



Annual Report

2014

targovax

This is an English translation of the Norwegian version of the annual report 2014. If any differences between the Norwegian and the English version, the Norwegian version applies.

Annual report for 2014

Board of directors' report

Annual accounts

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- Balance sheet**
- Notes**

Auditor's report

Targovax AS

Directors' report 2014

The nature of the business

Targovax AS was formed on 8 October 2010. The company's object comprises the sale and development of biomedical products and services. This object can be pursued through participation in or collaboration with other enterprises in Norway and abroad.

Activities

The company's activities in 2014 have been concentrated on the development of TG01, a peptide-based immunotherapy in the form of a cancer vaccine for the treatment of pancreatic cancer. The TG01 project has focused on recruiting patients and carrying out a clinical study, and on documentation of a product of the right quality for further development.

A total of 18 patients were recruited to the CT-TG01-01 study in accordance with the plan for 2014. The main goal set for immune response in the clinical study was achieved.

The company continues to focus on entering into good agreements with partners and sub-suppliers in order to consolidate its position. The company has a highly competent team in place with a good network in the field, and agreements have been entered into with important selected partners.

The company raised NOK 70 million in a share issue and was listed on the NOTC list in June. The number of shareholders increased in 2014 and amounted to 88 at the end of 2014.

Profit/loss 2014

Sales revenues amounted to NOK 0.1 million (NOK 0.4 mill. in 2013), which mainly concern the sale of services. Operating expenses amounted to NOK 17.5 million (NOK 7.5 mill.) in 2014. The increase in 2014 compared with 2013 reflects increased development activities. The operating expenses have been reduced through the receipt of public funding, which amounted to NOK 8.0 million (NOK 6.5 mill.), mainly from the Research Council's BIA programme and the SkatteFUNN tax credit scheme in 2014. After financial items, the loss for the year amounted to NOK 17.4 million (NOK -7.1 mill.).

The company's book equity as of 31 December 2014 was NOK 60.7 million (NOK 0.2 mill.).

The accounts have been prepared on the basis of the going concern assumption. In accordance with the planned progress of the TG01 project and other development work, a gradually increasing cost level is expected in 2015. In the view of the board of directors, the requirements for the going concern assumption are met.

The company's liquidity is satisfactory.

The board of directors is not aware of any circumstances of importance to assessing the company's position that are not presented in the annual accounts or this report. Nor have any circumstances arisen after the closing of the financial period that are of material importance to Targovax AS's position and financial performance.

The board of directors proposes that the loss for the year of NOK 17,411,703 (NOK 7,144,288) be carried forward as an uncovered loss.

Organisation

The number of employees increased from four to six in 2014. They cover the most important competence on which the company is dependent in this phase. The company makes extensive use of highly specialised consultants as part of its model. Five of the employees are women, and one is a man. Targovax's board of directors consists of five members, one of whom is a woman. The company believes that gender equality considerations are satisfactorily attended to.

Targovax is located in appropriate office premises at Vollsveien in Lysaker. The company has a good working environment, and sickness absence has been low. There have been no injuries or accidents in 2014. The company does not pollute the natural environment.

Research and development

The company's activities consist of developing and commercialising research results for peptide-based cancer vaccines. Work in 2014 was mostly concentrated on the clinical study CT-TG01-01 and planning of the next stages for the clinical studies.

Prospects

The company continues to work on research and development in the field of peptide-based cancer vaccines. Work on the clinical study involving TG01 is ongoing. We are also working on plans for further clinical studies of TG01, and on other product candidates.

The company will continue to strengthen the core team and build its competence, including by recruiting more personnel in 2015. The company continues to develop its network in Norwegian and international academic and commercial circles in the field of immunotherapy and cancer vaccines, and it is making endeavours to establish a good dialogue with selected strategic partners.

