

## INTERIM REPORT Q2 AND H1 2014

### SECOND QUARTER AND SUBSEQUENT EVENTS

- International market evaluation for Woulgan<sup>®</sup> Biogel by Smith & Nephew is progressing
- Started deliveries under beta-glucan supply agreement with Nutreco Skretting
- Sales increase and positive operating results in the enzyme business
- Strengthened organization with hiring of Børge Sørvoll as CFO

NOK million	Q2 2014	Q2 2013	H1 2014	H1 2013	2013
Enzymes	5.4	2.7	8.7	7.2	15.8
Beta-Glucans	3.9	1.8	4.7	3.2	6.3
<b>Sales revenues</b>	<b>9.3</b>	<b>4.6</b>	<b>13.4</b>	<b>10.5</b>	<b>22.1</b>
Enzymes	1.0	-1.0	-0.5	-2.0	-2.6
Beta-Glucans	-3.4	-3.7	-8.9	-8.8	-18.9
<b>EBITDA</b>	<b>-2.3</b>	<b>-4.7</b>	<b>-9.4</b>	<b>-10.8</b>	<b>-21.5</b>
Profit before tax	-2.5	-4.9	-10.0	-11.5	-22.9

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

### OUTLOOK

- Expect that market evaluation for Woulgan<sup>®</sup> Biogel, which will determine commercial strategy, will be finalized during the second half of the year
- Expect overall revenue growth in the second half of the year compared to last year

## Beta-Glucans

### FINANCIAL REVIEW, BETA-GLUCANS

NOK million	Q2 2014	Q2 2013	H1 2014	H1 2013	2013
<b>Sales Revenue</b>	<b>3.9</b>	<b>1.8</b>	<b>4.7</b>	<b>3.2</b>	<b>6.3</b>
Other income	0.0	0.5	0.0	0.8	1.2
Operating expenses	-7.2	-6.0	-13.7	-12.9	-26.4
<b>EBITDA</b>	<b>-3.4</b>	<b>-3.7</b>	<b>-8.9</b>	<b>-8.8</b>	<b>-26.5</b>
Depreciation & Amortization	-0.4	-0.3	-0.8	-0.6	-1.3
<b>EBIT</b>	<b>-3.8</b>	<b>-4.0</b>	<b>-9.7</b>	<b>-9.4</b>	<b>-20.2</b>

*All corporate costs have been allocated*

Biotec BetaGlucans' sales more than doubled compared to the second quarter 2013, primarily reflecting start of sales of feed ingredient beta-glucans to the aquaculture market but also the limited launch of Woulgan<sup>®</sup> Biogel. Sales revenue amounted to NOK 3.9 million in the second quarter 2014, compared to NOK 1.8 million in the second quarter 2013. Operating expenses amounted to NOK 7.2 million compared to NOK 6.0 million in the second quarter 2013. The EBITDA-loss for the quarter was NOK 3.4 million compared to a loss of NOK 3.7 million in the same period last year.

Biotec BetaGlucans' wound healing product Woulgan<sup>®</sup> Biogel received CE-mark in April 2014. The product was subsequently released for sale on the company's web-shop.

As originally planned, Woulgan<sup>®</sup> Biogel is now going through an international market evaluation study (in the U.K. and Germany) carried out by Smith & Nephew, the world's leading provider of wound care products. The intention of the market evaluation is to gain experience from health care professionals on end-user efficacy in a routine clinical setting.

Biotec BetaGlucans has also distributed test samples to several health institutions in Norway, as well as to health care professionals and key opinion leaders within wound care. The company has so far received positive feedback from this initial use of the product. By the end of the second quarter, Biotec BetaGlucans had distributed 10,000 tubes of Woulgan<sup>®</sup> Biogel since the product received its CE mark.

Biotec Pharmacon believes Woulgan<sup>®</sup> Biogel may hold the potential to become a high volume product in the large wound healing market, and the results of the international market evaluation and feedback from Norwegian health care professionals will form the basis for a future commercial strategy. Smith & Nephew holds certain exclusive non-transferable technology rights until the market evaluation process has been concluded, where after the basis for a potential long-term partnership will be clarified.

