenses	1 141	982
Patent and licensing expenses	3 411	2 709
Rental and operation of premises	8 453	7 093
Other operating expenses	6 163	5 978
Total other operating expenses	**19 168**	**16 761**

Note 23 Research and development expenses

According to the Group's accounting policies (note 2.6.b), the development of Woulgan is considered to be the only ongoing development project that meets the IFRS criteria for capitalization in 2016. The Group capitalized NOK 1,054 millon in 2016.

(Amounts in NOK 1,000)	2016	2015
RESEARCH AND DEVELOPMENT EXPENSES:		
Personnel expenses	16 395	14 871
Purchase of external services	3 277	3 951
Other operating expenses	2 379	2 363
Depriciation and amortization	1 853	2 825
Total R&D expenses, not capitalized	**23 904**	**24 010**

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 19):

(Amounts in NOK 1,000)	Grants expiry	2016	2015
FROM RESEARCH COUNSIL OF NORWAY (FORSKNINGSRÅDET):			
Functionalization of enzymes from marine bioprospecting	2016	580	2 165
Enabling new concepts for marine enzymes	2017	2 159	1 253
Phd funding program	2017	702	527
X-press	2019	500	
FROM INNOVATION NORWAY (INNOVASJON NORGE):			
Investment grant for production equipment, distributed over amortization periods	2016	66	88
FROM MABIT:			
Increased protection against sea lice infestation with an activated immune system	2017	28	
FROM TROMS FYLKESKOMMUNE (VRI):			
Better protection against viruses by activating the immune system	2016	97	
FROM HORIZON 2020 (EU)			
Virus X	2020	94	
FROM TAX GRANTS			
"Skattefunn"	Annually	3 124	2 145
Total grants		**7 350**	**6 178**

Note 25 Related party disclosures

Director Olav Flaten owns and operates Hunemo AS. Hunemo AS advises Biotec BetaGlucans AS and invoiced during 2016 services for NOK 8,500 including VAT. Director Inger Rydin owns and operates Inger Rydin AB. Inger Rydin AB is an advisor to Biotec BetaGlucans AS and invoiced during 2016 services for SEK 19,021.
Beyond this, the Group had no transactions with related parties.

Remuneration of Board of Directors and Management

(Amounts in NOK 1,000)	2016				2015				
	Salaries paid	Bonus paid	Pension costs	Other benefits	Salaries paid	Bonus paid	Pension costs	Shares at a discount	Other benefits
Erik Thorsen, Chairman	400				380				
Olav Flaten, Director	171				165				
Inger Rydin, Director	190				175				
Richard Godfrey, Director	99								
Masha LG Strømme, Director	165				99				
Gerd Nilsen, employee repr	820		46	9	792		46	76	8
Gunnar Rørstad, former Director	80				200				
Kjersti Grimsrud, former Director					66				
Svein Lien, CEO	2 799	911	83	26	2 750	407	75		24
Børge Sørvoll, CFO	1 157	174	85	9	1 044		81		8
Rolf Engstad, CSO Biotec BetaGlucans AS	1 313	190	84	17	1 286	132	83	101	16
Jethro Holter, Managing Director ArcticZymes AS	1 265	223	83	9	1 095		81		4
Stuart Devine, VP Global Marketing Woulgan, Biotec Betaglucans AS	1 942	246			186				

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 2016 are, 50% of salary for Svein Lien, 20% of salary for Børge Sørvoll, 25% of salary for Rolf Engstad, and 25% for Jethro Holter. The criteria for bonus payments for 2016 are partly fulfilled. Provisions made in the financial accounts according to the best estimate.

Shares owned or controlled by directors and senior management per 31.12.2016:

	Options	Shares *
Erik Thorsen, Chairman		23 500
Gerd Nilsen, Director, employees' representative	51 000	26 190
Svein Lien, CEO	160 000	510 826
Rolf Engstad, CSO	110 000	320 774
Børge Sørvoll, CFO	82 500	6 216
Jethro Holter, Managing Director ArcticZymes AS	80 000	564
Suart Devine, VP Global Marketing, Biotec Betaglucans AS	30 000	25 187

