



QUARTERLY REPORT
Third Quarter
2016

THIRD QUARTER REPORT 2016

Major milestone achieved on listing of shares and capital raise as 2017 approaches – an important year for data

Targovax is a clinical stage company focused on developing novel immuno-oncology therapies to target, primarily, treatment-resistant solid tumors. Immuno-oncology is currently one of the fastest growing therapeutic fields in medicine.

The Company's development pipeline has arisen from two novel proprietary platforms:

The first platform, ONCOS, uses oncolytic viruses, an emerging class of biological therapy. ONCOS exclusively uses an adenovirus that has been engineered to be a tumor-targeted immune activator. The platform has the potential to generate therapies with superior efficacy and safety compared to the first approved oncolytic virus therapy, Imlygic, recently launched by Amgen. We expect proof of concept data related to immune activation in tumor tissue in 2017 from the clinical trial of ONCOS-102 in combination with CPI in patients with refractory malignant melanoma.

The second platform, TG-Peptides, solely targets tumors that express mutated forms of the RAS protein. Mutations to this protein are common in many cancers and are known to drive aggressive disease progression and treatment resistance. There is a high unmet medical need for therapies that are effective against tumors that express these mutations. The TG platform's therapeutic potential stems from its ability to enable a patient's immune system to identify and then destroy tumors bearing any RAS mutations.

The development pipeline has three novel therapeutic candidates in clinical development covering six indications and has already demonstrated promising safety and tolerability data and early signs of clinical response.

Both platforms are protected by an extensive portfolio of IP and know-how and have the potential to yield multiple product candidates in a cost effective manner. Our portfolio of future opportunities comprises a number of early stage development candidates in addition to the three outlined above.

In July 2016 the Company listed its shares on Oslo Axess, securing funding for further development of the Company's ongoing and planned trials.

HIGHLIGHTS FOR THIRD QUARTER 2016 TO 30 SEPT 2016

- Raised NOK 110m (USD¹ 13,7m), gross, in a private placement transaction that concluded in July
- Targovax shares were subsequently listed on the Oslo Axess exchange under the ticker TRVX
- In August, successfully completed an equity offering, raising gross proceeds of NOK 4m (USD 0,5m)
- After Targovax initiated its mesothelioma trial, The International Journal of Cancer published preclinical in-vivo data demonstrating synergy of ONCOS-102 with pemetrexed and cisplatin

¹ USD 8.052 as per end of period (30 September 2016)

- Anne-Sophie Møller joined the Company as Director of Clinical Science
- Net loss for the third quarter 2016 was NOK 26m (USD 3m) vs 3Q15 NOK 29m (USD 4m)
- Cash and cash equivalents at 30 September 2016 was NOK 193m (USD 24m) vs NOK 107m (USD 13m) 30 June 2016, following equity capital raises of gross NOK 114m (USD 14m)

POST-PERIOD HIGHLIGHTS

- In November, Øystein Soug succeeded Gunnar Gårdemyr as CEO
- Targovax was granted European Patent for ONCOS platform lead product, ONCOS-102, extending patent coverage following award of similar US patent in May. These patents expire in 2029
- A temporary supply interruption of ONCOS-102 will delay administration of drug to the first half of 2017. While the key proof of concept data readout from the melanoma trial in late 2017 will not be materially affected, the data readouts from the mesothelioma trial and the two partnered trials will, as a consequence, be delayed by one to six months

Key figures:

Amounts in NOK thousands	3Q 2016	3Q 2015	9M 2016	9M 2015	2015
Total operating revenues	33	144	33	144	146
Total operating expenses	-24 841	-29 478	-88 256	-48 997	-89 762
Operating profit/loss	-24 808	-29 333	-88 224	-48 853	-89 616
Net financial items	-938	564	-2 492	577	-269
Income tax	114	26	176	26	-1 930
Net profit/loss	-25 632	-28 743	-90 539	-48 250	-91 816
Basic and diluted EPS (NOK/share)	-0.61	-1.07	-2.83	-3.17	-5.06
Net change in cash	85 253	162 228	18 606	144 141	111 345
Cash and cash equivalents start of period	107 251	44 465	173 898	62 552	62 552
Cash and cash equivalents end of period	192 504	206 694	192 504	206 694	173 898

Merger² with Oncos completed on July 2015

Øystein Soug, Targovax's Chief Executive Officer said: "During the third quarter of 2016 we achieved a major milestone in the Company's history as we listed our shares on the Oslo Stock Exchange and began life as a public company. The new capital we raised as part of this process has allowed us to make good progress in the clinical programs arising from our two platform technologies. Looking forward, we continue to expect 2017 to contain important value inflection points as some of these clinical programs generate meaningful data and we will look to prioritize our pipeline based on these results".

² The combination of Targovax AS and Oncos Therapeutics Oy was technically an acquisition, where Targovax acquired all shares in Oncos and Oncos's shareholders were paid in new Targovax shares. It was nevertheless a merger of equals and is referred to as a merger.

OPERATIONAL REVIEW

During the period Targovax continued development of its product candidates, both through its own clinical trials and through collaborations.

Targovax's strategy is to apply its two immunotherapeutic technologies in multiple indications. The Company intends to retain the option to bring products to market directly, particularly in orphan indications or to partner with pharmaceutical companies.

