BIONOR PHARMA ASA
INTERIM FINANCIAL REPORT
1 JANUARY – 30 JUNE 2016
UNAUDITED

23 AUGUST 2016

H1 2016

CONTACT INFORMATION
Per S. Thoresen, Chairman of the Board of Directors, +47 906 14 620
Unni Hjelmaas, Acting CEO, +47 915 19 651, uh@bionorpharma.com

HIGHLIGHTS Q2 2016

In the second quarter of 2016, Bionor continued its preparation of upcoming trials. A strategic and financial review was initiated and an outline for funding of the company's operations was announced end-May. The company's Board of Directors reiterated its strategy to advance Vacc-4x in clinical development in order to develop a possible functional HIV cure.

- The positive results from the clinical trial REDUC Part B was published in the peer-reviewed and highly recognized journal The Lancet HIV
- Approval of clinical trial applications for BIOSKILL was granted by regulatory authorities in Germany, France and Australia. An IND application for the U.S. Food and Drug Administration (FDA) is planned for submission later in August 2016
- The Board decided to put on hold additional BIOSKILL related activities until alternative and less capital demanding development paths have been explored for functional HIV cure with Vacc-4x at its core
- Significant cost saving initiatives have been initiated by the Board, including cancellation or sublease of offices in the US, Denmark and Norway. Currently expected savings of approximately NOK 6 million per quarter when fully implemented by 1 January 2017, excluding any effect of organizational changes implemented in H2 2016 (see below)
- Total contractual liabilities have been significantly reduced from NOK 32.5 million in Q1 2016 to 7.6 million in Q2 2016
- At the company's annual general meeting on 22 April 2016, a number of resolutions were rejected by the shareholders. An extraordinary general meeting 6 June 2016 handled the rejected proposals
- Board member Steen Krøyer was elected on 22 April 2016 and board member Helene Jebsen Anker was elected on 6 June 2016. Board members Benedicte Fossum, Kirsten Drejer and Jerome B. Zeldis resigned from the Board on 28 April 2016
- On 26 April 2016, the company announced that Dr. David Horn Solomon and Bionor's Board of Directors had agreed that Dr. David Horn Solomon on the same day would leave his position as Chief Executive Officer of Bionor Pharma ASA, owing to a shareholder led change in company strategy
- The Board appointed MSc. Pharmacist Unni Hjelmaas as acting CEO on 27 April 2016
- Net cash flow in Q2 2016 was NOK -29.3 million (Q2 2015: NOK -19.7 million)
- Cash and cash equivalents at 30 June 2016 was NOK 12.4 million (30 June 2015: NOK 55.5 million).

EVENTS AFTER THE BALANCE SHEET DATE

On 18 August 2016, the company announced that it had raised a total of NOK 105 million in new equity by an agreement with certain new investors regarding full subscription of a NOK 52.5 million private placement, subject to approval at an extraordinary general meeting 9 September 2016, as well as a proposed, subsequent, fully underwritten rights offering of NOK 52.5 million. Following completion of the private placement, the company will be fully funded under the current strategy for no less than 12 months. The company's main shareholder has committed to vote in favor of the private placement and the rights offering, and not to sell any Bionor shares prior to the extraordinary general meeting.

The current strategy of Bionor is to further advance Vacc-4x in clinical development to develop a functional cure for HIV. As a consequence of the new, expected ownership structure following the private placement and subsequent fully underwritten rights offering, a new Board of Directors will be elected at the extraordinary general meeting on 9 September 2016. Accordingly, the company's strategy will be evaluated by the new Board of Directors, which may lead to a reassessment of the company's current short and long-term strategies. Until such further assessments have been undertaken all planning of clinical trials is put on hold.

In connection with the agreement with certain new investors regarding the private placement and fully underwritten rights offering, all operations in Denmark and the U.S. have been terminated or are in the process

of being terminated, and the following has been agreed with regard to the company's management and key employees:

- SVP Chief Strategy and Business Officer, Kamilla Rolsted, and VP for Investor Relations and Communications, Jørgen Fischer Ravn, agreed with the company that their employment would discontinue from and including 1 September 2016. SVP General Counsel and Chief Patent Officer Barbara Ruskin will continue to provide services to the company on a part-time consultancy basis and CFO Jens Krøis will continue his role as CFO in the company on a full-time consultancy basis until 31 December 2016.

Per S. Thoresen, Chairman of the Board of Directors, commented:

"*On behalf of the company and the Board of Directors, I am very pleased to confirm that we have succeeded in raising more than NOK 100 million from high quality investors at a decisive moment in the company's history. The Management, Board of Directors and its advisors have looked at various options to strengthen the company's financial situation, and are confident that the proposed solution, which is supported by the company's main shareholder is in the best interest of Bionor and its shareholders. The completion of the private placement and rights offering will create a solid financial environment for Bionor's continued clinical activities after a long period with uncertainty*."

