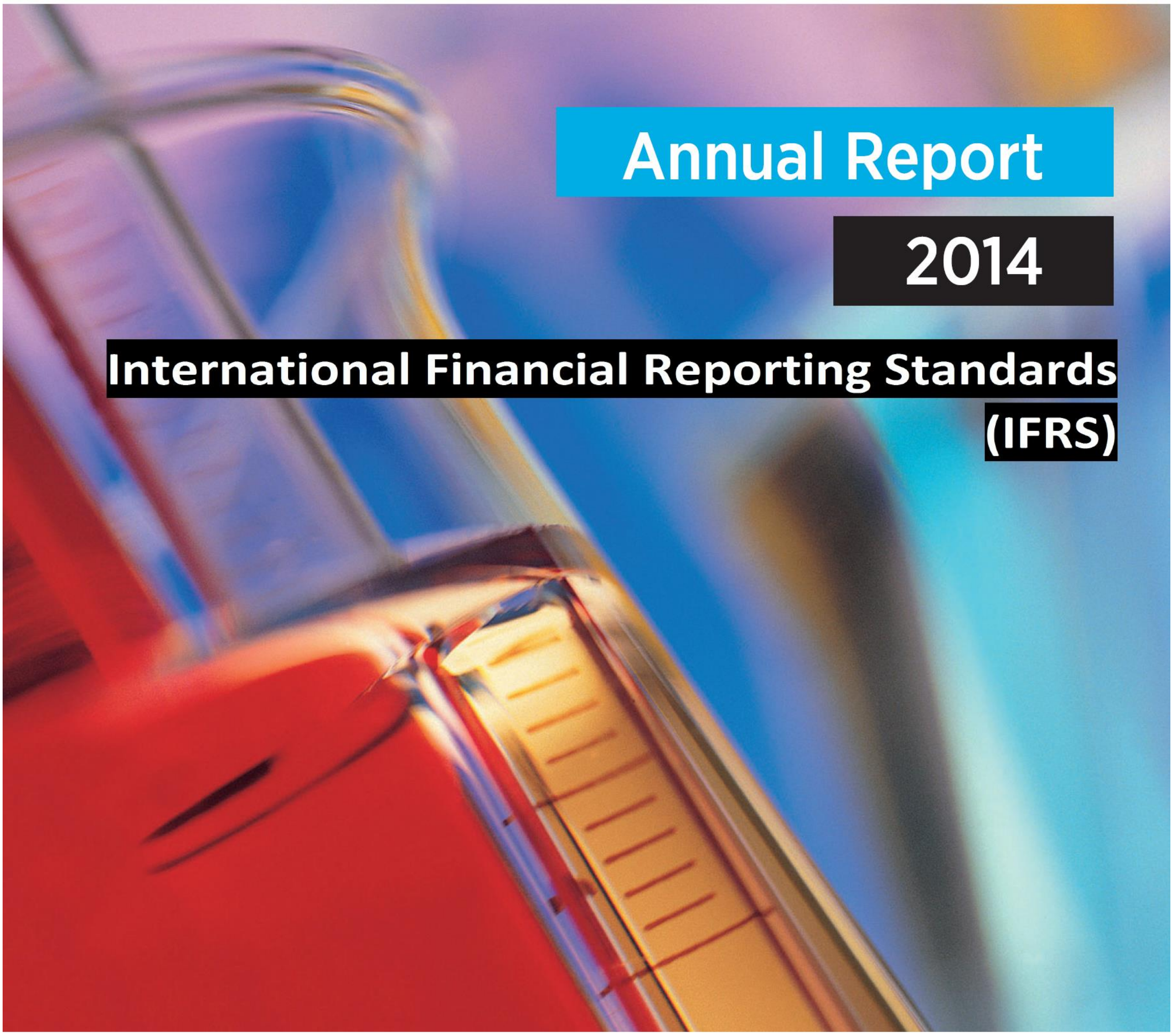
Annual Report
2014
International Financial Reporting Standards
(IFRS)

targovax

# 2014 ANNUAL FINANCIAL STATEMENTS TARGOVAX AS

## Contents

## Statement of profit or loss and other comprehensive income

| | | | All figures in NOK |
|---|---|---|---|
| | Note | **2 014** | **2 013** |
| **STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME** | | | |
| Other revenues | 5 | 72 490 | 364 483 |
| ***Total revenue*** | | ***72 490*** | ***364 483*** |
| Cost of manufacturing for opex | 17 | -6 316 084 | -3 718 168 |
| Payroll and related expenses | 6, 11, 12, 13, 17 | -5 366 624 | -3 242 776 |
| Depreciation | | -10 689 | - |
| Other operating expenses | 6, 17 | -5 948 818 | -864 327 |
| ***Total operation expenses*** | | ***-17 642 215*** | ***-7 825 271*** |
| **Operation profit/ loss (-)** | | **-17 569 725** | **-7 460 789** |
| Financial income | 8 | 342 923 | 52 165 |
| Financial expenses | 8,15 | -419 500 | -195 773 |
| ***Net financial itms*** | | ***-76 577*** | ***-143 608*** |
| **Loss before income tax** | | **-17 646 302** | **-7 604 397** |
| ***Income tax*** | 19 | - | - |
| **Loss for the year** | | **-17 646 302** | **-7 604 397** |
| **Other comperehensive income /loss (-), net of income tax** | | | |
| Other comperehensive income /loss (-), net of income tax | | - | - |
| **Total comprehensive income/ loss (-) for the year** | | **-17 646 302** | **-7 604 397** |
| Income/ loss (-) for the year attributable to owners | | -17 646 302 | -7 604 397 |
| ***Total comprehensive income/ loss (-) for the year attributable to owners*** | | ***-17 646 302*** | ***-7 604 397*** |
| **Earnings/ loss (-) per share** | | | |
| Basic and dilutive earnings/ loss (-) per share | 10 | -2,50 | -1,81 |