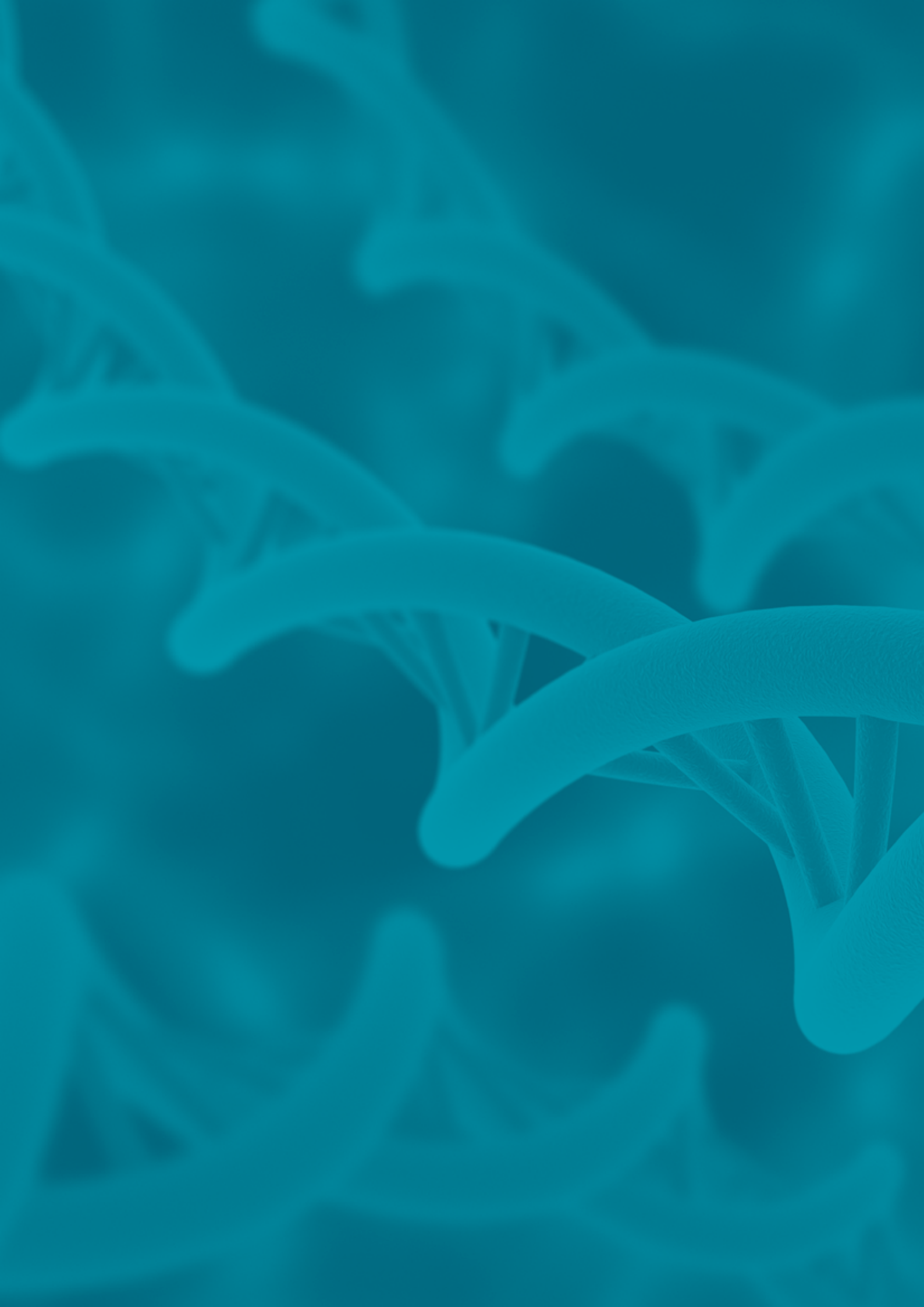
* Including shareholdings of close assosiates

External auditor:
Auditing fees and expenses ex VAT:

(Amounts in NOK 1,000)	2016	2015
Statutory audit	269	202
Other attestation services	4	37
Other services beside auditing	100	19
Total auditing fees and expences	**372**	**257**

Note 26 Events after balance sheet date, 31 December 2016

There are no events of significance to the financial statements for the period from the financial position date to the date of approval; 16 March 2017.



