Unlocking the potential of innovative medicines

PCI Biotech Holding ASA

Annual Report 2014

Board of Directors Report 2014

PCI Biotech Holding ASA
PCI Biotech Holding ASA (PCI Biotech) is an oncology-focused company developing innovative products for cancer treatment. The products are based on PCI Biotech's patented technology, photochemical internalization (PCI). The PCI technology can enhance the effect of anticancer drugs by targeted, light-directed drug delivery into cancer cells, and can also be used as a platform that may both potentiate the effect of vaccines and enable macromolecules to reach intracellular targets.

The PCI Biotech group (The Group) comprises PCI Biotech Holding ASA, the wholly owned Norwegian subsidiary PCI Biotech AS and the Icelandic branch PCI Biotech Utibu.

PCI Biotech is located at Lysaker, Norway. Per 31 December 2014 the Group had 11 employees. PCI Biotech have an extensive collaboration with Norwegian and international hospitals and companies, among others The Norwegian Radium Hospital in Oslo, University Hospital Zürich, Netherlands Cancer Institute Amsterdam and University College London Hospital. PCI Biotech Holding ASA has been listed at Oslo Axess since 18 June 2008.

PCI technology
PCI Biotech has developed a unique and patented photochemical intracellular drug delivery technology for use in cancer therapy and other diseases. The technology may also be used to enhance the immunological response of vaccines. PhotoChemical Internalisation (PCI) is a proprietary technology for light-directed intracellular drug delivery by triggered endosomal release.

Many drugs have intra cellular targets and must thus enter into the cells to have an effect, but for various reasons, such as the size of the drug or the human defense mechanism, drugs struggle to reach their targets. The PCI technology can be used to assist these drugs to reach their intracellular targets. The PCI technology uses light and a photosensitiser (Amphinex) for drug delivery into cells. By using the PCI technology, drugs with limited effect can be potentiated into effective cancer therapies. The PCI technology can be used both to potentiate several existing drugs, as well as new innovative therapies and vaccines.

Amphinex in combination with bleomycin, head and neck cancer
PCI Biotech's lead candidate is the photosensitiser Amphinex. A Phase I study of Amphinex in combination with the cytotoxic agent bleomycin in cancer patients, and an extension to this study, have been completed at University College London Hospital (UCLH). A total of 22 patients were treated in these studies, with the majority being head & neck cancer. A strong response to treatment was seen in all patients and Amphinex seemed to be well tolerated. Amphinex in combination with the cytotoxic agent bleomycin will first be developed for head and neck cancer therapy.

<u>Phase II study in head & neck cancer patients – the ENHANCE study</u>
The ENHANCE study is a single arm, multi-centre, phase II study to evaluate the safety and efficacy of Amphinex in combination with the generic cytotoxic agent bleomycin with superficial and interstitial laser light application. The target population is patients with recurrent head & neck squamous cell carcinoma unsuitable for surgery and radiotherapy. The study will include approximately 80 patients with progression free survival at 6 months as the primary endpoint.

Events in 2014 and beyond

The treatment evaluation of the first two light dose cohort in the intra tumour light dose optimisation part of the ENHANCE-study was completed during 2014. The treatment evaluation of the third light dose cohort was available in February 2015. No safety concerns were raised and clear tumour responses with clinical benefits were seen at the last light dose cohort. However, re-growth of tumour in the rim of the treatment area in some patients suggests a need to increase the treatment margins to achieve a durable disease response.

The Dose Review Committee (DRC) of clinical experts and company representatives that evaluates the results and provides recommendation for the continuation of the study has recommended that an additional cohort (cohort number four) of three patients is treated at the same light dose level, but with a modified treatment strategy extending the treatment margins. The study protocol is currently being amended with the modified treatment strategy and patients for the next cohort are currently being screened.

The company has been actively working on speeding up patient inclusion. New clinical sites have been opened and an amendment to the protocol during 2014 is expected to speed up patient inclusion. A total of 10 sites in selected European countries are now open.

In January 2015 PCI Biotech announced a successful Investigational New Drug application (IND) review for Amphinex. The IND is a clearance by the United States Food and Drug Administration (FDA) to include patients in the USA in PCI Biotech's phase II clinical programmes for Amphinex.

Two different light application procedures are used in the study; surface and intra-tumour illumination. Findings from some of the first patients included in the study indicated that treatment with intra-tumour illumination causes stronger local treatment effects than expected and desired and stronger treatment effects than previously observed with surface illumination in the phase I study. The intra-tumour illumination procedure is therefore being optimized in a separate part of the study, running in parallel to the open inclusion of patients for surface illumination. A Dose Review Committee (DRC) of clinical experts and company representatives has been established to evaluate the results and provide recommendation for the continuation of the optimisation part of the study. The Amphinex dose has not been modified; the optimisation is performed solely by modifying the light dose. Total number of patients in the light dose optimisation part of the study will depend on the number of light dose escalations needed to find an effective and safe light dose.

The trial was initially started in May 2012 and inclusion of patients for intra-tumour treatment was halted Q4 the same year. The study was thereafter redesigned and amended to include an intra-tumour light dose escalation part. The first patient in the light dose escalation part of the study was included in Q3 2013.

Proof of Concept (PoC) of efficacy and safety for intra-tumour treatment and final confirmation of light dose for the ENHANCE study will be achieved by inclusion of a total of 12 patients at the selected light dose. Finalisation of the PoC part of the study will depend on the number of light dose cohorts needed.

About head and neck cancer

Approximately 650 000 new cases of head & neck cancer are diagnosed worldwide each year, and the initial cure rate is 40-60%. 20-30% of these patients will experience recurrent disease, and for many, the current treatment options are sub-optimal due to locally advanced disease or the fact that further treatment will have functional or cosmetic consequences, strongly affecting the patient's quality of life. Median survival for recurrent head & neck patients is 6 – 9 months.

Surgery, radiation and chemotherapy, alone or in combination, are the most common treatment options. These are also the tools available to treat recurrent disease. Limitations to radiation treatment, resistance to chemotherapy and structural changes after previous surgery will in many cases imply a less effective treatment with a high rate of associated complications. There is a large unmet medical need for this patient group, both to improve survival and the patient's quality of life.

Amphinex in combination with gemcitabine for patients with bile duct cancer (Cholangiocarcinoma)

A Proof of Concept study for the use of PCI in patients with inoperable bile duct cancer was initiated in 2014. In this indication Amphinex will be used in combination with the generic cytotoxic agent gemcitabine.

Events in 2014 and beyond

The first patient was included in January 2014 at Aintree University Hospital in Liverpool, UK, and the treatment evaluation of dose cohorts is on-going.The treatment evaluation of the first dose cohort (3 patients) in the phase I/II study of Amphinex-induced PCI of gemcitabine followed by gemcitabine/cisplatin treatment in patients with inoperable bile duct cancer (cholangiocarcinoma) was completed during 2014. The treatment evaluation of the second dose cohort was available in February 2015. No safety concerns were observed at this dose level. As the phase I primary objective is to determine a tolerable dose, no efficacy results are available at this stage.

The Cohort Review Committee of clinical experts and company representatives that evaluates the results and provides recommendation for the continuation of the study has recommended that the study progresses into the next dose cohort (third cohort) in accordance with the study protocol. Enrolment for the next dose cohort has been initiated.

Bile duct cancer is a rare disease and the company is working actively to increase the patient recruitment rate. The eligible patient population has recently been expanded to also include metastatic patients and a total of 9 sites in selected European countries are now open.

The Proof of Concept study is an open-label, multi-centre phase I/II study in up to 45 patients to assess the safety and efficacy of Amphinex induced PCI of gemcitabine, followed by systemic cisplatin/gemcitabine in patients with inoperable bile duct cancer. The study consists of a dose escalation/phase I part to assess the tolerance of local bile duct treatment and a randomized double-arm phase II part. In phase II patients will be randomized to either a control arm (stenting alone followed by gemcitabine/cisplatin chemotherapy) or the PCI arm (stenting followed by Amphinex induced PCI treatment of gemcitabine followed by gemcitabine/cisplatin chemotherapy). The randomisation ratio for this study is 2.5:1 in favor of the PCI arm. The phase I primary objective is to determine a tolerable dose for local bile duct treatment with Amphinex induced PCI of gemcitabine, while the phase II primary objective is to assess efficacy in terms of progression free survival.