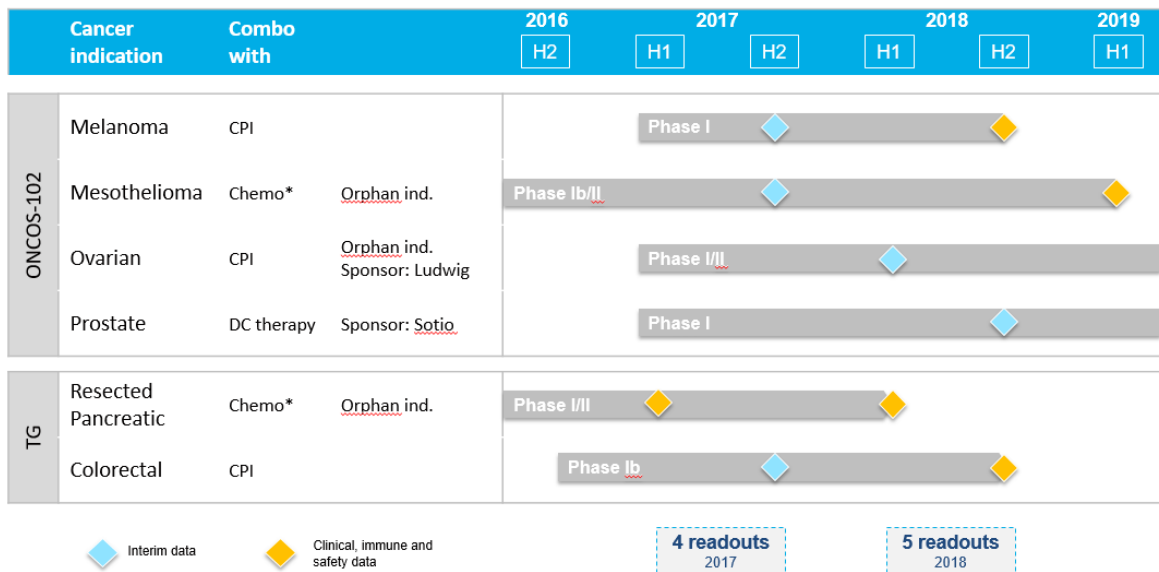
Currently, Targovax has:

- **two** technology platforms
- **three** product candidates in development

- **four** orphan drug indications
- **six** combination trials ongoing or about to start
- **nine** planned readouts anticipated in 2017 and 2018

A quality matter leading to a re-supply of ONCOS-102 clinical medication has caused a temporary delivery interruption. The Company now expects to dose patients in the affected ONCOS studies in the first half of 2017 (previously the end of 2016). Targovax does not anticipate that this delay of estimated one to six months will materially impact when data from the melanoma trial in patients progressing after CPI treatment will be available.

Clinical development program



* In combination with Standard of Care Chemotherapy: Pemetrexed/cisplatin for Mesothelioma and Gemcitabine for Resected Pancreatic



CLINICAL DEVELOPMENT

ONCOS-102 IN MELANOMA

The melanoma trial is an open-label Phase I trial exploring the safety and immune activation as well as clinical response of sequential treatment

with ONCOS-102 and a checkpoint inhibitor in patients with advanced melanoma progressing after treatment with checkpoint inhibitors. The goal of the trial is to investigate whether these patients will respond to a checkpoint inhibitor (pembrolizumab) after the ONCOS-102 priming

treatment. The trial is planned to include approximately 12 patients in the US and will, according to the new timeline, commence in the first half of 2017. Preliminary immune activation data of initial treatments will constitute proof of concept in refractory melanoma and are expected in the second half of 2017. Clinical results from the sequential treatment are expected in second half of 2018.

ONCOS-102 IN MESOTHELIOMA

This trial is a randomized Phase II open label trial with a Phase Ib safety lead-in of ONCOS-102 and pemetrexed/cisplatin, the standard of care chemotherapy, in patients with unresectable malignant pleural mesothelioma. The trial is planned to include six patients in the lead-in for safety evaluation of the combination treatment, and approximately 24 patients in a randomized part to compare the tumor targeted immune activation of the combination treatment with the standard of care chemotherapy.

The trial is presently on hold due to delay with trial medication as mentioned above. In June 2016 Targovax announced that the first patient had been recruited into the safety cohort and dosed. Recruitment will recommence in the first half of 2017.

TG01 IN PANCREATIC CANCER

Targovax has an ongoing open label, Phase I/II clinical trial with TG01-treatment,³ and gemcitabine (chemotherapy) as adjuvant therapy for treating patients with resected adenocarcinoma of the pancreas. The trial has included two cohorts; a first cohort of 19 patients and a second cohort of 13 patients on a modified vaccination schedule. Last patient first visit was in May 2016 and the patients will be followed up for 24 months. The results, including two-year survival data for first cohort, will be available in first half 2017 and for second cohort in first half 2018.

In March 2015, Targovax showed that TG01, administered in combination with gemcitabine, induced and enhanced RAS specific T-cell immune responses.

³ TG01 and TG02 are administered together with GM-CSF.

In March 2016, Targovax conducted a pre-determined interim survival analysis of the first cohort indicating promising survival data. Of the 19 patients included in the cohort, 15 patients provided consent to be followed up for survival and four patients did not. The 1-year survival data showed that 14 out of these 15 patients were alive and one had passed away due to causes assessed by the investigator as unrelated to the patients underlying cancer. The regimen was generally well tolerated.

In April 2016, Targovax reviewed interim data for early immune activation (DTH responses) in the modified vaccination cohort. Four out of the five first recruited patients (of a total of 13 patients) showed an eight-week immune response. These results were in line with the analysis of the first cohort (in March 2015) where 18 out of 19 patients were eligible for immune response assessment and 15 patients had established a detectable early immune response.

