Annual report 2012

1. About Biotec Pharmacon ASA

Biotec Pharmacon ASA is a research-based industrial company that develops and supplies unique chemicals and solutions based on these. The company's operations are divided into two business areas:

- Beta-glucans for use in medical technology (Medical Device), in dietary supplements and as pharmaceutical product candidates
- Marine enzymes for use in life science research and in molecular diagnostics

The beta-glucans business area is organized within the wholly owned subsidiary Biotec BetaGlucans AS, while the marine enzymes business is handled by the subsidiary ArcticZymes AS. The parent company Biotec Pharmacon ASA operates as a holding company with administration and common support functions for the group, while the operating activities are carried out in the two subsidiaries.

The business is primarily located in the Research Park close to the University of Tromsø, while the production facilities are located in customised premises just off the Research Park area. In addition, ArcticZymes established a separate subsidiary in Pennsylvania, United States, in order to serve customers in the US market.

During 2012 the company has established the foundation for launching a product for advanced wound treatment. The company has developed a wound gel named Woulgan® Biogel to be sold as a medical device, firstly to the professional wound care market. The company has signed an agreement with the global company Smith & Nephew for testing of the product as soon as it becomes CE marked. Smith & Nephew is the world's largest provider of products to this market, and it is the intention from the agreement that they will distribute the product.

The enzyme business redefined its distribution strategy in the second half of 2012 in order to strengthen growth and establish new products in the market. The business focus is on marketing activities toward the main regional and global suppliers of reagents for diagnostic and research markets.

The company's profit development in 2012 has not been satisfactory as a result of decline in sales of enzyme products. The Board's opinion, however, is that the milestones that have been achieved within the beta-glucan area and the adjusted strategy on enzymes, will be able to significantly improve the profit in the next few years.

2. Beta-glucans

The beta-glucan activity is organized in the company Biotec BetaGlucans AS, developing applications based on the company's patent protected soluble beta-1,3/1-glucan (SBG). The immunomodulatory properties of SBG have shown to be promising in the treatment of immune related diseases. In 2012, the company has completed the development of Woulgan® Biogel, an advanced product for the treatment of topical (on the skin) wounds. Woulgan® Biogel is expected to be suitable for the treatment of chronic wounds. Furthermore, the company has maintained a limited activity in development of a SBG treatment regimen for immunotherapy of cancer through the continued

cooperation with Memorial Sloan-Kettering Cancer Center. The company has also secured possibilities for future product development of SBG for treatment of oral ulcers (oral mucositis) and inflammatory bowel disease (IBD).

Woulgan® Biogel has been tested in several animal models and demonstrated significantly better results than commercially available hydrogels. The company has applied for the CE marking of the product as medical device under class 3 rule 13, which is the most demanding classification. Such a classification where the immunomodulating properties of SBG can be emphasized in a hydrogel, will strengthen the marketing positionenabling a differentiation towards competing products. A CE marking will provide market access in Europe.

The CE mark is issued by a certification agency (Notified Body) and the Norwegian company Presafe has been selected for this purpose. The application was submitted in July 2012 and the processing time is usually about one year. Since the product has a component that is regarded as a medicinal substance, the Notified Body has to consult a European medicines agency to assess this component of the product. The English medicines agency MHRA was chosen to assess this part of the application by Presafe.

The European market for advanced wound care products is very attractive. According to analysis of this market made by market researcher Espicon, Europe represents about half of the world market. The users of such wound treatment products are constantly looking for cost-effective and improved methods that can help patients and reduce health costs.. Woulgan® Biogel is an advanced product, but has a relatively low production cost compared to other high-end products, which are often expensive niche products that are too expensive to be used on a large scale.

In December 2012, it was signed an agreement with Smith & Nephew for the Woulgan® Biogel. This agreement will have major strategic significance to the further development of the company. The agreement presupposes that the company achieves CE marking of the product. Once this is in place S&N will conduct a test trial in a limited number of selected clinics to evaluate the response to the product in the market. The purpose of the evaluation is to determine whether the Woulgan® Biogel may have a cost/benefit that makes it likely to become a mass product in markets. The pricing of the product will largely depend on the outcome of this review.