## Statement of financial position

| | | | | All figures in NOK |
|---|---|---|---|---|
| **STATEMENT OF FINANCIAL POSITION, ASSETS** | **Note** | **31.12.2014** | **31.12.2013** | **01.01.2013** |
| Office furnitures | 16 | 149 651 | - | - |
| **Total non-current assets** | | **149 651** | **-** | **-** |
| ***Receivables*** | 6,8 | ***4 660 233*** | ***5 826 464*** | ***3 453 800*** |
| ***Cash and cash equivalents*** | 7 | ***62 552 389*** | ***8 370 084*** | ***3 313 281*** |
| **Total current assets** | | **67 212 622** | **14 196 549** | **6 767 081** |
| **TOTAL ASSETS** | | **67 362 272** | **14 196 549** | **6 767 081** |

| **STATEMENT OF FINANCIAL POSITION, SHARE HOLDERS EQUITY AND LIABILITIES** | | **31.12.2014** | **31.12.2013** | **31.12.2012** |
|---|---|---|---|---|
| **Shareholders equity** | | | | |
| Share capital | 9 | 942 940 | 470 300 | 370 300 |
| Share premium reserve | 9 | 97 791 953 | 20 368 210 | 12 968 210 |
| Other reserves | 8,9,15 | 779 601 | 632 695 | 151 586 |
| Retained earnings | 9 | -38 841 487 | -21 195 185 | -13 590 788 |
| **Total equity** | | **60 673 007** | **276 020** | **-100 692** |
| **Short-term liabilities** | | | | |
| Trade creditors | 4,8 | 2 564 376 | 2 656 656 | 1 873 156 |
| Accrued public charges | | 780 583 | 454 486 | 410 681 |
| Other short-term liabilities | 15 | 3 344 308 | 10 809 386 | 4 583 935 |
| **Total Liabilities** | | ***6 689 267*** | ***13 920 528*** | ***6 867 772*** |
| **TOTAL EQUITY AND LIABILITIES** | | **67 362 273** | **14 196 549** | **6 767 080** |

## Statement of changes in equity

All figures in NOK

| | Note | Share capital | Share premium | Other reserves | Retained earnings (Accumulated losses) | **Total equity** |
|---|---|---|---|---|---|---|
| ***Balance at 1 January 2013*** | | ***370 300*** | ***12 968 210*** | ***151 586*** | ***-13 590 788*** | ***-100 692*** |
| Loss for the year | | | | | -7 604 397 | **-7 604 397** |
| Other comprehensive income/Loss, net of tax | | | | | - | - |
| ***Total comprehensice income for the year*** | | - | - | - | ***-7 604 397*** | ***-7 604 397*** |
| Recognition of share-based payments | 13 | | | 331 109 | | **331 109** |
| Convertible instruments | 8,15 | | | 150 000 | | **150 000** |
| Issue of ordinary shares - Capital increase | 9 | 100 000 | 7 400 000 | | | **7 500 000** |
| ***Balance at 31 December 2013*** | | ***470 300*** | ***20 368 210*** | ***632 695*** | ***-21 195 185*** | ***276 020*** |
| Loss for the year | | | | | -17 646 302 | **-17 646 302** |
| Other comprehensive income/Loss, net of tax | | | | | | - |
| ***Total comprehensice income for the year*** | | - | - | - | ***-17 646 302*** | ***-17 646 302*** |
| Recognition of share-based payments | 13 | | | 146 907 | | **146 907** |
| Issue of ordinary shares - Capital increase | 9 | 472 640 | 82 027 376 | | | **82 500 016** |
| Share issue costs | 9 | | -4 603 633 | | | **-4 603 633** |
| ***Balance at 31 December 2014*** | | ***942 940*** | ***97 791 953*** | ***779 602*** | ***-38 841 487*** | ***60 673 008*** |

