# INTERIM REPORT Q4 AND FULL YEAR 2014

## FOURTH QUARTER HIGHLIGHTS

- Group revenues almost doubled in the 4th quarter and increased by 50 percent for the year, while Group EBITDA marginally improved.
- Evaluation study for Woulgan® Biogel progresses with several new study centers included in Germany and UK. Expected to be completed at the end of 1st quarter 2015.
- ArcticZymes certified according to ISO 9001:2008 for product development, sales and marketing, manufacturing and distribution of rSAP and Cod UNG.
- Solid financial head room with cash balance exceeding 88 mnok at the end of 4th quarter.

| NOK million | Q4 2014 | Q4 2013 | 2014 | 2013 |
|---|---|---|---|---|
| Enzymes | 4.3 | 4.0 | 16,3 | 15.8 |
| Beta-glucans | 5.7 | 1.4 | 16.8 | 6.3 |
| **Sales revenues** | **10.0** | **5.3** | **33.0** | **22.1** |
| Enzymes | -1.1 | -0.5 | -3.8 | -2.6 |
| Beta-glucans | -4.7 | -5.8 | -17.4 | -18.9 |
| **EBITDA** | **-5.8** | **-6.3** | **-21.2** | **-21.5** |
| Profit before tax | -5.8 | -6.7 | -22.0 | -22.9 |

*The segment figures reflect that all costs are allocated to the two operating units*

# Beta-glucans - Biotec BetaGlucans

### FINANCIAL REVIEW, BETA-GLUCANS

| NOK million | Q4 2014 | Q4 2013 | 2014 | 2013 |
|---|---|---|---|---|
| **Sales revenue** | **5.7** | **1.4** | **16.8** | **6.3** |
| Cost of goods sold | -4.0 | -0.3 | -10.1 | -1.6 |
| **Gross profit** | **1.7** | **1.1** | **6.7** | **4.7** |
| Other income | 1.1 | 0.2 | 1.6 | 1.3 |
| Personnel expenses | -4.8 | -3.9 | -15.2 | -14.0 |
| Other operating expenses | -2.7 | -3.2 | -10.5 | -10.8 |
| **EBITDA** | **-4.7** | **-5.8** | **-17.4** | **-18.9** |
| Depreciation & Amortization | -0.3 | -0.3 | -1.5 | -1.3 |
| **EBIT** | **-5.0** | **-6.1** | **-18.9** | **-20.2** |

*All corporate costs have been allocated*

Sales of beta-glucans' showed a growth of NOK 4.3 million compared to the 4$^{th}$ quarter 2013, primarily reflecting sales of feed ingredient beta-glucans to the aquaculture market. Sales revenue amounted to NOK 5.7 million in the 4$^{th}$ quarter 2014, compared to NOK 1.4 million in the 4$^{th}$ quarter 2013. The increase in cost of goods sold reflects the sales increase of feed ingredient products with lower margin. The increase in personnel expenses is primarily due to hiring of new employees. EBITDA for the quarter was a loss of NOK 4.7 million compared to a loss of NOK 5.8 million in the same period last year.

In November last year, Biotec informed the market of a delay in the evaluation study conducted by Smith & Nephew in UK and Germany. At the end of the 4$^{th}$ quarter, a total of 10 sites in Germany and 8 sites in UK had agreed to take part in the study. This is deemed sufficient to recruit enough patients for reliable results. Biotec expects the study to be finalized according to the revised plan, by the end of the 1$^{st}$ quarter 2015.

Some preliminary results from the evaluation study published at "Wounds UK" in December showed that patients experienced improved healing during the treatment period as well as less pain and improved comfort compared to previous therapies. It was also reported that Woulgan® Biogel was easily applied to the wounds and had no side effects.

Biotec and Smith & Nephew continue the process to clarify the basis for a long-term agreement while the evaluation study is being completed. As the exclusivity agreement with Smith & Nephew has expired, strengthening the Company's strategic position is in focus, and parallel and attractive routes to commercialize Woulgan® Biogel are being pursued. With the strong preliminary test results for Woulgan® Biogel, the Company is confident that the product can obtain a strong market position in the advanced wound care market. However, being a novel advanced product, Woulgan® Biogel will require a clear focus and a strong priority by any partner(s) to obtain a high market penetration and receive the market position the product deserves. This focus and priority is key when selecting the market channels going forward.