Financial statements – parent company

Financial statement of profit & loss – parent company

I. January till 31. December

(Amounts in NOK 1,000)	Note	2016	2015
Sales revenues	5	14 523	9 936
Other revenues			-2
Total revenues		**14 523**	**9 933**
Personnel expenses	6, 13	-13 708	-12 086
Depreciation and amortization	1	-56	-102
Other operating expenses	6	-6 613	-7 054
Total operating expenses		**-20 377**	**-19 241**
Operating profit / loss (-)		**-5 854**	**-9 308**
Financial income	11	1 446	3 401
Financial expenses	11	-30	-715
Profit/loss(-) before income tax		**-4 437**	**-6 622**
Income tax expense	2	0	0
Net profit/loss(-)		**-4 437**	**-6 622**
Transferrals			
Transferred to other equty		-4 437	-6 622

Financial statement of comprehensive income – parent company

(Amounts in NOK 1,000)	Note	2016	2015
Net profit/loss for the year		-4 437	-6 622
Other income & costs after tax		0	0
Comprehensive income		**-4 437**	**-6 622**

Statement of financial position – parent company

As of 31 December

(Amounts in NOK 1,000)	Note	2016	2015
ASSETS			
NON-CURRENT ASSETS			
Office equipment	1	15	70
Investments in subsidiaries	8, 9	244 537	174 537
Other long term receivables	12, 13		76
Total non-current assets		**244 552**	**174 683**
CURRENT ASSETS			
Accounts receivables	4, 9, 12	1 312	874
Other receivables	4, 9, 12	190	212
Cash and cash equivalents	3, 9, 12	61 135	134 488
Total current assets		**62 637**	**135 574**
Total assets		**307 188**	**310 257**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	7	43 945	43 945
Premium paid in capital		133 378	133 378
Other paid-in capital		44 753	43 027
Other equity		81 725	86 161
Total equity		**303 801**	**306 511**
CURRENT LIABILLITIES			
Accounts payable	12	296	506
Public fees and tax withholdings		701	747
Other current liabilities	10, 12	2 391	2 494
Total current liabilities		**3 388**	**3 746**
Total equity and liabilities		**307 188**	**310 257**

Tromsø, 16 March 2017

Erik Thorsen	**Inger Rydin**	**Olav Flaten**	**Masha Strømme**	**Richard Godfrey**	**Gerd Nilsen**	**Svein W. F. Lien**
Chairman	Director	Director	Director	Director	Director, employee representative	CEO

Statement of changes in equity – parent company

I. January till 31. December

(Amounts in NOK 1,000)	Share capital	Treasury shares	Premium paid-in capital	Other paid-up equity	Total paid-in equity	Other equity	Total
Equity as of 01.01.2015	**43 623**	**0**	**129 224**	**42 327**	**215 175**	**92 783**	**307 958**
Share capital, share options exercised	322		4 154		4 475		4 475
Purchase own shares		-14		-172	-186		-186
Sale own shares		14		137	152		152
Employees' share options				734	734		734
Net profit for the year 2015						-6 622	-6 622
Equity as of 31.12.2015	**43 945**	**0**	**133 378**	**43 027**	**220 349**	**86 161**	**306 511**
Purchase own shares		-18		-230	-230		-230
Sale own shares		18		184	184		184
Employees' share options				1 773	1 773		1 773
Net profit for the year 2016						-4 437	-4 437
Equity as of 31.12.2016	**43 945**	**0**	**133 378**	**44 754**	**222 076**	**81 724**	**303 801**

The Company's share capital consists of 43,944,673 shares as of 31.12.2016.

Statement of cash flow – parent company

I. January till 31. December

(Amounts in NOK 1,000)	Note	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES			
Profit / loss(-) after tax adjusted for:		-4 437	-6 622
Depreciation and amortization	1	56	102
Employees' options, share-based payment expense	6	1 773	734
Changes in working capital			
Account receivables and other receivables	12	-416	-72
Trade and other payables		-359	-96
Net cash flow from operating activities		**-3 383**	**-5 953**
CASH FLOW FROM INVESTING ACTIVITIES			
Investment in subsidiary		-70 000	
Changes in long-term receivables		76	77
Net cash flow from investing activities		**-69 924**	**77**
CASH FLOW FROM FINANCING ACTIVITIES			
Share issue			4 475
Purchase own shares	7	-230	-172
Sale own shares	7	184	137
Net cash flow from financing activities		**-46**	**4 440**
NET CHANGE IN CASH DURING THE YEAR		-73 353	-1 436
Cash and cash equivalents as of 1 January		134 489	135 924
Cash and cash equivalents as of 31 December		**61 135**	**134 489**