The parties shall then decide on how S&N shall keep its exclusive right to distribute the company's wound care products, but Biotec will also be able to execute limited market operations in parallel with this process.

The active ingredient SBG is manufactured in the company's own facilities in Tromsø. From 2013 production will formally be in accordance with ISO 13485 concerning development, manufacture and sale of medical devices. The preparations for certifying Biotec BetaGlucans to ISO 13485 began late 2011 and has been an extensive task since it also included foreign contract manufacturers. Final certification was achieved in April 2013. Innovation Norway has provided financial support to this project.

A comprehensive stability program for the new formulation has been on-going since mid-2011. All observations so far indicate that the formulation used in the Woulgan® Biogel ensures a robust and stable product.

The first two successful validation batches for the Woulgan® Biogel have been produced in 2012, and in March 2013, respectively. The third and final validation batch is planned for in May 2013.

Due to limited organizational capacity, the projects within the treatment of oral mucositis and treating inflammatory bowel disease could not be prioritized in 2012. However, the company has maintained a limited activity related to immunotherapy of cancer through continued collaboration with Memorial Sloan-Kettering Cancer Center (MSKCC). A clinical phase I/II study with MSKCC's self-designed cancer vaccine against neuroblastoma, is under implementation with SBG used as auxiliary materials. The study will form the basis for a possible follow-up in the form of a clinical efficacy study of therapeutic inoculation of this patient group. The company has secured its patent rights aiming at further development of these areas going forward.

The company's operations in the field of dietary supplements and cosmetics were divested late 2009 to Sana Pharma CORP with an exclusive supply agreement of bulk product from the factory in Tromsø. The collaboration with Sana Pharma continued through 2012, and revenue increased by 10% from NOK 7.0 million in 2011 to NOK 7.7 million in 2012.

3. Marine enzymes

The subsidiary ArcticZymes AS develops, markets, and sells a growing portfolio of heat labile enzymes. Such enzymes are particularly well suited to prepare sample material, e.g. by removing the contamination before amplifying up to a concentration from which one can identify the DNA or RNA. This is a high growth area in the field of molecular biology, both for research purposes and routine diagnostics.

The company's enzymes are included in products (kits) from leading international companies and are used both in "in vitro" diagnostics (IVD, products for diagnosis of diseases) and products for the research market.

The unique abilities of the enzymes are based on their origin from organisms that live in the ice cold Arctic Ocean. For this reason the enzymes are active at low temperatures, but have a heat sensitive device that allows them to easily inactived through heating. Use of competing enzymes typically involves time and cost consuming procedures for extraction that also often result in great loss of sample material and the risk of contamination. Many customers are dealing with very limited quantities of DNA or RNA, and it is a huge advantage that loss from extraction and the risk of contamination are minimized.

The company has good patent protection on their products and markets at the moment five unique enzymes from Arctic organisms. After the phasing out its native SAP product all the enzymes are recombinant (artificial manufactured in micro-organisms), and thus independent of supply from biological raw material.

Through increased commitment to and investment in new products, the company is able to develop solutions and applications to the enzymes themselves, in order to offer customers a more comprehensive and functionalized solution (application). In the second half of the year, the company launched its first kit, Heat & Run ®, simple enzymatic removal of contaminating genomic DNA from RNA.

The company's product portfolio includes:

- Shrimp Alkaline Phosphatase (SAP)-alkaline phosphatase from shrimp
- Double-Strand Specific DNase (dsDNase) originally from shrimp
- Heat-labile Double-Strand Specific DNase (HL-dsDNase)-proprietary mutant of dsDNase
- Uracil-DNA Glycosylase (Cod UNG) – UNG from cod
- Salt Active Nuclease (SAN) – General nuclease from a marine bacterium
- Heat & Run® – kit for the removal of contaminating genomic DNA from tests for gene expression analysis

At the very end of 2011 a subsidiary in the United States, ArcticZymes Inc was established. Through this subsidiary ArcticZymes will develop the market for its products and follow up customers in the United States. An agreement is set up with an incubator company to assist with office support and logistics.

ArcticZymes has, during the second half of 2012, aimed its sales and marketing activities towards the major regional and global suppliers within biotechnology and life science. In November the company entered into a distribution agreement for SAP with New England Biolabs, a leading supplier of enzymes and reagents for the global life science market. Other products may be included in the agreement at a later date. The company is experiencing great interest from many of the large companies and expects to sign other similar agreements in the future.

