Unlocking the potential of innovative medicines

ANNUAL REPORT 2017
PCI Biotech Holding ASA

CONTENTS

INTRODUCTION

ABOUT PCI BIOTECH

PCI Biotech Holding ASA ("PCI Biotech" or "the Group" or "the Company") is a cancer focused biopharmaceutical company headquartered in Norway and listed on the Oslo Stock Exchange (Axess). The Company is developing therapeutic products based on its proprietary photochemical internalisation (PCI) technology. Originating from world leading research at the Norwegian Radium Hospital, the PCI technology works by inducing light-triggered endosomal release and may be used to unlock the true potential of a wide array of therapeutic modalities, such as small molecules, vaccines and nucleic acids.

PCI Biotech's lead product candidate is the photosensitiser fimaporfin (Amphinex®). PCI Biotech has an extensive collaboration with Norwegian and international hospitals and companies, among others; The Norwegian Radium Hospital in Oslo, University Hospital Zürich and University College London Hospital.

OUR TECHNOLOGY

Chemotherapy and several novel classes of drugs need free access to the inside of their human target cells, e.g. tumour cells or immune cells, in order to be effective. Unfortunately, many drug substances are by nature encapsulated as they enter the target cell. Once inside the cell, most of the active compound may hence be trapped and therefore unable to attack the tumour or exert other therapeutic effects. Pharmaceutical companies are actively searching for technologies that provide adequate release inside the target cells, in order to exploit the full therapeutic and commercial potential of their products.

PCI Biotech's patented investigational drug fimaporfin is able to unlock the intracellular capsules (endosomes) where active compounds are trapped. Hence, fimaporfin has the ability to unlock the true potential of new promising classes of cancer therapy, such as RNA therapeutics and some immunotherapeutics, as well as established chemotherapies.

Fimaporfin is a light sensitive compound that attach to the capsules inside target cells, where the drug is trapped. When a controlled light source is applied, fimaporfin unlocks the capsules and releases the therapeutic agent.

For different applications, fimaporfin will be formulated differently and used at different doses e.g. intravenous injection in localised cancer treatment versus minute amounts administered into the skin in the vaccination setting. The light source may also be different for different applications. Red laser light is used in localised cancer treatment to achieve good tissue penetration, while a blue led light may be used in vaccination, as deep light penetration is not needed to reach antigen presenting cells (APC's) at the site of vaccination.

In the field of immunology the PCI technology, is applied to enhance the immunological responses to vaccines. The fima*VACC* technology aims for effective induction of CTLs (Cytotoxic T Lymphocytes; also called CD8+ T-cells). This is key to realising the large untapped potential of therapeutic cancer vaccination. PCI Biotech's fima*VACC* technology may provide a solution to the challenges, of the currently available vaccination technologies by improving the ability of vaccines to trigger the immune system to fight both cancers and infectious diseases.

THREE DISTINCT BUSINESS AREAS

Recent advancements in cancer therapy are expected to significantly improve the prognosis for millions of patients, not least owing to the development of new classes of drugs, such as

immunotherapeutics. The potential of fimaporfin to improve the efficacy of anti-cancer agents has been convincingly shown in well-established preclinical models as well as in clinical trials, with the first clinical results being published in the prestigious journal Lancet Oncology. Based on these positive findings, PCI Biotech is now developing three parallel programmes.

ABOUT INOPERABLE BILE DUCT CANCER AND fimaCHEM

The fima*CHEM* programme aims to fulfil unmet medical needs by providing local enhancement of approved chemotherapeutics. The lead project – local enhancement of gemcitabine in bile duct cancer – is in clinical development with Amphinex, the intravenous formulation of fimaporfin.

Based on findings from two successful Phase I studies in cancer patients and discussions with regulatory authorities in Europe and USA, the Company has initiated preparations for a pivotal clinical trial in inoperable extrahepatic bile duct cancer, a rare, but fatal disease.

Bile duct cancer is characterised by a remarkable resistance to common chemotherapy, and there is a high need for new drug classes or alternative treatment methods. The most studied and used drug in bile duct cancer treatment is gemcitabine, which is one of the drugs significantly enhanced by the fima*CHEM* technology in preclinical studies.

The fima*CHEM* treatment regimen consists of an intravenous injection of fimaporfin, followed four days later by an intravenous infusion of gemcitabine and a laser light application in the bile duct. The laser light is easily administered through endoscopic methods used routinely in these patients.

Bile duct cancer originates in the ducts that drain bile from the liver into the small intestine. It is a rare cancer (an orphan disease) without approved chemotherapies and with a limited development pipeline. The annual incidence rate in the Western world is 1-2 cases per 100,000 and rates have been rising worldwide over the past several decades. The majority of cases are inoperable and there is a high-unmet need for improved treatments.

Surgery is currently the only potentially curative option for these patients, yet the majority of the tumours are inoperable. Standard treatment for inoperable patients is stenting to keep the bile duct open, followed by chemotherapy. Combination of the chemotherapeutics gemcitabine and cisplatin has shown activity in this disease and has become standard treatment, but there is still a need for better treatments to increase overall survival and quality of life.

The number of patients (US and Europe) with extrahepatic bile duct cancer that could be eligible for treatment with fima*CHEM* is estimated to 3,000 per year. As the disease is rare, regulatory authorities are likely to expedite the market approval process, and a market exclusivity period can potentially be secured under the orphan drug legislation and the price potential is normally attractive for orphan drugs of this rarity.

ABOUT IMMUNOTHERAPY AND fimaVACC

The fima*VACC* programme aims to enhance the cellular immune responses important for therapeutic effect of vaccines. This proprietary vaccination technology has entered clinical development with promising interim data suggesting that fima*VACC* trigger early T-cell responses and provide high response rates, which are two highly sought-after features of vaccination platforms.

fima*VACC* is a new vaccination technology with favourable features for therapeutic cancer vaccines; an immunotherapeutic modality in need of improved efficacy. The pharmaceutical industry has long recognised the potential of therapeutic cancer vaccination, i.e. vaccines that treat cancer by inducing or strengthening an immune response towards cancerous cells. US Food and Drug Administration (FDA) approved the first therapeutic cancer vaccine in 2010, but there are still important unsolved issues and several companies have recently reported failed clinical studies. Effective induction of cytotoxic immune responses is key to realising the large potential of therapeutic cancer vaccination, but vaccines often fail to generate the required responses. One of the most important reasons for this

is probably insufficient delivery of vaccine antigens to the appropriate processing machinery in so-called antigen presenting cells, cells in the immune system that are the key for triggering an efficient cellular immune response. The fima*VACC* technology may solve this issue by effectively enhancing appropriate delivery of vaccine antigens to the target antigen presenting cells for induction of the important cytotoxic T- lymphocytes. In addition to the use in therapeutic vaccination for cancer, fima*VACC* also has the potential to be used for both therapeutic and prophylactic vaccination for several infectious diseases.

ABOUT NUCLEIC ACID THERAPEUTICS AND THE fima*NAC* DELIVERY TECHNOLOGY

The fima*NAC* programme provides a targeted intracellular delivery technology for nucleic acid therapeutics. It is a preclinical stage opportunistic collaborative programme with four active research collaborations with key players in this field.

PCI Biotech's fima*NAC* programme for nucleic acid therapeutics aims at improving the efficacy of novel nucleic acid based therapies. The fima*NAC* delivery technology addresses a main hurdle in the development of nucleic acid based therapies, which is sufficient release of the encapsulated therapeutics inside the targeted cells. Nucleic acid therapeutics are widely acknowledged to have a large potential as therapeutic agents, and numerous clinical trials with gene and oligonucleotide therapy are underway. The commercial exploitation of most such drugs has been hampered by the lack of technologies for efficient delivery of the therapeutic molecules to their targets inside cells.

KEY FIGURES

(In NOK 1,000)	**2017**	**2016**
Other income	10 250	10 475
Operating costs	53 681	43 502
Operating results	-43 431	-33 027
Comprehensive income	**-42 841**	**-32 184**
Cash & cash equivalents	**50 789**	**14 002**
Total liabilities	**16 594**	**9 312**
Cash flow from operating activities	**-30 620**	**-35 693**

BOARD OF DIRECTORS REPORT

2017 was a year of significant progress for PCI Biotech. The year started with the completion of a strongly supported rights issue that together with a grant from the Norwegian Research Council provided the Company with funds to complete key programme milestones. The positive early signs of tumour response in the Phase I study with fima*CHEM* in bile duct cancer, presented at the International Liver Congress in the spring, have during the year translated into encouraging survival data, with 25% of the patients in Phase I still being alive. An extension study has been initiated to explore whether it is possible to introduce repeated fima*CHEM* treatment in the pivotal study, which could potentially enhance efficacy further. The Company was also granted Orphan Drug Designation (ODD) by FDA for fimaporfin in bile duct cancer. Further interactions with regulatory authorities in Europe and the US during the year provided important clarifications on the development path for fima*CHEM* in this disease, enabling the Company to initiate preparations for a pivotal study. The fima*VACC* Phase I study provided promising initial signs of enhanced cellular immune responses at tolerable dose levels and the study continues with the objective to determine the optimal dosing regimen. Research collaborations based on fima*NAC* progressed further during the year with extension of two ongoing collaboration programmes.

HIGHLIGHTS

New funds raised enabling further progress in development programmes. Successful rights issue completed in January 2017, generating net proceeds of approximately NOK 65 million enabling PCI Biotech to progress the fima*CHEM* programme in bile duct cancer towards pivotal phase.

Received important guidance from regulators for development of fima*CHEM* in bile duct cancer. Encouraging preliminary outcome from meetings with EU and US regulators on the development of fimaporfin for treatment of bile duct cancer. A common understanding was reached on several important factors for a pivotal study.

Granted Orphan Drug Designation (ODD) for fimaporfin in bile duct cancer by the US FDA. ODD is a significant regulatory milestone providing important development and commercialisation benefits and recognising the therapeutic benefits fima*CHEM* seek to bring to the bile duct cancer patients.

Promising initial clinical results for the fima*VACC* programme. The initial clinical results on overall T-cell responses indicate enhanced cellular immune responses and the data also suggest that fima*VACC* trigger early T-cell responses and provide high response rates, which are two highly sought-after features of vaccination platforms.

Progress in research collaborations with key players for the fima*NAC* programme. Collaboration projects with key players within nucleic acid therapeutic advanced during the year, including expansion and extension of research collaborations with RXi Pharmaceuticals and a top-10 pharma company.

Executive management team further strengthened with Dr Olivecrona as Chief Medical Officer. Dr Olivecrona leads the execution of all clinical development programmes and is a key contributor to the identification and implementation of new opportunities and pipeline expansions. He has extensive experience in the development and commercialisation of novel therapeutics.

BUSINESS AND LOCATION

PCI Biotech Holding ASA is a cancer focused biopharmaceutical company headquartered in Norway and listed on the Oslo Stock Exchange (Axess) since 2008. The company is developing therapeutic products based on its proprietary photochemical internalisation (PCI) technology, with the lead candidate fimaporfin.

The PCI Biotech group (The Group) comprises PCI Biotech Holding ASA, the wholly owned Norwegian subsidiary PCI Biotech AS and the dormant Icelandic branch PCI Biotech Utibu. PCI Biotech is located at Ullernchausséen 64, Oslo, Norway. The Group had 12 employees as of 31 December 2017.

OPERATIONS

Operational overview
Following a strategic review of the company's assets initiated in 2015, the Company launched in 2016 three clearly defined development areas for fimaporfin, with the advantage of shared technological solutions in multiple business opportunities with different risk profiles. Development resources were in 2017 focused towards the opportunities the PCI technology offers within the fima*CHEM* and fima*VACC* programmes. In parallel PCI Biotech has made further progress with its opportunistic collaborative strategy for the fima*NAC* programme, where established preclinical data are utilised to pursue out-licensing opportunities.

fima*CHEM* - Inoperable bile duct cancer study

The Phase I dose escalation part of the Phase Ib/II study has been completed with good tolerability and promising early signs of efficacy and represent an important milestone for the bile duct cancer programme. It is a single arm study and the patient numbers are small, but the results suggest a significant increase in tumour response compared to what is expected by the current standard treatment based on published data. Local tumour response in the bile duct is important to maintain biliary drainage and may therefore be more important for outcome than would be the case for many other cancers. The fima*CHEM* treatment boosts the chemotherapy effect locally in the bile duct, thereby directly targeting this area.

As of December 2017 the interim average overall survival from Phase I in the study of fima*CHEM* for treatment of inoperable extrahepatic bile duct cancer patients was 16.8 months, with 25% of the patients still being alive. The median overall survival ended at 14.4 months. The survival data includes all dose cohorts, 16 patients in total and are encouraging when seen in relation to the most appropriate published comparator data. The promising early signs of efficacy in the Phase I study were based on a single fima*CHEM* treatment in addition to standard of care treatment. A Phase I extension study was initiated with the objective to determine safety and tolerability of repeated treatments with fima*CHEM*, as this may well increase the tumour response even further. The second fima*CHEM* treatment will be done 3-4 months after the initial treatment. The extension study will include a minimum of 6 evaluable patients. The first patient was treated in August and a total of four patients were included in 2017.