## Statement of cashflow

| | Note | 2 014 | 2 013 |
|---|---|---|---|
| | | | All figures in NOK |
| **Cashflow from operating activities** | | | |
| Loss for the year | | -17 646 302 | -7 604 397 |
| | | | |
| *Adjustments for:* | | | |
| Interest income | 8 | -287 538 | -33 580 |
| Interest and other finance expense | 8 | 81 400 | 135 261 |
| Share options expense | 13 | 146 906 | 331 193 |
| Depreciation | 16 | 10 689 | - |
| Change in receivables | | 1 166 231 | -2 372 664 |
| Change in other current liabilities | | 2 693 753 | 1 083 829 |
| **Net cash flow from operating activities** | | **-13 834 861** | **-8 460 357** |
| | | | |
| **Cashflow from investing activities** | | | |
| Purchase of office furnitures | 16 | -160 340 | - |
| **Net cash flow from investing activities** | | **-160 340** | **-** |
| | | | |
| **Cashflow from financing activities** | | | |
| Interest income | 8 | 287 538 | 33 580 |
| Interest expense | 8 | -1 035 | -6 081 |
| Other finance expense | 8 | -5 365 | -180 |
| Share issue expense | 9 | -4 603 637 | - |
| Proceeds from debt | 8,9 | - | 5 989 842 |
| Proceeds from equity issue | 9 | 72 500 005 | 7 500 000 |
| **Net cash flom from financing activities** | | **68 177 506** | **13 517 161** |
| | | | |
| Total cashflow | | 54 182 306 | 5 056 804 |
| Cash and cash equivalents at beginning of period | | 8 370 084 | 3 313 281 |
| **Cash and cash equivalents at end of period** | | **62 552 390** | **8 370 085** |

Lysaker, 12 May 2015

The Board of Directors of Targovax AS

| | | |
|---|---|---|
| Gunnar Gårdemyr [sign]<br>CEO | Jonas Einarsson [sign]<br>Chairman of the Board | Hans Ivar Robinson [sign] |
| Bente-Lill Bjerkelund Romøren [sign] | Tom Arne Thorsen [sign] | Harald Arnet [sign] |

# NOTES

## 1. General information

Targovax AS ("the Company") is a limited liability company incorporated and domiciled in Norway. The address of the registered office is Vollsveien 6, 1366 Lysaker.

Targovax was established in 2010 by inventors of the technology and The Radium Hospital Research Foundation. The Company develops innovative active immunotherapy in the form of cancer vaccines. The technology is cancer cell specific, and educates the patients' immune system to recognize and kill cancer cells. The treatment induces immune responses, which indicate a survival benefit. The drug is well tolerated with a very low level of side effects. The product pipeline is based on promising preclinical and clinical data. The technology can easily be combined with other forms of treatment such as surgery, radiation, chemotherapy or checkpoint inhibitors.

The Company is not part of a group and does consequently not prepare consolidated financial statements. These financial statements were approved for issue by the Baard of Directors on 12 May, 2015.

## 2. Significant accounting principles/Critical accounting estimates and judgments

The principal accounting policies ( ) applied in the preparation of these financial statements are described in the respective note, or if not, set out below. The accounting principles have been consistently applied in all periods presented.

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

### 2.1 Basis of preparation

The financial statements of Targovax AS have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as additional Norwegian disclose requirements. The financial statements have been prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates ( ). It also requires management to exercise its judgments in applying the Company's accounting policies. Areas involving a high degree of judgment or complexity, and areas in which assumptions and estimates are significant to the financial statements are disclosed in the respective note.

### 2.2 Accounting principles

*Foreign exchange*

The company record transactions at initial recognition based on the average month exchange rate in the month of transaction. The date of a transaction is the date on which the transaction first qualifies

for recognition in accordance with International Financial Reporting Standards. However, if exchange rates fluctuate significantly, the use of the average rate for a period may be inappropriate and an exchange rate closer to transaction date is used.
Any exchange differences are recognized in profit or loss under financial items in the period in which they arise.

### 2.3 Adoption of new and revised International Financial Reporting Standards (IFRSs)

*Standards and Interpretations affecting amounts reported in the current period*
The Company has implemented IFRS as a first-time adopter and these financial statements are the first IFRS financial statements issued by the Company. All relevant new and revised IFRSs and IFRIC interpretations that are mandatory for periods commencing 1 January 2014 and earlier have been adopted for all periods presented in these financial statements and at the date of transition, which is 1 January 2013.

*Standards and Interpretations in issue but not yet adopted*
At the date of authorization of these financial statements there are no Standards or Interpretation that has been issued where the Management consider any material impact.

## 3. Segments

The Company's activities during 2014 have been to continue the development and implementation of a strategy with the aim of developing innovative active immunotherapy in the form of cancer vaccines.

The Company's research and development activities are primarily directed from Norway. Furthermore, the Company's lead product has not yet obtained regulatory approval. For management purposes, the Company is organized as one business unit and the internal reporting is structured in accordance with this. The Company is thus currently organized in one operating segment.

## 4. Financial instruments and risk management objectives and policies

The Company's financial assets and liabilities comprise cash in banks, receivables and trade creditors that originate from its operations. All financial assets and liabilities are carried at amortized cost. All financial assets and liabilities are short-term in nature and their carrying value approximates fair value.

The Company does currently not use financial derivatives. The Company is subject to market risk (foreign currency risk), credit risk and liquidity risk.

*Foreign currency risk*
The Company undertakes various transactions in foreign currencies and is consequently exposed to fluctuations in exchange rates. The exposure arises largely from research expenses. The company is mainly exposed to fluctuations in Swiss franc (CHF), Euro (EUR) and Pounds sterling (GBP).