The Company has also started to evaluate the strategy for Woulgan® Biogel in the US market. The regulatory positioning will be key to the success in this important market, as it forms the basis for the reimbursement level and thus the pricing. So far it is clear that alternative "predicate devices" exist, meaning that it is likely the Woulgan® Biogel product can be introduced into USA but more time is needed to consider whether other routes would be more favorable.

Biotec BetaGlucans has conducted a survey among Norwegian healthcare professionals (HCP) in parallel with the evaluation study performed by Smith & Nephew. This survey included 55 patients that were mainly treated for chronic and hard to heal wounds. The results are promising as the majority of the patient cases showed positive progressions and the HCP's satisfaction with Woulgan was high.

Woulgan® Biogel has received a lot of attention and interest from key opinion leaders and relevant health institutions in Norway. The Company therefore decided to launch Woulgan® Biogel in Norway at the annual wound healing conference (NIFS) in Oslo/Fornebu on February 6th. This is a limited launch as the objective is to start commercial activities towards the most relevant segments, and at the same time being prepared for a hand-over to a long-term partner. A limited launch in Norway will therefore have no impact on the partner process.

Biotec BetaGlucans has been granted a three years financial support from the Norwegian Research Council to develop new formats of wound management products. Two new products, a spray and a dressing with SBG, are currently in early development phases.

To secure a continued growth in sale of beta-glucans to the aquaculture and the dietary supplement sector, Biotec BetaGlucans has strengthened the staff with a scientific product manager. The Company has in the 4th quarter filed applications for new trademarks for products to these market segments and is currently working to secure new leads within the feed sector. NutraQ, currently the exclusive customer on dietary supplement beta-glucan, has increased their sales activity within the B2B segment of their beta-glucan business. The strengthened effort in this segment is likely to increase the revenues for 2015. NutraQ's exclusivity expires in January 2016.

# Enzymes - ArcticZymes

## FINANCIAL REVIEW, ENZYMES

| NOK million | Q4 2014 | Q4 2013 | 2014 | 2013 |
|---|---|---|---|---|
| **Sales Revenue** | **4.3** | **4.0** | **16.3** | **15.8** |
| Cost of goods sold | -0.1 | -0.1 | -0.9 | -0.9 |
| **Gross profit** | **4.2** | **3.9** | **15.3** | **14.9** |
| Other income | 0.9 | 1.3 | 4.1 | 5.1 |
| Personnel expenses | -3.8 | -3.7 | -13.9 | -13.2 |
| Other operating expenses | -2.4 | -2.0 | -9.3 | -9.4 |
| **EBITDA** | **-1.1** | **-0.5** | **-3.8** | **-2.6** |
| Depreciation and Amortization | -0.2 | -0.3 | -0.9 | -1.1 |
| **EBIT** | **-1.3** | **-0.8** | **-4.8** | **-3.7** |

*All corporate costs have been allocated*

Sales of enzymes reached NOK 4.4 million in the 4th quarter 2014, up from NOK 4.0 million in the same quarter last year, mainly reflecting higher volumes to large OEM customers.

Other income relating to research grants, declined to NOK 0.9 million from NOK 1.3 million in the 4th quarter last year, while operating expenses increased to NOK 2.4 million versus NOK 2.0 million in the same period last year.

At EBITDA level, enzymes incurred a loss of NOK 1.1 million in the 4th quarter 2014, compared to a loss of NOK 0.5 million in the 4th quarter 2013.

From January 1st, Jethro Holter took over as Managing Director of ArcticZymes. He holds a BSc in Biochemistry and a PhD in Molecular Genetics, and comes from a position in global Business Development at Thermo Fisher.

ArcticZymes continues to broaden its base of OEM customers in the kits and reagents market. Its B2B strategy resulted in new product introductions by two of our largest B2B customers in the 4th quarter.

ArcticZymes continued to see growth in its three top products; rSAP, Cod UNG, and the DNase product portfolio. The products are integrated in DNA sequencing, diagnostic, genomic DNA sample preparation for OEM customers.