A Cohort Review Committee of clinical experts and company representatives has been established to evaluate the results and provide recommendation for the continuation of the

phase I part of study between cohorts. Finalisation of the phase I part of the study will depend on the number of dose escalations needed.

Available market information indicates approximately 11,000 new incidents of patients in the United States and the largest markets in Europe per year and about 20% of these patients are expected to be eligible for PCI treatment. The unmet medical need for better local treatment options and the fact that bile duct cancer is a rare disease that can achieve specific marketing benefits as an orphan indication, along with PCI treatment benefits make bile duct cancer an interesting market opportunity.

About bile duct cancer

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

Surgery is the only current curative option for these patients, yet the majority of the tumours are inoperable. Inoperable patients are treated with stenting to keep the bile duct open and with chemotherapy. Combination of the chemotherapeutics gemcitabine and cisplatin has shown promising results and has become standard treatment in some countries, but there is still a need for better treatments to increase overall survival and quality of life. Bile duct cancer is characterised by a remarkable resistance to common chemotherapy, and new drug classes or alternative methods are needed. The most studied and used drug is gemcitabine, which is one of the identified drugs that are significantly enhanced by PCI in preclinical studies. Light access is easy through the endoscopic methods that are routinely used in the treatment of this disease.

PCI for vaccination

Effective induction of CTLs (Cytotoxic T Lymphocytes) is key to realize the huge potential of therapeutic cancer vaccination, but this has been difficult to achieve with today's vaccination technologies. PCI Biotech's CTL induction technology may provide a solution to this problem, by substantially improving the potential to trigger the immune system to fight both cancers and infectious diseases. Induction of CTLs is essential for the generation of an immunological response that can attack tumour cells. Induction of CTLs is typically mediated through MHC Class I antigen presentation by antigen presenting cells (APCs). PCI-mediated CTL-induction works by effectively re-localising endocytosed antigens from endosomes to the cytosol in APCs, thereby making the antigens accessible for the MHC Class I presentation machinery.

Events in 2014 and beyond

Further supportive results from several studies performed this year in cooperation with NTNU in Trondheim, Norway, The Norwegian Radium Hospital, Oslo, Norway and University Hospital Zürich, Switzerland have been used to further strengthen the PCI vaccination patent estate. The company has in support and expansion of this work been awarded NOK 12.5 million in a BIA grant from The Research Council of Norway for the project "Development of photochemical internalization to enhance the effect of therapeutic and prophylactic vaccines" for the period 2014-2017. The project goal is to document that the PCI technology can be used to improve the efficacy of vaccines. The main focus of the project will be to verify and further develop the CTL-induction technology for use in therapeutic vaccines against cancer, but the project also includes use of the technology in vaccination against certain types of viral and bacterial infections.

Results showing that the PCI technology can significantly improve vaccination treatment in a melanoma model were published December 2014 in Journal of Controlled Release, a well-renowned international pharmaceutical scientific journal.

The article has the title "Photosensitisation facilitates cross-priming of adjuvant-free protein vaccines and stimulation of tumour-suppressing CD8 T cells". In this article the researchers show that the PCI enhanced immune responses translates into a potent anti-tumour effect in animals, both if used as a prophylactic vaccine and if used for therapeutic vaccination in animals with already established tumours. The results of the study further substantiate PCI as a very potent CTL-inducing technology that can be used to enhance the effect of cancer immunotherapies involving therapeutic cancer vaccination.

The company has presented new data at several vaccine- and partnering-meetings during 2014 and is currently in discussions with potential partners who have shown interest in PCI for vaccines.

New supporting pre-clinical data with PCI Biotech's novel CTL-induction technology, for use within therapeutic vaccines, has been filed during 2014 to further strengthen the PCI vaccination patent estate.

In March 2015 PCI Biotech announced that it has received a positive international search report and written opinion regarding a patent application, on the use of PCI Biotech's proprietary technology photochemical internalization (PCI) in vaccination and immunotherapy. The European Patent Office (EPO), acting as the International Searching Authority, provided a written opinion indicating that the most important claims of the patent application have "novelty" and "inventive step" and that they also have "industrial applicability". While this opinion is not binding on national patent offices, it does provide a positive indication of the allowability of the claims. The patent application covers the use of the PCI technology in combination with a very important group of immune enhancing substances and may give PCI Biotech at least 20 years broad protection for the use of the PCI technology with many of the therapeutic cancer vaccines that are under development.

Effective CTL-inducing technologies are considered key to the success of therapeutic vaccination, and vaccine companies are seeking technologies that can improve their vaccination responses. PCI Biotech's novel mode of action may allow the use of PCI as a new vaccination technology for vaccines where existing adjuvant technologies do not work. There are a large number of therapeutic cancer vaccines under development for this emerging market. Within prophylactic vaccines the market is more mature with few companies, but also here PCI may play a central role for companies seeking new solutions.

<u>About therapeutic cancer vaccination</u>
The potential of therapeutic cancer vaccination - vaccines that treat cancer by inducing or strengthening an immune response - has long been recognised by the pharmaceutical industry. Over the past few years there has been a renewed focus on such vaccines, and the first vaccine was approved by FDA in 2010. Since then, pharmaceutical companies have announced a large number of development milestones for new therapeutic cancer vaccines, and the market for such vaccines is projected to grow to a value of approximately $8 billion by 2019. This is a promising area, but there are still important unsolved issues and several companies have recently reported failed clinical studies. Vaccination with protein or peptide antigens often fails to generate the strong cytotoxic responses that are needed for successful therapeutic vaccination. One of the most important reasons for this is probably insufficient access of antigens to the appropriate machinery inside the antigen presenting cells. Antigens typically enter these cells through endocytosis and PCI may be utilised to deliver these antigens to the immunisation machinery that is responsible for the cytotoxic immune response through the so-called MHC class-I-restricted antigen presentation.

PCI for macromolecules
The PCI technology may enhance the delivery of all molecules taken into the cell by endocytosis. This includes most types of macromolecules (such as proteins, nucleic acids and drugs carried by antibodies or nanoparticles).

Macromolecules are widely acknowledged to have a large potential as therapeutic agents, and numerous clinical trials with gene, protein and oligonucleotide therapy are underway. The therapeutic potential of such compounds is challenged by the obstacles of intracellular delivery, and many studies have been hampered by the lack of technologies for efficient delivery of the therapeutic molecules to the target cells

Strategy
PCI Biotech's strategy within the various business areas is to prioritize commercialization through agreements with external partners. The company envisages establishing partnerships based on data from the phase II part of the on-going clinical studies, and potential phase III studies will be performed in cooperation with or by other companies within the field of oncology. Within vaccines and macromolecules PCI Biotech's strategy is to use the currently available preclinical results to enter into various agreements for further development and use of PCI as a platform technology.

Language
From June 2014 PCI Biotech has been granted an exemption from Oslo Axess to publish information in English only, and the Company has been granted the same exemption for the future annual reports from 2014 and onwards.

Related party transactions
PCI Biotech is relying on services provided by third parties, included related parties, as a result of its organizational set-up. PCI Biotech considers its business relationship with The Norwegian Radium Hospital Research Foundation as the only material related party transaction in 2014. See Note 19 for full disclosure of related party transactions.

Organisation
The Board of Directors – Else Krüger Hagen did not take re-election as a board member and she was replaced by Hilde H. Steineger at the general assembly 13 May 2014. The Board of Directors consist of Erling Øverland (Chairman), Hilde H. Steineger, Theresa Comiskey Olsen, Kjetil Taskén and Kjell Stenberg.