A 10 % strengthening/weakening of NOK against the CHF would have a NOK 107.553 positive/negative impact on profit or loss and equity in 2014 (2013: NOK 166.405).

A 10 % strengthening/weakening of NOK against the EUR would have a NOK 37.532 positive/negative impact on profit or loss and equity in 2014 (2013: NOK 43.288).

A 10 % strengthening/weakening of NOK against the GBP would have a NOK 163.476 positive/negative impact on profit or loss and equity in 2014 (2013: NOK 29.565).

*Credit risk*
Credit risk is the risk of a counterparty defaulting. The company has limited credit risk. Outstanding receivables are limited and primarily government grants receivable from various government agencies. No impairment has been recognized. The carrying value of the assets represents the Company's maximum exposure to credit risk.

*Liquidity risk*
The Company manages liquidity risk by estimating and monitoring cash and liquidity needs on an on-going basis, and maintaining adequate reserves and banking facilities. The Company has sufficient cash available to meet its obligations as at 31 December 2014. All liabilities at year-end are short term in nature and fall due within one year of the reporting date, their carrying value approximates their fair value.

The Company is properly funded for its current activities, but will need new funding for the next phases of the development program. The funding strategy and development strategy are directly connected. There will be no cash flow commitments related to the development program before properly commitments to funding is in place.

## 5. Revenue recognition

Revenue comprises the fair value of consideration received or due consideration for the sale of services in regular business activities. Revenue is presented net of value added tax. Revenue is recognized when the service is performed.

The Company's products are still in the research and development phase, and it has no revenue from sales of products yet. Other revenue arises from consulting services carried out in Norway.

## 6. Government grants

Government grants are recognized at the value of the contributions at the transaction date. Grants are not recognized until it is probable that the conditions attached to the contribution will be achieved. The grant is recognized in the income statement in the same period as the related costs, and are presented net.
Government grants are normally related to either reimbursements of employee costs and classified as a reduction of payroll and related expenses or related to other operating activities and thus classified as a reduction of other operating expenses.

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

| | 2014 | 2013 |
|---|---|---|
| Payroll and related expense | 2 003 437 | 2 386 926 |
| Other operating expense | 6 034 277 | 4 201 814 |
| | ***8 037 714*** | ***6 588 740*** |

Grants receivables as at 31 December are detailed as followed:

| | 2014 | 2013 |
|---|---|---|
| Grants from Innovation Norway 1) | - | 1 837 000 |
| Grants Research Counsil 2) | 512 375 | 997 000 |
| Grants from SkatteFUNN 3) | 3 236 428 | 2 200 000 |
| | ***3 748 803*** | ***5 034 000*** |

1) The Company was awarded a grant from Innovation Norway of in total NOK 9.000.000 for the period 2011-2013.
2) The Company has been awarded a grant from The Research Council (program for user-managed innovation arena (BIA)) of NOK 12.361.000 in total for the period 2013 through 2016. For the financial year ended 31 December 2014, the Company has recognized NOK 4.712.435 (2013: NOK 997.000) as cost reduction in *Payroll and related expenses and Other Operation expenses.*
3) R&D projects have been approved for a SkatteFunn for the period 2011 through 2016.

## 7. Cash and cash equivalents

Cash and short-term deposits in the Statement of financial position comprise cash at bank and other short-term highly liquid investments with original maturities of three months or less.

At 31 December 2014 and 2013 the company only held cash deposits.
Of the total balance in cash, NOK 306.576 (2013: NOK 268.395) relates to restricted funds for employee withholding taxes.

## 8. Financial items

Financial income consist of interest income and foreign exchange gain. Financial expense mainly consist of interest expense and exchange loss.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Company's financial assets consist of receivables and cash. Management determines the classification of its financial assets at initial recognition, and the classification of financial assets depends on the nature and purpose of the financial assets.

*Financial liabilities;* The Company's financial liabilities consist of accounts payable and other current liabilities. Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

*Equity instruments;* An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a company are recognized at the proceeds received, net of any issue costs. Transaction costs directly attributable to the issue of equity are recognized directly in equity, net of tax

*Compound financial instruments;* Compound financial instruments issued by the company comprise convertible notes that can be converted to share capital at the option of the holder. The liability component is recognized initially at fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between fair value of the compound instrument a as whole and the fair value of the liability component. Any directly attributable transaction costs are allocated in proportion to their initially carrying amounts.Subsequent to the initially recognition, the liability component of the compound instrument is measured at amortized cost using the effective interest method. The equity component is not re-measured except on conversion or expiry.