During 2014, the Company initiated some discussions with potential Chinese customers and in the 4th quarter ArcticZymes signed two letters of intent (LOI) with leading Chinese commercial companies to support our product portfolio in the end user segment of the Chinese market, and small initial orders were received. ArcticZymes also started a product assessment process with the largest biotechnology company in China. China represents a new interesting opportunity, as there are more than 300 diagnostic organizations and a significant number of academic research institutes that employ molecular techniques in the laboratories routine workflow.

ArcticZymes end user business continues to grow at an annual rate of 40%, although from a low starting point. This market can be a catalyst for ArcticZymes in identifying future OEM and B2B customers, in addition to identifying research trends, and future market requirements.

At the end of 4th quarter, ArcticZymes received confirmation by Det Norske Veritas (DNV) of certification according to ISO 9001:2008 for product development, sales and marketing, manufacturing and distribution of rSAP and Cod UNG. The certificate is valid for three years. This is an important milestone for the company in supporting customers going forward. ArcticZymes plan to include all other products in the scope by November 2015.

ArcticZymes is continuing its development of new enzymes and applications through the Norwegian Research Council founded projects “MarFunk” and “NextZyme”. With ArcticZymes exclusive access to selected Bioprospecting activities at the Arctic University of Tromsø and close collaboration with the largest companies in the life science industry, ArcticZymes aims to expand the product portfolio and enter into new technology markets.

# Biotec Pharmacon – Group Figures

Overall EBITDA was NOK -5.8 million in the 4th quarter 2014, an improvement from NOK -6.3 million in the same period last year, whereas EBIT improved to NOK -6.3 million from NOK -6.9 million in the 3rd quarter 2013. The improvement is mainly explained by strong sales in 4th quarter.

Net financial income amounted to NOK 0.5 million in the 4th quarter, generating a loss before tax of NOK 5.8 million compared to a loss of NOK 6.7 million in the 4th quarter 2013.

For the full year of 2014, sales revenues amounted to NOK 33.0 million. The EBITDA was a loss of NOK 21.2 million, and the EBIT was a loss of NOK 23.6 million. Net financial income was NOK 1.6 million, generating a loss before tax of NOK 22.0 million.

The Company recognized no income tax in 2014.

The Group had 37 employees at the end of 2014, compared to 33 employees at the end of 2013.

**Balance Sheet, Cash Flow and Shareholder matters**

Total equity amounted to NOK 98.9 million compared to NOK 42.5 million in the same period last year.

Biotec Pharmacon ASA raised gross proceeds of NOK 78 million in April through a fully subscribed private placement of NOK 3.9 million shares at NOK 20 per share. The issue corresponded to 9.9 percent of the total number of shares outstanding, with proceeds primarily to be used for the commercialization of Woulgan® Biogel.

Employees called 115.000 options during the 4th quarter 2014, raising a total of NOK 0.9 million in new equity.

Total number of outstanding shares was 43.623.373 at the end of the 4th quarter. The current number of outstanding employee share options is 676.050. 16.250 options was issued during the 4th quarter and a total of 203.250 options was issued in 2014

Total assets was NOK 111.1 million at the end of 2014, up from NOK 53.8 million at the end of 2013. The company has no interest-bearing debt.

Net cash flow from operating activities was NOK 1.3 million in the 4th quarter 2014 and NOK -21.2 million for the full year 2014. The operating cash flow reflects reduced working capital of NOK 6.3 million in the 4th quarter and an increase of NOK 2.3 million for the full year 2014, due both to increased receivables and lower payables.

Net cash flow from investing activities was NOK -0.5 million in the 4th quarter and NOK -1.9 million for the full year 2014. Net cash flow from financing activities was NOK 0.8 million in the 4th quarter and NOK 77.7 million for the full year 2014.

Changes in cash and cash equivalents were NOK 1.6 million in the 4th quarter and NOK 54.7 million for the full year 2014. This generated a cash balance of NOK 88.3 million at the end of the quarter, compared to NOK 33.7 million at the end of 2013.