PCI Biotech received Investigational New Drug (IND) clearance from U.S. Food and Drug Administration (FDA) in December 2016 to include patients in the USA in PCI Biotech's Phase I/II clinical study in bile duct cancer and in September 2017 the FDA also granted Orphan Drug Designation (ODD) to the Company's lead product candidate, fimaporfin, targeting treatment of patients suffering from bile duct cancer. This patient population have currently no approved treatment alternatives and fima*CHEM* (fimaporfin) has the potential to play a role in this area of high unmet medical need. ODD is a significant regulatory milestone providing important development and commercialisation benefits and it recognises the therapeutic benefits fima*CHEM* seek to bring to the bile duct cancer patients in need of better local treatments. ODD is now granted in both the US and EU.

The Company has initiated processes to assess the fastest way to market for fima*CHEM* in this life-threatening orphan disease without approved treatments. In December 2017 PCI Biotech announced the preliminary outcome of meetings with European Medicines Agency (EMA) and the U.S. Food and Drug Administration (FDA) on the development of fimaporfin in combination with gemcitabine for treatment of inoperable cholangiocarcinoma (bile duct cancer). The interactions with the regulatory authorities was initiated with the purpose to determine the fastest route to market for fimaporfin, including the design of a pivotal study to support future marketing authorisation applications in EU and the USA. A common understanding was reached on several important factors for a pivotal study with fimaporfin in inoperable cholangiocarcinoma, including the sufficiency of a single randomised two-arm study and the potential for accelerated/conditional approval based on interim results. The randomised study will provide the opportunity to generate robust comparative data of importance for market acceptance of fimaporfin as a first line treatment of inoperable cholangiocarcinoma. The implications of an interim analysis for the final pivotal study design require further discussions with regulators and clinical advisors, and further information on the study and the development strategy will be announced following completion of these discussions.

The Phase I extension study and other time-critical activities, such as completion of regulatory interactions and relevant Phase II preparations, are performed in parallel, thereby minimising time to initiation of a potential pivotal study with repeated treatment. PCI Biotech will expand clinical development into the US and has therefore engaged and conducted a clinical advisory board meeting with key bile duct cancer clinicians across US and Europe, in parallel with the regulatory discussions.

The Annual Meeting of the US Cholangiocarcinoma Foundation attracts both patients and leading clinicians in hepatobiliary cancers from all over the US. PCI Biotech co-sponsored the conference held in Salt Lake City during February 2017. The Company presented an overview of the emerging Phase I results during the medical/scientific session as well as at The International Liver Congress which took place in April 2017.

fima*VACC* - Vaccination program

Improving immunogenicity of vaccine candidates is a main priority in the immunotherapy industry and a successful translation of the promising fima*VACC* technology into man is therefore a very important milestone to establish PCI Biotech in the immunotherapy field.

The company initiated the clinical validation of the promising fima*VACC* technology in September 2016 through a Phase I, healthy volunteer study, which during 2017 was expanded to be performed in up to 170 healthy volunteers in the UK. The main objective of the study is to determine safety, tolerability and immune responses for fima*VACC*.

To date more than 90 subjects have been included, and tolerability of intradermal treatment with fima*VACC* is established. The interim clinical results on overall T-cell responses indicate that vaccination with well-tolerated doses of fima*VACC* enhance cellular immune responses important for therapeutic effect of vaccines. The data also suggest that fima*VACC* trigger early T-cell responses and provide high response rates, which are two highly sought-after features of vaccination platforms.

The study continues to elucidate the dose-response and further characterise the immune response, with the aim to identify a fima*VACC* regimen for optimal immune responses. Notably, the best responses have been seen at the lowest dose level tested. A lowest possible dose level is favourable in order to minimise potential local tolerability issues and the study is therefore being expanded to explore even lower dose levels. The continuation of the study will require inclusion of a higher number of subjects than originally anticipated and the planned enrolment level has therefore increased.

The fima*VACC* programme is also supported by a grant from the Research Council of Norway (BIA-programme) of up to NOK 12.5 million and the grant is distributed over the course of three years,

2014-2017. In January 2017 the Research Council of Norway (BIA-programme) awarded another grant of up to NOK 13.8 million distributed over the course of three and a half years 2017-2020.

fima*NAc* - delivery of nucleic acid therapeutics

PCI Biotech has four active preclinical research collaborations in the area of nucleic acid therapeutics, established to evaluate technologically compatibilities and synergies and thereafter explore the potential for further partnerships.

A collaboration with an undisclosed top-10 pharma company, with the aim to evaluate synergistic effects of fima*NAc* with their nucleic acid therapeutics technology was signed in September 2015. This agreement has been extended several times, most recently until the end of June 2018 with the possibility for further extension. The recent extension also expanded the collaboration to include evaluation of technological compatibility and synergy based on *in vivo* studies, aimed at determining whether PCI Biotech's fimaNAc technology has the potential to enhance the therapeutic effect of the partner's nucleic acid therapeutic compounds.

In 2016, PCI Biotech, engaged in a collaborative research program with BioNTech AG, an immunotherapy leader with bench-to-market capabilities, developing truly personalised, well tolerated and potent treatments for cancer and other diseases. The aim of the preclinical research collaboration is to evaluate technologically compatibility and synergy based on *in vivo* studies performed by the University of Zurich and PCI Biotech. Results from the current collaboration will provide the basis for assessment for further partnership. A collaborative research programme has also been entered into with eTheRNA immunotherapies NV, a Belgian company focusing on mRNA-based immunotherapies and the agreement was signed in December 2016. In brief, the collaborators will evaluate technology compatibility and synergy based on *in vivo* studies.

PCI Biotech signed its first collaborative research programme with RXi Pharmaceuticals in April 2015. The aim is to explore potential synergies between the companies' complementary fima*NAc* technology and siRNA platform. RXi Pharmaceuticals, is an American biotechnology company focused on discovering and developing innovative therapeutics based on their proprietary sd-rxRNA platform. The collaboration with RXi Pharmaceuticals was extended in 2017 and supported by a new preclinical research collaboration agreement reflecting both RXi's acquisition of MirImmune and PCI Biotech's focus in oncology. In brief, the preclinical research collaboration will evaluate technology compatibility and synergy based on *in vivo* studies.

Corporate
The executive management team was further strengthened by the appointment of Dr Olivecrona as Chief Medical Officer, joining the company in October 2017. Dr Olivecrona leads the execution of all clinical development programmes, and will be a key contributor to the identification and implementation of new opportunities and pipeline expansions. Dr Olivecrona brings extensive experience in the development and commercialisation of novel therapeutics. In his most recent role Dr Olivecrona held the position as Senior Medical Director at Swedish Orphan Biovitrum (Sobi AB) in Stockholm, Sweden, with the responsibility for medical affairs and all medical aspects of business development for Sobi's international partner product portfolio. Prior to this, Dr Olivecrona held various positions spanning from preclinical and clinical development to regulatory interactions. Dr Olivecrona has a PhD from the Karolinska Institute and his work experience includes 20 years of academic clinical background, mainly within oncological surgery with a specialty in gastrointestinal cancers. Dr Olivecrona also headed a hospital research facility and is the author of numerous scientific publications.

Business development
PCI Biotech's strategy is to create value by effectively progressing development of the three distinct business areas towards commercialisation. The commercialisation of products is intended primarily through agreements with external partners. PCI Biotech believes that the PCI technology has the potential to play a role in the realisation of several new therapeutic modalities, including cancer

immunotherapy and mRNA therapeutics and the signed active research collaborations within fima*VACC* and fima*NAC* indicates that external companies share this view. PCI Biotech will continue the business development activities, to build on the proven ability to initiate new research collaborations and explore the business opportunities present in the active collaborations.

The Company's lead programme, fima*CHEM* for bile duct cancer, is in preparation for initiation of a pivotal phase.

An important value-creating step for the fima*VACC* programme is a successful clinical translation of the promising preclinical data, through the ongoing Phase I study in healthy volunteers. A successful clinical validation would provide substantial risk reduction for the fima*VACC* asset, as well as significant value enhancement and opening up for new partnering opportunities enabling PCI Biotech to enter into the immunotherapy field.

The fima*NAC* programme will continue to follow an opportunistic approach, pursuing out-licensing opportunities based on established preclinical data and entering into early collaborations with the aim to transform the collaborations into commercial agreements.

Organisation

The Board of Directors –The Board of Directors consist of Hans Peter Bøhn (Chairman), Hilde H. Steineger, Christina Herder, Lars Viksmoen and Kjetil Taskén. Prof. Taskén has notified PCI Biotech Holding ASA's Nomination Committee and Board of Directors that he is not able to be a candidate for re-election as Director of PCI Biotech Holding ASA's Board of Directors at the next ordinary general meeting, in May 2018.

Employees - The Group had 12 employees at the end of 2017 (11 at year end 2016). The management team consists of Per Walday, Chief Executive Officer, Ronny Skuggedal, Chief Financial Officer, Anders Høgset, Chief Scientific Officer, Kristin Eivindvik, Project Director, Gaël L'Hévéder, Chief Business Development Officer and Hans Olivecrona, Chief Medical Officer.

The parent company has no employees. The Group mainly uses external service providers for manufacturing, research and development and regulatory work.

The working environment is considered good. No accidents or injuries were reported in 2017 or 2016. Absence due to illness was 312 days, approximately 11.6% in 2017 (2016: 166 days, approximately 6.3%). The majority of the absence was related to a long term sick leave of one employee.

PCI Biotech's goal is to be a workplace with gender equality and discrimination is not accepted. As of 19 March 2018 the Group has 40% female representation in the board of directors and 17% in the executive management team. 7 out of 12 employees as of year-end 2017 were women. Working time and remuneration of the Group employees are not related to gender.

FINANCIAL REVIEW

(All amounts in brackets are comparative figures for 2016 unless otherwise specifically stated)

The Group did not record revenues in 2017. Grants received from various public sources such as the Research Council of Norway and Innovation Norway were recorded as other operating income amounting to NOK 10.3 million (NOK 10.5 million). The parent company did not record any revenue for 2017 or 2016.

PCI Biotech received in 2017 a grant of up to NOK 0.5 million dedicated to the existing research collaboration with Ultimovacs AS, a Norwegian clinical stage cancer vaccine company, within PCI Biotech's fima*VACC* programme.

The fima*VACC* programme received in January 2017 a grant of up to NOK 13.8 million from the Research Council of Norway (BIA-programme). The grant will be distributed over the course of three and a half years, 2017-2020.

Total operating expenses were NOK 53.7 million in 2017 (NOK 43.5 million). Expenditure on research activities is recognised as an expense in the period in which it was incurred. The Group had no development expenditure qualifying for recognition as an asset under IAS 38 in 2017 and as for previous years all research expenses are charged through the profit and loss statement. Research and development costs amounted to NOK 41.0 million in 2017 (NOK 39.2 million). Other operating (general and administrative) expenses were NOK 12.7 million (NOK 4.3 million). Operating result in 2017 were NOK -43.4 million (NOK -33.0 million) for the Group. Operating result for the parent company were NOK -3.2 million in 2017 (NOK -3.0 million).

The total operating expenses are increased by NOK 10.2 million compared to 2016 and NOK 6.2 million of the increase is due to share-based payment expenses, based on the Black-Scholes method for fair value assessment of the Group's share option program, with no cash effect before the share options potentially are exercised. The residual increase in total operating expenses are mainly due to increased clinical activities. The increase in general and administrative expenses compared to 2016 is mainly due to the below described new routines for allocation of expenses versus research and development expenses.

In 2017 the Group has reviewed the internal allocation of operating expenses for disclosure of the sub categories in the statement of comprehensive income; research and development expenses versus general and administrative expenses. The review is made based on the current operational set-up of the organisation, which has changed and developed over the years, from an early stage clinical company towards a pivotal stage ready company. The outcome of the review has led to reallocation of expenses between the two relevant P&L sub categories with no net change in the disclosed total operating expenses. In the statement of comprehensive income 2017, for the Group, the new allocation routines are applied prospectively, as this reflects the underlying operations. The review has no disclosure effect regarding the separate financial reporting for the parent company.

Net financial results for the Group were NOK 0.6 million in 2017 (NOK 0.8 million).

Total equity for the Group were NOK 41.8 million per year-end 2017 (NOK 13.1 million). PCI Biotech Holding ASA finalised in January 2017 a fully underwritten rights issue of 10,000,000 new shares with a nominal value of NOK 3.00 per share, with gross proceeds of NOK 70 million and net proceeds of NOK 65.0 million. The rights issue was fully underwritten, subject to customary terms and conditions, by an underwriting syndicate. The underwriters received an underwriting fee equal to 2.0 per cent of their respective underwriting obligations. Hans Peter Bøhn, Chairman of the Board, and Lars Viksmoen, member of the Board, had both entered into the underwriting agreement and had each separately underwritten NOK 1.0 million of the rights issue. The corresponding underwriting fees were settled in 2017.