Lysaker, 16 April 2015
[The Norwegian version is
signed only]

Gunnar Gårdemyr
CEO

Jonas Einarsson
Chair of the Board

Hans Ivar Robinson
Board member

Bente-Lill Bjerkelund
Romøren
Board member

Tom Arne Thorsen
Board member

Harald Arnet
Board member

Income statement

	Note	2014	2013
Operating revenues			
Sales revenues	9	<u>72,490</u>	<u>364,397</u>
Total operating revenues		<u>72,490</u>	<u>364,397</u>
Operating expenses			
Sub-suppliers and cost of manufacturing		6,316,083	3,718,168
Payroll expenses	6, 7	5,207,027	2,911,627
Depreciation	10	10,689	0
Other operating expenses	7	<u>5,948,817</u>	<u>864,282</u>
Total operating expenses		<u>17,482,616</u>	<u>7,494,077</u>
Operating profit/loss		<u>-17,410,126</u>	<u>-7,129,680</u>
Financial income and financial expenses			
Other interest income		287,538	33,580
Other financial income		55,385	18,585
Other interest expenses		1,035	6,081
Other financial expenses		<u>343,465</u>	<u>60,692</u>
Net financial items		<u>-1,577</u>	<u>-14,608</u>
Ordinary profit/loss before tax expense		<u>-17,411,703</u>	<u>-7,144,288</u>
Tax expense	8	0	0
Profit/loss for the year		<u>-17,411,703</u>	<u>-7,144,288</u>
Transfers and allocations			
Uncovered loss		<u>-17,411,703</u>	<u>-7,144,288</u>

Targovax AS

Balance sheet at 31 December

	Note	2014	2013
Fixed assets			
<i>Tangible fixed assets</i>			
Operating equipment, fixtures and fittings, office equipment etc.	10	<u>149,651</u>	<u>0</u>
Total tangible fixed assets		<u>149,651</u>	<u>0</u>
Total fixed assets		<u>149,651</u>	<u>0</u>
Current assets			
<i>Receivables</i>			
Trade debtors		25,900	189,000
Other receivables	2	<u>4,634,334</u>	<u>5,637,465</u>
Total receivables		<u>4,660,234</u>	<u>5,826,465</u>
Bank deposits	3	<u>62,552,389</u>	<u>8,370,084</u>
Total current assets		<u>67,212,623</u>	<u>14,196,549</u>
Total assets		<u>67,362,274</u>	<u>14,196,549</u>

Targovax AS

Balance sheet at 31 December

	Note	2014	2013
Equity			
<i>Paid-up equity</i>			
Share capital	4, 5	942,940	470,300
Share premium	4	97,791,953	20,368,210
Total paid-up equity		<u>98,734,893</u>	<u>20,838,510</u>
<i>Retained earnings</i>			
Other equity	4	<u>-38,049,193</u>	<u>-20,637,490</u>
Total retained earnings		<u>-38,049,193</u>	<u>-20,637,490</u>
Total equity		<u>60,685,700</u>	<u>201,020</u>
Liabilities			
<i>Short-term liabilities</i>			
Trade creditors		2,564,376	2,656,656
Unpaid public charges		767,890	454,487
Other short-term liabilities		3,344,308	10,884,386
Total short-term liabilities		<u>6,676,574</u>	<u>13,995,529</u>
Total liabilities		<u>6,676,574</u>	<u>13,995,529</u>
Total equity and liabilities		<u>67,362,274</u>	<u>14,196,549</u>

Lysaker, 16 April 2015
[Norwegian version is signed
only]

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CEO

Jonas Einarsson
Chair of the Board

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Board member

Bente-Lill Bjerkelund Romøren
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Tom Arne Thorsen
Board member

Harald Arnet
Board member

Notes

Note 1 – Accounting principles

The annual accounts have been prepared in accordance with the provisions of the (Norwegian) Accounting Act and generally accepted accounting principles for small businesses.

Operating revenues

Services are recognised as they are provided. From 2014, government grants received are recognised in the accounts as a cost reduction. In the 2013 annual accounts, grants received via the SkatteFUNN tax credit scheme were recognised as a cost reduction, while other government grants received were recognised as other operating revenues. The comparative figures have been changed.

Current assets/short-term liabilities

Current assets and short-term liabilities normally comprise items that fall due for payment within one year of the balance sheet date and items related to the production cycle. Current assets are valued at the lower of acquisition cost and assumed fair value.