**Risk factors**

Biotec Pharmacon's business is exposed to a number of different risk factors that may affect parts or all of the company's activities. There are no substantial changes in the risk factors compared to the descriptions in Annual Report for 2013.

**Outlook**

Biotec BetaGlucans develops and manufactures novel immune modulating products, focusing on CE-marked Woulgan® Biogel containing the proprietary substance SBG®, an ancillary medical substance proven to heal wounds faster. Woulgan® Biogel is a CE-marked medical device, class III, rule 13, approved for a range of wound conditions.
The Board of Directors is positive to the commercial opportunity for Woulgan® Biogel, as an approved product with favourable documentation addressing a large market in need of new products. The evaluation study currently carried out by Smith & Nephew at several sites in UK and Germany is expected to be completed by the end of the 1st quarter 2015. Following the completion of the study, Biotec Pharmacon expects to enter into agreement(s) with distribution partner(s). The main focus is to enter into agreement(s) with partner(s) securing the full commercial potential of Woulgan® Biogel.

ArcticZymes develops, produces and sells enzymes of marine origin used in molecular DNA technologies and diagnostics. Growth markets with rapid technological development are creating a strong demand for new and improved enzymes. Further broadening the interaction with the largest companies in the molecular research and diagnostic industry will be the main driver to create growth for ArcticZymes going forward.

## Financial statement 4th quarter 2014

BIOTEC PHARMACON

### INCOME STATEMENT - THE GROUP

| *(Amounts in NOK 1.000 - exept EPS)* | Q4 2014 | Q4 2013 | Jan.-Dec. 2014 | Jan.-Dec. 2013 |
|---|---|---|---|---|
| **Sales revenues** | 10 032 | 5 312 | **33 026** | **22 108** |
| Cost of goods sold | -4 120 | -386 | -11 039 | -2 506 |
| Personell expenses | -8 579 | -7 552 | -29 010 | -27 234 |
| Depreciation and amortization expenses | -565 | -625 | -2 464 | -2 306 |
| Other income | 2 046 | 1 526 | 5 659 | 6 350 |
| Other expenses | -5 133 | -5 173 | -19 805 | -20 227 |
| | | 0 | | |
| **Operating profit** | **-6 320** | -6 898 | **-23 634** | **-23 815** |
| Finanical income, net | 546 | 241 | 1 641 | 926 |
| Profit before tax | -5 774 | -6 657 | -21 993 | -22 889 |
| Tax | 0 | 0 | 0 | 0 |
| **Profit after tax for the period** | **-5 774** | **-6 657** | **-21 993** | **-22 889** |
| Basic EPS (profit for the period) | -0,13 | -0,19 | -0,52 | -0,60 |
| Diluted EPS (profit for the period) | -0,13 | -0,19 | -0,52 | -0,60 |

### OTHER COMPREHENSIVE INCOME - THE GROUP

| *(Amounts in NOK 1.000)* | Q4 2014 | Q4 2013 | Jan.-Dec. 2014 | Jan.-Dec. 2013 |
|---|---|---|---|---|
| Profit after tax for the period | -5 774 | -6 657 | -21 993 | -22 889 |
| Other comprehensive income: | | | | |
| - Currency translation effect | 32 | 2 | 53 | -105 |
| **Total comprehensive income** | **-5 742** | **-6 655** | **-21 940** | **-22 994** |

### BALANCE SHEET - THE GROUP

| *(Amounts in NOK 1.000)* | 2014-12-31 | 2013-12-31 |
|---|---|---|
| **Non-current assets** | | |
| Machinery and equipment | 5 359 | 5 466 |
| Intangible assets | 5 190 | 5 622 |
| Financial assets available for sale | 33 | 33 |
| Other financial assets | 120 | 124 |
| **Total non-current assets** | **10 702** | **11 245** |
| **Current assets** | | |
| Inventories | 4 392 | 2 439 |
| Trade receivables and other receivables | 7 752 | 6 440 |
| Cash and cash equivalents | 88 283 | 33 656 |
| **Total current assets** | **100 428** | **42 535** |
| **Total assets** | **111 130** | **53 780** |
| **Equity** | | |
| Share capital | 43 623 | 39 393 |
| Share premium capital | 129 085 | 55 612 |
| Other equity | -74 277 | -53 321 |
| Non-controlling interests | 437 | 840 |
| **Total equity** | **98 868** | **42 524** |
| **Current liabilities** | | |
| Trade-, short term-, and other payables | 12 262 | 11 256 |
| **Total current liabilities** | **12 262** | **11 256** |
| **Total equity and liabilities** | **111 130** | **53 780** |