The Company carried out a share issue of 86,500 new shares in September 2017 with a nominal value of NOK 3.00 per share following exercise of employee share options, pursuant to an authorisation granted by the Annual General Meeting on May 29, 2017. The share issue generated net proceeds of NOK 1.7 million.

The parent company recorded other operating expenses of NOK 3.2 million in 2017 (NOK 3.0 million). The parent company has in previous years partly written down its investment in, and intercompany loan to, the wholly owned subsidiary PCI Biotech AS, based on the observable fair value of the Group at Oslo Stock Exchange (Axess) per year end. Applying the same valuation method per year end 2017 resulted in reversal of the previous year's write downs of NOK 33.9 million, disclosed as financial income in 2017 for the parent company.

The Board of Directors proposes that the comprehensive income of NOK 34.2 million for the parent company in 2017 is transferred to retained earnings. Total equity of the parent company amounts to NOK 329.3 million in 2017 (NOK 223.6 million). NOK 66.7 million of the increase in total equity compared to last year is a result of the net proceeds from the share issues completed during 2017.

Equity in the wholly owned subsidiary PCI Biotech AS was NOK 14.7 million at the end of 2017 (NOK 13.0 million). The equity in PCI Biotech AS were increased in 2017 by NOK 40 million, through a capital increase from the parent company PCI Biotech Holding ASA.

Total assets of the Group at the end of 2017 were NOK 58.4 million (NOK 22.4 million) and the increase from last year is mainly due to net proceeds from share issues partly offset by cash expenses on operational activities. Total assets in the parent company amounted to NOK 330.4 million per year-end 2017 (NOK 224.6 million) and the increase from last year is mainly due to increased carrying amount of the investment in subsidiary and proceeds from share issues.

PCI Biotech does not recognise deferred tax assets in the balance sheet, due to uncertainty as to when the company will accrue a payable tax liability. Unrecognised deferred tax assets at the end of 2017 were NOK 77.7 million (NOK 69.4 million).

Net cash flow from operating activities amounted to NOK -30.6 million in 2017 (NOK -35.7 million) for the Group and for the parent company to NOK -2.9 million for 2017 (NOK -3.0 million). Net change in cash and cash equivalents for the Group was NOK 36.8 million in 2017 (NOK -35.2 million) impacted by net proceeds from share issues during 2017. Net change in cash and cash equivalents for the parent company were NOK 0.2 million in 2017 (NOK -10.3 million). Net proceeds from share issues in the parent company in 2017 are transferred to the operating company, PCI Biotech AS.

The Group's cash and cash equivalents at the end of 2017 amounted to NOK 50.8 million (NOK 14.0 million) and NOK 0.8 million for the parent (NOK 0.6 million). The Group employs a prudent cash management strategy for its cash and cash equivalents and assets are invested in low risk short-term money market instruments or held as bank deposits. All cash and cash equivalents were held as bank deposits at the end of 2017 and 2016.

RISK AND RISK MANAGEMENT

Operational Risk and Risk Management

There are great risks in the business of developing medical drugs, both related to regulatory affairs and market risk. The development may fail at any stage of the process, due to safety considerations or lack of clinical results. It is not possible to predict with certainty whether and when PCI Biotech will be able to submit applications to regulatory authorities in the relevant markets. Moreover, one cannot be sure that PCI Biotech will receive the marketing authorisations to commercialise the products. Regulatory approval and specific regulatory designations may be denied, suspended or limited. Poor clinical performance of PCI Biotech's potential products on the market and new technologies and innovative or generic products that are not yet launched may also limit the competitive edge of PCI Biotech's products and impact pricing and/or reimbursement. PCI Biotech's business strategy is to commercialise its technology partly through collaborative agreements and the Company cannot give any assurance that such agreements will be obtained on acceptable terms. There is no certainty that PCI Biotech or its licensees will achieve commercial success. The success, competitive position and future revenues will depend in part on PCI Biotech's ability to protect intellectual property and know-how. Patent applications filed by others could also limit PCI Biotech's freedom to operate. Changes in the healthcare market and/or the market access environment could further preclude PCI Biotech from charging a premium price or obtaining coverage and/or reimbursement for the Company's products. The Company is highly dependent upon having a highly qualified senior management and scientific team. The loss of key employee might impede the achievement of the scientific development and commercialisation objectives. PCI Biotech cannot be certain that it will be able to enter into satisfactory agreements with third-party suppliers or manufacturers.

To handle the inherent risks in the industry, and to comply with national and international regulations, PCI Biotech has implemented a process to identify, analyse and manage the key risks for the Group, including the character of the relevant insurance policies.

The Group does not pollute the external environment.

Financial Risk and Risk Management
The Group's activities are exposed to certain financial risks including currency risk, interest rate risk and liquidity risk. The risk is however of such character that the Group has chosen not to put in place any measures to mitigate the potential unpredictability of the financial markets, except a prudent strategy regarding interest rate risk.

PCI Biotech's most important future sources of financing is revenue related to any licensing and collaboration agreements, government grants and equity issues. The equity capital market is used as a source of liquidity when appropriate and conditions within this market are competitive. PCI Biotech has no external debt with financial covenants or any long term debt.

Currency risk - The Group's expenses and revenues are incurred in multiple currencies. The Group is therefore exposed to fluctuations in exchange rates. The risks are assessed on a regular basis. PCI Biotech is currently not using any financial hedging instruments.

Interest rate risk - PCI Biotech has no interest-bearing debt and interest risks are mainly related to the Group's holdings of cash and cash equivalents. The Group employs a prudent cash management strategy for its cash and cash equivalents, and assets are invested in low risk short-term money market instruments or placed as bank deposits.

Liquidity Risk - One of the main objectives of PCI Biotech's financial policy is to ensure that the Group has sufficient financial flexibility in the short and long term to achieve strategic and operational objectives. PCI Biotech's goal is to at least have sufficient cash to cover the expected capital need for the next 12 months, as well as a strategic reserve. The Board of Directors is reviewing available alternatives to secure a strategic reserve. The Group closely monitors cash flows based on short and long term forecasts. Cash burn rate depends mainly on the level of activity in the clinical and preclinical programmes. The programmes do not involve substantial long term commitments for the Group, allowing flexibility for adjusting operational activities.

GOING CONCERN

In accordance with § 3-3a of the Norwegian Accounting Act (NAA) it is confirmed that the conditions for assuming that the Group will continue as a going concern are present and that the financial statements have been prepared on the basis of this assumption. The Board of Directors refers to the document on corporate governance in the annual report relating to corporate governance (NAA § 3-3b) and corporate social responsibility (NAA § 3-3c).

SUBSEQUENT EVENTS

The Board of Directors has at a board meeting 19 March 2018 decided to initiate a formal process for transferring the listing of PCI Biotech Holding ASA from Oslo Axess to Oslo Børs.

PCI Biotech is not aware of any other subsequent events since year end 2017 which is of material significance to the financial statements as of 31 December 2017.

OUTLOOK

PCI Biotech's lead project is clinical development of fima*CHEM* (fimaporfin) in combination with gemcitabine for treatment of inoperable bile duct cancer; an orphan disease with high unmet medical need. Based on the promising early signs of efficacy in Phase I, the Group has received important guidance from regulators for a pivotal phase study. The final pivotal study design requires further discussions with regulators and clinical advisors. The development strategy will be announced following completion of these discussions.

PCI Biotech believes that the PCI technology has potential to play a role in the realisation of several new therapeutic modalities, including cancer immunotherapy (fima*VACC*) and nucleic acid therapeutics (fima*NAc*). The active research collaborations show that external companies share this view.

Clinical validation of the promising fima*VACC* technology is essential for PCI Biotech's role within the immunotherapy space and the Phase I study in healthy volunteers will provide results on clinical translation of the technology. Initial results are promising and the study is expected to provide important results for determination of the development strategy.

The fima*NAc* programme will continue to follow an opportunistic approach, pursuing out-licensing opportunities.

The main priorities of PCI Biotech are to:

- Effectively drive the fima*CHEM* development programme in inoperable bile duct cancer towards the market;
- Progress and finalise the fima*VACC* Phase I study in healthy volunteers;
- Alliance management and partnering activities across all commercially interesting areas for the PCI platform.

Oslo, 19 March 2018
Board of Directors and Chief Executive Officer,
PCI Biotech Holding ASA

Hans Peter Bøhn
Chairman

Hilde H. Steineger
Director

Christina Herder
Director

Kjetil Taskén
Director

Lars Viksmoen
Director

Per Walday
CEO

RESPONSIBILITY STATEMENT FROM THE BOARD OF DIRECTORS AND CEO 2017

We confirm that the financial statements for the period 1 January to 31 December 2017, to the best of our knowledge**,** have been prepared in accordance with IFRS and that the accounts give a true and fair view of the assets, liabilities, financial position and results of operations**,** and that the information in the report includes a fair review of the development, performance and position of the Company and the Group, together with a description of the principal risks and uncertainties PCI Biotech faces**.**

Oslo, 19 March 2018
Board of Directors and Chief Executive Officer,
PCI Biotech Holding ASA

Hans Peter Bøhn
Chairman

Hilde H. Steineger
Director

Christina Herder
Director

Kjetil Taskén
Director

Lars Viksmoen
Director

Per Walday
CEO

ANNUAL STATEMENT ON CORPORATE GOVERNANCE POLICY AND CORPORATE SOCIAL RESPONSIBILITY POLICY

PCI Biotech Holding ASA emphasises good corporate governance
The Norwegian Code of Practice for corporate governance is a guideline for listed companies to help regulate the division of roles between shareholders, the board of directors and executive management more comprehensively than is required by legislation.

PCI Biotech Holding ASA ("PCI Biotech" or "The Company") bases its policy for corporate governance on the Norwegian Code of Practice of 30 October 2014. Adherence to the code of practice is implemented on the basis of a "comply or explain principle".

The Board of Directors and management has resolved as a main principle to follow the recommendations of the Norwegian Corporate Governance Code to the extent not considered unreasonable due to the company size and stage of development. Explanations are provided of non-conformance to the code if not fully implemented. PCI Biotech's compliance with the Code is described in this report and section numbers refer to the Code's chapters.

1. Implementation and reporting on corporate governance and social responsibility
PCI Biotech acknowledges the division of roles between shareholders, the Board of Directors and the executive management team. PCI Biotech has implemented a sound corporate governance and social responsibility policy. The statement of compliance with the Code is presented in the Company's annual report and website. The Company ensures that the policy is adopted by holding regular Board of Directors' meetings which the executive management team attends to present strategic, operational and financial matters.

1.1 Corporate governance
PCI Biotech adhere to the code of practice for corporate governance. The company has to date four deviations from the code and these are further explained under section 1.2, 3, 6 and 9.

Guidelines on corporate governance can be found in the Company's annual report and website. Corporate values are established with the purpose to establish a healthy corporate culture and preserve the Company's integrity by helping employees to comply with standards of good business conduct. Furthermore, the values are intended to be a tool for self-assessment and for further development of the Company's identity. The corporate values are important foundations for PCI Biotech's corporate governance. Ethical guidelines are also established and these guidelines are based on the corporate values.

1.2 Corporate social responsibility (CSR)
PCI Biotech is a Norwegian based company focusing on research and development within the field of cancer treatment. The PCI Biotech Group consists of 12 employees and the core competencies are possessed by these employees, while the group's other resources in research and development are purchased from public and private research institutions across Europe.

As of today, the Group has no sales or supply of services and a limited complexity in operations. The Group has established guidelines, policies, procedures and standards in accordance with internal control policies for comparable businesses of similar size, complexity and industry to fight corruption. This means that the group requires its directors and employees to demonstrate high ethical standards in business and interpersonal relationships. Other principles followed are prevention through awareness-raising activities, limitation of opportunities, high detection risk of and zero tolerance for corruption.

The Group has established its own quality control system in line with authorities' requirements within the activities that the Group operates, both in terms of production and storage of pharmaceutical products and medical devices, and in connection with preclinical and clinical studies. The quality

control procedures are based on the relevant activities in relation to the different phases of operation and the development of procedures are thus a continuous and systematic process. The group is concerned that staff have appropriate training and experience in their areas and staff are regularly updated within their fields.

The group is concerned with human rights, labour rights and social issues. The Group's management conducts regular performance reviews and internal evaluations. The group adapts according to Norwegian law within the area. The Group's subcontractors are mainly public and private European research institutions. Clinical research is subject to strict government regulation of human rights and social conditions in all the countries where the research and development work is carried out. The Group therefore considers that human rights, labour rights and social issues are well taken care of, both internally and among its subcontractors.

The Group has not identified any material issues based on the corporate social responsibility procedures performed in 2017. The implementation of further detailed specific goals, strategies or action plans related to CSR, beyond the ones described above, has not yet been prioritised, but will be developed along with the continuous development of PCI Biotech's operations.

Non-conformance with the recommendation: The Group's operations are of such character that it does not significantly affect the environment and the Group therefore believes it is not appropriate to establish specific guidelines, policies, procedures and standards in this area, but environmental issues are included in the ethical guidelines.