Fixed assets

Fixed assets comprise assets intended for permanent ownership and use. Fixed assets are valued at acquisition cost. Tangible fixed assets are recognised in the balance sheet and depreciated on a straight-line basis over their useful life.

Classification and valuation of balance sheet items

Current assets and short-term liabilities comprise items that fall due for payment within one year of the balance sheet date and items related to the production cycle. Other items are classified as fixed assets/long-term liabilities.

Current assets are valued at the lower of acquisition cost and fair value. Short-term liabilities are recognised in the balance sheet at the nominal amount at the time they are incurred.

Fixed assets are valued at acquisition cost, but are written down to fair value in the event of a fall in value that is not expected to be temporary. Fixed assets with a limited useful life are depreciated according to a plan. Long-term liabilities are recognised in the balance sheet at the nominal amount at the time they are incurred.

Receivables

Trade debtors and other receivables are recognised at their nominal value after deduction of a provision for bad debt. Provision for bad debt is made on the basis of individual assessments of the receivables.

Currency

Monetary items in foreign currency are valued at the exchange rate at the end of the financial year.

Research and development

Expenses for research and development are recognised in the balance sheet to the extent that a future financial advantage can be identified relating to the development of identifiable intangible assets. In the opposite case, such expenses are expensed as they are incurred. Research and development recognised in the balance sheet is depreciated on a straight-line basis over their useful life.

Notes

Pensions

The company has a defined contribution pension scheme. The premium paid for the year corresponds to the pension expense for the year.

Tax

The tax expense in the income statement includes both the tax payable for the period and the change in deferred tax. Deferred tax is calculated at 27% on the basis of the temporary differences that exist between accounting and tax values, and any tax loss carryforward at the end of the financial year. Tax-increasing and tax-reducing temporary differences that reverse or may reverse in the same period are offset and entered net. The deferred tax asset is not recognised in the balance sheet.

Note 2 – Receivables

<i>Other receivables concern the following:</i>	2014
Support from the Research Council of Norway	512,375
Support via the SkatteFUNN tax credit scheme	3,236,428
Other receivables	885,531
Total	<u>4,634,334</u>

Note 3 – Bank deposits

Restricted tax withholding amounts to NOK	2014 306,576
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Note 4 – Equity

	Share capital	Share premium	Uncovered loss	Total
Equity at 1 Jan. 2014	470,300	20,368,210	-20,637,490	201,020
Profit/loss for the year	0	0	-17,411,703	-17,411,703
Capital increases 2014	472,640	77,423,743*	0	77,896,383
Equity at 31 Dec. 2014	942,940	97,791,953	-38,049,193	60,685,700

* Issue costs of NOK 4,603,637 have been deducted from the share premium

Note 5 – Share capital and shareholder information

The share capital consists of:

	Number	Nominal value	Book value
Ordinary shares	9,429,403	NOK 0.1	942,940

All the shares confer the same rights in the company.

Targovax AS

Notes

Overview of shareholders in the company at 31 Dec.:

	Shares	Holding	Share of votes
Norwegian Radium Hospital's Research Foundation	3,410,589	36.17%	36.17%
DATUM AS	1,162,000	12.32%	12.32%
Timmuno AS	724,650	7.69%	7.69%
Prieta AS	720,000	7.64%	7.64%
Birk Venture AS	438,657	4.65%	4.65%
Algot Invest AS	392,465	4.16%	4.16%
PORTIA AS	300,000	3.18%	3.18%
Trygve Schjørbeck E	286,449	3.04%	3.04%
ARCTIC FUNDS PLC BNY MELLON SA/NV	182,000	1.93%	1.93%
OP-EUROPE EQUITY FUN C/O CITIBANK NA	157,869	1.67%	1.67%
78 other shareholders	1,654,724	17.55%	17.55%
Total	9,429,403	100.00%	100.00%

Key personnel with shares in the company:			Shares
Hans Ivar Robinson	Board member	Indirectly through Birk Venture AS	438,657
Tom A Thorsen	Board member	Indirectly through Algot Invest AS	392,465
Hanne M D Kristensen	CEO	Direct ownership	10,160
Jon Amund Eriksen	COO	Indirectly through Timmuno AS	724,650
Gustav Gaudernack		Indirectly through Prieta AS	720,000

78 other shareholders, each representing an ownership interest of less than 1.7%

Options:

A total of 100,000 options have been issued to key personnel at a subscription price of NOK 7.5.