*Financial assets;* The Company's financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the asset. The assets are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership to another party. Financial assets are assessed for indicators of impairment at the end of the reporting period and are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

*Finance income and expense*

All finance income and finance expense, except for foreign exchange income/expense, are related to financial assets and financial liabilities carried at amortized cost. Financial income and expenses are:

| | 2014 | 2013 |
|---|---|---|
| *Finance income* | | |
| Interest income on tax repaid | 13 930 | 15 969 |
| Interest income on bank deposit | 273 608 | 17 611 |
| Foreign exchange income | 55 385 | 18 585 |
| ***Total finance income*** | ***342 923*** | ***52 165*** |
| | | |
| *Finance expenses* | | |
| Intrest expense | 76 035 | 135 081 |
| Foreign exchange expense | 338 100 | 60 512 |
| Other Financial expenses | 5 365 | 180 |
| ***Total finance expense*** | ***419 500*** | ***195 773*** |

*Convertible loan*

On 28 June 2013 a convertible loan of NOK 1,8 mill was recognized. The maturity date was 27 June 2014 or could be converted into shares at any emission before maturity date. If a predefined milestone has been reached at conversion date the conversion rate was NOK 8,50, in other cases the conversion rate was set at NOK 7,50. On 16 November 2012 a convertible loan of NOK 4 mill was recognized. The maturity date was 28 March 2013 or could be converted into shares at any emission before maturity date. The conversion rate was set to rate at first emission after disbursement of loan (min. NOK 7,50), or if no emission the rate is set at NOK 7,50.

The value of the liability component and the equity component were determined at issuance of the loans. The fair value is calculated using a borrowing rate at 12%:

| Convertible loan issued | **28 Jun 2013** | **16 Nov 2012** |
|---|---|---|
| Conversion date | 21 jan 2014 | 12 Feb 2013 |
| Face value of convertible loan | 1 800 000 | 4 000 000 |
| Equity component | 150 000 | 95 000 |
| Interests 2014 | 75 000 | - |
| Interests 2013 | 75 000 | 54 000 |

| | 2014 | 2013 |
|---|---|---|
| Interest convertible loan | 75 000 | 129 000 |
| Equity components | - | 1 725 000 |
| Liability component | - | 75 000 |

*Financial assets*

Currently, all the Company's financial assets are categorized as receivables. The company does not have any trade receivables and at 31 December 2014 the receivables mainly consist of grants receivables and receivables related to VAT. The Company has currently not recognized any non-current financial assets.

## 9. Share capital and shareholder information

Share capital as at 31 December 2014 is NOK 942.940 (2013: NOK 470.300) being 9.429.403 ordinary shares at nominal value NOK 0,1 (2013: 4.703.000 at NOK 0,1). All shares carry equal voting rights.

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

| | 2014 | | 2013 |
|---|---|---|---|
| Ordinary shares at 1 January | 4 703 000 | | 3 703 000 |
| Capital increase | 4 726 400 | * | 1 000 000 |
| ***Ordinary shares at 31 December*** | ***9 429 400*** | | ***4 703 000*** |

*The capital increase approved in 2013 is registered in January 2014.

The company had 88 shareholders as at 31 December 2014:

| | Number of shares | Percentage of total shares |
|---|---|---|
| RADIUMHOSPITALETS FORSKNINGSSTIFTELSE | 3 410 589 | 36,17 % |
| DATUM INVEST AS | 1 162 000 | 12,32 % |
| TIMMUNO AS | 724 650 | 7,69 % |
| PRIETA AS | 720 000 | 7,64 % |
| BIRK VENTURE AS | 438 657 | 4,65 % |
| ALGOT INVEST AS | 392 465 | 4,16 % |
| PORTIA AS | 300 000 | 3,18 % |
| TRYGVE SCHIØRBECKS E | 286 449 | 3,04 % |
| ARCTIC FUNDS PLC BNY MELLON SA/NV | 182 000 | 1,93 % |
| OP-EUROPE EQUITY FUN C/O CITIBANK NA | 157 869 | 1,67 % |
| 78 other shareholders, each representing an ownership of less than 1.7% | 1 654 724 | 17,55 % |
| ***Total*** | ***9 429 403*** | ***100,00 %*** |

Earnings per share

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated as profit or loss attributable to ordinary shareholders of the Company, adjusted for the effects of all dilutive potential options.

| | 2014 | 2013 |
|---|---|---|
| Loss for the year | -17 646 302 | -7 604 396 |
| Average number of outstanding shares during the year | 7 066 202 | 4 203 000 |
| ***Earnings/ loss per share - basic and diluted*** | ***-2,50*** | ***-1,81*** |

Share options issued and the effect of convertible loan 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 Company is currently loss-making an increase in the average number of shares would have anti-dilutive effects.

## 10. Payroll and related expense

Total payroll and related expenses are:

| | 2014 | 2013 |
|---|---|---|
| Salaries | 5 913 731 | 4 702 301 |
| Social security tax | 1 079 866 | 644 352 |
| Pension expense | 257 311 | 262 690 |
| Other | 119 154 | 20 359 |
| Governmental grants | -2 003 437 | -2 386 926 |
| ***Total payroll and related expenses*** | ***5 366 625*** | ***3 242 776*** |
| | | |
| Average number of full time equivalent employee | 5,5 | 3,8 |

The Company has a defined contribution pension scheme that complies with requirements of Norwegian occupational pension legislation (OTP). The contribution is expensed when it is accrued.