1.3. Ethical guidelines

The ethical guidelines encompass the following elements; core values, compliance with laws and regulations, working environment, interaction with different stakeholders, intragroup transactions, employees loyalty, conflicts of interest, confidentiality, environment, accounting, financial reporting, trading of Company shares, other employee activities and compliance with the ethical guidelines.

2. Business

The objective and purpose for PCI Biotech's business are clearly defined in the articles of association. "The Company's business activities shall include cancer treatment and drug delivery based on the PCI technology and other related activities, including participation in other companies with similar activities through equity, loan or by issue of guarantees." The Company's articles of association are available at the Company's website and the Company's goals and strategy are available in the annual report.

3. Equity and dividends

PCI Biotech's equity as of 31 December 2017 was NOK 41.8 million. The equity level is regularly assessed in light of the Company's goals, strategy and risk profile. The equity is assessed as satisfactory given the Group's strategy, objectives and risk profile.

To date the Company has not distributed any dividends and this dividend policy will apply as long as PCI Biotech is in a research and development phase.

The Board of Directors has been authorised by the Company's General Assembly to increase the share capital by share issue of up to 1,865,000 shares in connection with the Company's employee incentive program and to issue shares in connection with private placements by an amount up to 10% of the share capital of the Company.

The authorisations were granted for two years in 2017, and are valid to 29 May 2019. Other than the above the Board of Directors has no general authorisation to issue shares.

Non-conformance with the recommendation: The Board of Director's authorisations to issue shares were at the Company's 2017 General Assembly given for a period of 2 years, which is the maximum term allowed under the Public Limited Companies Act. This was caused by practical considerations. In respect of the Company's share option program, the term of which is 5 years, the board authorisation

to issue shares for such purpose was given for the maximum period allowed under applicable law in order to cover, to the maximum extent possible, exercise of existing option grants under the program.

However, the Board of Director's is mindful that the foregoing is not fully consistent with the applicable Corporate Governance Recommendations and, as of the 2018 General Assembly, will propose that the General Assembly's authorisation to the Board of Director's to issue shares is fully aligned and in compliance with such Recommendations.»

4. Equal treatment of shareholders and related party transactions
PCI Biotech has only one class of shares and all shares have equal rights. Each share carries one vote.

The Board of Directors and management are committed to treat all shareholders equally. The Company had no transactions in own shares during 2017. The Group had regular business transactions with one related party in 2017 and 2016.

In the event of the Board of Directors resolving to issue new shares and waive the pre-emptive rights of existing shareholders, the Board of Directors intends to comply with the recommendation of the Norwegian Code of Practice for Corporate Governance that the justification for such waiver is noted in the Stock Exchange announcement relating to such a share issue.

The PCI technology originates from the Norwegian Radium Hospital and the Norwegian Radium Hospital Research Foundation owns 5.79% of PCI Biotech at year end 2017. PCI Biotech has extensive cooperation with the Norwegian Radium Hospital mainly regarding pre-clinical activities. The cooperation is regulated through signed agreements and it is the Board of Director's and management's opinion that the contracts are based on "arm's length" principles.

Please refer to Note 23 Related party transactions to the financial statements for 2017 where information regarding related party transactions are disclosed.

All material transactions between the Group and shareholders, directors, management or close associates of such parties are valuated independently by a third party. No such transactions exist for 2017. Directors and members of the executive management are obliged to notify the Board of Director's of any direct or indirect material interest in any transaction entered into by the Group.

5. Freely negotiable shares
The shares in PCI Biotech are freely negotiable with no form of restriction and no restrictions regarding transferability are included in the Company's articles of association.

6. General Meetings
The Board of Director's facilitate that as many shareholders as possible may exercise their rights by participating at the General Meeting and that the General Meeting is an effective forum for both the views of shareholders and the Board of Director's.

The Chairman, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) are present at the Annual General Meeting, along with representatives from the Nomination Committee and the group auditor.

Shareholders who are unable to participate themselves may vote by proxy and a person can also be appointed to vote for the shareholders as a proxy.

Notice of the meeting and relevant documents, including the proposal of the nomination committee, are made available on the company website three weeks in advance of the meeting. Notice of the meeting is sent to all shareholders individually, or to their depository banks, three weeks in advance of the meeting. The meeting notice include information regarding shareholders' rights, guidelines for registering and voting at the meeting. The company provides information on the procedure for representation at the meeting through proxy, nominations of a person to vote on behalf of the

shareholders and to the extent possible prepare a form which allows separate voting instructions for each matter.

Non-conformance with the recommendation: PCI Biotech is a small company and has encouraged directors to attend the General Meeting, but has for both cost and convenience reasons so far not required all directors to attend. The recommendation to implement routines to ensure an independent chairing of the meeting has not been implemented, both for cost and convenience reasons based on the size of the company.

7. Nomination Committee

The requirement for a Nomination Committee and its guidelines follows from the articles of association. The Nomination Committee's duties are to propose candidates for election to the Board of Directors and to propose remuneration. The Nomination Committee is required to justify its recommendations and encouraged to interact with shareholders, the Board of Directors and the Chief Executive Officer (CEO) in its work. The Nomination Committee's members, including the chairman, are elected by the General Meeting for two years at a time, unless otherwise resolved by the General Meeting. The Nomination Committee shall consist of minimum two members who shall be shareholders or representatives for the shareholders. The remuneration to the members of the Nomination Committee is determined by the General Meeting.

The Nomination Committee consist of Jónas Einarsson (Chairman) and Erik Must. It is possible to contact the Nomination Committee through the Company's website.

8. Board of Directors, composition and independence

The Board of Directors is composed to ensure that the Board of Directors can operate independently, attend the common interest for all shareholders and the Company's need for expertise, capacity and diversity. The members and the Chairman of the Board of Directors are elected for one year terms by the General Meeting. The Board of Directors is presented on the company website. All board members are considered to be independent from the Company's day-to-day management, main shareholders and material business connections. All board members are encouraged to be shareholders and their shareholdings are disclosed in the Annual Report.

9. Work of the Board of Directors

It is the responsibility of the Board of Directors to ensure that the Company has a well functioning internal control environment in accordance with the regulations that apply to its activities. The Board of Directors adopts an annual plan for its work, which includes objectives, strategy and implementation. The Board of Directors evaluates its performance and expertise annually. The Company has not established a separate Audit Committee in accordance with the exemption in the Norwegian Public Limited Liability Companies Act. The Company has not established a separate Remuneration Committee. The Board of Directors in its entirety serves as an Audit and Remuneration Committee.

The Board conducted twelve meetings in 2017. Board members had the following attendance at these meetings:

Hans Peter Bøhn, 12/12
Kjetil Taskén, 12/12
Christina Herder 10/12
Lars Viksmoen, 9/12
Hilde H. Steineger, 12/12

Non-conformance with the recommendation: PCI Biotech has not established separate Audit and Remuneration Committees. The Board of Directors believes that this is most appropriate given the Company's current size and complexity. The Board of Directors will, depending on the Company's performance, consider appointing a separate Audit and Remuneration Committee.

10. Risk management and internal control

It is the responsibility of the Board of Directors to ensure that the Company has sound internal controls and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. Significant risks include strategic risks, market risks, financial risks, liquidity risks

and operational risks including risks related to development of products. The internal control systems also include company values, code of ethics and corporate social responsibility. The Company's significant risk areas and internal control systems are assessed on an on-going basis and at least once a year by the Board of Directors.

The Company presents its financial statements in accordance with IFRS, and procedures have been established to ensure compliance with IFRS interim and annual reporting requirements. The Company's management, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for preparing the financial statements, and financial reports are approved by the Board of Directors prior to publication. Management regularly reports to the Board of Directors on progress in the development of the PCI technology and the Group's financial situation.

There are established procedures for handling inside information applicable to all employees and insiders reflecting the guidelines of the Oslo Stock Exchange.

Please also refer to The Board of Directors report, for a description of relevant risk factors.

11. Remuneration of the Board of Directors

The General Meeting determines the remuneration to the Board of Directors based on a proposal from the Nomination Committee. Remuneration reflects the Board of Directors responsibility, expertise, time commitment and the business complexity. The remuneration is not linked to the Company's performance, and no share options are granted to Directors.

12. Remuneration of the executive management

The Board of Directors has adopted guidelines for remuneration to the Company's executive management and the guidelines are presented to the general meeting. Performance-related remuneration is linked to long term value creation for shareholders and is based on quantifiable factors that can be influenced by the executive management. It is established a limit for the performance related remuneration. A share option scheme is part of the remuneration policy and the scheme is approved by the general meeting.

Remuneration to the executive management, Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Scientific Officer (CSO), Chief Business Development Officer (CBDO), Project Director (PD) and Chief Medical Officer (CMO) are disclosed in the annual report.

13. Information and communication

The Company's guidelines for reporting of financial and other information is based on transparency and takes into account the requirement for equal treatment of all participants in the securities market. The Company is committed to report financial results and other relevant information on an accurate and timely basis. The Company publishes a financial calendar on an annual basis, including dates for release of interim and annual reports and dates for general meetings. All press releases and stock exchange notifications are posted on the Company's website at the same time as it is released.

14. Take-overs

The Board of Directors endorses the principles concerning equal treatment of all shareholders. In the event of a take-over bid, it is obliged to act in accordance with the requirements of Norwegian law and in accordance with the applicable principles for good corporate governance. Transaction that in fact is a business disposal shall be approved by a General Meeting.

15. Auditor

Ernst & Young AS (EY) is the appointed auditor of PCI Biotech.

The auditor shall annually in writing confirm to the Board of Directors that he/she satisfies established requirements for independence and objectivity. The auditor participates at least one Board of Directors meeting per year, where he/she present auditors plan for the audit, the assessment of the Company's internal control and participate during the approval of the annual accounts. The auditor has a minimum of one meeting per year with the Board of Directors without the presence of the Executive

Management. The Board of Directors has established separate guidelines for use of non-audit services. Fees paid to the external auditor for audit and non-audit services are reported in the Company's Annual Report, which are, in turn, approved by the annual general meeting.

PCI Biotech Holding ASA – financial statement

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

(1.1 - 31.12)

Parent				Group	
2016	**2017**	*(figures in NOK 1,000)*	**Note**	**2017**	**2016**
0	0	Other income	*5,6*	10 250	10 475
0	0	**Total income**		**10 250**	**10 475**
0	0	Research and development	*7*	40 988	39 216
2 952	3 182	General and administrative	*7,8*	12 693	4 286
2 952	**3 182**	**Total operating expenses**	*7,8,9,10,23*	**53 681**	**43 502**
-2 952	**-3 182**	**Operating results**		**-43 431**	**-33 027**
149 475	37 333	Financial income	*11*	677	847
0	0	Financial expenses	*11*	87	4
149 475	**37 333**	**Net financial results**		**590**	**843**
146 523	**34 151**	**Profit/Loss before income tax**		**-42 841**	**-32 184**
0	0	Income tax	*12*	0	0
146 523	**34 151**	**Net profit/loss for the year**		**-42 841**	**-32 184**
		Other comprehensive income, net of income tax			
0	0	Items that will not be reclassified to income statement		0	0
0	0	Items that subsequently may be reclassified to income statement		0	0
146 523	**34 151**	**Total comprehensive income for the year**		**-42 841**	**-32 184**
		Loss per share basic and diluted *(figures in NOK)*	*13*	-1.76	-2.16

PCI Biotech Holding ASA

BALANCE SHEET
for the year ended 31 December 2017

Parent 2016	Parent 2017	ASSETS *(figures in NOK 1,000)*	Note	Group 2017	Group 2016
		Non-current assets			
0	0	Property, plant and equipment	*14*	22	5
223 500	302 236	Shares in subsidiaries	*15*	-	-
223 500	**302 236**	**Total non-current assets**		**22**	**5**
		Current assets			
201	27 345	Receivables from group companies		-	-
343	43	Other short term receivables	*18*	7 625	8 391
544	**27 388**	**Total receivables**	*17*	**7 625**	**8 391**
583	759	Cash and cash equivalents	*17, 19*	50 789	14 002
1 127	**28 147**	**Total current assets**		**58 414**	**22 393**
224 627	**330 383**	**Total assets**		**58 436**	**22 398**

PCI Biotech Holding ASA

BALANCE SHEET
for the year ended 31 December 2017

Parent				Group	
2016	2017	EQUITY AND LIABILITIES	Note	2017	2016
		(figures in NOK 1.000)			
		Equity			
44 701	74 961	Share capital	*20*	74 961	44 701
31 363	67 833	Share premium		157 148	120 678
986	5 853	Other paid-in capital		0	0
146 523	180 673	Retained earnings		-190 266	-152 293
223 573	**329 320**	**Total equity**	*8,23*	**41 842**	**13 086**
		Liabilities			
		Non-current liabilities			
0	0	Other long term liabilities	*16*	2 009	0
0	0	**Total non-current liabilities**		**2 009**	**0**
		Current liabilities			
131	97	Trade accounts payable		1 497	2 080
142	104	Public duties payable		1 793	1 224
781	861	Other current liabilities	*22*	11 295	6 008
1 054	**1 063**	**Total current liabilities**	*16,21*	**14 585**	**9 312**
1 054	**1 063**	**Total liabilities**	*17*	**16 594**	**9 312**
224 627	**330 383**	**Total equity and liabilities**		**58 436**	**22 398**