TG02 IN COLORECTAL CANCER

This is an open label, non-randomized Phase Ib exploratory trial to determine safety and anti-tumor immune activation of TG02, first as monotherapy (ten patients) then in combination with pembrolizumab, a checkpoint inhibitor (ten patients), in patients with locally recurrent rectal cancer scheduled to have surgery.

Currently, the plan is to include all patients in Australia and New Zealand. The trial was recently opened for recruitment.

CLINICAL TRIALS WITH COLLABORATION PARTNERS

In late 2015, Targovax entered into agreements with US-based Ludwig Cancer Research (LCR) and Cancer Research Institute (CRI). Targovax also entered into an agreement with the Czech biotech company Sotio. The intention of both collaborations is to execute joint clinical trials.

Through these collaborations, Targovax gets access to leading expertise and extensive clinical trial networks.

The joint trial with Ludwig and CRI includes testing and evaluation of ONCOS-102 in

combination with other synergistic immunotherapies, such as checkpoint inhibitors, in various oncology indications.

The objective of the Sotio collaboration is to evaluate in the clinic the safety and tolerability of combining ONCOS-102 with Sotio's dendritic cell therapy DCVAC/PCa in prostate cancer patients.

In both cases, the sponsor of the trial will be the collaboration partner. The plan is to recruit the first patients into both these trials during the first half of 2017. After the first patient have been recruited, details about the trials and combination products will be made public.

PRECLINICAL DEVELOPMENT

The International Journal of Cancer published preclinical in-vivo data in a mesothelioma xenograft model, demonstrating synergy of ONCOS-102 with pemetrexed and cisplatin. These findings support the rationale for the ongoing trial of ONCOS-102 in combination with pemetrexed and cisplatin, the current standard of care in malignant pleural mesothelioma, in patients suffering from malignant mesothelioma⁴.

IPR / MARKET EXCLUSIVITY

Targovax owns a patent portfolio protecting its pipeline with different families of patents and patent applications covering its product candidates in development as well as potential future product candidates. The Company continuously works to strengthen its patent portfolio.

The Company has Orphan Drug status for ONCOS-102 within mesothelioma, ovarian cancer and soft tissue sarcoma⁵ in the EU and USA, ensuring ten and seven years of market protection respectively from the date of market approval. TG01 in pancreatic cancer has previously been granted Orphan Drug status in the EU and USA. In June, Targovax was granted a US patent for its oncolytic virus product ONCOS-102. Post period a similar European patent was granted. Both patents expire in 2029.

⁴ Ref. "Synergistic anti-tumor efficacy of immunogenic adenovirus ONCOS-102 (Ad5/3-D24-GM-CSF) and standard of care chemotherapy in preclinical mesothelioma model" Lukasz Kuryk et al, IJC, 2016.

⁵ Targovax has no ongoing trials in soft tissue sarcoma.

FINANCIAL REVIEW

Targovax merged with Oncos on 2 July 2015, therefore the figures in this report include the financial impact of Oncos from that date. Figures in parenthesis in this section are from the comparable period in 2015.

RESULTS THIRD QUARTER 2016

As a pre-commercial R&D-focused biotech company, Targovax does not have core business revenues.

Operating expenses during the third quarter amounted to NOK 25m (29m).

The operating expenses principally reflect R&D activity in the business as well as expensed IPO-related costs, offset by a reduction in consultancy fee versus those in prior year period.

The net loss amounted to NOK 26m during the quarter (29m).

RESULTS FIRST NINE MONTHS 2016

Operating expenses amounted to NOK 88m (49m) during the period. The prior year comparison include the impact of Oncos only from June 2015.

The net loss for the first nine months 2016 amounted to NOK 91m (48m).

FINANCIAL POSITION AND CASH FLOW

In July 2016, Targovax raised NOK 110m in new equity, issuing 14,685,000 shares at NOK 7.50 per share. The transaction closed on 7 July 2016 and Targovax listed on Oslo Axess under the ticker TRVX. In August 2016, Targovax raised an additional NOK 4m in a subsequent repair offering.

Proceeds from the placement have been allocated to funding clinical trials and general corporate purposes.

Net cash at the end of the quarter amounted to NOK 193m, compared to NOK 107m three months previously and NOK 174m at the end of 2015. The change in net cash level was driven by the NOK 106m net capital increase in third quarter, offset primarily by operating activities.

Net cash flow from operating activities during the third quarter was negative by NOK 20m, compared to negative NOK 34m in the second quarter.

In third quarter 2016 TEKES issued additionally EUR 0.1m to an existing TEKES loan, and by the end of the period, Targovax's interest bearing debt amounted to NOK 39m, all from TEKES, the Finnish Funding Agency for Technology and Innovation.

SHARE INFORMATION

Targovax listed its shares on 8 July 2016 on Oslo Axess. After the private placement and the subsequent offering, there are 42,1m shares outstanding, currently distributed to approx. 760 shareholders. The 20 largest shareholders control some 80 percent of the shares. The estimated share ownership situation on 1 November 2016:

	Shareholder	Estimated ownership	
		Shares m	Relative
1	HealthCap Sweden	11,2	26,5 %
2	RadForsk Norway	4,1	9,7 %
3	Nordea Norway	2,7	6,5 %
4	Datum Invest AS Norway	2,4	5,7 %
5	Rasmussengruppen Norway	2,1	5,0 %
6	KLP Norway	2,1	4,9 %
7	Statoil Norway	0,8	2,0 %
8	Danske Bank (nom.) Denmark	0,8	1,8 %
9	Swedbank Norway	0,7	1,7 %
10	Timmuno AS Norway	0,7	1,7 %
11	Prieta AS Norway	0,7	1,7 %
12	Nordnet Bank AB (nom.) Sweden	0,7	1,7 %
13	Pohjola Finland	0,6	1,4 %
14	Sundt AS Norway	0,6	1,3 %
15	Birk Venture AS Norway	0,5	1,2 %
16	Eltek Holding AS Norway	0,4	1,0 %
17	Pactum AS Norway	0,4	0,9 %
18	Artic Funds Norway	0,4	0,9 %
19	DNB Norway	0,4	0,9 %
20	Spar Kapital Investor AS Norway	0,3	0,8 %
	Top 20	32,6	77,5 %
	Total	42,1	

The closing price on 30 September 2016 was NOK 9.25 per share, corresponding to a market capitalization of NOK 390m.