Woulgan<sup>®</sup> Biogel is classified as an advanced medical device under class III, rule 13 under the EU Directive for Medical Devices. This is an advanced classification for medical devices with secondary, ancillary medicinal effects, and will enable Biotec BetaGlucans to claim the secondary, ancillary medicinal effects of its proprietary soluble beta-glucan (SBG) in its labelling and marketing. From a market perspective, this may offer extended market opportunities compared to existing products available on the market. Biotec BetaGlucans will initially address diabetic ulcers, leg ulcers, pressure ulcers, and burns, although the product is also approved for use on other wounds like post-surgery wounds, trauma wounds, and abrasions.

Earlier clinical testing of SBG on diabetic foot ulcers was accepted for publication in the 2014 Journal of Diabetes Investigation <http://onlinelibrary.wiley.com/doi/10.1111/jdi.12165/pdf> in January, with results showing a clear beneficial effect of SBG treatment.

Biotec BetaGlucans broadened the scope of its business with the signing of a supply agreement for beta-glucans for fish and shrimp feed to the Nutreco-owned aquaculture company Skretting AS in March 2014. The agreement will support revenues and operating profits in the second half of the year.

The Company is also pleased with the announcement last week regarding the US-patent issued to Memorial Sloan-Kettering Cancer Center (MSKCC) in New York which covers the inventive treatment of several types of cancers using a combination of a large variety of monoclonal antibodies and (1,3)

beta-glucan. This patent is the result of an ongoing co-operation with MSKCC where Biotec BetaGlucans holds an exclusive license to the patent.

## Enzymes - ArcticZymes

### FINANCIAL REVIEW, ENZYMES

NOK million	Q2 2014	Q2 2013	H1 2014	H1 2013	2013
<b>Sales Revenue</b>	<b>5.4</b>	<b>2.7</b>	<b>8.7</b>	<b>7.2</b>	<b>15.8</b>
Other income	1.0	1.5	2.2	2.7	5.1
Operating expenses	-5.4	-5.3	-11.3	-11.9	-23.5
<b>EBITDA</b>	<b>1.0</b>	<b>-1.0</b>	<b>-0.5</b>	<b>-2.0</b>	<b>-2.6</b>
Depreciation & Amortization	-0.2	-0.3	-0.5	-0.5	-1.1
<b>EBIT</b>	<b>0.8</b>	<b>-1.3</b>	<b>-0.9</b>	<b>-2.5</b>	<b>-3.7</b>

*All corporate costs have been allocated*

Sales revenue in ArcticZymes amounted to NOK 5.4 million in the second quarter 2014, up from NOK 2.7 million in the same quarter last year. The higher revenues reflects increased deliveries of rSAP to the main OEM customers but also increasing sales of Cod-UNG and the other enzymes in the portfolio. End-user sales grew on both a year-on-year and quarter-on-quarter basis.

Other income mainly relates to research grants, "Skattefunn" and currency gains, which declined to NOK 1.0 million from NOK 1.5 million in the second quarter last year. Operating expenses were relatively stable at NOK 5.4 million versus NOK 5.3 million in the same period last year.

Earnings before depreciation, amortization and taxes (EBITDA) thus improved to a positive NOK 1.0 million in the second quarter 2014, compared to a loss of NOK 1.0 million in the second quarter 2013.

ArcticZymes continues to broaden its base of OEM customers in the kits and reagents market. In the first half of 2014 the company signed new distribution agreements with a number of regional distributors.

ArcticZymes will participate in Analytica Shanghai in September to support ArcticZymes' growth strategy in China.

At the same time, the company reaches an increasing number of research customers, and sales through direct sales channels, outbound marketing campaigns, and also the web-shop gained traction in the first half year. Increasing end-user awareness of the wide applicability of ArcticZymes' product portfolio is expected to generate both higher direct sales revenues and further opportunities for new OEM and distribution agreements.

The company is working to broaden its product offering of marine enzymes, both through own R&D efforts to develop new ready-to-use enzyme kits and functionalized enzymes, and participation in government-sponsored research projects such as NextZyme. Sponsored by the Norwegian Research Council, this project aims to develop marine enzymes for the next generation and single-cell sequencing market. The NextZyme project is scheduled to start in the third quarter 2014 and will run for three years.

## Biotec Pharmacon – Group Figures

Overall EBITDA was NOK -2.3 million in the second quarter 2014, an improvement from NOK -4.7 million in the same period last year, whereas EBIT improved to NOK -2.9 million from NOK -5.3 million in the second quarter 2013.