Oslo, 19 March 2018
Board of Directors and Chief executive Officer,
PCI Biotech Holding ASA

Hans Peter Bøhn
Chairman

Christina Herder
Director

Hilde H. Steineger
Director

Kjetil Taskén
Director

Lars Viksmoen
Director

Per Walday
CEO

PCI Biotech Holding ASA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017
(attributable to the equity holders of the parent)

(figures in NOK 1,000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2016	***20***	**44 701**	**120 678**	**0**	**-121 094**	**44 284**
Loss for the period		-	-	-	-32 184	-32 184
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the period		-	**-**	**-**	**-32 184**	**-32 184**
Share-based payments		-	-	986		986
Allocation				-986	986	0
Equity at 31 December 2016	***20***	**44 701**	**120 678**	**0**	**-152 293**	**13 086**
Loss for the period		-	-	-	-42 841	-42 841
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the period		-	**-**	**-**	**-42 841**	**-42 841**
Capital increase		30 260	41 462			71 721
Capital increase expenses			-4 992			4 992
Share-based payments		-	-	4 867	-	4 867
Allocation		-	-	-4 867	4 867	0
Equity at 31 December 2017	***20***	**74 961**	**157 148**	**0**	**-190 266**	**41 842**

PCI Biotech Holding ASA

STATEMENT OF CHANGES IN EQUITY – PARENT
for the year ended 31 December 2017

(figures in NOK 1,000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 1 January 2016	*20*	**44 701**	**31 363**	**0**	**0**	**76 064**
Loss for the period		-	-	-	146 523	146 523
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**146 523**	**146 523**
Share-based payments in subsidiary		-	-	986	-	986
Equity at 31 December 2016	*20*	**44 701**	**31 363**	**986**	**146 523**	**223 573**
Profit for the period		-	-	-	34 151	34 151
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the period		**-**	**-**	**-**	**34 151**	**34 151**
Share-based payments in subsidiary		-	-	4 867	-	4 867
Capital increase		30 260	41 462	-	-	71 721
Capital increase expenses			-4 992			-4 992
Equity at 31 December 2017	*20*	**74 961**	**67 833**	**5 853**	**180 673**	**329 320**

PCI Biotech Holding ASA

CASH FLOW STATEMENT
for the year ended 31 December 2017

Parent		*(figures in NOK 1,000)*		Group	
2016	**2017**		**Note**	**2017**	**2016**
146 523	34 151	Profit/Loss before income tax		-42 841	-32 184
-	-	Depreciation and amortisation	7,14	6	5
-148 912	-33 868	Write downs / reversal of write downs	11	0	0
-	-	Share-based payments	8	4 867	986
-562	-3 464	Interest income	11	-677	-447
-318	300	Changes in accounts receivable		766	-1 251
103	-34	Changes in accounts payable		-584	-1 293
120	42	Changes in other net operating assets and liabilities		7 843	-1 509
-3 046	**-2 874**	**Cash flow from operating activities**		**-30 620**	**-35 693**
-7 846	-67 144	Net proceeds from intragroup interest-bearing debt		-	-
562	3 464	Interest income received	11	677	447
-7 284	**-63 679**	**Net cash flow from investing activities**		**677**	**447**
0	71 721	Proceeds from issue of new equity	20	71 721	0
0	-4 992	Expenses in relation to issue of new equity		-4 992	0
0	**66 730**	**Net cash flow from financing activities**		**66 730**	**0**
-10 330	**176**	**Net changes in cash and cash equivalents**		**36 787**	**-35 247**
10 913	583	Cash and cash equivalents at 1 January		14 002	49 249
583	**759**	**Cash and cash equivalents at 31 December**	19	**50 789**	**14 002**

PCI BIOTECH HOLDING ASA – ACCOUNTING PRINCIPLES 2017

1. Corporate information
The annual accounts for 2017 for PCI Biotech Holding ASA (the Company) and the consolidated financial statement (the Group or PCI Biotech) was approved for publication by the Board of Directors on 19th March 2018.

PCI Biotech Holding ASA is a public listed company domiciled in Norway. The business of the Group is associated with research and development of pharmaceutical products and related technical equipment. The Company is listed on the Oslo Axess and the registered office address is Ullernchausséen, N-0379 Oslo**.**

2. Significant accounting policies

2.1 Basis of preparation
The Group and the Company's annual accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as specified by the International Accounting Standards Board and implemented by the EU as per 31 December 2017.

The annual accounts for the Group and the Company have been prepared on the basis of historical cost. The financial income statement is presented by function of expense.

NOK (Norwegian kroner) is the functional currency for all companies within the Group. In the absence of any statement to the contrary, all financial information is reported in whole thousands. As a result of rounding adjustments, the figures in the financial statements may not add up to the totals.

2.2 Basis of consolidation
The consolidated accounts include the overall financial results and overall financial position when the parent company PCI Biotech Holding ASA, the fully owned subsidiary PCI Biotech AS and the dormant Icelandic branch PCI Biotech Utibu are presented as a single economic entity. The subsidiary and the branch are fully consolidated. The consolidated financial statements are prepared using uniform accounting policies for similar transactions and events under similar circumstances. Intercompany transactions and balances, including internal profits and unrealised gains and losses, are eliminated. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 Summary of significant accounting policies

a) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:
- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading

- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b) Fair value measurement

The Group measures financial instruments, at fair value at each balance sheet date. Fair value related disclosures for financial instruments, are summarised in the following notes:

- Financial instruments (including those carried at amortised cost) Note 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability.

c) Government grants

Government grants are disclosed under revenue as other income, see Note 5 for further information. Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

d) Taxes

Current income tax
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of

the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

e) Foreign currencies

The Group's consolidated financial statements are presented in NOK, which is also the parent company's functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

f) Cash dividend distribution to equity holders of the parent

The Company recognises a liability to make cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in Norway, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

g) Property, plant and equipment

Tangible fixed assets are recognised at cost less deductions for accumulated depreciation and write-downs. Tangible fixed assets are depreciated over the expected useful life of the assets taking any residual value into consideration. Costs accrued for major replacements and upgrades of tangible fixed assets are added to cost if it is probable that the costs will generate future economic benefits for the Group and if the costs can be reliably measured. Ordinary maintenance is expensed as incurred.

Tangible fixed assets are depreciated on a straight-line basis over the estimated useful life of the asset as follows:
- Production and test equipment 5 years
- Furniture and equipment 3–5 years

h) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

i) Intangible assets - *Research and development costs*

Research costs are expensed as incurred. Internal development costs related to development of products are recognised in the income statement in the year incurred unless it meets the asset recognition ciriteria of IAS 38 "Intangible Assets". Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually. The Group has currently no development expenditure that qualifies for recognition as an asset under IAS 38.

j) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Property, plant and equipment (note 14)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

k) Financial instruments

Classification of financial instruments
Financial instruments within the scope of IAS 39 are classified in the following categories:

- fair value with changes in value through profit or loss (FVPL)
- loans and receivables
- held to maturity investments (HTM)
- financial instruments available for sale (AFS)
- Other liabilities

The classification is dependent on the type of instrument and the purpose for which the investments were acquired or originated.

Financial assets at FVPL are financial assets held for trading. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading as the Company does not apply hedge accounting.

Loans and receivables are non-derivative financial assets with fixed or determinable cash flows that are not quoted in an active market.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold until maturity

All other financial assets, except for derivatives, are classified as AFS and would generally include equity and debt securities.

Other financial liabilities is generally the main category for loans and borrowings.

The Company have financial instruments in the following categories:

Loans and receivables:	Trade receivables and other current receivables (notes: 17,18)
Other financial liabilities	Includes most of the company's financial liabilities including debt to credit institutions, accounts payable and other current and non-current liabilities (notes: 16,17,21,22)

Initial recognition and subsequent measurement

Loans and receivables are initially recognised at fair value plus directly attributable transaction expenses. Subsequently these instruments are measured at face-value (non-discounted contractual payments) as long as the discounted cash-flow effect is immaterial. The discounting effect is often considered immaterial based on the low face-value and limited duration. All receivables are subsequently measured according to this principle in 2016 and 2017.

Other financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Subsequently these liabilities are measured at face-value (non-discounted contractual payments) as long as the discounted cash-flow effect is immaterial. The discounting effect is often considered immaterial based on the low face-value and limited duration. All financial liabilities are subsequently measured according to this principle in 2016 and 2017.

Impairment of financial assets

Financial assets valued at amortised cost are written down when it is objective evidence that the instrument's cash flows have been negatively affected by one or more events occurring after the initial recognition of the instrument. The impairment loss is recognised in the profit or loss. The loss is measured as the difference between the asset`s carrying value and the present value of estimated future cash flows discounted with the instruments original effective interest rate. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced.

De-recognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired; or the Company has transferred its rights to receive cash flows from the asset and either (i) the Company has transferred substantially all the risks and rewards relating to the instrument, or (ii) the Company has neither transferred nor retained substantially all the risks and rewards relating to the instrument, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, this is treated as de-recognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

l) Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

n) Pensions and other post-employment benefits

PCI Biotech AS has an agreement with a life assurance company concerning contribution-based pensions for employees. Contributions, ranging from 7% to 12.5% of the employee's ordinary salary up to 12 times the basic amount (G) of the Norwegian National Insurance scheme, are paid into the employee's contribution account with the life assurance company. The Company's payment of contributions is expensed in the period it is accrued. Any prepayments made to the contribution fund are recognised in the balance sheet.

o) Share-based payments

Employees (including senior management) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions
The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Black-Scholes valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of profit or loss expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense. See Note 8 for further information.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting are conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share, further details are given in Note 13.

p) License costs

Agreements with external parties concerning access to technology in the form of license agreements and agreements that allow the use of patented technology are expensed when they occur according to the agreement and are disclosed as "Research and development expenses" in the income statement.

q) Segment reporting

Segments are reported similarly as the internal reporting to the Group's senior decision makers. Senior decision makers are defined as the Group's management group. The Group has only one segment. See Note 6 for further information.

r) Cash-flow statement

The cash flow statement has been prepared in accordance with the indirect method. Cash and cash equivalents consists of cash, bank deposits and other current investments like money market funds.

s) Events after the balance sheet date

New information regarding the Group's financial position on the balance sheet date has been taken into account in the annual accounts. Events after the balance sheet date that do not affect the Group's financial position on the balance sheet date, but which will affect the Group's financial position in the future, are reported if they are significant.

t) Contingent liabilities and assets

Contingent liabilities are defined as:

- Possible liabilities as a result of earlier events where their existence depends on future events;
- Liabilities that is not included because it is not probable that they will lead to an outflow of resources from the Group;
- Liabilities that cannot be measured with sufficient reliability.

Contingent liabilities are not included in the annual accounts. Notes on significant contingent liabilities are provided, with the exception of contingent liabilities with little probability of occurring. Contingent assets are not included in the annual accounts, but are reported in cases in which there is a certain likelihood of their resulting in a benefit to the Group.

u) Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied no new or amended standards and interpretations that are applicable for the first time effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standard, interpretation or amendment that has been issued, but is not yet effective.

Disclosure

In 2017 the Group has reviewed the internal allocation of operating expenses for disclosure of the sub categories in the statement of comprehensive income; research and development expenses versus general and administrative expenses. The review is made based on the current operational set-up of the organisation which has changed and developed over the years, from an early stage clinical company towards a pivotal stage ready company. The outcome of the review has led to reallocation of expenses between the two relevant P&L sub categories with no net change in the disclosed total operating expenses. In the statement of comprehensive income 2017 for the Group the new allocation routines are applied prospectively, as this reflects the underlying operations. The review has no disclosure effect regarding the separate financial reporting for the parent company.

Accounting policies only relevant for the Parent:

v) Investment in subsidiaries

Shares and investments with the aim of long-term ownership are disclosed in the balance sheet as long-term investments and are valued at the lower of cost and fair value. Write-downs for permanent declines in value are made on the basis of individual evaluations. Any realised and unrealised profits/losses and any write-downs related to these investments will be disclosed in the income statement as financial items.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- Financial risk management and policies Note 16

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- The fair value of employee options is calculated according to the Black-Scholes method. This method involves the use of estimates and discretionary judgment, as described in more detail in Note 8. The allocation of options to employees of subsidiary is made directly from the parent company and the financial presentation is correspondingly reported in the subsidiary.

- The Group has not recognised a deferred tax asset related to carry forward losses, as described in more detail in Note 12.

- Regarding development of pharmaceuticals and medical equipment the Group cannot render probable future earnings large enough to justify recognising development costs in the balance sheet before marketing approval has been obtained. Own development costs are therefore recogniced as an expense as incurred until national market approval for the product and indication has been obtained. Any further development of the product after marketing approval has been obtained and market launch completed will be recogniced in the balance sheet to the extent that this involves significant changes to the product, which is considered likely will generate future financial benefits.