During the year, the company has entered into collaborations with several large international companies to test out enzymes in specific applications. In addition the company is in process of developing and launching several customer adapted solutions. It is expected that this will provide good growth whenthe solutions are launched by our customers.

Total sales in the first three quarters and for the year as a whole were not satisfactory, mainly due to low sales volume of SAP as well as price pressure on the company's second-biggest product, Cod UNG. In the fourth quarter, one could see that the focus on the large customers have started to yield results in terms of increasing sales.

In 2012 there was also established a web shop that provides the opportunity for sales under own brand directly to end users. The web shop is an important channel for the profiling of the company in the market. In essence, the company delivers to customers in the United States and Europe, but there has also been a gradual increase in sales to Asia and the Middle East.

The company's active participation in the MabCent program is expected to lead to more interesting product candidates that are now considered for future commercialization. ArcticZymes has the first right to commercialization of enzymes from the project MARZymes at the University of Tromsø. MARZymes is a 5-year project through 2014 that have received significant funding for bioprospecting of enzymes in the Arctic. The company also works closely with the research group of MARZymes to ensure that project activities are commercially relevant. In addition, the company has been involved in activities in the Svalbard region through two collaborative projects studying the diversity of micro-algae and viruses in the marine environment. These projects have generated a significant amount of

sequence data that include new enzyme-encoded genes to be evaluated for development of new enzymes.

In general, ArcticZymes is well positioned to launch new unique cold active enzymes and kits for sale in the molecular biology market forward.

4. Profit and loss and balance sheets

The financial statements have been prepared under the assumption of going concern. The basis for this assumption is the company's plans, the present capital situation and the long-term forecasts the company relies on.

The Board is not aware of any matters of significant importance for the company's status beyond what is disclosed in the financial statements. Between the ending of 2012 and the date for closing the annual report and the preparations of these financial statements, the company has completed private placement and a subsequent repair issue as described under paragraph 5.

Profit And Loss Statement

The financial statements for the Biotec Pharmacon group have been prepared in accordance with International Financial Reporting Standards (IFRS). The Biotec Pharmacon group had sales revenues of NOK 21.5 million in 2012, compared to NOK 23.0 million in 2011. The company's main sales revenue come from products within the marine enzymes segment, while the beta-glucans business area currently sells products exclusively to Sana Pharma AS for dietary supplement. Sale of marine enzymes declined by 16% from previous as a result of decrease in SAP sales, while sales within the beta-glucans segment increased by 11% from 2011.

Net profit for the group was NOK -24.3 million compared to a result of NOK -20.1 million in 2011. In 2012, the Group had an operating profit (EBIT) for beta-glukan area at NOK -15.9 million compared to NOK -18.4 million in 2011. Marine enzymes had an operating profit of NOK -8.9 million against NOK -2.8 million for 2011. All the costs within the group are allocated to these two business areas.

The total costs for R & D within the group in 2012 were NOK 21.0 million, compared to NOK 22.9 million in 2011.

R & D costs within beta-glucans segment are somewhat reduced in 2012 compared to 2011. This is because the company has concentrated its efforts towards the Woulgan® Biogel, while other projects are postponed in time. The enzyme business increased its costs relatively much in 2012 compared to 2011. This was due to employing more staff towards the end of 2011, which resulted in higher costs in 2012.

In 2012 development costs related to own product development was capitalised associated with NOK 1.1 million for later depreciation over the estimated life span of the product. Equivalent capitalisation in 2011 was NOK 4.3 million.

Cash Flow

The Group had a cash flow from operating activities of NOK -24.6 million in 2012, compared to NOK -10.8 million in 2011. Cash flow from investing activities in 2012 was NOK -2.1 million against NOK -4.6 million in 2011. For 2012, the investing activities were spilt between fixed assets of NOK 1.0

million and development of new products being prepared for sale of NOK 1.1 million. Net cash flow from financing activities was NOK 0.0 million in 2012, compared to NOK 8.1 million in 2011.

Net cash flow in 2012 was NOK -26.7 million, against NOK -7.3 million for 2011.