RISKS AND UNCERTAINTY FACTORS FOR THE SECOND HALF 2016

The Company's business is exposed to a number of general operational and financial risks which have been explained in Targovax's

annual report 2015 as well as in the recent prospectus, both available on www.targovax.com.

OUTLOOK

Targovax's focus during the next 12-15 months continues to be to start and progress the previously described trials with lead program ONCOS-102 in melanoma and TG02 in colorectal cancer. In addition, the Company will advance the ongoing trial of ONCOS-102 in mesothelioma and continue the follow-up phase of the TG01 trial in resected pancreatic cancer.

Furthermore, Targovax, together with its clinical trial collaborators Ludwig/CRI and Sotio are planning to start trials in various solid tumor indications.

Targovax is expecting a number of separate data readouts next year, with the first being in the first half 2017. Importantly, the Company believes the interim data readout in the second half of 2017 from the earlier-mentioned Phase I trial of ONCOS-102 in advanced melanoma patients will provide a meaningful clinical proof of concept for the ONCOS platform and is set to be a key value inflection point for the Company.

Oslo, 16 November 2016

The Board of Directors of Targovax ASA

Jonas Einarsson
Chairman of the Board

Per Samuelsson
Board member

Bente-Lill Romøren
Board member

Lars Lund-Roland
Board member

Johan Christenson
Board member

Robert Burns
Board member

Eva-Lotta Allan
Board member

Diane Mellett
Board member

Øystein Soug
Chief Executive Officer

Third quarter and 9 month accounts 2016

Condensed consolidated statement of profit and loss

<i>(Amounts in NOK thousands except per share data)</i>	Note	Unaudited 3Q 2016	Unaudited 3Q 2015	Unaudited 9M 2016	Unaudited 9M 2015	2015
Other revenues		33	144	33	144	146
Total revenue		33	144	33	144	146
External R&D expenses	3.4	-10 690	-5 343	-33 188	-10 722	-25 231
Payroll and related expenses	5,11	-10 370	-13 304	-35 855	-19 991	-35 431
Other operating expenses	3.4	-3 781	-10 831	-19 214	-18 284	-29 100
Total operating expenses		-24 841	-29 478	-88 256	-48 997	-89 762
Operating profit/ loss (-)		-24 808	-29 333	-88 224	-48 853	-89 616
Financial income		236	1 572	692	1 954	2 339
Financial expenses	7	-1 174	-1 007	-3 184	-1 377	-2 608
Net financial items		-938	564	-2 492	577	-269
Loss before income tax		-25 746	-28 769	-90 716	-48 276	-89 885
Income tax expense		114	26	176	26	-1 930
Loss for the period		-25 632	-28 743	-90 539	-48 250	-91 816
Earnings/ loss (-) per share						
Basic and dilutive earnings/ loss (-) per share	10	-0.61	-1.07	-2.83	-3.17	-5.06

Consolidated statement of other comprehensive income / loss (-), net of income tax

<i>(Amounts in NOK thousands except per share data)</i>	3Q 2016	3Q 2015	9M 2016	9M 2015	2015
Income / loss (-) for the period	-25 632	-28 743	-90 539	-48 250	-91 816
Items that may be reclassified to profit or loss:					
Exchange differences arising from the translation of foreign operations	-11 908	19 585	-18 643	19 585	21 793
Total comprehensive income/ loss (-) for the period	-37 540	-9 158	-109 183	-28 665	-70 023
Total comprehensive income/ loss (-) for the period attributable to owners	-37 540	-9 158	-109 183	-28 665	-70 023

Condensed consolidated statement of financial position

<i>(Amounts in NOK thousands)</i>	Note	Unaudited 30/09/2016	Unaudited 30.09.2015	31/12/2015
ASSETS				
Intangible assets	6	334 505	354 559	358 070
Property, plant, and equipment		1 333	1 525	1 590
Total non-current assets		335 838	356 084	359 659
Receivables		17 992	14 546	11 557
Cash and cash equivalents		192 504	206 694	173 898
Total current assets		210 496	221 240	185 455
TOTAL ASSETS		546 334	577 324	545 114
EQUITY AND LIABILITIES				
Shareholders equity				
Share capital	9	4 213	2 686	2 688
Share premium reserve		627 447	522 317	522 502
Other reserves		17 798	3 633	6 957
Retained earnings		-221 606	-87 415	-131 067
Translation differences		3 150	19 597	21 793
Total equity		431 002	460 818	422 873
Non-current liabilities				
Interest-bearing liabilities	7	38 971	37 112	38 112
Deferred tax		54 767	56 261	58 709
Total non-current liabilities		93 738	93 373	96 821
Current liabilities				
Accounts payable and other current liabilities		5 979	8 091	6 307
Accrued public charges		2 045	1 359	1 826
Other short-term liabilities		13 570	13 683	17 287
Total current liabilities		21 593	23 133	25 420
TOTAL EQUITY AND LIABILITIES		546 334	577 324	545 114