Employees - The Group had 11 employees at the end of 2014 (2013: 13). Company's management team consists of Per Walday, CEO and Ronny Skuggedal, CFO.

The parent company has no employees.

The Group mainly uses external suppliers for manufacturing, research and development and regulatory work.

The working environment is considered good. No accidents or injuries were reported in 2014. Absence due to illness was 31 days, approximately 1.4% in 2014 (2013: 14 days, approximately 0.5%).

PCI Biotech's goal is to be a workplace with equality between women and men, and any discrimination is not accepted. The company has traditionally recruited from environments where women and men are fairly evenly represented. As at 23 March 2015 the company has 40% female representation in the board of directors and no women in the senior management team. Out of 13 employees in 2014, 6 of them were women. The working time and remuneration arrangements in the company are regardless of gender.

Financial position
The Group has no revenue, but receives grants from different public sources such as the Norwegian Research Council and "SkatteFUNN". These grants are presented as other operating income. Other operating income for 2014 was NOK 7.3 million compared to 6.7 million in 2013. There was no income in the parent company in 2014 or 2013.

Total operating expenses were NOK 43.8 million in 2014, up from NOK 36.0 million in 2013. Research and development costs amounted to NOK 39.3 million in 2014, up from 32.8 million in 2013. The increase is mainly due to higher activity level in the clinical trials. Other operating (general and administration) expenses were NOK 4.4 million, up from NOK 3.2 million in 2013. The parent company had in 2014 other operating expenses of NOK 3.0 million, up from 2.2 million in 2013.

Operating result in 2014 was NOK -36.5 million (2013: NOK -29.3 million) for the Group and NOK -3.0 million (2013: NOK -2.2 million) for the parent company.

Net financial results for the Group were reduced to NOK 0.6 million in 2014, compared with NOK 1.7 million in 2013, due to lower interest income from bank deposits. In 2014 the parent company wrote down NOK 30 million of an intercompany loan to the fully owned subsidiary PCI Biotech AS. The subsidiary is dependent on financing support from the parent company.

The Board of Directors proposes that the loss in the parent company of NOK 30.9 million is covered by other paid-in capital. The total equity of the parent company PCI Biotech Holding ASA amounts to NOK 161.7 million (NOK 191.0 million in 2013), giving an equity ratio of 99.3% (99.6% in 2013).

Equity in the wholly owned subsidiary PCI Biotech AS was NOK 8.2 million at the end of 2014 (NOK 11.6 million in 2013). The equity in PCI Biotech AS was increased in 2014 by NOK 30 million, through a capital increase from PCI Biotech Holding ASA.

PCI Biotech does not recognize deferred tax assets in the balance sheet, due to uncertainty as to when the company actually will accrue a payable tax liability. Unrecognized deferred tax assets at the end of 2014 are NOK 57.0 million (NOK 46.9 million in 2013). PCI Biotech has per year end 2014 charged all research expenses through the profit and loss statement, in line with previous years.

Total assets of the Group at the end of 2014 were NOK 20.4 million (NOK 52.7 million in 2013). Total assets in parent were NOK 162.9 million (2013: NOK 191.8). Net cash flow from operating activities of the Group amounted to NOK -31.7 million in 2014 (NOK 28.6 million in 2013) and to NOK -2.9 million (2013: NOK -2.4 million) in parent. Net change in cash and cash equivalents for the Group was NOK -30.9 million in 2014 (NOK -26.5 million in 2013) and NOK -0.4 million for the parent (2013: NOK -0.4 million).

The Group's cash and cash equivalents at the end of 2014 were NOK 15.8 million (NOK 46.6 million in 2013) and NOK 2.1 million for the parent (2013: NOK 1.7 million). The Group employs a prudent investment strategy for its cash and cash equivalents. The return on the company's cash and cash equivalents depends on the general level of interest rates in the money market, and thus vary over time. All cash and cash equivalents were placed as bank deposits at the end of 2014.

As further described under "Post-closing events", PCI Biotech Holding ASA finalised a rights issue of NOK 70 million in gross proceeds in February 2015.

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).

The Group does not pollute the external environment.

Operational Risk and Risk Management
There is great risk 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 can not be sure that PCI Biotech will receive the marketing authorizations to commercialize the products. Regulatory approval may be denied, suspended or limited.

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 company, including the character of the relevant insurance policies.

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, expect 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.

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 use currently no 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 company's strategy is to take very low risk on the company's cash. The company's assets are invested in short term money market instruments or in 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 at least to have sufficient cash to cover the known capital need over the next 12 months, as well as a strategic reserve. The Group monitors the cash flows in the short and long term perspective. Cash burn rate in research and development activities depends mainly on the level of activity in the clinical programs.

Post-closing events
A fully underwritten rights issue of NOK 70 million was completed 12 February 2015. The rights issue was oversubscribed. 7,000,000 new shares were issued in the rights issue. Approximately 6.56 million new shares have been allocated to subscribers on the basis of exercised subscription rights. Approximately 0.44 million new shares have been allocated to

holders of subscription rights as a result of oversubscription. No allocation has been made to subscribers without subscription rights.

Through the rights issue, PCI Biotech received gross proceeds in the amount of NOK 70 million and the net proceeds are estimated to approximately NOK 64.9 million. The transaction cost includes a guarantee fee of 3.0%. The Company's extraordinary general meeting held on 6 January 2015, resolved to increase the share capital of the company with NOK 21,000,000 through the issue of 7,000,000 new shares as a result of the rights issue. Following the completion of the rights issue the share capital is NOK 44,179,170 divided by 14,726,390 shares, each with a nominal value of NOK 3.00 and represents one voting right per share. The new shares were admitted to trading on the Oslo Axess from 13 February 2015.

The new available funds are expected to give a financial runway of approximately two years, with the current cost base. The Board of Directors has initiated a strategic review to ensure optimal use of proceeds.

The Chairman Erling Øverland, one of the Directors Theresa Comiskey Olsen and her related parties and the CEO Per Walday participated in the rights issue with their pro-rata share. The Chairman, Erling Øverland, also contributed to the underwriting syndicate and underwritten NOK 378,062 of the rights issue. The Chairman made all transactions through the company Trifolium AS, which is fully owned by Erling Øverland and his wife.

PCI Biotech has received from the Norwegian tax authorities (Skatt Øst) an initial rejection of extension of advance registration for VAT (Value Added Tax) for the future periods 2015-2016. PCI Biotech does not agree with the basis for the initial rejection made by the authorities and has submitted a formal appeal. If the appeal is not in favour of PCI Biotech, it will have an impact on the future cash burn and/or spending.

There have been no other events since year-end 2014, except those which are stated in this report, which is of material significance to the financial statements as of 31 December 2014.

Outlook
PCI Biotech will continue to focus on the clinical development of Amphinex in combination with cancer drugs for localised cancer treatment, based on the company's unique PCI technology. The company will also maintain the high activity level in pre-clinical development and licensing of PCI as a versatile and innovative platform. The Board of Directors emphasise that there are generally considerable uncertainty and risks associated with forward looking statements.

The main priorities with available funds are to:

- Effectively progress the light dose optimization and proof-of-concept of intra-tumour head and neck cancer treatment of Amphinex and bleomycin;
- Completion of the first part of the proof-of-concept study of bile duct cancer treatment with Amphinex and gemcitabine;
- Solidify a robust vaccination IP estate and further strengthen promising preclinical results;
- Partnering activities across all commercially interesting areas for PCI platform.

Oslo, 23 March 2015
Board of Directors, PCI Biotech Holding ASA

Erling Øverland
Chairman

Hilde H. Steineger

Theresa Comiskey Olsen

Kjetil Taskén

Kjell Stenberg

Per Walday
CEO

RESPONSIBILITY STATEMENT FROM THE BOARD OF DIRECTORS AND CEO 2014

We confirm that the financial statements for the period 1 January to 31 December 2014, 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 the company faces.