Balance

Total equity in the Corporation amounted to NOK 21.9 million at the end of 2012, compared to NOK 45.8 million at the start of the year. Equity ratio was 68%. Cash and cash equivalents amounted to NOK 9.4 million as of 31.12.2012, compared to NOK 36.1 million a year earlier. The company has no interest bearing debt. The company has an unused credit facility agreement with the bank of NOK 10.0 million.

The Parent Company

Sales revenue of the parent company Biotec Pharmacon ASA for 2012 were NOK 7.6 million and other income amounted to NOK 0.9 million. Net income was NOK -8.1 million. Sales revenue is mainly intercompany sales of services to the subsidiaries and rental income from leased offices, while other income includes a grant from Innovation Norway. For 2011 sales revenue was NOK 8.6 million, other income was NOK 124.9 million, and net income of NOK 110,9 million. Other income came from the parent company's sales of the beta-glucans business to its wholly owned subsidiary Biotec BetaGlucans AS in February 2011. Deferred tax assets were entirely taken out of balance at the end of 2009. As of 31.12.2012 the time schedule for future taxable profit remains uncertain, and the company has therefore decided not to book this as an asset. The new assessments will be made during 2013.

The Board proposes that this year's deficit in the parent company Biotec Pharmacon of NOK -8.1 million shall be covered by retained earnings. The parent company's unrestricted equity as of 31.12.2012 amounts to NOK 100.1 million.

5. Completed private placement after the balance sheet date

In January 2013, a private placement of 9.5 million shares at NOK 4.25 was conducted. In February, a subsequent repair issue was conducted, targeting those shareholders who did not take part in the private placement. 1,340,357 new shares were allocated. This gave total net proceeds of NOK 43.2 million ensuring the financing of the company through 2014 within the current assumptions and plans.

6. Shareholder Matters

The price for company's shares has remained relatively stable through 2012, somewhat below NOK 6.00. It started at NOK 5.49 and was NOK 5.87 at year end. Highest share price during the year was NOK 7.13.

The Board has stimulated the employees to become shareholders of the company. The staff was also in 2012 offered to buy shares at a discounted rate within the current tax rules, which involves a set number of shares at a 20% discount limited to NOK 1,500 per employee. This offer was accepted by 64% of the employees.

A new stock option program for all employees of the company were introduced in 2011 and continued in 2012. The program includes 688,500 stock options and has a three-year vesting period. The share options can be exercised within one year from 1 April 2014, on specified dates. Strike price is set to NOK 13,96 per share, which is equivalent to the average closing price over the last 5 trading days prior to the first assignment, added an annual increase of 15%. There is a cap on the maximum gain of NOK 40.00 per option. CEO has a separate share option scheme which was granted on the date of employment in 2010. Under this scheme 100,000 options may be executed within 10. March 2014, and another 100,000 options may be executed within 10 March 2015, at strike price of NOK 6.60. As of this date, a total of 997,750 stock options associated with employees of the company are outstanding.

Apart from stock trading there was not conducted any other transactions with close associates in 2012.

As of date, the company has 39,393,173 shares registered and approximately 1,300 shareholders.

7. Risk

The group is exposed to various types of financial and operational risks.

The main financial risk in 2013 relates to development of sales in ArcticZymes. The company is actively working to enter into new agreements to expand the revenue base. The prospects are good but it is uncertain how quickly the anticipated revenue growth will come, and how strong it will be.

The Group seeks to protect its intellectual property rights through patent protection. There will always be a risk that another party may contest such right or that other parties obtain rights that limit the company's technological freedom. There is also a risk that the Group will have to take on the costs of defending its rights against patent infringement from other businesses.

Within the beta-glucans business, the company has announced that it has reached an agreement with Smith & Nephew for its first product for topical wound treatment, the Woulgan® Biogel. For this agreement to result in commercial sales, it is required that the company achieves CE marking of the product. Furthermore, a limited trial of the product prior to market launch and distribution will be conducted. Although the company considers it as likely that it will get CE marking in the first half of 2013, and Smith & Nephew wants to take the product in its portfolio, it has no guarantee that the CE marking can occur as quickly as anticipated, or that a commercial agreement with Smith & Nephew will be made, or that such agreement will ensure a successful launch and sales development.