## CHANGES IN EQUITY - THE GROUP

| *(Amounts in NOK 1000)* | Share capital | Share premium capital | Own shares | Minority interests | Other reserves | Total equity |
|---|---|---|---|---|---|---|
| **Balance at 2012-12-31** | **28 553** | **23 292** | **0** | **1 182** | **-31 118** | **21 909** |
| Total comprehensive income/-loss for the period | 0 | 0 | 0 | -342 | -22547 | -22889 |
| Currency conversion difference | 0 | 0 | 0 | 0 | -106 | -106 |
| *Transactions with shareholders:* | | | | | | |
| Private placements - new equity | 9 500 | 28 444 | 0 | 0 | 0 | 37 944 |
| Subsequent offering - new equity | 1 340 | 3 975 | 0 | 0 | 0 | 5 315 |
| Employee stock option provision | 0 | 0 | 0 | 0 | 387 | 387 |
| Purchase of own shares | 0 | 0 | -23 | 0 | -154 | -177 |
| Sale of own shares | 0 | 0 | 23 | 0 | 118 | 141 |
| Total transactions with shareholders | 10 840 | 32 419 | 0 | 0 | 351 | 43 611 |
| **Balance at 2013-12-31** | **39 393** | **55 711** | **0** | **840** | **-53 420** | **42 524** |
| Total comprehensive income/-loss for the period | 0 | 0 | 0 | -403 | -21 590 | -21 993 |
| Currency conversion difference | 0 | 0 | 0 | 0 | 53 | 53 |
| Transactions with shareholders: | | | | | | |
| Private placements - new equity | 4 230 | 73 513 | 0 | 0 | 0 | 77 743 |
| Employee stock option provision | 0 | 0 | 0 | 0 | 581 | 581 |
| Purchase of own shares | 0 | 0 | -14 | 0 | -182 | -196 |
| Sale of own shares | 0 | 0 | 14 | 0 | 142 | 156 |
| Total transactions with shareholders | 4 230 | 73 513 | 0 | 0 | 541 | 78 284 |
| **Balance at 2014-12-31** | **43 623** | **129 224** | **0** | **437** | **-74 416** | **98 868** |

## CASH FLOW ANALYSIS - THE GROUP

| | Q4 | | Jan.-Dec. | |
|---|---|---|---|---|
| *(Amounts in NOK 1000)* | 2014 | 2013 | 2014 | 2013 |
| Cash flow from operating activities: | | | | |
| Profit after tax | -5 774 | -6 657 | -21 993 | -22 889 |
| Adjustment: | | | | |
| Amortization | 565 | 626 | 2 464 | 2 307 |
| Depreciation stocks for sale | 0 | 13 | 0 | 46 |
| Employee stock options | 212 | 387 | 581 | 387 |
| Profit from sale of fixed assets | -45 | 0 | -45 | 0 |
| Currency conversion difference | 32 | 2 | 53 | -105 |
| Changes in working capital | | | | |
| Inventory | -803 | 236 | -1 954 | 228 |
| Account receivables and other receivables | 3 432 | 1 732 | -1 312 | 1 713 |
| Payables and other current liabilities | 3 651 | 2 764 | 1 006 | 928 |
| **Net cash flow from operating activities** | **1 270** | **-897** | **-21 200** | **-17 385** |
| Cash flow from investing activities: | | | | |
| Purchase of fixed assets | -88 | -896 | -1 538 | -1 312 |
| Invested in intangible assets | -387 | 0 | -387 | -315 |
| Sale of fixed assets | 45 | 0 | 45 | 0 |
| Change in long term receivables | -51 | 25 | 3 | 66 |
| **Net cash flow from investing activities** | **-481** | **-871** | **-1 877** | **-1 561** |
| Cash flow from financing activities: | | | | |
| Cashflow from share issues | 867 | 0 | 77 743 | 43 259 |
| Purchase of own shares | -195 | -177 | -195 | -177 |
| Sale of own shares | 156 | 141 | 156 | 141 |
| **Net cash flow from financing activities** | **828** | **-36** | **77 704** | **43 223** |
| Changes in cash and cash equivalents | 1 617 | -1 804 | 54 627 | 24 277 |
| Cash and cash equivalents at the beginning of period | 86 666 | 35 460 | 33 656 | 9 379 |
| **Cash and cash equivalents at end of period** | **88 283** | **33 656** | **88 283** | **33 656** |