Condensed consolidated statement of changes in equity

<i>(Amounts in NOK thousands)</i>	Note	Share capital	Share premium	Other reserves	Translation differences	Retained earnings (Accumulated losses)	Total equity
Balance at 1 January 2015		943	97 792	780	-	-38 841	60 673
Loss for the period						-48 250	-48 250
Exchange differences arising from the translation of foreign operations		-	-	-	19 585	-	19 585
Other comprehensive income/loss, net of tax		-	-	-	-	-	-
Total comprehensive income for the period					19 585	-48 250	-28 665
Issue of ordinary shares - Acquiring Oncos Therapeutics OY	9	943	234 792	-	-	-	235 735
Transaction costs - Oncos Therapeutics OY			-260	-	-	-	-260
Issue of ordinary shares - Capital increase - Private Placement	9	800	199 200	-	-	-	200 000
Transaction costs - Private Placement			-9 207	-	-	-	-9 207
Reclassification of share-based payment Oncos Therapeutics OY		-	-	177	-	-177	-
Recognition of share-based payments	11	-	-	2 676	-	-	2 676
Balance at 30 September 2015		2 686	522 317	3 633	19 585	-87 269	460 952
Loss for the period						-43 565	-43 565
Exchange differences arising from the translation of foreign operations		-	-	-	2 208	-	2 208
Other comprehensive income/loss, net of tax		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	2 208	-43 565	-41 358
Share issuance, employee share options	9	3	185	-	-	-	188
Reclassification of share-based payment Oncos Therapeutics OY		-	-	233	-	-233	-
Recognition of share-based payments	11	-	-	3 092	-	-	3 092
Balance at 31 December 2015		2 688	522 502	6 957	21 793	-131 067	422 873
Loss for the period						-90 539	-90 539
Exchange differences arising from the translation of foreign operations		-	-	-	-18 643	-	-18 643
Other comprehensive income/loss, net of tax		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	-18 643	-90 539	-109 183
Issue of ordinary shares - Capital increase - Private Placement and repair	9	1 523	112 692	-	-	-	114 215
Transaction costs - Private Placement and repair offering			-7 728	-	-	-	-7 728
Share issuance, employee share options	9	2	-18	-	-	-	-16
Recognition of share-based payments & RSU's	11	-	-	10 840	-	-	10 840
Balance at 30 September 2016		4 213	627 447	17 798	3 150	-221 606	431 002

Condensed consolidated statement of cash flow

<i>(Amounts in NOK thousands)</i>	Note	Unaudited Q3 2016	Unaudited Q3 2015	Unaudited 9M 2016	Unaudited 9M 2015	FY 2015
Cash flow from operating activities						
Loss before income tax		-25 746	-28 769	-90 716	-48 276	-89 885
<i>Adjustments for:</i>						
Finance income		-236	-1 572	-692	-1 954	-2 339
Finance expense		1 174	1 007	3 184	1 377	2 608
Share option expense	11	1 825	1 236	10 840	2 694	5 717
Depreciation		71	63	214	81	148
Change in receivables		-868	-1 636	-6 435	-5 894	-3 026
Change in other current liabilities		3 737	383	-2 998	4 617	5 887
Net cash flow from/(used in) operating activities		-20 043	-29 287	-86 602	-47 356	-80 890
Cash flow from investing activities						
Purchases of property, plant, and equipment (PPE)		-	-36	-19	-53	-158
Acquisition of subsidiary, net of cash acquired			1 313		1 313	1 313
Net cash received from/(paid in) investing activities		-	1 277	-19	1 260	1 155
Cash flow from financing activities						
Interest received		-22	-2			1 009
Interest paid	7	-167		-396	-4	-526
Other finance expense		-220	-	-314	-	-
Share issue expense - Acquisition of Oncos OY			-260	-	-260	-260
Share issue expense - Private Placement and repair offering		-7 728	-9 207	-7 728	-9 207	-9 207
Proceeds from issuance of shares -Private Placement and repair offering		114 215	200 000	114 215	200 000	200 000
Proceeds from exercise of options				-16	-	188
Net cash generated from financing activities		106 099	190 531	105 761	190 529	191 204
Net increase/(decrease) in cash and cash equivalents		86 056	162 521	19 139	144 434	111 468
Net exchange gain/loss on cash and cash equivalents		-803	-292	-533	-292	-123
Cash and cash equivalents at beginning of period		107 251	44 465	173 898	62 552	62 552
Cash and cash equivalents at end of period		192 504	206 694	192 504	206 694	173 898

Notes

1. General information

Targovax ASA ("the Company") and its subsidiaries (together the Group) is a clinical stage immuno-oncology company dedicated to the development of targeted immunotherapy treatments for cancer patients.

The Group is targeting complementary approaches to cancer immunotherapy: A cancer vaccine platform developed for patients with RAS-mutated cancers and an immunotherapy platform based on engineered oncolytic viruses armed with potent immune-stimulating transgenes for patients with solid tumors. Both treatment approaches harness the patient's own immune system to fight the cancer.

The Company is a limited public liability company incorporated and domiciled in Norway and listed on the Oslo Axess Stock Exchange in Norway. The address of the registered office is Lilleakerveien 2C, 0283 Oslo, Norway.

The condensed interim financial information is unaudited. These financial statements were approved for issue by the Board of Directors on 16 November, 2016.

2. Accounting principles

The interim condensed consolidated financial statements for the Group are prepared using the same accounting principles and calculation methods as used for the statutory, annual financial statements 2015 for Targovax ASA.