## 11. Remuneration to key management, Board of directors and External auditor

*Remuneration to key management*:

| **2014** | Salary | Pension expense | Share based payments (excl. Social security tax) | Other expensed benefits |
|---|---|---|---|---|
| Hanne M. D. Kristensen, CEO | 1 331 296 | 53 515 | 73 323 | 1 016 660 |
| Jon Amund Eriksen, COO | 1 388 464 | 53 547 | - | 6 883 |
| ***Total key management remuneration*** | ***2 719 760*** | ***107 062*** | ***73 323*** | ***1 023 543*** |

| **2013** | Salary | Pension expense | Share based payments (excl. Social security tax) | Other |
|---|---|---|---|---|
| Hanne M. D. Kristensen, CEO | 1 282 892 | 51 798 | 165 310 | 13 663 |
| Jon Amund Eriksen, COO | 1 336 346 | 51 847 | - | 10 466 |
| ***Total key management remuneration*** | ***1 282 892*** | ***51 798*** | ***165 310*** | ***13 663*** |

*The CEO has signed an agreement for employee termination 1 December 2014. Her position as CEO is terminated at 12 January 2015, when a new CEO take position. Severance payment of 9 months salary NOK 1.007.514, including social security NOK 1.149.573, is accrued as at 31 December 2014. All share options will be vested at 5 February 2015.

*Remuneration to Board of Directors:*
There are no remuneration to Board members.

*Shares in the Company are held by the following persons in the management group and members of the Board of Directors*:

| | | Number of shares | | Number of share options outstanding | |
|---|---|---|---|---|---|
| Name | Position | **2014** | **2013** | **2014** | **2013** |
| Hans Ivar Robinsen 1) | Member of the Board | 438 657 | 333 333 | | |
| Tom A. Thorsen 2) | Member of the Board | 392 465 | 166 667 | | |
| Gustav Gaudernack 3) | Chief Scientific Advisor | 720 000 | 0 | | |
| Hanne M. D. Kristensen | CEO* | 10 160 | 7 000 | 50 000 | 50 000 |
| Jon Amund Eriksen 4) | COO | 724 650 | 0 | | |
| ***Total*** | | ***2 285 932*** | ***507 000*** | ***50 000*** | ***50 000*** |

1) Indirect ownership through Birk Venture AS
2) Indirect ownership through Algot Invest AS
3) Indirect ownership through Prieta AS
4) Indirect ownership through Timmuno AS

*Fees external auditors:*

| | **2014** | **2013** |
|---|---|---|
| Statutory audit | 70 000 | 28 500 |
| Tax advice | 63 000 | 14 500 |
| ***Total fee external auditor*** | ***133 000*** | ***43 000*** |

Amounts excluding VAT

## 12. Share based payment

Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense, based on the Company's estimate of equity instruments that will eventually vest. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of the options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period).

The fair value of the options granted is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, and the risk-free interest rate.

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are recognized as share capital (nominal value) and share premium reserve.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, c if any, in profit or loss, with a corresponding adjustment to equity. Changes to the estimates may significantly influence the expense recognized during a period

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in the Company. 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 following share-based payment arrangements were in existence during the current and prior years:

| Granted | Number of options | Expiry date | Excersise price | Fair value at grant date | Vesting plan |
|---|---|---|---|---|---|
| 5 Nov 2012 | 34 000 | 5 Nov 2017 | 7,5 | 5,88 | 5 Nov 2013 |
| 5 Nov 2012 | 33 500 | 5 Nov 2017 | 7,5 | 5,88 | 5 Nov 2014 |
| 5 Nov 2012 | 32 500 | 5 Nov 2017 | 7,5 | 5,88 | 5 Nov 2015 |

No share options were granted during 2013 and 2014. Options were priced using the Black-Scholes model. The expected volatility is estimated at 108,74%, based on the volatility of comparable listed companies. The volum weighted average interest rate applied to the share options grants in 2014 is 1,52%.

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | No. of options | Weig. Avg. Excercise price | No. of options | Weig. Avg. Excercise price |
| Balance 1 Jan | 100 000 | 7,50 | 100 000 | 7,50 |
| Granted during the year | 0 | - | 0 | - |
| Exercised during the year | 0 | - | 0 | - |
| **Balance 31 Dec** | **100 000** | ***7,50*** | ***100 000*** | ***7,50*** |

## 13. Transactions with related parties

Other than disclosed in note 9, 12 and 13, there are no significant transaction with related parties.

## 14. Short-term liabilities

Short-term liabilities consist of salary and related accrued expenses. In 2013 there were other short-term debt related to a capital increase approved, this also includes a convertible loan. The proceeds from the capital increase was partly paid in 2014 and therefore not registered before January 2014. Short-term liabilities consist of:

| | 2014 | 2013 |
|---|---|---|
| Accrued salary | - | 16 747 |
| Accrued vacation pay | 19 037 | 483 813 |
| Other accrued costs | 3 325 271 | 383 813 |
| Short-term debt | - | 9 925 014 |
| ***Total short-term liabilities*** | ***3 344 308*** | ***10 809 387*** |

## 15. Fixed assets

Other non-current assets are carried at cost less accumulated depreciation and accumulated impairment losses. Acquisition cost includes expenditures that are directly attributable to the acquisition of the individual item. Other non-current assets is depreciated on a straight-line basis over the expected useful life of the asset. If significant individual parts of the assets have different useful lives, they are recognized and depreciated separately. Depreciation commences when the assets are ready for their intended use.