The improvements are explained by higher revenue in both segments, with overall sales revenues increasing to NOK 9.3 million from NOK 4.6 million in the second quarter last year.

Net financial income amounted to NOK 0.5 million (0.4), generating a loss before tax of NOK 2.5 million compared to a loss of NOK 4.9 million in the second quarter 2013.

For the first half year 2014, sales revenues amounted to NOK 13.4 million (10.5). The EBITDA-loss was NOK 9.4 million (10.8), and the EBIT-loss NOK 10.7 million (11.9). Net financial income was NOK 0.6 million (0.5), generating a loss before tax of NOK 10.0 million for the first half year (11.5).

The company recognized no income tax for the first half of 2014.

The group had 35 employees at the end of the first half year, compared to 34 employees at the end of the first quarter and 33 at the end of 2013.

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

Total equity amounted to NOK 108.6 million compared to NOK 53.6 in the same period last year and NOK 42.5 million at the end of 2013.

Biotec Pharmacon ASA in April raised gross proceeds of NOK 78 million 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.

The total number of shares was 43,436,173 at the end of the first half 2014, up from 39,393,173 at the end of 2013, with the change explained by the private placement and issuance of shares due to exercising of employee options. The current number of employee share options is 847,000 after the issuance of 187,000 options in June.

Total assets were NOK 116.3 million at the end of the first half 2014 (62.4), up from NOK 53.8 million at the end of 2013. The equity ratio increased to 93 percent (86) from 79 percent at the end of last year. The company has no interest bearing debt.

Net cash flow from operating activities was NOK -7.7 million in the second quarter 2014 (-2.4) and NOK -18.3 million in the first half year (-9.7). The operating cash flow reflects increased working capital of NOK 5.9 million in the second quarter and NOK 9.8 million in the first half year, due both to increased receivables and lower payables.

Net cash flow from investing activities was NOK -0.3 million in the second quarter (-0.3) and NOK -2.2 million in the first half (-0.6). Net cash flow from financing activities was NOK 75.2 million in the second quarter (0.1) and NOK 75.9 million in the first half year (43.3), mainly reflecting the private placement in April.

Change in cash and cash equivalents was NOK 67.2 million in the second quarter (-2.7) and NOK 55.3 million in the first half (32.9). This generated a cash balance of NOK 89.0 million at the end of the first half year (42.3), compared to NOK 33.7 million at the end of 2013.

### **Organization**

Biotec Pharmacon is strengthening the organization to prepare for the commercialization of Woulgan® Biogel, and has hired Børge Sørvoll (38) as Chief Financial Officer. Sørvoll will assume the position on 1<sup>st</sup> October 2014, and will be based at the company's headquarters in Tromsø. Sørvoll holds a Master's Degree in Business and Administration from the University of Wyoming.

### **Risk factors**

The Company's business is exposed to a number of different risk factors that has been explained in its Annual Report for 2013 to be found on its WEB site [www.biotec.no](http://www.biotec.no)

### **Related party transactions**

There have been no transactions with related parties in the first half of 2014 beyond what has been reported as standard operations in the Annual Report for 2013.

## Financial statement 2nd quarter 2014

### INCOME STATEMENT - GROUP

(Amounts in NOK 1.000 - except EPS)	Q2		Jan-June	
	2014	2013	2014	2013
<b>Sales revenues</b>	<b>9 300</b>	<b>4 575</b>	<b>13 401</b>	<b>10 449</b>
Cost of goods sold	-2 181	-940	-2 918	-1 459
Personell expenses	-4 651	-4 846	-12 114	-12 381
Depreciation and amortisation expenses	-630	-557	-1 269	-1 124
Other income	1 013	2 006	2 230	3 493
Other expenses	-5 797	-5 528	-9 982	-10 914
<b>Operating profit</b>	<b>-2 946</b>	<b>-5 290</b>	<b>-10 652</b>	<b>-11 936</b>
Financial income, net	485	393	630	479
Profit before tax	-2 461	-4 897	-10 022	-11 457
Tax	0	0	0	0
<b>Profit after tax for the period</b>	<b>-2 461</b>	<b>-4 897</b>	<b>-10 022</b>	<b>-11 457</b>
Basic EPS (profit for the period)	-0,06	-0,14	-0,24	-0,33
Diluted EPS (profit for the period)	-0,06	-0,14	-0,24	-0,33