The accounting principles used have been consistently applied in all periods presented, unless otherwise stated.

Amounts are in thousand Norwegian kroner unless stated otherwise. The functional currency of the Group is NOK (Norwegian kroner).

2.1 Basis of preparation

The quarterly financial statements of the Group have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU.

2.2 Standards and interpretations in issue but not yet adopted

At the date of authorization of these quarterly financial statements, there are no Standards or Interpretation that have been issued where the Management considers any material impact.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 September 2016. The subsidiaries include Targovax OY, located in Helsinki, Finland and Oncos Therapeutics AG, Meggen, Switzerland, all 100% owned and controlled subsidiaries. Targovax OY is the parent company of Oncos Therapeutics AG.

2.4 Going concern

As a result of the private placement and the subsequent offering in the third quarter 2016 and the current liquidity situation, Targovax's Directors expect that the Group has available financial resources sufficient for all planned activities, notably six clinical trials, in the next twelve months as of 16 November 2016. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. Research and development expenses

The Group is developing new products. Uncertainties related to the regulatory approval process and results from ongoing clinical trials, generally indicate that the criteria for asset recognition is not met until the time when marketing authorization is obtained from relevant regulatory authorities.

The following research and development expenditures have been expensed:

(Amounts in NOK thousands)	3Q 2016		3Q 2015		9M 2016		9M 2015		2015	
	Total	R&D	Total	R&D	Total	R&D	Total	R&D	Total	R&D
External R&D expenses	10 690	10 690	5 343	5 343	33 188	33 188	10 722	10 722	25 231	25 231
Payroll and related expenses	10 370	4 113	13 304	4 145	35 855	16 090	19 991	6 864	35 431	13 497
Other operating expenses	3 781	360	10 831	41	19 214	961	18 284	248	29 100	384
Total	24 841	15 164	29 478	9 529	88 256	50 238	48 997	17 834	89 762	39 111

4. Government grants

Government grants have been recognized in profit or loss as a reduction of the related expense with the following amounts:

(Amounts in NOK thousands)	3Q 2016	3Q 2015	9M 2016	9M 2015	2015
External R&D expenses	526	839	5 131	5 402	6 891
Payroll and related expenses	245	290	1 515	2 273	2 225
Other operating expenses	18	-	55	-	-
Total	789	1 129	6 701	7 675	9 115

For the period 2013 through 2016, the Group has been awarded a grant from The Research Council (program for user-managed innovation arena (BIA)) of NOK 12.4m in total. For the first nine months and third quarter 2016, the Group has recognized NOK 2.1m and NOK 0.0m as cost reduction in External R&D expenses, Payroll and related expenses and Other Operating expenses.

R&D projects have been approved for SkatteFunn for the period 2011 through 2016. For the first nine months and third quarter 2016, the Group has recognized NOK 4.6m and NOK 0.8m as cost reduction in External R&D expenses, Payroll and related expenses and Other Operating expenses.

5. Payroll and related expenses

Total payroll and related expenses for the Group are:

(Amounts in NOK thousands)	3Q 2016	3Q 2015	9M 2016	9M 2015	2015
Salaries and bonus	7 076	10 604	21 329	16 429	26 154
Employer's national insurance contributions	895	1 023	2 600	1 805	3 278
Share-based compensation ¹	1 825	1 205	10 840	2 663	5 875
Pension expenses – defined contribution plan	637	668	1 865	935	1 723
Other	183	94	736	432	626
Governmental grants	-245	-290	-1 515	-2 273	-2 225
Total payroll and related expenses	10 370	13 304	35 855	19 991	35 431
1) Share-based compensation has no cash effect.					

Number of employees calculated on a full-time basis as at end of period	28.7	23.5	28.7	23.5	26.5
Number of employees as at end of period	29	24	29	24	27

6. Intangible assets

Recognized intangible assets in the Group amounts to NOK 335m as of 30 September 2016. This is a decrease, as of 31 December 2015, from NOK 358m due to NOK/EUR foreign exchange fluctuations. The intangible assets are derived from the acquisition of Oncos Therapeutics OY, which was completed in July 2015.

The intangible assets are related to the development of ONCOS-102, which is a virus-based immunotherapy platform.

Intangible assets are tested for impairment at least annually, or when there are indications of impairment.

As per 30 September, the market value of the Company, according to shares traded on the Oslo Axess, was NOK 390m, which is NOK 41m less than book value of equity. However, the impairment test assessed as at 30 September, based on the same impairment test as at 31 December 2015 with updated key assumptions as per 30 September 2016, indicated that the value of the intangible assets was NOK 409m which exceeds the book value with NOK 75m. Hence, no need for impairment of the intangible assets as at 30 September. See note 16 in the Annual Report 2015 for more information about the impairment test.

7. Interest bearing debt (TEKES)

The Group has received three R&D loans, for the commercialization of ONCOS-102, from TEKES under loan agreements dated September 2010, January 2012 and December 2013, respectively, in the total outstanding amount of EUR 5 989 293 as of 30 September 2016. This includes an additional loan approval of EUR 146 981 to one of the existing TEKES loans during the third quarter of 2016.

TEKES is a publicly financed funding agency that finances research and development activities for young innovative companies in Finland. No new TEKES loans have been issued during the first nine months of 2016. Consequently, no grant element is recognized. Amortized interests are charged to financial expenses amounting to NOK 2.1m during the first nine months of 2016 and NOK 0.7m during third quarter of 2016.

See note 22 in the Annual Report 2015 for more information about the TEKES loans.

8. Fair value of financial instruments

The carrying value of receivables, cash and cash equivalents, borrowings, deferred tax, and other short-term payables and accrued liabilities are assessed to approximate fair value.