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss.

Non-current assets consist of office equipment acquired during 2014. The estimated useful lives of the assets are 5 years, and accumulated depreciation is NOK 10 689. No impairment losses has been recognized.

No development costs have been recognized as assets as per 31 December 2014

## 16. Research and development

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Internal development costs related to the Company's development of products are recognized in the income statement in the year incurred unless it meets the asset recognition criteria of IAS 38 "Intangible Assets".

Uncertainties related to the regulatory approval process and other factors generally means that the criteria are not met until the time when the marketing authorization is obtained with the regulatory authorities. This assessment requires significant management discretion and estimations

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

The following research and development expenditures have been expensed:

| | **2014** | | **2013** | |
|---|---|---|---|---|
| | Total | R&D | Total | R&D |
| Operation expenses | 6 316 084 | 6 316 084 | 3 718 168 | 3 718 168 |
| Payroll and related expense | 5 366 625 | 4 752 375 | 3 242 776 | 2 904 776 |
| Other operating expense | 5 959 507 | 3 725 921 | 864 327 | 733 373 |
| ***Total*** | ***17 642 216*** | ***14 794 380*** | ***7 825 271*** | ***7 356 317*** |

## 17. Lease

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. To understand if the lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract

Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term. Incentives received on negotiating or renewing operating leases are also amortized on a straight-line basis over the lease terms. Any prepaid lease payments are recognized in the balance sheet and amortized over the lease term on a straight-line basis. Any contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

The Company has not entered into any finance lease arrangements. The only significant agreement classified as operating lease is the rental agreement for premises:
Targovax AS rents premises in Bærum for office purposes. The rental agreement for the premises in which the Company was located as at 31 December 2014 expires on 31 August 2015. The agreement is non cancellable and expected minimum payment in 2015 is NOK 421.365.

Recognized lease for 2014 is NOK 329.889.

## 18. Tax

Income tax expense comprise current income tax (tax payable) and deferred tax.

Deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets arising from deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available so temporary differences can be utilized.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The tax losses can be carried forward indefinitely. The Company considers that a deferred tax asset related to accumulated tax losses cannot be recognized in the statement of financial position until the product under development has been approved for marketing by the relevant authorities. However, this assumption is continually assessed and changes could lead to significant deferred tax asset being recognized in the future. This assumption requires significant management judgment.

The Company is in the research phase of its product development and has incurred significant tax losses related to its operations. The Company has a total tax loss carried forward of NOK 43.309.173 at 31 December 2014 (31 December 2013: NOK 25.882.010). No current or deferred tax charge or liability has been recognized for 2014 and 2013.

| | **2014** | **2013** |
|---|---|---|
| Loss before income tax | -17 646 302 | -7 604 397 |
| Non taxable income (SkatteFUNN) | -3 235 975 | -2 881 916 |
| Non deductible expenses | -4 375 812 | 450 272 |
| Change in temporary differences | 202 814 | - |
| Basis for tax | -25 055 275 | -10 036 041 |

| Temporary differences: | **2014** | **2013** |
|---|---|---|
| Tax loss carried forward | -50 937 285 | -25 882 010 |
| Fixed assets | 21 379 | - |
| Share options | -224 193 | - |
| Temporary differences 31.12 | -51 140 099 | -25 882 010 |
| Deferred tax asset (27%) | -13 807 827 | -6 988 143 |

| | | |
|---|---|---|
| Statutory income tax rate | 27 % | 28 % |
| | -4 764 501 | -2 129 231 |
| Tax effect non taxable income | -873 713 | -806 936 |
| Tax effect non deductible expenses | -1 181 469 | 126 076 |
| Change in deferred tax not recognized | 6 819 684 | 2 810 091 |
| ***Tax expense*** | ***0*** | ***0*** |

## 19. Events after the reporting date

There are no such events

## 20. Transition to IFRS

These are the Company's first financial statements prepared in accordance with IFRS. The accounting principles described in note 2 and throughout the notes have been utilized in the preparation of the Company's financial statements for the year ended 31 December 2014, for the comparative figures for the year ended 31 December 2013, and in the preparation of the IFRS opening statement of financial position as at 1 January 2013, which is the date of transition to IFRS from Norwegian generally accepted accounting principles for small companies (NGAAP)