Significant accounting judgments, estimates and assumptions only relevant for the Parent

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the separate financial statements for the Parent:

- PCI Biotech Holding ASA has in its separate financial statement performed an assessment of the carrying amount of the subsidiary PCI Biotech AS, see Note 11 and 15 for further information.

4. Standards issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. Only standards and interpretations that are expected to may have an impact on the Group's financial position, performance, and/or disclosures are included.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments* that replaces *IAS 39 Financial Instruments*: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. At current stage of operations the Group does not expect the new standard to have a significant impact on its financial position, performance, and/or disclosure.

IFRS 15 Revenue from Contracts with Customers
The Group is in the research and development phase and the IFRS 15, will not have a material effect on the financial statements at current stage of operations.

IFRS 16 Leases
IFRS 16 specifies how to recognise, measure, present and disclose leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2018. At current stage of operations IFRS 16 is not expected to have a significant impact on the Group's financial position, performance, and/or disclosures.

PCI BIOTECH HOLDING ASA - NOTES FINANCIAL STATEMENT 2017

5 OTHER INCOME

(figures in NOK 1,000)	Group	
	2017	**2016**
Grants from the Research Council of Norway	3 755	4 130
Tax incentive scheme - SkatteFUNN	5 717	6 145
Other grants	778	200
Total other income	**10 250**	**10 475**

Government grants are recognised at the value of the contributions at the transaction date. Grants are not recognised until it is probable that the conditions attached to the contribution will be achieved. The grant is recognised in the statement of profit and loss in the same period as the related costs, and are disclosed as other income. R&D projects have been approved for SkatteFUNN for the period 2014 through 2016 and for the period 2017 through 2019. For the period May 2014 through June 2017, the Company has been awarded a grant from The Research Council of Norway (user-driven research-based innovation programme (BIA)) of up to NOK 12.5 million in total. For the period June 2017 through December 2020, the Company has been awarded another BIA grant of up to NOK 13.8 million in total. For the full year ended 31 December 2017, the Company has recognised NOK 3.8 million (2016: NOK 4.1 million) from BIA grants as other income. A grant of up to NOK 0.5 million is awarded in 2017 from Innovation Norway for the preclinical research collaboration with Ultimovacs AS. Grant receivables as at 31 December 2017 are disclosed in Note 18.

6 OPERATING SEGMENTS

The group has only one operating segment, which is research and development, and had no revenues for the reporting periods. The Group received Norwegian grants and tax incentive scheme (SkatteFUNN) in the reporting periods and these are disclosed as other income, see Note 5.

7 STATEMENT OF COMPREHENSIVE INCOME ACCORDING TO CLASSIFICATION AND R&D EXPENSES BY CATEGORY

Operating costs according to classification.		Group		Parent	
(figures in NOK 1,000)	Note	**2017**	**2016**	**2017**	**2016**
Salary expenses*	8	23 946	15 887	1 165	1 121
R&D exclusive salary and other operating expenses		23 022	21 113	0	0
Depreciation and amortisation	14	6	5	0	0
Other operating expenses		6 706	6 497	2 017	1 831
Total operating expenses		**53 681**	**43 502**	**3 182**	**2 952**

Specification of other operating expenses	**2017**	**2016**	**2017**	**2016**
Travel expenses	789	744	29	43
Patent, legal and other fees	3 404	3 427	1 218	1 182
Other expenses	2 514	2 326	770	606
Total other operating expenses	**6 706**	**6 497**	**2 017**	**1 831**

*Please see Note 8 for breakdown of salary expenses

R&D expenses by category:	2017	2016
Clinical studies	23 886	20 331
Pre-clinical studies	12 539	10 480
CMC and equipment	1 770	4 687
Patents	2 793	3 718
Other expenses	0	0
Total R&D expenses	**40 988**	**39 216**

Of the total salary expenses NOK 17 040 relates to R&D activities (2016: NOK 12 502).

The Group has no development expenditure that qualifies for recognition of an asset under IAS 38 Intangible assets and all research expenditures are charged through the income statement, in line with previous years.

In 2017 the Group has reviewed the internal allocation of operating expenses for disclosure of the sub categories in the statement of comprehensive income; research and development expenses versus general and administrative expenses. The review is made based on the current operational set-up of the organisation which has changed and developed over the years, from an early stage clinical company towards a pivotal stage ready company. The outcome of the review has led to reallocation of expenses between the two relevant P&L sub categories with no net change in the disclosed total operating expenses. In the statement of comprehensive income 2017 for the Group the new allocation routines are applied prospectively, as this reflects the underlying operations. The review has no disclosure effect regarding the separate financial reporting for the parent company.

Per year end 2017 there is stock of the product under development (fimaporfin) at a cost value of NOK 0.4 million not recognised in the balance sheet (2016: NOK 0.5 million).

8 SALARY EXPENSES AND OTHER REMUNERATION

(figures in NOK 1,000)		Group		Parent	
		2017	2016	2017	2016
Wages and Board of Directors remuneration		13 731	12 013	1 022	960
Social security contributions		1 901	1 823	143	160
Share-based payments		7 245	986	0	0
Pension costs	9	943	940	0	0
Other expenses		127	125	0	1
Total salary expenses		**23 946**	**15 887**	**1 165**	**1 121**
No. of full-time equivalent positions		11,5	10,5	0	0

Share based payments
The general vesting term in the employee share option scheme is three years, with one third vested each year. The share options expire five years from grant date. All share options will lapse immediately upon the event that the employee's employment with the company are terminated. Each share option gives the right to subscribe for or acquire one share upon PCI Biotech Holding ASA's choice. The strike price is set at market terms and no premium for the share options are paid. The Black-Scholes method is used for fair value assessment of the share options at grant date.

The general meeting held 29 May 2017 authorised the Board of Directors to grant the employees with a total of 1,865,000 share options and the authorisation applies for two years. A total of 738,500 share options are outstanding at year-end 2017 (2016: 395,000).

In January 2017 a share issue was completed and the strike price for outstanding share options were adjusted in accordance with the employee incentive program agreement. The fair value assessments were adjusted accordingly, leading to a total increase of share based payment expenses of NOK 0.4 million charged through the P&L in 2017.

In May 2017 a total of 340,000 share options were awarded in the employee incentive program, at a strike price of NOK 24.95 and the share options laps in Q3 2022.

In September 2017 a total of 86,500 share options granted in 2012 were exercised with a strike price of NOK 19.90. The exercise resulted in marginal social security costs for PCI Biotech on the considered salary gain totalling to NOK 0.4 million for the employees. The salary gain is calculated based on the difference between the share price at exercise and the strike price of the share options.

In October 2017 90,000 share options were awarded in the employee incentive program, at a strike price of NOK 22.35 and the share options laps in Q3 2022.

The Board of Directors have not been granted any share options. See note 23 Related party transactions for further information.

The P&L effect for share-based payments for 2017 were a net cost of NOK 4.9 million (2016: NOK 1.0 million) in addition to NOK 2.3 million (2016: NOK 0.2 million) for potential social security expenses for future exercises.

Share options outstanding at the end of the period have the following expiry date and exercise prices:

Expiry date	Exercise price in NOK per share	Number of shares	
		2017	2016
2017 - Q3	19.90	-	86 500
2018 - Q3	10.55	85 000	85 000
2018 - Q3	10.02	40 000	40 000
2020 - Q3	9.11	73 500	73 500
2020 - Q3	3.79	110 000	110 000
2022 – Q3	24.95	340 000	-
2022 – Q3	22.35	90 000	-
Sum		**738 500**	**395 000**

All options granted to employees, average exercise price and transactions during the year is listed below:

	2017		2016	
	Number	Average exercise price in NOK per share	Number	Average exercise price in NOK per share
Outstanding at the beginning of the year	395 000	14,30	565 000	14,23
Granted during the year	430 000	24,41	0	0
Lapsed during the year	0	0	0	0
Exercised during the year	86 500	10,55	0	0
Expired during the year	0	0	170 000	14,07
Outstanding at year end	738 500	17,44	395 000	14,30
Exercisable options at year end	247 333	6,71	272 667	17,06

Exercise price and average remaining lifetime for outstanding options per year-end:

Number of options 2017 / 2016	Exercise price in NOK per share	Average remaining lifetime (years)	
		2017	2016
0 / 86 500	19.90	-	0.7
85 000 / 85 000	10.55	0.7	1.7
40 000 / 40 000	10.02	0.7	1.7
73 500 / 73 500	9.11	2.7	3.7
110 000 / 110 000	3.79	2.7	3.7
340 000 / 0	24.95	4.7	-
90 000 / 0	22.35	4.7	-

Valuation method for fair value assessment of share options granted
The Black-Scholes method is used for fair value assessment of the share options at grant date. Volatility is calculated based on PCI Biotech's own stock market price. The exercise price is set at market terms, equal to the average volume weighted share price last five days of trade prior to grant date (5 days VWAP), and no premium for the share options are paid. The risk free interest rate is based on Norwegian 3-5 years government bond yield. Each option program is calculated separately with actual exercise price and lifetime for the program. The table below shows the input values used in the fair value assessment model at grant date.

No share options were granted in 2016. Fair value for share options granted in 2017 were NOK 9.5 million. The fair value estimated at grant date is amortised over the vesting period of three years.

Options granted in 2017	**May 2017**	**October 2017**
Number of options	340 000	90 000
Dividend	0,00	0,00
Historical volatility (%)	131.9 %	120.1 %
Risk free interest rate (%)	1.10 %	1.10 %
Expected lifetime (years)	5	5

9 PENSION EXPENSES

Pensions expenses for the year:	Group	
(figures in NOK 1,000)	**2017**	**2016**
Total pension cost from contribution schemes	943	940

The contribution pension scheme is in compliance with Norwegian public requirements and a total of ten employees (2016: ten employees) are included in the scheme at year end.

10 AUDITORS FEE

	Group		Parent	
(figures in NOK 1,000 ex. VAT)	**2017**	**2016**	**2017**	**2016**
Statutory audit	159	136	75	71
Other assurance services	52	15	26	0
Tax and VAT advising services	0	10	0	0
Total	**212**	**161**	**101**	**71**

11 FINANCIAL INCOME AND EXPENSES

(figures in NOK 1,000)	Group		Parent	
	2017	**2016**	**2017**	**2016**
Interest income	677	447	10	29
Interest income group	-	-	3 454	534
Other financial income	0	400	33 869	148 912
Total financial income	**677**	**847**	**37 333**	**149 475**
Interest expense	0	4	0	0
Other financial expense	87	0	0	0
Total financial expense	**87**	**4**	**0**	**0**

For 2017 the other financial income of NOK 33.9 million (2016: NOK 148.9 million) in Parent is reversal of previous year's write-downs related to the wholly owned subsidiary PCI Biotech AS. The annual impairment assessment is based on the observable market value of the Group at Oslo Stock Exchange (Axess) per year end.

12 TAX

(figures in NOK 1,000)	Group		Parent	
	2017	**2016**	**2017**	**2016**
Profit/Loss before income tax	**-42 841**	**-32 184**	**34 151**	**146 523**
Expected nominal rate of tax (2017: 24% / 2016: 25%)	-10 282	-8 046	8 196	36 631
Permanent differences charged through P&L	-207	-1 292	-8 128	-37 228
Deferred tax asset not recognised in the balance sheet	10 489	9 388	-68	598
Total tax expense for the year	**0**	**0**	**0**	**0**

Specification of basis for deferred tax asset / liability

Tax effect of temporary differences:	Group		Parent	
	2017	**2016**	**2017**	**2016**
Fixed assets	-8	-14	0	0
Receivables	0	0	0	0
Carry forward loss	-77 682	-69 364	-6 111	-5 246
Total tax asset (2017: 23% / 2016: 24%)	**-77 690**	**-69 378**	**-6 111**	**-5 246**
Deferred tax asset not recognised	77 690	69 378	6 111	5 246
Deferred tax asset recognised in the balance sheet	**0**	**0**	**0**	**0**

The Group and Parent have no history of taxable profits and due to uncertainty of future utilisation, deferred tax assets has not been recognised in the balance sheet. Deferred tax asset not recognised in the balance sheet amounts to NOK 77.7 million (2016: NOK 69.4 million) at group level. The carry forward loss has no time limit according to current tax legislations.

13 EARNINGS PER SHARE

Earnings per share (diluted earnings per share) are calculated on the basis of the financial result after tax for the year (financial result after tax for the year adjusted for dilutive effects) divided by a weighted average number of shares outstanding over the year (weighted average number of outstanding shares over the year adjusted for dilutive effects). Dilution effect is weighted number of outstanding share options which are in-the-money during the year. Accretive effects are not taken into consideration. Earnings per share is not affected by the dilution effect if negative results in the period.