Oslo, 23 March 2015
Board of Directors, PCI Biotech Holding ASA

Erling Øverland
Chairman

Hilde H. Steineger

Theresa Comiskey Olsen

Kjetil Taskén

Kjell Stenberg

Per Walday
CEO

PCI Biotech Holding ASA

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

(1.1 - 31.12)

Parent				Group	
2013	**2014**	*(figures in NOK 1,000)*	**Note**	**2014**	**2013**
-	-	Other income	*1,2*	7 297	6 681
-	-	**Total income**		**7 297**	**6 681**
-	-	Research and development	*3*	39 341	32 789
2 243	2 996	General and administrative	*10*	4 428	3 217
2 243	**2 996**	**Total operating expenses**	*3, 4, 5, 6,19*	**43 769**	**36 006**
-2 243	**-2 996**	**Operating results**		**-36 472**	**-29 325**
1 059	2 092	Financial income	*7*	812	1 717
-	30 001	Financial expenses	*7*	180	-
1 059	**-27 908**	**Net financial results**		**632**	**1 717**
-1 183	**-30 904**	**Ordinary result before taxes**		**-35 840**	**-27 608**
-	-	Tax on ordinary result	*8*	-	-
-1 183	**-30 904**	**Net loss for the year**		**-35 840**	**-27 608**
		Other comprehensive income, net of income tax			
-	**-**	Items that will not be reclassified to income statement		**-**	**-**
-	**-**	Items that subsequently may be reclassified to income statement		**-**	**-**
-1 183	**-30 904**	**Total comprehensive income for the year**		**-35 840**	**-27 608**
		Loss per share basic and diluted *(figures in NOK)*	*9*	-4,64	-3,59

PCI Biotech Holding ASA

BALANCE SHEET
for the year ended 31 December 2014

Parent				Group	
2013	2014	**ASSETS** *(figures in NOK 1,000)*	Note	2014	2013
		Non-current assets			
-	-	Property, plant and equipment	*10*	14	18
159 200	160 758	Shares in subsidiary	*11*	-	-
159 200	**160 758**	**Total non-current assets**		**14**	**18**
		Current assets			
-	-	Accounts receivables		-	3
30 842	-	Receivables from group companies		-	-
5	9	Other short term receivables	*14*	4 614	6 120
30 847	**9**	**Total receivables**	*13*	**4 614**	**6 123**
1 720	2 082	Cash and cash equivalents	*13, 15*	15 754	46 595
32 567	**2 091**	**Total current assets**		**20 368**	**52 718**
191 767	**162 849**	**Total assets**		**20 382**	**52 736**

PCI Biotech Holding ASA

BALANCE SHEET
for the year ended 31 December 2014

Parent 2013	Parent 2014	EQUITY AND LIABILITIES *(figures in NOK 1.000)*	Note	Group 2014	Group 2013
		Equity			
23 179	23 179	Share capital	*16*	23 179	23 179
76 732	76 732	Share premium		76 732	76 732
91 112	61 765	Other paid-in capital		-	-
-	-	Retained earnings		-90 796	-56 515
191 023	**161 677**	**Total equity**	*4,19*	**9 114**	**43 396**
		Liabilities			
		Non-current liabilities			
-	-	Other long term liabilities	*12*	-	118
0	**0**	**Total non-current liabilities**		**0**	**118**
		Current liabilities			
25	43	Trade accounts payable		2 586	4 061
88	84	Public duties payables		1 163	1 361
-	369	Other current liabilities, group companies		-	-
630	676	Other current liabilities	*18*	7 518	3 799
743	**1 172**	**Total current liabilities**	*12,17*	**11 269**	**9 222**
743	**1 172**	**Total liabilities**	*13*	**11 269**	**9 340**
191 767	**162 849**	**Total equity and liabilities**		**20 382**	**52 736**

Oslo, 23 March 2015
Board of Directors, PCI Biotech Holding ASA

Erling Øverland
Chairman

Theresa C. Olsen

Hilde H. Steineger

Kjetil Taskén

Kjell Stenberg

Per Walday
CEO

PCI Biotech Holding ASA

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

(figures in NOK 1,000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 31 December 2012	***16***	**22 999**	**76 524**	**94 305**	**-124 122**	**69 706**
Capital increase		180	208	-	-	388
Share-based payments		-	-	909	-	2 431
Total comprehensive income		-	-	-27 608	-	-27 608
Allocation		-	-	-67 606	67 606	0
Equity at 31 December 2013	***16***	**23 179**	**76 732**	**0**	**-56 515**	**43 396**
Capital increase		-	-	-	-	0
Share-based payments		-	-	1 558	-	1 558
Total comprehensive income		-	-	-	-35 840	-35 840
Allocation		-	-	-1 558	1 558	0
Equity at 31 December 2014	***16***	**23 179**	**76 732**	**0**	**-90 796**	**9 114**

STATEMENT OF CHANGES IN EQUITY – PARENT
for the year ended 31 December 2014

(figures in NOK 1,000)	Note	Share capital	Share premium	Other paid-in capital	Retained earnings	Total equity
Equity at 31 December 2012	***16***	**22 999**	**76 524**	**90 002**	**-1 317**	**188 208**
Capital increase		180	208	-	-	388
Share-based payments in subsidiary		-	-	4 201	-	4 201
Total comprehensive income		-	-	-1 183	-	-1 183
Allocation		-	-	-1 907	1 907	0
Equity at 31 December 2013	***16***	**23 179**	**76 732**	**91 112**	**0**	**191 023**
Capital increase		-	-	-	-	0
Share-based payments in subsidiary		-	-	1 558	-	1 558
Total comprehensive income		-	-	-30 904	-	-30 904
Allocation		-	-	-	-	0
Equity at 31 December 2014	***16***	**23 179**	**76 732**	**61 765**	**0**	**161 677**

PCI Biotech Holding ASA

CASH FLOW STATEMENT
for the year ended 31 December 2014

Parent		*(figures in NOK 1,000)*		Group	
2013	**2014**		**Note**	**2014**	**2013**
-1 183	-30 904	Ordinary profit before tax		-35 840	-27 608
-	-	Depreciation and amortisation	3,10	4	4
	30 000	Write downs		-	-
-	-	Share-based payments	4	1 558	909
-1 059	-2 092	Interest income	7	-812	-1 717
-1	-4	Changes in accounts receivables		1 509	-1 005
13	18	Changes in accounts payables		-1 474	2 077
-136	41	Changes in other net operating assets and liabilities		3 382	-1 253
-2 367	**-2 941**	**Cash flow from operating activities**		**-31 674**	**-28 593**
-		Repayment of current interest-bearing debt		-	-
21 306	1 211	Net proceeds from intragroup interest-bearing debt		-	-
-20 000	-	Investment in subsidiary		-	-
1 059	2 092	Interest income received	7	812	1 717
2 365	**3 303**	**Net cash flow from investing activities**		**812**	**1 717**
388	0	Net proceeds from issue of new equity	16	0	388
388	**0**	**Net cash flow from financing activities**		**0**	**388**
387	**362**	**Net changes in cash and cash equivalents**		**-30 862**	**-26 488**
1 333	1 720	Cash and cash equivalents at 1 January		46 595	73 083
1 720	**2 082**	**Cash and cash equivalents at 31 December**	15	**15 754**	**46 595**

PCI BIOTECH HOLDING ASA – ACCOUNTING PRINCIPLES 2014

1. Corporate information

The annual accounts for 2014 for PCI Biotech Holding ASA (the Company) and the consolidated financial statement (the Group or PCI Biotech) were approved for publication by the Board of Directors on 23rd March 2015.

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 Strandveien 55, N-1366 Lysaker

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 2014.

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 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 unrealized 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 as 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 12, 14 and 15.

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 1 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 recognized 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. 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.

j) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

k) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement financial assets are classified in four categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Receivables
This category is the most relevant to the Group. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 14 and Note 19.