## Notes to the interim accounts for 4th quarter 2014

### Note 1 - Basis of preparation of financial statements

These financial statements are the unaudited interim consolidated financial statements (hereafter "the Interim Financial Statements") of Biotec Pharmacon ASA and its subsidiaries (hereafter "the Group") for the period ended December 31 2014. The Interim Financial Statements are prepared in accordance with the International Accounting Standard 34 (IAS 34). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year, ended December 31 2013 (hereafter "the Annual Financial Statements"), as they provide an update of previously reported information.

The accounting policies used in the Interim Financial Statements are consistent with those used in the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements. Where necessary, the comparatives have been reclassified or extended from the previously reported Interim Financial Statements to take into account any presentational changes made in the Annual Financial Statements or in these Interim Financial Statements.

Income tax expense or benefit is recognized based upon the best estimate of the weighted average income tax rate expected for the full financial year. Deferred tax asset is accounted at NOK 0 in the balance sheet.

The Group has adopted IFRS 13 "Fair Value Measurement" for the period started January 1 2013.

### Note 2 - Analysis of operating revenue and -expenses, segment information

Income and expenses in the parent company are allocated to both segments according to a predefined key.

| | Q4 | | Jan.-Dec. | |
|---|---|---|---|---|
| *(Amounts in NOK 1 000)* | 2014 | 2013 | 2014 | 2013 |
| *Sales revenue:* | | | | |
| Beta-Glucans | 5 700 | 1 355 | 16 773 | 6 268 |
| Enzymes | 4 322 | 3 957 | 16 252 | 15 840 |
| **Group operating revenue** | **10 022** | **5 312** | **33 025** | **22 108** |
| *Other income:* | | | | |
| Beta-Glucans | 1 141 | 246 | 1 594 | 1 270 |
| Enzymes | 903 | 1 280 | 4 065 | 5 080 |
| **Group other income** | **2 044** | **1 526** | **5 659** | **6 350** |
| *Operating expenses:* | | | | |
| Beta-Glucans | -11 491 | -7 388 | -35 722 | -26 450 |
| Enzymes | -6 341 | -5 724 | -24 133 | -23 518 |
| **Group operating expenses before amortization** | **-17 832** | **-13 112** | **-59 855** | **-49 968** |
| *Operating profit (EBITDA):* | | | | |
| Beta-Glucans | -4 650 | -5 786 | -17 355 | -18 912 |
| Enzymes | -1 105 | -487 | -3 815 | -2 597 |
| **Group operating profit - EBITDA** | **-5 755** | **-6 273** | **-21 170** | **-21 509** |
| *Amortization:* | | | | |
| Beta-Glucans | -330 | -333 | -1 520 | -1 250 |
| Enzymes | -235 | -292 | -944 | -1 056 |
| **Group amortization** | **-565** | **-625** | **-2 464** | **-2 306** |
| *Operating profit (EBIT):* | | | | |
| Beta-Glucans | -4 980 | -6 119 | -18 875 | -20 162 |
| Enzymes | -1 340 | -779 | -4 759 | -3 653 |
| **Group operating profit - EBIT** | **-6 320** | **-6 898** | **-23 634** | **-23 815** |

Oslo, February 16, 2015
The Board of Directors of Biotec Pharmacon ASA

Erik Thorsen
Chairman

Olav Flaten
Director

Inger Rydin
Director

Gunnar Rørstad
Director

Kjersti Grimsrud
Director

Gerd Nilsen
Director, employee representative

Svein W. F. Lien
CEO