Note 6 – Payroll expenses

<i>Payroll expenses</i>	2014	2013
Pay	5,766,825	4,371,192
Employer's National Insurance contributions	1,067,173	644,352
Public funding	-2,003,436	-2,386,966
Pension expenses	257,311	262,690
Other benefits	119,154	20,359
Total	5,207,027	2,911,627

In the 2014 financial year, the number of employees increased from 4 employees/3.8 full-time equivalents to 6 employees/5.5 full-time equivalents.

Notes

The company has signed an occupational pension agreement in accordance with the Act relating to Mandatory Occupational Pensions.

Note 7 – Remuneration of the CEO, board of directors and auditor

Remuneration of executive personnel

	CEO	Board of directors
Pay	1,331,296	0
Pension expenses	53,515	0
Other remuneration*	1,016,656	0

The company has not furnished loans or security to the CEO, employees, shareholders or board members, or to their related parties.

*The former general manager is subject to an agreement for nine months' severance pay on termination of the employment relationship. Other remuneration consists mainly of the severance pay.

The general manager is a member of the company's option scheme and owns 50,000 options as of 31 December 2014.

	2014
Fee for statutory audit	70,000
Fee for tax assistance	63,000

VAT is not included in the auditor's fee.

Note 8 – Tax

The taxable profit for the year is calculated as follows

	2014	2013
Pre-tax profit/loss	-17,411,703	-7,144,288
Permanent differences	-7,833,693	-2,891,752
Change in temporary differences	190,121	0
Tax basis for the year	<u>-25,055,275</u>	<u>-10,036,040</u>

Temporary differences and the basis for deferred tax/deferred tax asset

	2014	2013
Tax loss carryforward	-50,937,285	-25,882,010
Tangible fixed assets	21,379	0
Other differences	-211,500	0

Targovax AS

Notes

Total	<u>-51,127,404</u>	<u>-25,882,010</u>
Net temporary differences at 31 Dec.	<u>-51,127,404</u>	<u>-25,882,010</u>
Deferred tax asset/Deferred tax (27%)	-13,804,400	-6,988 143

The deferred tax asset is not recognised in the balance sheet.

Explanation of why the tax expense for the year does not amount to 27% of the pre-tax profit/loss

	2014
27% of pre-tax profit/loss	-4,701,160
27% of permanent differences	-2,115,097
Change in deferred tax asset not recognised in the balance sheet	<u>6,816,257</u>
Tax expense for the year	<u>0</u>

Note 9 – Operating revenues

Operating revenues amount to NOK 72,490 and exclusively concern revenues from the sale of services. In addition, the company has received NOK 4,801,345 in project support. NOK 3,236,428 from the SkatteFUNN tax credit scheme has also been taken to income. Income from public funding is recognised as a cost reduction.

Note 10 – Tangible fixed assets

	Fixtures and fittings
Acquisition cost at 1 Jan. 2014	0
Additions, purchase of operating equipment	160,340
Acquisition cost at 31 Dec. 2014	<u>160,340</u>
Acc. depreciation at 31 Dec. 2014	<u>-10,689</u>
Book value at 31 Dec. 2014	<u>149,651</u>
Depreciation for the year	<u>10,689</u>
Useful life	5 years
Depreciation plan	Straight line



Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo

Foretaksregisteret, NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Føx: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske revisorforening

To the Annual Shareholders' 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 balance sheet as at 31 December 2014, the statement of income for the year then ended and a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Managing Director's responsibility for the financial statements

The Board of Directors and Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as the Board of Directors and Managing Director 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.

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 its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is 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 the Board of Directors and Managing Director have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, April 20, 2015
ERNST & YOUNG AS

Tommy Romskaug
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)