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

- Financial Risk, credit risk Note 12
- Receivables Note 14
- Financial income and expenses Note 7
- Related parties transactions Note 19

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost
Assets are individually assessed for impairment. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

l) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's other financial liabilities include trade and other payables.

m) Derivative financial instruments and hedge accounting

The Group has not used derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks during 2014 or 2013.

n) 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 10

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.

o) 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.

p) 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.

q) 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 5% to 8% 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 recognized in the balance sheet.

r) 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 4 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 9.

s) 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.

t) Investment in subsidiary companies

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 realized and unrealized profits/losses and any write-downs related to these investments will be booked in the income statement as financial items.

u) 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 2 for further information.

v) 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.

w) 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.

x) 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.

y) Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

One amendment that has an impact on the Group’s financial position, performance and/or disclosures is described below:

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1

January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The Group has implemented this amendment with an immaterial effect due to low value and duration on short-term receivables and payables.

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 12

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 4. 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 recognized a deferred tax asset related to carry forward losses, as described in more detail in Note 8.

- Regarding development of pharmaceuticals and medical equipment the Group cannot render probable future earnings large enough to justify recognizing development costs in the balance sheet before marketing approval has been obtained. Own development costs are therefore recognized 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 recognized in the balance sheet to the extent that this involves significant changes to the product, which is considered likely will generate future financial benefits.

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 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 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 which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The

standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are expected to have an impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 8 Operating Segments

The amendment is applied retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PCI BIOTECH HOLDING ASA - NOTES TO THE FINANCIAL STATEMENTS 2014

1 OTHER INCOME

Other income consists primarily of government grants and the tax incentive scheme "SkatteFUNN" for research and development.

OTHER INCOME

(figures in NOK 1,000)	Group		Parent	
	2014	**2013**	**2014**	**2013**
Grants from the Research Council of Norway	4 105	4 478	0	0
Tax incentive scheme - SkatteFUNN	3 174	2 200	0	0
Other income	0	3	0	0
Total other income	**7 279**	**6 681**	**0**	**0**

2 OPERATING SEGMENTS

The group has only one operating segment, which is research and development. PCI Biotech develops products for clinical markets, based on its proprietary technology, to transport molecules into living cells. The company had mainly external costs within research and development in 2014 and 2013. The group expects that development costs will be covered by future revenues from products under development.

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

The list below shows operating costs accroding to classification.

(figures in NOK 1,000)		Group		Parent	
	Note	**2014**	**2013**	**2014**	**2013**
Salary expenses	4	14 846	12 940	896	867
R&D exclusive salary / other operating expenses		21 531	17 103	0	0
Depreciation and amortisation	10	4	4	0	0
Other operating expenses		7 388	5 959	2 100	1 376
Total operating expenses		**43 769**	**36 006**	**2 996**	**2 243**

Of the totalt salary expenses NOK 12 743 relates to R&D activities (2013: NOK 11 586).

Specification of other operating expenses

	2014	**2013**	**2014**	**2013**
Travel expenses	1 367	1 338	77	46
Patent, legal and other fees	4 715	3 156	1 430	918
Other expenses	1 306	1 464	593	412
Total other operating expenses	**7 388**	**5 959**	**2 100**	**1 376**

R&D expenses by category:

	2014	**2013**	**2014**	**2013**
Clinical studies	19 267	16 724	0	0
Pre-clinical studies	10 745	6 742	0	0
CMC and equipment	5 396	7 391	0	0
Patents	3 933	1 931	0	0
Other expenses	0	0	0	0
Total R&D expenses	**39 341**	**32 789**	**0**	**0**

4 SALARY EXPENSES AND OTHER REMUNERATION

(figures in NOK 1,000)		Group		Parent	
		2014	**2013**	**2014**	**2013**
Wages and Board of Directors remuneration		11 373	10 262	790	760
Social security contributions		1 193	1 428	106	107
Share-based payments		1 558	909	0	0
Pension costs	5	652	595	0	0
Other expenses		70	-254	0	0
Total salary expenses		**14 846**	**12 940**	**896**	**867**
No. of full-time equivalent positions		12,0	10,5	0,0	0,0

Share-based payments

The general terms in the employee share option scheme are that the options can be exercised with one third the next three years from granting date and expire five years after granting date. All options will lapse immediately upon the event that the employee's employment with the company is terminated. The exercise price is set at market terms and no premium for the options are paid.

The general meeting held 13 May 2014 authorized the Board of Directors to grant the employees with a total of 739,000 options and the authorisation last for two years. It has not been granted any options during 2014 and 645.500 options are outstanding at year-end 2014 (2013: 645.500). The Board of Directors has not been granted any options. See note 19 Related party transactions for further information.

In Q3 2014 the expiry date for 174.000 options was extended from one week after release of the Q2 2014 Report, to one week after release of the Q1 2015 Report. The extension resulted in a one off cost of NOK 22 thousand in Q3 2014. For 2014, it is recognized a net cost of NOK 1.6 million for share-based payment (2013: NOK 0.9 million).

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**	
		2014	**2013**
2014 - Q3	6,47	-	174 000
2015 - Q2	6,47	174 000	-
2015 - Q3	37,24	90 000	90 000
2016 - Q3	19,02	170 000	170 000
2017 - Q3	37,02	86 500	86 500
2018 - Q3	19,63	85 000	85 000
2018 - Q3	18,64	40 000	40 000
Sum		**645 500**	**645 500**

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

	2014		2013	
	Number	Average exercise price in NOK per share	Number	Average exercise price in NOK per share
Outstanding at the beginning of the year	645 500	20,65	739 000	21,16
Granted during the year	0	0,00	125 000	19,31
Lapsed during the year	0	0,00	-158 500	26,23
Exercised during the year	0	0,00	-60 000	6,47
Expired during the year	0	0,00	0	0,00
Outstanding at year end	645 500	20,65	645 500	28,79
Exercisable options at year end	533 333	19,97	462 833	18,97

Fair value for options granted in 2013 was NOK 1.3 million.

Exercise price and average remaining lifetime for outstanding options per year end are as follows:

Number of options 2014 / 2013	Exercise price in NOK per share	Average remaining lifetime (years)	
		2014	2013
174 000 / 174 000	6,47	0,4	0,7
90 000 / 90 000	37,24	0,7	1,7
170 000 / 170 000	19,02	1,7	2,7
86 500 / 86 500	37,02	2,7	3,7
85 000 / 85 000	19,63	3,7	4,7
40 000 / 40 000	18,64	3,7	4,7

Valuation method for fair value of options
The Black-Scholes method is used for fair value assessment of the options. Volatility is calculated based on PCI Biotechs own stock market price. The exercise price is equal to the average volume weighted price of all trades the 5 last days with trade prior to the grant date (5 days VWAP) risk free interest rate is based on Norwegian 3-5 years government bond yield. Each option program is calculated separately with actual exercise prise and lifetime for the program. The table below shows the input values used in the model.

	2014
Dividend	0,00
Expected volatility (%)	81 %
Historical volatility (%)	81 %
Risk free interest (%)	1,51 %
Expected lifetime (years)	3,0

5 PENSION EXPENSES

Pensions expenses for the year:

(figures in NOK 1,000)	Group		Parent	
	2014	2013	2014	2013
Total pension cost from contribution schemes	651	595	0	0

The contribution pension scheme is in compliance with Norwegian public requirements and a total of eleven employees are included in the scheme at year end.

6 AUDITOR FEES

(figures in NOK 1,000 ex. VAT)	Group		Parent	
	2014	2013	2014	2013
Statutory audit	108	132	54	70
Other assurance services	20	30	0	0
Tax and VAT advising services	0	52	0	52
Total	**128**	**214**	**54**	**122**

7 FINANCIAL INCOME AND EXPENSE

(figures in NOK 1,000)	Group		Parent	
	2014	2013	2014	2013
Interest income	812	1 717	2	3
Interest income group	0	0	2 090	1 056
Total financial income	**812**	**1 717**	**2 092**	**1 059**
Interest expense	0	0	1	0
Other financial expense	180	0	30 000	0
Total financial expense	**180**	**0**	**30 001**	**0**

The other financial expense of NOK 30 million in Parent is related to a financial write-down of intercompany receivables on the subsidiary PCI Biotech AS.