### EXTENDED INCOME STATEMENT - GROUP

(Amounts in NOK 1.000)	Q2		Jan-June	
	2014	2013	2014	2013
Profit after tax for the period	-2 461	-4 897	-10 022	-11 457
Other comprehensive income:				
- Currency translation effect	-187	-115	-103	-98
<b>Total comprehensive income</b>	<b>-2 648</b>	<b>-5 012</b>	<b>-10 125</b>	<b>-11 555</b>

### BALANCE SHEET - GROUP

(Amounts in NOK 1.000)	2014-06-30	30-06-2013	2013-12-31
<b>Non-current assets</b>			
Machinery and equipment	6 881	5 416	5 466
Intangible assets	5 181	5 893	5 622
Pension Scheme Fund	87	33	124
Financial assets	33	176	33
<b>Total non-current assets</b>	<b>12 181</b>	<b>11 518</b>	<b>11 245</b>
<b>Current assets</b>			
Inventories	3 887	2 463	2 439
Trade receivables and other receivables	11 236	6 158	6 440
Cash and cash equivalents	88 987	42 276	33 656
<b>Total current assets</b>	<b>104 110</b>	<b>50 897</b>	<b>42 535</b>
<b>Total assets</b>	<b>116 291</b>	<b>62 415</b>	<b>53 780</b>
<b>Equity</b>			
Share capital	43 436	39 393	39 393
Share premium capital	127 442	55 648	55 612
Other equity	-63 190	-42 613	-53 321
Minority interests	840	1 182	840
<b>Total equity</b>	<b>108 528</b>	<b>53 610</b>	<b>42 524</b>
<b>Current liabilities</b>			
Trade-, short term-, and other payables	7 763	8 805	11 256
<b>Total current liabilities</b>	<b>7 763</b>	<b>8 805</b>	<b>11 256</b>
<b>Total equity and liabilities</b>	<b>116 291</b>	<b>62 415</b>	<b>53 780</b>

## CHANGES IN EQUITY - GROUP

<i>(Amounts in NOK 1000)</i>	Share capital	Share premium	Own shares	Minority interests	Other equity	Total equity
<b>Balance at 2013-01-01</b>	<b>28 553</b>	<b>23 229</b>	<b>0</b>	<b>1 182</b>	<b>-31 055</b>	<b>21 909</b>
Total comprehensive income/-loss for the period	0	0	0	0	-6 560	-6 560
Currency conversion difference	0	0	0	0	15	15
Transactions with shareholders:						
Private placements - new equity	10 840	32 343	0	0	0	43 183
Total transactions with shareholders	10 840	32 343	0	0	0	43 183
<b>Balance at 2013-03-31</b>	<b>39 393</b>	<b>55 572</b>	<b>0</b>	<b>1 182</b>	<b>-37 600</b>	<b>58 547</b>
Total comprehensive income/-loss for the period	0	0	0	0	-4 897	-4 897
Currency conversion difference	0	0	0	0	-115	-115
Transactions with shareholders:						
Share issue	0	76	0	0	0	76
Total transactions with shareholders	0	76	0	0	0	76
<b>Balance at 2013-06-30</b>	<b>39 393</b>	<b>55 648</b>	<b>0</b>	<b>1 182</b>	<b>-42 613</b>	<b>53 610</b>
<b>Balance at 2014-01-01</b>	<b>39 393</b>	<b>55 612</b>	<b>0</b>	<b>840</b>	<b>-53 321</b>	<b>42 524</b>
Total comprehensive income/-loss for the period	0	0	0	0	-7 561	-7 561
Currency conversion difference	0	0	0	0	84	84
Transactions with shareholders:						
Share issue	100	560	0	0	0	660
Employee stock option provision	0	0	0	0	120	120
Total transactions with shareholders	100	560	0	0	120	780
<b>Balance at 2014-03-31</b>	<b>39 493</b>	<b>56 172</b>	<b>0</b>	<b>840</b>	<b>-60 679</b>	<b>35 826</b>
Total comprehensive income/-loss for the period	0	0	0	0	-2 461	-2 461
Currency conversion difference	0	0	0	0	-187	-187
Transactions with shareholders:						
Share issue	3 943	71 270	0	0	0	75 213
Employee stock option provision	0	0	0	0	136	136
Total transactions with shareholders	3 943	71 270	0	0	136	75 349
<b>Balance at 2013-06-30</b>	<b>43 436</b>	<b>127 442</b>	<b>0</b>	<b>840</b>	<b>-63 190</b>	<b>108 528</b>