(Amounts in NOK thousands)	9M 2016		9M 2015		FY 2015	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Receivables	17 992	17 992	14 546	14 546	11 557	11 557
Cash and cash equivalents	192 504	192 504	206 694	206 694	173 898	173 898
Total financial assets	210 496	210 496	221 240	221 240	185 455	185 455
Interest-bearing borrowings	38 971	38 971	37 112	37 112	38 112	38 112
Deferred tax	54 767	54 767	56 261	56 261	58 709	58 709
Accounts payable and other current liabilities	5 979	5 979	8 091	8 091	6 307	6 307
Accrued public charges	2 045	2 045	1 359	1 359	1 826	1 826
Other short-term liabilities	13 570	13 570	13 683	13 683	17 287	17 287
Total financial liabilities	115 332	115 332	116 506	116 506	122 241	122 241

The tables below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices including Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs in asset or liability that are not based on observable market data (that is, unobservable inputs)

As at 30 September 2016:

(Amounts in NOK thousands)	Level 1	Level 2	Level 3	Total
Interest-bearing borrowings	-	-	38 971	38 971
Total financial instruments at fair value	-	-	38 971	38 971

As at 30 September 2015:

(Amounts in NOK thousands)	Level 1	Level 2	Level 3	Total
Interest-bearing borrowings	-	-	37 112	37 112
Total financial instruments at fair value	-	-	37 112	37 112

As at 31 December 2015:

(Amounts in NOK thousands)	Level 1	Level 2	Level 3	Total
Interest-bearing borrowings	-	-	38 112	38 112
Total financial instruments at fair value	-	-	38 112	38 112

9. Share capital and number of shares

Share capital as at 30 September 2016 is 4 213 400.10 (30 September 2015: 2 685 881) comprising 42 134 001 ordinary shares at nominal value NOK 0.10 (30 September 2015: 26 858 808 at NOK 0.10). All shares carry equal voting rights.

The movement in the number of shares during the period was as follows:

	Q3 2016	Q3 2015	9M2016	9M2015	FY 2015
Ordinary shares at beginning of period	26 905 367	9 429 404	26 883 808	9 429 404	9 429 404
Share issuance - private placement and repair offering	15 228 634	8 000 000	15 228 634	8 000 000	8 000 000
Aquisition of Oncos Therapeutics OY	0	9 429 404	0	9 429 404	9 429 404
Share issuance, employee share options	0	0	21 559	0	25 000
Ordinary shares at end of period	42 134 001	26 858 808	42 134 001	26 858 808	26 883 808

The 20 largest shareholders are as follows at 30 September 2016:

Shareholder	# shares	%
HealthCap	11 155 584	26.5 %
Radiumhospitalets Forskningsstiftelse	4 077 255	9.7 %
Datum Invest AS	2 385 194	5.7 %
VPF Nordea Avkastning	1 295 421	3.1 %
Verdipapirfondet KLP AksjeNorge	1 260 000	3.0 %
VPF Nordea Kapital	1 162 289	2.8 %
Portia AS	950 000	2.3 %
Cipi Lamp UCITS Swedbank SMB	818 100	1.9 %
Kommunal Landspensjonskasse	803 333	1.9 %
Timmuno AS	724 650	1.7 %
Prieta AS	720 000	1.7 %
Nordnet Bank AB	669 616	1.6 %
Statoil Pensjon	668 916	1.6 %
Cressida AS	650 000	1.5 %
Op-Europe Equity Fund	607 869	1.4 %
Danske Bank AS	595 696	1.4 %
Sundt AS	591 666	1.4 %
Birk Venture AS	512 313	1.2 %
Artic Funds	507 000	1.2 %
Viola AS	500 000	1.2 %
20 largest shareholders	30 654 902	72.8 %
Other shareholders (667)	11 479 099	27.2 %
Total shareholders	42 134 001	100.0 %

HealthCap, Radiumhospitalets Forskningsstiftelse, Timmuno AS and Prieta AS have entered into lock-up agreements for their shares for the day falling 6 months after the completion of the private placement 6 July 2016.

Shareholdings Key management

The following table provides the total number of shares owned by the key management of the Group and member of the Board of Directors as of 30 September 2016:

Name	Position	No. of shares outstanding at 30 September 2016
Key management:		
Jon Amund Eriksen	Chief Technology Innovation Officer	724 650 ¹⁾
Øystein Soug	Chief Financial Officer	100 000 ²⁾
Antti Vuolanto	Executive VP	61 773
Gunnar Gårdemyr	Chief Executive Officer	40 000
Magnus Jäderberg	Chief Medical Officer	20 000
Anne-Kirsti Aksnes	VP, Clinical Development	12 000
Peter Skorpil	VP, Business Development	10 000
Berit Iversen	Head of CMC	7 587
Tina Madsen	VP, Quality Assurance	4 800
Total no. of shares owned by key management of the Group		980 810
Board of directors:		
Robert Burns	Board member	34 063
Total no. of shares owned by the Board of Directors of the Group		34 063

1 The shares are held through Timmuno AS

2 The shares are held through Abakus Invest AS. Øystein Soug succeeded Gunnar Gårdemyr as CEO in November 2016.

Jonas Einarsson, Chairman of the Board of Directors, is CEO in the Radium Hospital Research Foundation Johan Christenson and Per Samuelsson, both Member of the Board, are partners at HealthCap

10. Earnings per share

Amounts in NOK thousand	Q3 2016	Q3 2015	9M 2016	9M 2015	FY 2015
Loss for the period	-25 632	-28 743	-90 539	-48 250	-91 816
Average number of outstanding shares during the period	42 134	26 859	31 974	15 239	18 150
Earnings/loss per share - basic and diluted	-0.61	-1.07	-2.83	-3.17	-5.06

Share options issued have a potential dilutive effect on earnings per share. No dilutive effect has been recognized as potential ordinary shares only shall be treated as dilutive if their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. As the Group is currently loss-making, an increase in the average number of shares would have anti-dilutive effects.