8 TAX

(figures in NOK 1,000)

Reconciliation of tax versus expected nominal rate of tax:

	Group		Parent	
	2014	**2013**	**2014**	**2013**
Loss before tax	**-35 840**	**-27 608**	**-30 904**	**-1 183**
Expected nominal rate of tax (27% in 2014 and 28% in 2013)	-9 677	-7 730	-8 344	-331
Permanent differences charged through P&L	-859	-365	8 100	0
Deferred tax asset not recognised in the balance sheet	10 536	8 096	244	331
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		
	2014	**2013**	**2014**	**2013**	
Fixed assets	-23	-11	0	0	
Receivables	0	0	0	0	
Carry forward loss	-56 972	-46 866	-3 830	-3 585	
Total tax asset (27% in both 2014 and 2013)	**-56 994**	**-46 877**	**-3 830**	**-3 585**	
Deferred tax asset not recognised	56 994	46 877	3 830	3 585	10 117
Deferred tax asset recognised in the balance sheet	**0**	**0**	**0**	**0**	

The group and parent have no history of taxable profits and deferred tax assets are therefore valued to NOK 0.
Deferred tax asset not recognised in the balance sheet amounts to NOK 57.0 million (2013: NOK 46.9 million).
The carry forward loss has no time limit according to current tax legislations.

9 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.

Earning per share	**2014**	**2013**
Weighted average number of shares (in '000)	7 726	7 696
Dilution effect (in '000)	453	469
Weighted average number of shares fully diluted (in '000)	8 179	8 165
Net loss for the year	-35 840	-27 608
Earnings per share (NOK per share)	-4,64	-3,59
Diluted earnings per share (NOK per share)	-4,64	-3,59

10 FIXED AND INTANGIBLE ASSETS

(figures in NOK 1,000)

	Group		
	Software	**Equipment**	**Total**
Acquisition cost per 31 December 2012	168	292	460
Additions in 2013	0	22	22
Disposals and scrapping during 2013	0	0	0
Acquisition cost per 31 December 2013	168	314	482
Additions in 2014	0	0	0
Disposals and scrapping during 2014	0	0	0
Acquisition cost per 31 December 2014	**168**	**314**	**482**
Accumulated depreciation per 31 December 2012	168	292	460
Ordinary depreciation 2013	0	4	4
Disposals in 2013	0	0	0
Accumulated depreciation per 31 December 2013	168	296	464
Ordinary depreciation 2014	0	4	4
Disposals in 2014	0	0	0
Accumulated depreciation per 31 December 2014	**168**	**300**	**468**
Book value per 31 December 2013	0	18	18
Book value per 31 December 2014	**0**	**14**	**14**

Leasing expenses	**2014**	**2013**
Leasing office premises	650	635
Total leasing expenses	**650**	**635**

The group leases premises at Strandveien 55,Lysaker Bærum. The lease runs to 31 Dec 2015, with an option for extension for three more years. The lease including all costs is NOK 650 thousand per annum. The lease agreement is subject to annual adjustment according to changes in the consumer price index.

Amounts of minimum lease payment for noncancable operating leases is NOK 650 thousand per year-end 2014. (2013: NOK 1 300 thousand)

PCI Biotech holds in addition a patent portfolio which is not recognised in the balance sheet, due to the fact that research work is expensed through the income statement.

11 SHARES IN SUBSIDIARY

Company	Year of acquisition	Share capital of company	Equity participation and share of voting rights	Carrying amount (NOK thousand)	Equity (NOK thousand)	Financial result 2014 (NOK thousand)
PCI Biotech AS, Lysaker - Norge	2008	3 555 860	100 %	160 758	8 188	-34 936

In 2013 the share capital of PCI Biotech AS was increased by NOK 646.520, with a share premium of NOK 19.353.480, totalling to NOK 20.000.000. The share capital was increased by a cash payment of NOK 20 millions from PCI Biotech Holding ASA.

In 2014 the share capital of PCI Biotech AS was increased by NOK 323.260, with a share premium of NOK 29.676.740, totalling to NOK 30.000.000. The share capital was increased by a contribution in kind of intercompany balances of NOK 30 millions by PCI Biotech Holding ASA.

The carrying amount is at historical cost, which is assessed lower than the Group's fair value assessment. The fair value assessment is based on assumptions regarding the future commercial value of the PCI-technology and information from the observable market capitalization at Oslo Axess.

12 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. The finance department maintains dialogue with the company's bankers and carries out any necessary hedging transactions in regard to interest rates and currencies. 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 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 known 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. The finance department monitors the cash flows in a short- and long term perspective. PCI Biotech's most important source of finance are government grants, the capital market. and future milestones associated with licence agreements. 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). See note 20 Post-closing event for further information.

Credit risk
The group trades only with recognised, creditworthy third parties, of which most are governmental institutions. Receivable balances are monitored on an on-going basis with the result that the group's exposure to bad debts is not significant and therefore no bad debt provision has been recognised during 2013 or 2014.

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
31.12.2014					
Trade accounts payables	2 586	0	0	0	**2 586**
Public dutie payables	773	0	390	0	**1 163**
Other current liabilities	1 550	966	5 001	0	**7 518**
31.12.2013					
Trade accounts payables	3 405	656	0	0	**4 061**
Other long term liabilities	0	0	0	118	**118**
Public dutie payables	746	0	615	0	**1 361**
Other current liabilities	1 146	0	2 654	0	**3 799**

Parent *(figures in NOK 1,000)*

	Remaining period				
	Less than 1 month	1-3 months	3-12 months	1-5 years	Total
31.12.2014					
Trade accounts payables	43	0	0	0	**43**
Other current liabilities, group companies	0	0	369	0	**369**
Public dutie payables	0	0	84	0	**84**
Other current liabilities	0	0	678	0	**678**
31.12.2013					
Trade accounts payables	25	0	0	0	**25**
Public dutie payables	0	0	88	0	**88**
Other current liabilities	0	0	630	0	**630**

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 against all relevant foreign currencies. The effect on earnings comes from changes in the value of monetary items.

	Changes in exchange rates	Effect on operating result	
		Parent	Group
2014	+/- 10 %	0	+/- 2 067
2013	+/- 10 %	0	+/- 1 569

13 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

(Figures in NOK 1,000)

Group

31.12.2014

	Lending and receivables	Other financials liabilities	**Total**
Assets			
Other current receivables	4 614	0	**4 614**
Cash and cash equivalents	15 754	0	**15 754**
TOTAL FINANCIAL ASSETS	**20 368**	**0**	**20 368**
Liabilities			
Trade accounts payables	0	2 586	**2 586**
Public dutie payables	0	1 163	**1 163**
Other current liabilities	0	7 518	**7 518**
TOTAL FINANCIAL LIABILITIES	**0**	**11 268**	**11 268**

31.12.2013

	Lending and receivables	Other financials liabilities	**Total**
Assets			
Trade accounts receivables	3	0	**3**
Other current receivables	6 120	0	**6 120**
Cash and cash equivalents	46 595	0	**46 595**
TOTAL FINANCIAL ASSETS	**52 718**	**0**	**52 718**
Liabilities			
Trade accounts payables	0	4 061	**4 061**
Other long term liabilities	0	118	**118**
Public dutie payables	0	1 361	**1 361**
Other current liabilities	0	3 799	**3 799**
TOTAL FINANCIAL LIABILITIES	**0**	**9 340**	**9 340**

Parent

31.12.2014

	Lending and receivables	Other financials liabilities	**Total**
Assets			
Other current receivables	9	0	**9**
Cash and cash equivalents	2 082	0	**2 082**
TOTAL FINANCIAL ASSETS	**2 091**	**0**	**2 091**
Liabilities			
Group payables	0	369	**369**
Trade accounts payables	0	43	**43**
Public dutie payables	0	84	**84**
Other current liabilities	0	676	**676**
TOTAL FINANCIAL LIABILITIES	**0**	**1 172**	**1 172**

31.12.2013

	Lending and receivables	Other financials liabilities	**Total**
Assets			
Trade accounts receivables	5	0	**5**
Group receivables	30 842	0	**30 842**
Cash and cash equivalents	1 720	0	**1 720**
TOTAL FINANCIAL ASSETS	**32 567**	**0**	**32 567**
Liabilities			
Trade accounts payables	0	25	**25**
Public dutie payables	0	88	**88**
Other current liabilities	0	630	**630**
TOTAL FINANCIAL LIABILITIES	**0**	**743**	**743**

14 RECEIVABLES

Figures based on non-discounted contractual payments.