Earnings per share	**2017**	**2016**
Weighted average number of shares (in '000)	24 348	14 900
Dilution effect (in '000)	478	103
Weighted average number of shares fully diluted (in '000)	24 826	15 003
Net loss for the year	-42 841	-32 184
Earnings per share (NOK per share)	-1.76	-2.16
Diluted earnings per share (NOK per share)	-1.76	-2.16

14 FIXED AND INTANGIBLE ASSETS

(figures in NOK 1,000)

	Group		
	Software	**Equipment**	**Total**
Acquisition cost per 31 December 2015	**168**	**314**	**482**
Additions in 2016	0	0	0
Disposals and scrapping during 2016	0	0	0
Acquisition cost per 31 December 2016	**168**	**314**	**482**
Additions in 2017	0	23	23
Disposals and scrapping during 2017	0	0	0
Acquisition cost per 31 December 2017	**168**	**337**	**505**
Accumulated depreciation per 31 December 2015	**168**	**304**	**472**
Ordinary depreciation 2016	0	5	5
Disposals in 2016	0	0	0
Accumulated depreciation per 31 December 2016	**168**	**309**	**477**
Ordinary depreciation 2017	0	6	6
Disposals in 2017	0	0	0
Accumulated depreciation per 31 December 2017	**168**	**315**	**483**
Book value per 31 December 2016	0	5	5
Book value per 31 December 2017	**0**	**22**	**22**

Leasing expenses	**2017**	**2016**
Leasing office premises	637	537
Total leasing expenses	**637**	**537**

PCI Biotech has entered into a lease agreement with Oslo Cancer Cluster Incubator, Ullernchausséen 64 Oslo, Norway from 1 January 2016. The lease runs to 31 December 2018, with an option for extension for three more years. The lease including all costs is NOK 0.7 million per annum. The lease agreement is subject to annual adjustment according to changes in the consumer price index from 2017. Amounts of minimum lease payment for non-cancellable operating leases is NOK 0.7 million (non-discounted contractual payments) per year end 2017 for the current contracted period until 31 December 2018.

15 SHARES IN SUBSIDIARIES

Company	Year of acquisition	Share capital of company	Equity participation and share of voting rights	Carrying amount (NOK thousand)	Equity (NOK thousand)	Financial result 2017 (NOK thousand)
PCI Biotech AS, Oslo, Norway	2008	4 525 640	100 %	302 236	14 739	-43 124

In 2016 the share capital of PCI Biotech AS was increased by NOK 323 260, with a share premium of NOK 13 676 740, totalling to NOK 14 000 000. The share capital was increased by a contribution in kind of intercompany balances of NOK 14 million by PCI Biotech Holding ASA.

In 2017 the share capital of PCI Biotech AS was increased by NOK 323 260, with a share premium of NOK 39 676 740, totalling to NOK 40 000 000. The share capital was increased by a contribution in kind of intercompany balances of NOK 40 million by PCI Biotech Holding ASA.

The carrying amount is assessed at the lowest of historic cost value and the observable market value of PCI Biotech at Oslo Stock Exchange (Axess). Per year end 2017 the carrying amount is at historic cost.

16 FINANCIAL RISK

This note describes the group's various financial risks and the management of these. In addition, numerical tables for risk associated with financial risks are also presented.

(I) Organisation of financial risk management
PCI Biotech has an international business operation and is exposed to currency risk, interest risk, liquidity risk and credit risk. The Group has not utilised any derivatives or other financial instruments to reduce these risks during the accounting period. The responsibility for managing financial risk is at group level. The risk associated with centralised activities such as financing, interest rate and currency management is managed at group level. In addition, the group manages the risks associated with the business processes. The financial risk management is monitored by the Board of Directors.

Centralised risk management
PCI Biotech has a centralised risk management policy. The most important tasks within risk management are to ensure the group's financial freedom to act both in a short- and long term perspective, and to monitor and manage financial risk in cooperation with the individual units in the group. Any permits required for borrowing and entering into derivative framework agreements are given on an annual basis by the Board of Directors. A hedging-oriented view forms the basis for risk management of the finance department's positions so that all transactions with financial instruments have a counter item in an underlying commercial hedging requirement.

Financial risk
This section describes the most important risk factors within each business area and the management of these. In this context, financial risk is understood as risk associated with financial instruments. These can either be hedging instruments for underlying risk or be considered themselves as a source of risk. Market risk is not hedged with financial instruments.

Research and development activities
PCI Biotech carries out research and development for new innovative medical products based on the company’s patented technology. The currency risk in research and development is limited to the purchase of services, primarily related to clinical and pre-clinical studies. Foreign currency risk associated with purchase of goods and services are foremost related to transactions in EUR and GBP. Foreign currency exposure associated with research and development is not normally hedged.

(II) Classes of financial risk

Interest rate risk

PCI Biotech does not have any interest-bearing debt, and the group's interest rate risk is primarily associated with the group's cash positions and cash equivalents. This risk is managed at group level. The main strategy is to diversify the risk and invest in cash deposits with fixed or spot interest rates or money market funds with low risk, high liquidity and short duration.

Liquidity risk

One of the most important objectives of PCI Biotech's finance policy is to ensure that the group has financial freedom to act in the short and long-term in order to attain strategic and operational goals. PCI Biotech shall have sufficient funds to cover expected capital requirements during the forthcoming 12 month period in addition to a strategic reserve. Cash flow in research and development depends mainly on the activity level of the clinical programmes and the activity levels are adjustable without substantial long term commitments. The finance department monitors the cash flows in a short- and long term perspective. PCI Biotech's most important source of finance are future royalty and milestones associated with licence agreements, government grants and the capital market. The capital market is used as a source of liquidity when this is appropriate and the conditions in these markets are competitive. The finance department continually evaluate other sources of financing. PCI Biotech does not have any debt agreements with key business ratio requirements (covenants).

Credit risk

PCI Biotech has no sales or receivable balances based on sales for 2016 and 2017 and faces therefore no credit risk. PCI Biotech has no need for monitoring of receivable balances based on sales and no bad debt provision has been recognised during 2017 or 2016.

The following table shows an overview of the maturity structure of the group's financial obligations, based on non-discounted contractual payments.

Group *(figures in NOK 1,000)*	**Remaining period**				
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
31.12.2017					
Other long term liabilities	0	0	0	2 009	**2 009**
Trade accounts payables	1 497	0	0	0	**1 497**
Public duties payables	797	0	996	0	**1 793**
Other current liabilities	484	5 427	5 384	0	**11 295**
31.12.2016					
Trade accounts payables	2 080	0	0	0	**2 080**
Public duties payables	738	0	487	0	**1 224**
Other current liabilities	484	535	4 989	0	**6 008**

Other long term liabilities relates to estimated social securities for potential future share option exercises in the Group's remuneration incentive program.

Parent *(figures in NOK 1,000)*	**Remaining period**				
	Less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Total**
31.12.2017					
Trade accounts payables	97	0	0	0	**97**
Public duties payables	0	0	104	0	**104**
Other current liabilities	0	121	740	0	**861**
31.12.2016					
Trade accounts payables	131	0	0	0	**131**
Public duties payables	0	0	142	0	**142**
Other current liabilities	0	0	781	0	**781**

Public duties payables classified as 1-5 years is in relation to the share option program and social security's obligations for potential future exercise of share options.

Foreign currency risk
As NOK is the group's functional currency, PCI Biotech is exposed to foreign currency risk associated with the group's foreign net exchange rate exposure.

PCI Biotech strives as far as possible to achieve the lowest possible net currency exposure. The group's expenses and revenues accrue in various currencies, primarily EUR, GBP, USD, SEK and NOK. PCI Biotech is therefore exposed to fluctuations in foreign exchange rates. The company evaluates whether measures should be taken to reduce the foreign currency risk through hedging for significant transactions.

The following table details the group's sensitivity to potential changes in the foreign currency exchange rate, with all other factors constant. The calculation assumes an equal change in exchange rates against all relevant foreign currencies. The effect on operating result is due to changes in the value of monetary items.

	Changes in exchange rates	**Effect on operating result**	
		Parent	**Group**
2017	+/- 10 %	0	+/- 2 181
2016	+/- 10 %	0	+/- 2 360

17 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31.12.2017	Group		
	Loans and receivables	Other financials liabilities	**Total**
Assets			
Other current receivables	7 625	0	**7 625**
Cash and cash equivalents	50 789	0	**50 789**
TOTAL FINANCIAL ASSETS	**58 414**	**0**	**58 414**
Liabilities			
Other long term liabilities	0	2 009	**2 009**
Trade accounts payables	0	1 497	**1 497**
Public duties payables	0	1 793	**1 793**
Other current liabilities	0	11 295	**11 295**
TOTAL FINANCIAL LIABILITIES	**0**	**16 594**	**16 594**

31.12.2016	Loans and receivables	Other financials liabilities	**Total**
Assets			
Other current receivables	8 391	0	**8 391**
Cash and cash equivalents	14 002	0	**14 002**
TOTAL FINANCIAL ASSETS	**22 393**	**0**	**22 393**
Liabilities			
Trade accounts payables	0	2 080	**2 080**
Public duties payables	0	1 224	**1 224**
Other current liabilities	0	6 008	**6 008**
TOTAL FINANCIAL LIABILITIES	**0**	**9 312**	**9 312**

31.12.2017	Parent		
	Loans and receivables	Other financials liabilities	**Total**
Assets			
Group receivables	27 345	0	**27 345**
Other current receivables	43	0	**43**
Cash and cash equivalents	759	0	**759**
TOTAL FINANCIAL ASSETS	**28 147**	**0**	**28 147**

Liabilities			
Trade accounts payables	0	97	**97**
Public duties payables	0	104	**104**
Other current liabilities	0	861	**861**
TOTAL FINANCIAL LIABILITIES	**0**	**1 063**	**1 063**

31.12.2016	Loans and receivables	Other financials liabilities	**Total**
Assets			
Group receivables	201	0	**201**
Other current receivables	343	0	**343**
Cash and cash equivalents	583	0	**583**
TOTAL FINANCIAL ASSETS	**1 127**	**0**	**1 127**
Liabilities			
Trade accounts payables	0	131	**131**
Public duties payables	0	142	**142**
Other current liabilities	0	781	**781**
TOTAL FINANCIAL LIABILITIES	**0**	**1 054**	**1 054**

18 RECEIVABLES BY YEAR END

Figures based on non-discounted contractual payments.

Other current receivables - specification	**Group**		**Parent**	
(Figures in NOK 1,000)	**2017**	**2016**	**2017**	**2016**
Recognised not received government grants	6 850	7 270	0	0
Prepaid payables	455	581	18	297
VAT receivables	320	540	25	46
Total other receivables	**7 625**	**8 391**	**43**	**343**

No bad debt provision recognised at year-end 2017 or 2016.

19 CASH AND CASH EQUIVALENTS BY YEAR END

	Group		**Parent**	
(Figures in NOK 1,000)	**2017**	**2016**	**2017**	**2016**
Cash and cash equivalents, restricted (1)	592	569	0	0
Cash and cash equivalents, non-restricted	50 197	13 433	759	583
Sum	**50 789**	**14 002**	**759**	**583**

(1) Restricted cash and cash equivalents are security for the employees' tax and a bank deposit of NOK 50 thousand.

At year end 2017 and 2016 the cash and cash equivalents are all deposits in regular bank accounts in NOK, EUR and GBP.

20 SHARE CAPITAL

The registered share capital in PCI Biotech Holding ASA:

	No. of shares	Nominal value per share in NOK	Share capital in NOK
Share capital as per 31.12.2015	**14 900 390**	**3.00**	**44 701 170**
Share issue in 2016	-	-	-
Share capital as per 31.12.2016	**14 900 390**	**3.00**	**44 701 170**
Share issues in 2017	10 086 500	3.00	30 259 500
Share capital as per 31.12.2017	**24 986 890**	**3.00**	**74 960 670**

All shares have equal voting rights and otherwise have equal rights in the company and one share represents one voting right.

Ordinary shares are classified as equity and only one class of shares exists. Expenses that are directly attributable to the issue of ordinary shares are disclosed as reduction of equity.

A fully underwritten rights issue of NOK 70 million was completed 19 January 2017. 10 000 000 new shares were issued in the rights issue, with pre-emptive subscription rights for existing shareholder, increasing the share capital of the company with NOK 70 000 000. Through the rights issue, PCI Biotech received gross proceeds in the amount of NOK 70 million and net proceeds of NOK 65.0 million.

The rights issue was fully underwritten, subject to customary terms and conditions, by an underwriting syndicate. The underwriters received an underwriting fee equal to 2.0 per cent of their respective underwriting obligations. Hans Peter Bøhn, Chairman of the Board of PCI Biotech, and Lars Viksmoen, member of the Board of PCI Biotech, had both entered into the underwriting agreement and had each separately underwritten NOK 1.0 million of the rights issue. The corresponding underwriting fees were settled in 2017. Net proceeds from the rights issue was NOK 65.0 million.

In addition, a rights issue of 86,500 new shares (nominal value per share NOK 3.00), following the exercise of employee share options was finalised in September 2017.

Following the completion of the rights issue transactions finalised in 2017 (no transactions in 2016) the share capital at year end 2017 is NOK 74.960.670 divided by 24.986.890 shares, each with a nominal value of NOK 3.00.