11. Share based payment

At the Extraordinary General Meeting in September 2015 the Board was authorized to increase the Group's share capital in connection with share incentive arrangements by up to 10% of the Share capital. The authorization was renewed at the Ordinary general meeting in April 2016.

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in Targovax ASA.

Each share option converts into one ordinary share of the Company on exercise. Options may be exercised at any time from the date of vesting until expiry. The options generally vest over a period of

four years and expire seven years after the grant date. In general, the exercise price of the options is set at the fair value of the shares at grant date.

During the first nine months of 2016, additional 85 000 share options were granted to other employees, 21 559 were exercised and 249 207 were forfeited. A total of 2 360 123 options were outstanding at 30 September 2016.

The fair value of the options has been calculated at grant date. The fair value of the options was calculated using the Black-Scholes model. The expected volatility for options issued in first nine months 2016 is estimated at average of 83%, based on the volatility of comparable listed companies. The volume weighted average interest rate applied to the share options grants in first nine months 2016 is 0.67%.

	9M 2016		FY 2015	
	No. of options	Weighted avg. exercise price (in NOK)	No. of options	Weighted avg. exercise price (in NOK)
Outstanding at 1 January	2 545 889	23.25	100 000	7.50
Granted during the period	85 000	13.47	2 090 062	24.09
Exercised during the period	-21 559	0.51	-25 000	7.50
Conversion of Oncos option program 2/7-2015	-	-	380 827	21.77
Forfeited	-249 207	22.79	-	-
Outstanding no. of options at end of period	2 360 123	23.16	2 545 889	23.25

The following table shows the outstanding and granted options for shares to Key Management of the Group at 30 September 2016:

Name	Position	Options	
		Granted 9M 2016	Outstanding 30.09.2016
Key management:			
Gunnar Gårdemyr	Chief Executive Officer	-	500 000
Magnus Jäderberg	Chief Medical Officer	-	390 000
Øystein Soug	Chief Financial Officer ¹⁾	-	390 000
Jon Amund Eriksen	Chief Technology Innovation Officer	-	160 000
Berit Iversen	Head of CMC	-	70 000
Anne Kirsti Aksnes	VP, Clinical Development	-	53 000
Tina Madsen	VP, Quality Assurance	-	53 000
Antti Vuolanto	Executive VP	-	50 097
Peter Skorpil	VP, Business Development	-	45 000
Tiina Hakonen	Site Manager Helsinki	-	25 000
Total option for shares to key management of the Group		-	1 736 097
Board of directors:			
Robert Burns	Board member	-	21 235
Total option for shares to the Board of Directors of the Group		-	21 235

¹ Øystein Soug succeeded Gunnar Gårdemyr as CEO in November 2016.

No share options have been granted to Key Management from 30 September to 16 November 2016 except for 150 000 share options granted to Øystein Soug at 1 November 2016.

Restricted Stock Units

The ordinary general meeting 13 April 2016 decided to remunerate the Board of Directors with a combination of cash and Restricted Stock Units (RSUs).

The number of RSUs to be granted to the members of the Board of Directors is calculated as the NOK amount of the RSU opted portion of total compensation to the Board member, divided by the market price for the Targovax ASA share. The market price is calculated as volume weighted average share price the 10 trading days prior to the grant date, NOK 12.20 for the grant at 13 April 2016.

The Board members must elect to either (i) receive 100% of the compensation in RSUs, (ii) receive 1/3 of the compensation in cash and 2/3 in RSUs, or (iii) receive 2/3 of the compensation in cash and 1/3 in RSUs. The total compensation to each member of the Board of Directors for both the period 2015-2016 and 2016-2017 have been set out in the minutes from the ordinary general meeting.

A total of 129 991 RSUs have thus been granted. The RSUs granted for the period 2015 – 2016 vested on 13 April 2016, while the RSUs granted for the period 2016- 2017 will vest on 13 April 2017.

The following table shows the outstanding and granted RSU's to Board of Directors of the Group at 30 September 2016:

Name	Position	RSUs	
		Granted 9M 2016	Outstanding 30.09.2016
Key management:			
Bente-Lill Romøren	Board member	10 929	10 929
Diane Mellett	Board member	34 098	34 098
Eva-Lotta Allan	Board member	23 169	23 169
Lars Lund-Roland	Board member	20 811	20 811
Robert Burns	Board member	40 984	40 984
Total Restricted Stock Units to Board of Directors of the Group		129 991	129 991

12. Subsequent events

In November, Øystein Soug, previous CFO of Targovax, succeeded Gunnar Gårdemyr as CEO. In relation to this event the Board of Directors has resolved to grant 150,000 share options in the Company under the Company's long term incentive program, each with a strike price of NOK 9.30, to Øystein Soug.

Further, the Board will, subject to the resolution by the general meeting of the Company to increase the option pool, at the time of such resolution grant to Øystein Soug the number of share options required in order to bring his total holding of share options to 1.2% of the total number of outstanding shares options and RSUs in Targovax at that time.

Following the grant of the 150,000 share options referred to above, Øystein Soug will own 100,000 shares and hold 540,000 options in the Company.