Other current receivables - specification

(Figures in NOK 1,000)	Group		Parent	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Recognised not received government grants	4 249	5 091	0	0
Prepaid payables	109	813	0	0
VAT receivables	256	167	9	5
Recognised not received financial interest income	0	49	0	0
Total other receivables	**4 614**	**6 120**	**9**	**5**

No bad debt provision recognised at year end 2014 or 2013.

15 CASH AND CASH EQUIVALENTS

(Figures in NOK 1,000)	Group		Parent	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Cash and cash equivalents, restricted [1]	572	489	0	0
Cash and cash equivalents, non-restricted	15 182	46 106	2 082	1 720
Sum	**15 754**	**46 595**	**2 082**	**1 720**

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

At year-end 2014 the cash and cash equivalents are all deposits in regular bank accounts in NOK, EUR and GBP. At year-end 2013 NOK 20 millions of cash and cash equivalents was placed at fixed interest rates, maturing in Q1 2014.

16 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 31.12.2012	7 666 390	3,00	22 999 170
Share issue in 2013	60 000	3,00	180 000
Share capital as per 31.12.2013	7 726 390	3,00	23 179 170
Share issue in 2014	-	-	-
Share capital as per 31.12.2014	**7 726 390**	**3,00**	**23 179 170**

All shares have equal voting rights and otherwise have equal rights in the company.
Ordinary shares are classified as equity. Expenses which are directly attributable to the issue of ordinary shares are included in the accounts as a reduction of equity.

Ownership structure
The largest shareholders of PCI Biotech Holding ASA as per 31.12.2014 were:

	Shares	Ownership in %
Photocure ASA	1 483 339	19,2 %
Radiumhospitalets forskningsstiftelse	859 853	11,1 %
Storebrand Vekst	589 576	7,6 %
Fondsavanse AS	449 138	5,8 %
Vicama AS	389 973	5,0 %
MP pensjon	379 375	4,9 %
KLP LK Aksjer	325 000	4,2 %
KLP Aksje Norge	305 000	3,9 %
LGJ Invest AS	265 285	3,4 %
Holberg Norge	137 595	1,8 %
Erryco Invest AS	132 642	1,7 %
CAT invest 1 AS	85 000	1,1 %
Violina AS	85 000	1,1 %
Pumpøs AS	84 924	1,1 %
Rul AS	76 033	1,0 %
Pongo AS	71 987	0,9 %
Birk Ventures AS	65 000	0,8 %
Dirk T. Bakker	60 286	0,8 %
Lithinon AS	60 000	0,8 %
Bernt-O. Røttingsnes	59 000	0,8 %
Total 20 largest shareholders	5 964 006	77,2 %
Total other shareholders	1 762 384	22,8 %
Total number of shares	**7 726 390**	**100,0 %**

Shares owned, directly or indirectly, by members of the board, senior executives and their personally related parties per 31.12.2014 and per 31.12.2013:

Name	Position	No. of shares	No. of options
Erling Øverland	Chairman	32 500	0
Kjetil Tasken	Board member	0	0
Else Krüger Hagen	Board member	0	0
Theresa Comiskey Olsen	Board member	27 193	0
Kjell G. Stenberg	Board member	0	0
Hilde H. Steineger	Board member	0	0
Per Walday	CEO	12 000	186 000
Ronny Skuggedal	CFO	0	40 000

The Board of Directors in PCI Biotech Holding ASA is authorised by the General Assembly to issue 739.000 shares of NOK 3,00 per share in cash, in connection with the share option incentive program for employees. The authorisation is valid for two years from 13 May 2014. As of 31.12.2014 a total number of 645.500 (2013: 645.500) options have been granted to employees. See note 4 and 19 for further information.

17 FINANCING STRUCTURE

The group had no external interest bearing debt as of 31.12.2014 or 31.12.2013.

18 OTHER CURRENT LIABILITIES

(Figures in NOK 1,000)

	Group		Parent	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Accruals for incurred external R&D expenses	3 651	1 740	0	0
Accruals for employee bonus, holliday payments, board remuneration etc.	2 061	2 060	593	630
Other accruals	1 807	0	84	0
Total other current liabilities	**7 518**	**3 799**	**676**	**630**

19 RELATED PARTY TRANSACTIONS

(Figures in NOK 1,000)

	Board remuneration	**Salary**	**Bonus**	**Other benefits**	**Pension benefits**	**Total**
Senior executives 2014						
Per Walday, CEO	0	1 501	90	18	79	**1 688**
Ronny Skuggedal, CFO	0	901	15	18	63	**998**
Total senior executives remuneration	**0**	**2 402**	**105**	**36**	**142**	**2 685**
Board of Directors 2014						
Erling Øverland, Chairman	220	0	0	0	0	220
Kjetil Tasken	135	0	0	0	0	135
Else Krüger-Hagen (left the Board of Directors in 2014)	135	0	0	0	0	135
Theresa Comiskey Olsen	135	0	0	104*	0	239
Kjell G. Stenberg	135	0	0	0	0	135
Hilde H. Steineger (joined the Board of Directors in 2014)	0	0	0	0	0	0
Total remuneration	**760**	**2 402**	**105**	**140**	**142**	**3 549**

* Legal services ex VAT

	Board remuneration	**Salary**	**Bonus**	**Other benefits**	**Pension benefits**	**Total**
Senior executives 2013						
Per Walday, (CEO)	0	1 466	104	19	74	**1 663**
Bernt-Olav Røttingsnes (CFO until 31.10.2013)	0	732	72	839*	61	**1 704**
Ronny Skuggedal (CFO from 01.11.2013)	0	237	0	5	16	**258**
Total senior executives remuneration	**0**	**2 434**	**176**	**863**	**151**	**3 624**

*Other benefits to Bernt-Olav Røttingsnes includes exercise of share options in 2013.

Board of Directors 2013						
Erling Øverland, Chairman	220	0	0	0	0	220
Kjetil Tasken	135	0	0	0	0	135
Else Krüger-Hagen	135	0	0	0	0	135
Theresa Comiskey Olsen	135	0	0	20*	0	155
Flemming Ørnskov (fratrådt styret i 2013)	135	0	0	0	0	135
Kjell G. Stenberg (tiltrådt styret i 2013)	0	0	0	0	0	0
Total remuneration	**760**	**2 434**	**176**	**883**	**151**	**4 404**

* Legal services ex VAT

Figures for remuneration are expensed amounts in the financial year.

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 15% of annual salary.
- Senior executives, and other key employees, participate in the company's share option incentive program
- 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 5% to 8% 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 shown 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 16 Share capital. Allocation and exercise of options to shares and holdings of options for senior executives are presented in the following overview:

Overview options 2014, Senior executives	**Allocated**	**Lapsed**	**Excercised**	**Expired**	**Total holdings 31.12.2014**	**Average excercise price in NOK**
Per Walday, CEO	186 000	0	0	0	186 000	19,46
Ronny Skuggedal, CFO	40 000	0	0	0	40 000	18,64
Sum	**226 000**	**0**	**0**	**0**	**226 000**	

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 Rikshospitalet-Radiumhospitalet Helseforetak (RR-HF). Some of PCI Biotechs 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, in whole or in part, any new technology within the field of Photochemical Internalization. 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 favorable terms to the third party than those previously rejected by PCI Biotech. If the terms are found more favorable, 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 2.7 million on commercial terms to RF in 2014 (2013: NOK 1.6 million). As of 31.12.2014 the group had account payables of NOK 0.6 million and as of 31.12.2013 the group had NOK 0.1 million in current receivables related to RF.