Ownership structure

The largest shareholders of PCI Biotech Holding ASA as per 31.12.2017:

	Number of shares	Ownership in %
FONDSAVANSE AS	2 540 840	10.17
MP PENSJON PK	1 507 504	6.03
RADIUMHOSPITALETS	1 447 274	5.79
MYRLID AS	1 200 000	4.80
NORDNET LIVSFORSIKRING	738 366	2.96
GRESSLIEN ODD ROAR	531 000	2.13
BERG-LARSEN ALEXANDER	494 447	1.98
NORDNET BANK AB	440 884	1.76
SYVERTSEN SVEIN ERIK	400 107	1.60
JANDERSEN KAPITAL AS	360 000	1.44
LGJ INVEST AS	324 296	1.30
NETFONDS LIVSFORSIKRING	250 278	1.00
HMH INVEST AS	221 623	0.89
ELVEVOLD ARNULF MARTIN	221 505	0.89

ESTI AS	207 000	0.83
AASEN KJETIL MYRLID	200 000	0.80
ROMULD ARVE	200 000	0.80
HJØRUNGNES IVAR	200 000	0.80
OLAV OLSEN HOLDING AS	200 000	0.80
FLORELIUS SVEN EDVIN	186 147	0.74
Total 20 largest shareholders	11 871 271	47.51
Total other shareholders	13 115 619	52.49
Total number of shares	24 986 890	100.00

Shares owned, directly or indirectly, by members of the board and their personally related parties per 31.12.2017 and per 31.12.2016, including subscription rights in the rights issue resolved by the general assembly in December 2016 and finalised in January 2017:

		No. of shares		Subscription rights
Name	**Position**	**2017**	**2016**	**31.12.2016**
Hans Peter Bøhn	Chairman	83 556	50 000	33 556
Kjetil Tasken (via Kjetil Tasken AS)	Director	4 000	4 000	-
Lars Viksmoen (via Stocken Invest AS)	Director	4 000	4 000	-
Christina Herder	Director	8 355	5 000	3 355
Hilde H. Steineger	Director	0	0	-
Per Walday	CEO	65 133	34 019	29 542
Ronny Skuggedal	CFO	25 066	15 000	10 066
Anders Høgset	CSO	62 456	29 177	32 198
Gaël L'Hévéder	CBDO	10 000	10 000	-
Kristin Eivindvik	PD	17 948	7 985	8 882
Total number of shares		**280 514**	**159 181**	**117 599**

All subscription rights per 31.12.2016 were subscribed for in December 2016 and there are no subscription rights per 31.12.2017

21 FINANCING STRUCTURE

The group had no external interest bearing debt as of 31.12.2017 or 31.12.2016.

22 OTHER CURRENT LIABILITIES BY YEAR END

(Figures in NOK 1,000)	Group		Parent	
	2017	**2016**	**2017**	**2016**
Accruals for incurred external R&D expenses	7 870	3 361	0	0
Accruals for various remuneration items	3 305	2 547	740	675
Other accruals	120	100	121	106
Total other current liabilities	**11 295**	**6 008**	**861**	**781**

23 RELATED PARTIES TRANSACTIONS

Figures for remuneration are expensed amounts in the financial year.

(Figures in NOK 1,000)

	Board remuneration	Salary	Bonus	Other benefits	Pension benefits	Total
Senior executives 2017						
Per Walday, CEO*	0	1 600	330	88	119	**2 137**
Ronny Skuggedal, CFO	0	1 145	165	21	109	**1 440**
Anders Høgset, CSO*	0	1 010	135	70	100	**1 315**
Gaël L'Hévéder, CBDO	0	1 472	115	4	100	**1 691**
Kristin Eivindvik, PD*	0	986	75	65	104	**1 230**
Hans Olivecrona, CMO**	0	237	0	1	0	**238**
Total remuneration	**0**	**6 449**	**820**	**250**	**531**	**8 051**

* Other benefits include salary benefits in relation to exercise of share options in 2017.

**Joined the company in October 2017

	Board remuneration	Salary	Bonus	Other benefits	Pension benefits	Total
Board of Directors 2017						
Hans Peter Bøhn, Chairman	275	0	0	0	0	275
Kjetil Tasken	171	0	0	0	0	171
Hilde H. Steineger	171	0	0	0	0	171
Christina Herder	171	0	0	0	0	171
Lars Viksmoen	171	0	0	0	0	171
Total remuneration	**959**	**0**	**0**	**0**	**0**	**959**

(Figures in NOK 1,000)

Senior executives 2016	Board remuneration	Salary	Bonus	Other benefits	Pension benefits	Total
Per Walday, CEO	0	1 550	190	19	102	**1 860**
Ronny Skuggedal, CFO	0	1 082	100	20	98	**1 300**
Anders Høgset, CSO	0	987	95	21	85	**1 188**
Gaël L'Hévéder, CBDO	0	1 526	80	4	104	**1 715**
Kristin Eivindvik, PD	0	962	40	15	83	**1 100**
Total remuneration	**0**	**6 106**	**505**	**79**	**472**	**7 162**

Board of Directors (BoD) 2016	Board remuneration	Salary	Bonus	Other benefits	Pension benefits	Total
Hans Peter Bøhn, Chairman*	155	0	0	0	0	155
Kjetil Tasken	155	0	0	0	0	155
Hilde H. Steineger	155	0	0	0	0	155
Christina Herder	155	0	0	0	0	155
Lars Viksmoen**	0	0	0	0	0	0
Erling Øverland***	250	0	0	0	0	0
Total remuneration	**870**	**0**	**0**	**0**	**0**	**870**

*member until May 2016 and thereafter Chairman
**joined the BoD in May 2016
***ended his term as Chairman in May 2016

PCI Biotech's policy as regards the determination of salary and other remuneration to senior executives is to have market based remuneration and provide other benefits that are competitive in employment for senior executives. It is important to attract the required expertise and experience to create value and contribute to the mutual interests between owners and senior executives. The performance-based remuneration shall be linked to value creation for shareholders or long term performance of the company.

The main principles for remuneration of the company's senior executives are as follows:
- Salaries are reviewed annually
- Bonuses are calculated on the basis of goals for the company established by the Board of Directors and achievement of personal goals. The company's Chief Executive Officer (CEO) has a bonus agreement for up to 25% of annual salary, other senior executives have bonus agreements of up to 10 - 15% of annual salary.
- Senior executives, and other key employees, participate in the company's share option incentive scheme
- Senior executives participate in the company's general pension scheme

Bonuses for senior executives are calculated on the basis of the company's financial results and development, and achievement of personal goals.

The senior executives participate in the company pension plan that is a defined contribution plan which entails payment of 7% to 12.5% of the employee's annual salary up to 12 times the basic National Insurance amount (G). The pension scheme also covers in the event of disability.

The CEO is entitled to six months' notice and has an agreement of additional 6 months' salary on certain terms. There are no agreements beyond the statutory requirements for other senior executives.

Senior executives have not received any remuneration or financial benefits from other companies in the Group other than those disclosed above. It is not given additional remuneration for special services outside the normal functions of a senior executive.

There are no loans or pledges to senior executives, board of directors, employees or other persons in elected corporate bodies.

Senior executive's shareholdings in PCI Biotech Holding ASA are disclosed in note 20 Share capital. Allocation, exercise and holdings of share options for senior executives in 2017 are presented in the table below:

Senior executives	Total holdings 31.12.2016	Allocated	Lapsed	Exercised	Expired	Total holdings 31.12.2017	Average exercise price in NOK
Per Walday, CEO	25 000	95 000	0	16 000	0	104 000	23,12
Ronny Skuggedal, CFO	66 000	50 000	0	0	0	116 000	15,98
Anders Høgset, CSO	17 000	60 000	0	11 000	0	66 000	23,03
Kristin Eivindvik, PD	24 500	20 000	0	11 000	0	33 500	17,38
Gaël L'Hévéder, CBDO	91 000	15 000	0	0	0	106 000	12,00
Hans Olivecrona, CMO	0	90 000	0	0	0	90 000	22,35
Sum	**223 500**	**330 000**	**-**	**38 000**	**-**	**515 500**	

Related parties:

The Norwegian Radium Hospital Research Foundation:

PCI Biotech has a long-standing research relationship with the Norwegian Radium Hospital Research Foundation (RF), which is affiliated to the Norwegian Radium Hospital (NRH), now named Oslo Universitetssykehus HF (OUS). Some of PCI Biotech's main patents were filed by the NRH and later transferred to PCI Biotech. Under the terms of research agreements with RF from 2002 and 2007 and later amendments, the PCI Biotech supports the RF with research and development funding, and gets rights of use and an option on certain conditions to acquire the new technologies developed by the RF.

PCI Biotech has a right of first refusal to purchase from the RF, completely or in part, any new technology within the field of Photochemical Internalisation. If PCI Biotech is not interested in purchasing such technology at the terms offered, RF can offer the technology to a third party. An offer to a third party cannot be at terms inferior to those offered to PCI Biotech, and PCI Biotech has the right to perform an independent assessment of any agreement entered into between RF and a third party, to ensure that RF has offered no more favourable terms to the third party than those previously rejected by PCI Biotech. If the terms are found more favourable, PCI Biotech may request that the agreement between RF and the third party is to be cancelled.

The Group has for delivery of R&D services, related to the described agreements, paid NOK 2.6 million on commercial terms to RF in 2017 (2016: NOK 3.1 million). As of 31.12.2017 the group had account payables of NOK 0.9 million to RF (2016: NOK 1.3 million).

PCI Biotech AS:

PCI Biotech AS is a fully owned subsidiary of the parent company in the Group, PCI Biotech Holding ASA. The parent company has no employees. The Group operations are managed through the wholly owned subsidiary PCI Biotech AS that has a management service agreement with the parent company, including services like management, offices, finance and investor relation functions for the Group. All transactions are performed at market terms.

The parent company has been charged for operations according to the service agreement of NOK 1.0 million in 2017 (2016: NOK 1.1 million). The parent company has charged PCI Biotech AS interest expenses for intercompany loans of NOK 3.5 million during 2017 (2016: NOK 0.5 million). Net current receivables from PCI Biotech AS at year-end 2017 were NOK 28.7 million (2016: NOK 0.2 million). In 2017 an intercompany loan to PCI Biotech AS of NOK 40 million (2016: NOK 14 million) is utilised as contribution in kind from PCI Biotech Holding ASA in a capital increase in PCI Biotech AS.

Board of Directors:

In relation to the rights issue finalised in January 2017 the Chairman Hans Peter Bøhn and the Director Lars Viksmoen contributed to the underwriting syndicate and underwrote separately NOK 1 million of the rights issue with a guarantee fee of 2.0%. The corresponding underwriting fees are settled in 2017.

24 SUBSEQUENT EVENTS

The Board of Directors has at a board meeting 19 March 2018 decided to initiate a formal process for transferring the listing of PCI Biotech Holding ASA from Oslo Axess to Oslo Børs.

PCI Biotech is not aware of any other subsequent events since year-end 2017 which is of material significance to the financial statements as of 31 December 2017.

Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of PCI Biotech Holding ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of PCI Biotech Holding ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2017, the statements of other comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2017 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 19 March 2018
ERNST & YOUNG AS

Tommy Rønnskaug
State Authorised Public Accountant (Norway)

OTHER INFORMATION

DEFINITIONS AND GLOSSARY

Amphinex:	Trade name of the clinical intravenous formulation of fimaporfin
FDA:	US Food and Drug Administration
Fimaporfin:	Generic name of the photosensitiser active ingredient TPCS2a
IND	Investigational New Drug
In vitro:	Studies performed with cells or biological molecules studied outside their normal biological context; for example proteins are examined in solution, or cells in artificial culture medium.
In vivo:	Studies in which the effects of various biological entities are tested on whole, living organisms usually animals.
ODD:	Orphan Drug Designation
PCI:	Photochemical internalisation
PFS:	Progression Free Survival
R&D:	Research and Development

FINANCIAL CALENDAR

First quarter 2018 report	8 May 2018
Ordinary general meeting 2018	29 May 2018
Second quarter 2018 report	28 August 2018
Third quarter 2018 report	13 November 2018

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FORWARD LOOKING STATEMENTS

This Report contains certain forward-looking statements relating to the business, financial performance and results of the Company and/or the industry in which it operates. Forward-looking statements concern future circumstances and results and other statements that are not historical facts, and are sometimes identified by the words “believes”, expects”, “predicts”, “intends”, “projects”, “plans”, “estimates”, “aims”, “foresees”, “anticipates”, “targets”, and similar expressions. The forward-looking statements contained in this Report, including assumptions, opinions and views of the Company or cited from third party sources, are solely opinions and forecasts which are subject to risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements that are expressed or implied by statements and information in the Report, including, among others, risks or uncertainties associated with the Company’s business, segments, development, growth management, financing, market acceptance and relations with customers, and, more generally, general economic and business conditions, changes in domestic and foreign laws and regulations, taxes, changes in competition and pricing environments, and fluctuations in currency exchange rates and interest rates. None of the Company or any of its subsidiaries or any such person’s directors, employees or advisors provide any assurance that the assumptions underlying forward-looking statements expressed in this Report are free from errors nor does any of them accept any responsibility for the future accuracy of such forward-looking statements.

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