## CASH FLOW ANALYSIS - GROUP

<i>(Amounts in NOK 1.000)</i>	Q2		Jan-June	
	2014	2013	2014	2013
Cash flow from operating activities:				
Profit after tax	-2 461	-4 898	-10 022	-11 458
Adjustment:				
Amortization	630	557	1 269	1 124
Depreciation stocks for sale	0	33	0	33
Employee stock options	136	0	256	0
Currency conversion differences				
Prior period adjustments	-187	-115	-103	-98
Changes in working capital				
Inventory	353	285	-1 449	203
Account receivables and other receivables	-4 019	3 228	-4 795	1 996
Payables and other current liabilities	-2 167	-1 457	-3 493	-1 523
<b>Net cash flow from operating activities</b>	<b>-7 715</b>	<b>-2 367</b>	<b>-18 337</b>	<b>-9 723</b>
Cash flow from investing activities:				
Purchase of fixed assets	-280	-351	-2 242	-351
Invested in intangible assets	0	0	0	-315
Sale of fixed assets	0	0	0	0
Change in long term receivables	15	13	37	27
<b>Net cash flow from investing activities</b>	<b>-265</b>	<b>-338</b>	<b>-2 205</b>	<b>-639</b>
Cash flow from financing activities:				
Cashflow from Private placement	75 213	76	75 873	43 259
<b>Net cash flow from financing activities</b>	<b>75 213</b>	<b>76</b>	<b>75 873</b>	<b>43 259</b>
Changes in cash and cash equivalents	67 233	-2 629	55 331	32 897
Cash and cash equivalents at the beginning of period	21 754	44 905	33 656	9 379
<b>Cash and cash equivalents at end of period</b>	<b>88 987</b>	<b>42 276</b>	<b>88 987</b>	<b>42 276</b>

## Notes to the interim accounts for 2nd 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 June 30 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.

The Group does not experience significant seasonal or cyclical variations in total sales during the financial year. 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.

(Amounts in NOK 1,000)	Q2		Jan-June	
	2014	2013	2014	2013
<i>Sales revenue:</i>				
Beta-Glucans	3 867	1 832	4 735	3 227
Enzymes	5 434	2 743	8 666	7 222
<b>Group operating revenue</b>	<b>9 301</b>	<b>4 575</b>	<b>13 401</b>	<b>10 449</b>
<i>Other income:</i>				
Beta-Glucans	5	476	38	821
Enzymes	1 007	1 529	2 192	2 672
<b>Group other income</b>	<b>1 012</b>	<b>2 005</b>	<b>2 230</b>	<b>3 493</b>
<i>Operating expenses:</i>				
Beta-Glucans	-7 233	-6 033	-13 708	-12 863
Enzymes	-5 396	-5 282	-11 306	-11 892
<b>Group operating expenses before depreciation</b>	<b>-12 629</b>	<b>-11 315</b>	<b>-25 014</b>	<b>-24 755</b>
<i>Operating profit (EBITDA):</i>				
Beta-Glucans	-3 361	-3 725	-8 935	-8 815
Enzymes	1 045	-1 010	-448	-1 998
<b>Group operating profit - EBITDA</b>	<b>-2 316</b>	<b>-4 735</b>	<b>-9 383</b>	<b>-10 813</b>
<i>Depreciation:</i>				
Beta-Glucans	-394	-304	-796	-614
Enzymes	-236	-253	-473	-510
<b>Group depreciation</b>	<b>-630</b>	<b>-557</b>	<b>-1 269</b>	<b>-1 124</b>
<i>Operating profit (EBIT):</i>				
Beta-Glucans	-3 755	-4 029	-9 731	-9 429
Enzymes	809	-1 263	-921	-2 508
<b>Group operating profit - EBIT</b>	<b>-2 946</b>	<b>-5 292</b>	<b>-10 652</b>	<b>-11 937</b>

### Statement of Responsibility

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period 1 January to 30 June 2014 has been prepared in accordance with IAS 34, and gives a true and fair value of the group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

Tromsø/Oslo, 12.08.2014

The Board of Directors of Biotec Pharmacon ASA

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Chairman

Olav Flaten

Inger Rydin

Gunnar Rørstad

Kjersti Grimsrud

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