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 fully owned subsidiary PCI Biotech AS which 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 has been charged for operations according to the service agreement of NOK 1.4 million in 2014 (2013: NOK 0.7 million). The parent has charged PCI Biotech AS interest expenses on intercompany loans of NOK 2.1 million during 2014 (2013: NOK 1.1 million). Net current liabilities to PCI Biotech AS at year-end 2014 were NOK 0.4 million (2013: net receivables of NOK 30.8 million). During 2014 PCI Biotech Holding ASA has recognised a write down NOK 30 million in an intercompany loan to PCI Biotech AS. The same intercompany loan has been utilised as contribution in kind from PCI Biotech Holding ASA in a capital increase in PCI Biotech AS.

Board of Directors:
PCI Biotech AS acquires legal services from the Director ,Theresa Comiskey Olsen. Total cost for these services was NOK 104 thousand for 2014 (2013: NOK 20 thousand). At year-end 2014 PCI Biotech AS has a current liability of NOK 8 thousand to Theresa Comiskey Olsen (2013: no balances per year end).

20 POST-CLOSING EVENTS

A fully underwritten rights issue of NOK 70 million was completed 12 February 2015. 7,000,000 new shares were issued in the rights issue. Approximately 6.56 million new shares have been allocated to subscribers on the basis of exercised subscription rights. Approximately 0.44 million new shares have been allocated to holders of subscription rights as a result of oversubscription. No allocation has been made to subscribers without subscription rights.

Through the rights issue, PCI Biotech received gross proceeds in the amount of NOK 70 million and the net proceeds are estimated to approximately NOK 64.9 million. The transaction cost includes a guarantee fee of 3.0%. The Company's extraordinary general meeting held on 6 January 2015, resolved to increase the share capital of the company with NOK 21,000,000 through the issue of 7,000,000 new shares as a result of the rights issue. Following the completion of the rights issue the share capital is NOK 44,179,170 divided by 14,726,390 shares, each with a nominal value of NOK 3.00 and represents one voting right per share. The new shares were admitted to trading on the Oslo Axess from 13 February 2015. See below for information about 10 largest shareholders per 23 March 2015.

The new available funds are expected to give a financial runway of approximately two years, with the current cost base. The Board of Directors has initiated a strategic review to ensure optimal use of proceeds.

The Chairman Erling Øverland, one of the Directors Theresa Comiskey Olsen and her related parties, and the CEO Per Walday participated in the rights issue with their pro-rata share. The Chairman, Erling Øverland, also contributed to the underwriting syndicate and underwritten NOK 378,062 of the rights issue. The Chairman made all transactions through the company Trifolium AS, which is fully owned by Erling Øverland and his wife.

PCI Biotech has received from the Norwegian tax authorities (Skatt Øst) an initial rejection of extension of advance registration for VAT (Value Added Tax) for the future periods 2015-2016. PCI Biotech does not agree with the basis for the initial rejection made by the authorities and has submitted a formal appeal. If the appeal is not in favour of PCI Biotech, it will have an impact on the future cash burn and/or spending.

Except for the above PCI Biotech is not aware of any post-closing events, which could materially influence this financial statement.

10 largest shareholders per 23 March 2015	**No. of shares**	**Ownership in %**
FONDSAVANSE AS	2 049 138	13,9
PHOTOCURE ASA	1 483 339	10,1
RADIUMHOSPITALETS FORSKNINGSSTIFTELSE	1 359 853	9,2
STOREBRAND VEKST JPMORGAN EUROPE LTD	1 201 592	8,2
MP PENSJON PK	899 408	6,1
VICAMA AS	743 288	5,1
KLP AKSJE NORGE VPF	670 095	4,6
KOMMUNAL LANDSPENSJON	628 858	4,3
BERGEN KOMMUNALE PENSJONSKASSE	350 000	2,4
HOLBERG NORGE VERDIPAPIRFONDET	283 696	1,9
Total 10 largest shareholders per 23 March 2015	**9 669 267**	**65,7**
Others	*5 057 123*	*34,3*
Total	*14 726 390*	*100,0*

PCI BIOTECH HOLDING ASA – CORPORATE GOVERNANCE

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, 6, 9 and 11.

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
PCI Biotech is a Norwegian based company focusing on research and development within the field of cancer treatment. The PCI Biotech Group consists of 11 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 our 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 risk of detection 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, labor 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, labor 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 2014. The Group does not expect to make adjustments to the current policy in near future.

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 encompasses 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 at 31 December 2014 was NOK 9.1 million, which corresponds to an equity ratio of 44.7%. The equity ratio is regularly assessed in light of the Company's goals, strategy and risk profile. Including the post-closing event of a rights issue of MNOK 70 in gross proceeds, finalised in February 2015, 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 no general authorization to issue shares. The Board of Directors has been authorised by the Company's General Assembly to increase the share capital by exercise of stock options granted to key employees. The authorisation was granted for two years in 2014, and applies to 13 May 2016.

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 2014. The Company had regular business transactions with two related parties in 2014.

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 Norwegian Radium Hospital Research Foundation owns 9.2% of PCI Biotech at year-end 2014. PCI Biotech has extensive cooperation with the Norwegian Radium Hospital. 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.

Theresa Comiskey Olsen is a Director of PCI Biotech. The Company acquires legal services from Theresa Comiskey Olsen, and she receives separate remuneration beyond regular Director remuneration for legal services rendered. It is the Board of Director's and management's opinion that the agreement for these legal services is based on "arm's length" principles.

Please refer to Note 19 Related party transactions to the financial statements 2014 where information regarding related party transactions is disclosed.

All material transactions between the Company and shareholders, directors, management or close associates of such parties are valuated independently by a third party. 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 Company.

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 in 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 Executive Officer (CFO) are present at the Annual General Meeting, along with representatives from the Nomination Committee and the company 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 notice of meeting includes 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, nominates 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 being a small company and has encouraged directors to attend, but has for both cost and convenience reasons so far not required all directors to attend the General Meeting. The recommendation to implement routines to ensure an independent chairing of the meeting has not been implemented.

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 Kjetil Hestdal (Chairman), Erik Must and Chris Rytter. 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 thirteen meetings in 2014. Board members had the following attendance at these meetings:

Erling Øverland, 13/13	Theresa Comiskey Olsen, 13/13
Kjetil Taskén, 13/13	Hilde H. Steineger, 8/9
Else Krüger Hagen, 4/4	Kjell G. Stenberg 13/13

Else Krüger Hagen did not take on a new period as Director after the Annual General Meeting on 13th May 2014. Else Krüger Hagen participated in all Board of Directors meetings in her term. Hilde H. Steineger was elected as a new Director at the Annual General Meeting on 13th May 2014 and she attended all Board of Directors meetings after that date, except for one.

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, 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 that the Company prepares quarterly and annual reports in accordance with this standard. The Company's management, the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) is 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 Company'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.

Non-conformance with the recommendation: The Director, Theresa Comiskey Olsen, renders some legal services to the Company, and she is remunerated separately for these services. The Board of Directors is informed about the services, and these related party transactions are disclosed in the quarterly and annual reports.

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. There is established a limit for the performance-related remuneration. Share option schemes are approved in advance by the general meeting.

Remuneration to the executive management, Chief Executive Officer (CEO) and Chief Financial Officer (CFO), 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 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 sent to the shareholders.

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 the General Assembly.

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

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To the Annual Shareholders' Meeting of
PCI Biotech Holding ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of PCI Biotech Holding ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company and the Group comprise the statement of financial position as at 31 December 2014, the statements of comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Building a better working world

Opinion

In our opinion, the financial statements of PCI Biotech Holding ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2014 and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

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 Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 23 March 2015
ERNST & YOUNG AS

Per Øyvind Borge-Hansen
State Authorised Public Accountant (Norway)