The company had in 2012 a stable sale of beta-glucans for dietary supplements and cosmetics. As the company has divested the exclusive rights to marketing in these segments, the company is completely dependent on the customer's success for future growth.

A number of key personnel are central to the success of the company's operations. These key individuals are involved in the development of products, technologies, production processes and quality control, purchasing, and marketing, as well as other activities of the company. The company also depends on recruiting new qualified personnel. There is no guarantee that the company will be able to retain key personnel or to be able to recruit new key personnel in the future.

The company is dependent upon certain key suppliers to manufacture the products. The raw material for the production of beta-1,3/1,6-glucan is retrieved from a central supplier. The company may, if necessary, change suppliers over time, but could exclude that such changes could have a temporary negative impact on the company's operations.

Currency risk arises since a majority of the company's revenue is in USD and Euro, while most costs are accrued in NOK. A higher rate for the USD and Euro against the Norwegian krone will affect the outcome in a positive direction, while lower rates will have the opposite effect. The Group's exposure will in the long run be altered if new product releases provide a change in the currency mix.

The company has no interest bearing debt. Interest-bearing placements are made only in the form of bank deposits, certificates or interest funds with short maturities. The group is thus not very exposed to interest rate risk. The company will not be exposed to any risk in the stock market. The Group has no significant concentration of credit risk, and there was no record of losses on accounts receivable in 2012.

After completing the share issue in the 1st quarter of 2013 the Board considers the cash balance to be satisfactory provided that the development of the cash flows from company's on-going operations and investing activities will follow the scheduled plans and budgets.

8. The working environment and staff

At the end of 2012, there were 35 full and part time employees of the group. There were 9 employees of the parent company Biotec Pharmacon ASA, 10 in Biotec BetaGlucans AS, 15 employees of ArcticZymes AS, and 1 employee of ArcticZymes Inc, which is a total increase of 2 employees during the year.

Lost days for sick leave in 2012 totalled at 442 days, which was significantly higher than the previous year. Accumulated sick leave was at 5.9% compared to 2.9% for 2011. Absence due to long term illness amounted to 3.9% in 2012. No specific initiatives have been initiated during the year to influence the work environment. There were no work accidents causing injury to personnel or damage to machinery during the year.

The company is committed to facilitate the recruitment and development of employees of both sexes. Equality between the sexes is practiced in the way that men and women are considered equal regarding career opportunities and salary. At the end of the year there were 15 women and 20 men employed within the group. In management positions, there were 3 women and 10 men. The Board consists of 6 people, of which 2 of the 5 shareholder-elected representatives are women. The representative elected by the staff is a man.

9. Natural environment

The company's activities have little impact on the natural environment. Excipients and chemicals that cannot be recycled in the production process are collected and returned to an approved manufacturer for environmentally sound recycling. There are also established procedures for the collection of various types of waste from laboratories and for separation by source for waste from other operations. Use of energy in the production process is modest.

10. Principles of corporate governance

The Board has established principles for corporate governance in line with the Norwegian Accounting Act § 3-3. A more detailed description of these principles can be found on the company's website www.biotec.no under Investors/Corporate information.

11. Outlook

The company has established a good foundation for the further development of the company's two business areas. The main focus for the beta-glucans will be on topical wound treatment. The short-term goal of this work is to ensure the CE marking and the successful commercialization, preferably through the agreement with Smith & Nephew.

Within the enzyme business, marketing activities against the major regional and global suppliers within biotechnology and life science will be intensified. The company expects that this will provide a sales increase for the enzyme products, but realizes that it may take some time to establish regular high-volume deliveries to new customers.

The company expects to maintain a continued strong research and development activity in both segments.

Overall, it is the Board's view that the milestones that have been achieved and the priorities that have been adopted during 2012 represent a good foundation for future growth and development of shareholders' values.

The Board would like to thank all employees for their efforts in 2012.

Tromsø, Norway, 16 April 2013

Svein Mathisen	Erik Thorsen	Ingrid Alfheim	Kjersti Grimsrud
Chairman	Vice Chairman	Board Member	Board Member

Gunnar Rørstad	Olav Lanes	Svein W. F. Lien
Board member	Board member employee representative	CEO

(*This is an office translation from Norwegian)*