Tabell Reconciliation Statement of financial position:

| | | | | | | All figures in NOK |
|---|---|---|---|---|---|---|
| | 1 January 2013 | | | 31 December 2013 | | |
| | NGAAP | Implement. Effects | IFRS | NGAAP | Implement. Effects | IFRS |
| **ASSETS** | | | | | | |
| Receivables | 3 453 800 | | 3 453 800 | 5 826 464 | | 5 826 464 |
| Cash and cash equivalents | 3 313 281 | | 3 313 281 | 8 370 084 | | 8 370 084 |
| **Total current assets** | **6 767 081** | **-** | **6 767 081** | **14 196 549** | - | **14 196 549** |
| **TOTAL ASSETS** | **6 767 081** | **-** | **6 767 081** | **14 196 549** | - | **14 196 549** |
| **SHARE HOLDERS EQUITY AND LIABILITIES** | | | | | | |
| **Shareholders equity** | | | | | | |
| Share capital | 370 300 | | 370 300 | 470 300 | | 470 300 |
| Share premium reserve | 12 968 210 | | 12 968 210 | 20 368 210 | | 20 368 210 |
| Other reserves | | 151 586 | 151 586 | | 632 695 | 632 695 |
| Retained earnings | -13 493 202 | -97 586 | -13 590 788 | -20 637 490 | -557 695 | -21 195 185 |
| **Total equity** | **-154 692** | **54 000** | **-100 692** | **201 020** | **75 000** | **276 020** |
| **Short-term liabilities** | | | | | | |
| Trade creditors | 1 873 156 | | 1 873 156 | 2 656 656 | | 2 656 656 |
| Accrued public charges | 410 681 | | 410 681 | 454 486 | | 454 486 |
| Other short-term liabilities | 4 637 935 | -54 000 | 4 583 935 | 10 884 386 | -75 000 | 10 809 386 |
| **Total Liabilities** | ***6 921 772*** | ***-54 000*** | ***6 867 772*** | ***13 995 528*** | ***-75 000*** | ***13 920 528*** |
| **TOTAL EQUITY AND LIABILITIES** | **6 767 080** | **-** | **6 767 080** | **14 196 549** | **-** | **14 196 549** |

Implementation effects

Share-based payments were not recognized under previous GAAP. Under IFRS, NOK 56.586 is the effect of implementing IFRS 2 Share-based payments at the date of transition. This represents the amount recognized prior to the transition date and the total effect on equity is nil.
The total effect of recognizing share-based payments at 31 December 2013 is NOK 387.695 on other reserves and retained earnings (total equity effect nil).
A convertible loan has, under previous NGAAP, been classified as a liability. The effect at the date of transition is reclassification to equity of NOK 54.000, this consist of reclassification from liability to equity of NOK 95.000 offset by interest expenses for the year NOK 41.000. During 2013 the loan is converted to equity and a new convertible loan is in effect with reclassification to equity of NOK 150.000 offset by interest expenses for the year of NOK 75.000. The total effect of convertible loan at 31 December 2013 is NOK 75.000.

Reconciliation Statement of profit or loss and other comprehensive income:

| | | | |
|---|---|---|---|
| | | | All figures in NOK |
| | **Year ended 31 December 2013** | | |
| | NGAAP | Implementation effects | IFRS |
| **STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME** | | | |
| Other revenues | 364 483 | - | 364 483 |
| ***Total revenue*** | ***364 483*** | ***-*** | ***364 483*** |
| | | | |
| Cost of manufacturing for opex | -3 718 168 | - | -3 718 168 |
| Payroll and related expenses | -2 911 667 | -331 109 | -3 242 776 |
| Depreciation | - | - | - |
| Other operating expenses | -864 327 | - | -864 327 |
| ***Total operation expenses*** | ***-7 494 162*** | ***-331 109*** | ***-7 825 271*** |
| | | | |
| **Operation profit/ loss (-)** | **-7 129 680** | **-331 109** | **-7 460 789** |
| | | | |
| Financial income | 52 165 | - | 52 165 |
| Financial expenses | -66 773 | -129 000 | -195 773 |
| ***Net financial itms*** | ***-14 608*** | ***-129 000*** | ***-143 608*** |
| | | | |
| **Loss before income tax** | **-7 144 287** | **-460 109** | **-7 604 396** |
| | | | |
| ***Income tax*** | - | - | - |
| **Loss for the year** | **-7 144 287** | **-460 109** | **-7 604 396** |
| | | | |
| **Other comperehensive income /loss (-), net of income tax** | | | |
| Other comperehensive income /loss (-), net of income tax | - | - | - |
| **Total comprehensive income/ loss (-) for the year** | **-7 144 287** | **-460 109** | **-7 604 396** |

Implementation effects

Share-based payments were recognized as a payroll and related expense at NOK 331.109 in 2013. The corresponding amount was recognized as a reserve in equity.

Interests on two different convertible loans are recognized as interest expense at NOK 129.000 in 2013. The corresponding amount was recognized as increase in short term debt.

*Impact on cash flows*

IFRS has had no effect on items presented as cash and cash equivalents in the Statement of financial position.

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Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av den norske revisorforening

To the Board of Directors Meeting of
Targovax AS

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of Targovax AS, which comprise the statement of financial position as at 31 December 2014 and 31 December 2013, the statements of other comprehensive income, cash flows and changes in equity for the years then ended, as well as a summary of significant accounting policies and other explanatory information.

*The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the financial statements of Targovax AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and 31 December 2013 and its financial performance and its cash flows for the years then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Oslo, 13 May 2015
ERNST & YOUNG AS

Tommy Romskaug
State Authorised Public Accountant (Norway)

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