Notes to the financial statements for 2016 – 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 2016	Total 2016	Office equipment 2015	Total 2015
Accumulated costs as of 01.01.2016	471	471	471	471
Accumulated depreciation	456	456	401	401
Book value as of 31.12.2016	**15**	**15**	**70**	**70**
This year's depreciation	**56**	**56**	**102**	**102**
Depreciation rate	3-5 years			
Office rentals		2 839		2 778
-hereof sublet to subsidiaries		-2 828		-2 198

Note 2 Tax expense

(Amounts in NOK 1,000)	2016	2015	Change
TEMPORARY DIFFERENCES			
Non current assests	6 211	7 796	-1 585
Gains and loss account	25 901	32 377	-6 476
Pensions	0	43	-43
Total temporary differences	**32 112**	**40 216**	**-8 104**
Tax assessment loss carried forward	-188 016	-191 689	3 673
Calculation base deferred tax asset	**-155 904**	**-151 473**	**-4 431**
Deferred tax asset, 24% / 25%	**-37 417**	**-37 868**	**451**
Profit before income tax	-4 437	-6 621	
Permanent differences	7	1	
Change temporary differeces	8 103	10 176	
Profit before tax loss carried forward	3 673	3 556	
Utilisation of tax loss carried forward	-3 673	-3 556	
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 posision for 2015 nor 2016.

Note 3 Cash and cash equivalents

(Amounts in NOK 1,000)	2016	2015
Cash and bank accounts	60 622	133 910
Tax withdrawal accounts	513	578
Cash and cash equivalents, gross	**61 135**	**134 488**
Joint liability for debt of the subsidiary Biotec BetaGlucans to DNB in accordance with bank account terms for the group.	-12 340	-59 008
Total cash and cash equivalents, net	**48 795**	**75 480**

The Company's bank deposits are included in the group account agreement with DNB. See note 12 for the Group showing the Group's net cash equivalents. See note 11 for the parent company.

Note 4 Receivables

(Amounts in NOK 1,000)	2016	2015
Accounts receivable	1 312	874
Other receivables	190	212
Total receivables	**1 502**	**1 086**

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)	2016		2015	
GEOGRAPHICAL DISTRIBUTION:				
Norway	100 %	14 523	100 %	9 936
Total sales revenues	**100 %**	**14 523**	**100 %**	**9 936**

Note 6 Personnel expenses

(Amounts in NOK 1,000)	2016	2015
Salaries	10 468	9 935
Employer's social security contribution	903	811
Pension costs	348	382
Estimated value of share options granted to employees (note 13)	1 773	734
Other benefits	216	224
Total personnel expenses	**13 708**	**12 086**

2016: 7.6 FTE split between 2.85 men and 4.75 women. *2015:* 7.6 FTE split between 3.6 men and 4.0 women. The company's pension scheme complies with the requirements in regard to compulsary occupational pensions in Norway.

Auditor

Auditing expenses, ex VAT:

(Amounts in NOK 1,000)	2016	2015
Statutory auditing	90	112
Other auditing services	19	
Other services beside auditing	19	19
Total auditing expenses	**128**	**131**

Remuneration of the Board of Directors and management:

(Amounts in NOK 1,000)	2016				2015			
	Salaries paid	Bonus paid	Pension costs	Other benefits	Salaries paid	Bonus paid	Pension costs	Other benefits
Erik Thorsen, Chairman	400				380			
Olav Flaten, Director	171				165			
Inger Rydin, Director	190				175			
Richard Godfrey, Director	99							
Masha LG Strømme, Director	165				99			
Gerd Nilsen, Director, employee repr	75				75			
Gunnar Rørstad, former Director	80				200			
Kjersti Grimsrud, former Director					66			
Svein Lien, CEO	2 799	911	83	26	2 750	407	75	24
Børge Sørvoll, CFO	1 157	174	85	9	1 044		81	8

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 2016 are 50% of salary for Svein Lien, and 20% of salary for Børge Sørvoll. The criteria for bonus payments for 2016 are partly fulfilled.

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

(Amounts in NOK 1,000)	Number of shares	Whereof treasury shares	Share capital
Share capital as of 01.01.2015	43 623 373		43 623
Purschase own shares	14 400	14 400	0
Sale own shares	-14 400	-14 400	0
Share issue, share options execution	321 300		321
Share capital as of 31.12.2015	**43 944 673**	**0**	**43 945**
2016:			
Purschase own shares	17 895	17 895	0
Sale own shares	-17 895	-17 895	0
Share capital as of 31.12.2016	**43 944 673**	**0**	**43 945**

The Annual General Meeting on 11 May 2016 granted three authorizations to the Board:

1. Authorization 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 for issuing new shares are determined by the Board. The authorization had not been exercised as at 31 December 2016. This authorization replaced the authorization granted by the General Meeting on 12 May 2015 and is valid until the AGM in 2017.
2. Authorization to issue up to 1,200,000 shares in connection with share schemes for employees. The authorization is valid until the AGM in 2017. This authorization was not exercised as at 31 December 2016.
3. Authorization to purchase up to 300,000 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 holds no treasury shares as at 31 December 2016. The authorization is valid until the Annual General Meeting in 2017.

See Group note 13 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 %	42 500	2 274	14 953
Biotec BetaGlucans AS	Tromsø	122 037	100 %	202 037	-36 871	24 746

Note 9 Group internal accounts

(Amounts in NOK 1,000)	2016	2015
Receivables from subsidiaries as of 31 December	1 312	896
Liablitities to subsidiaries as of 31 December	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)	2016	2015
Accrued salaries and holiday payment	1 034	1 062
Other accrued costs	1 358	1 431
Total other current liabilities	**2 391**	**2 494**

Book value of current liabilities equals fair value.

Note 11 Financial income and expense

(Amounts in NOK 1,000)	2016	2015
Interest income	1 446	3 401
Total financial income	**1 446**	**3 401**
Impairment loss on unlisted shares	-29	
Interest expense		-715
Total financial expense	**-30**	**-715**
Total financial income and expense, net	**1 417**	**2 686**

Note 12 Financial instruments by category

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

(Amounts in NOK 1,000)	2016	2015
Assets per 31.12		
DEPOSITS AND RECEIVABLES		
Accounts receivable	1 502	1 086
Cash and cash equivalents	61 135	134 488
Total financial instruments	**62 637**	**135 574**

(Amounts in NOK 1,000)	2016	2015
Liabilities per 31.12		
FINANCIAL LIABILITIES AT AMORTISED COST:		
Accounts payable	296	506
Public taxes and witholdings	701	747
Other current liabillities	2 391	2 494
Total trade and other current liabilities	**3 388**	**3 747**

Note 13 Pensions

The company has a defined contribution pension scheme as from I January 2005.

(Amounts in NOK 1,000)	2016	2015
Total pension costs	348	382

Note 14 Events after balance sheet date, 31 December 2016

There are no events of significance to the financial statements for the period from the financial position date to the date of approval; I6 March 2017.

Statement by the Board of Directors and CEO

We confirm, to the best of our knowledge, that the financial statement for the period I. January to the 3I. December 20I6 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, I6. March 2017
Board of Directors Biotec Pharmacon ASA

Erik Thorsen
Chairman

Inger Rydin
Director

Masha Strømme
Director

Olav Flaten
Director

Richard Godfrey
Director

Gerd Nilsen
Director,
employee representative

Svein W. F. Lien
CEO

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Ernst & Young AS

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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, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2016, the statements of other comprehensive income, the statements 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.

In our opinion, the financial statements of Biotec Pharmacon ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2016 and their financial performance 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 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 of the current period. We have determined that there are no key audit matters to communicate in our report.

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.

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 and CEO (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.

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Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determine 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.

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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 in 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 are consistent with the financial statements and complies with the law and regulations.

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 have fulfilled their 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, 16 March 2017
ERNST & YOUNG AS

Kai Astor Frøseth
State Authorised Public Accountant (Norway)

A member firm of Ernst & Young Global Limited

Biotec Pharmacon ASA

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