FINANCIAL GUIDANCE FOR 2016

For the full year 2016, Bionor now expects a Core cost base of NOK 52-59 million. Previously, a Core cost base of NOK 58-66 million was expected. The reduced Core cost base is due to cost saving initiatives implemented in Q2 2016. Currently, expected savings will amount to approximately NOK 6 million per quarter when fully implemented by 1 January 2017, excluding any organizational changes implemented in H2 2016.

Following the private placement of NOK 52.5 and subsequent fully underwritten rights offering of NOK 52.5 million, the company will befully funded under the current strategy for no less than 12 months. The Core cost base is defined as Employee Benefit Expenses plus Other operating expenses.

CLINICAL UPDATE

REDUC clinical trial – Vacc-4x + romidepsin

The REDUC Phase I/II clinical trial was concluded in December 2015 with the announcement that Part B of the trial demonstrated control of viral load and met its primary endpoint by reducing latent HIV reservoir.

The control of viral load (viral RNA in the blood) in the majority of patients suggests that Vacc-4x leads to killing of infected CD4+ T cells. In comparison, antiretroviral drugs inhibit viral replication, but do not kill infected immune cells. This difference is distinct in the different results observed in REDUC Part A and Part B. In REDUC Part A, in which patients on ART received romidepsin but not Vacc-4x, viral load increased to detectable levels after romidepsin infusions in five out of six patients. With time, the released virus was cleared and no new virus produced because the patients were on ART. In REDUC Part B, 11 out of 17 patients had no detectable viral load following romidepsin infusions despite documented activation by romidepsin to the same levels as in Part A. This may indicate that activated virus producing cells were killed due to treatment with Vacc-4x before they could release virus into the blood.

The direction of all three assays for the latent reservoir size consistently showed reduced reservoir size. Together with convincing data on viral load, this forms a strong foundation for further clinical advancement of Vacc-4x as an important element in a possible functional cure for HIV.

BIOSKILL clinical trial – Vacc-4x + romidepsin

The company is evaluating whether to conduct the BIOSKILL clinical trial, but has currently put the further planning of BIOSKILL on hold.

To date, clinical trial application (CTA) approvals have been granted by regulatory authorities in the United Kingdom, France, Australia, Denmark and Germany. An IND application for the U.S. Food and Drug Administration (FDA) is planned for submission later in August 2016. CTA approvals expire in Denmark end-August 2017 and in Australia, authorities would need notification that the trial has been delayed if not started by end-August 2017.

Scientific collaborations

St. Georges University of London (SGUL)

Bionor has had a longstanding collaboration with SGUL, and the projects have been partly financed by the Research Council of Norway GLOBVAC and BIA programs.

The current project addresses immune activation in HIV infection and the potential role of a specific region on the HIV envelope glycoprotein in this process. Bionor has developed a peptide antigen, Vacc-C5, corresponding to this region. Earlier work has shown that the presence of antibodies to the C5 region of HIV is associated with slowed disease progression. Bionor has extended this work by analyzing the prevalence of antibody responses to Vacc-C5 in HIV patient cohorts. The collaboration with SGUL is addressing the mechanisms by which this region of HIV-1 may contribute to immune activation, and how antibodies to this region may reduce these effects. The study has also carried out preclinical work addressing the potential to use Vacc-4x and Vacc-C5 together. A scientific publication of the results is expected later this year.

SCHARP, Fred Hutchinson Research Institute

Bionor has had a collaboration with SCHARP since 2014 with the purpose of performing a post-hoc statistical analysis of data from the large 2007 phase II clinical trial (CT BI-Vacc-4x 2007/1) where Vacc-4x showed a statistically significant reduction in viral load set point compared to placebo patients (Pollard et al., 2014).

It has been confirmed that Vacc-4x provided a positive effect on both CD4 counts and viral load compared to placebo. These results were published earlier this year in a peer-reviewed journal (Huang et al., 2016).

In the collaboration with SCHARP, Bionor is also seeking to identify candidate biomarkers and immune correlates of the effect of Vacc-4x. This work is expected to be published in a scientific journal later this year.

CORPORATE MATTERS

At the company's annual general meeting on 22 April 2016, Steen Krøyer was elected as new board member. At the same general meeting, a number of resolutions were rejected by the shareholders. An extraordinary general meeting on 6 June 2016 handled the rejected proposals and elected an additional new board member:

- The Board's statement on the determination of salary and other remuneration to leading employees of the company was approved
- The Board's guidelines for the company's share option program was approved
- The Board was granted authorization to increase the share capital for the use in the company's incentive program by the issuance of up to 12,000,000 new shares
- The EGM resolved to issue up to 1,300,000 new shares for subscription by members of the Board. The shares should be subscribed within 30 June 2016. No shares were subscribed by members of the Board due to ongoing funding activities
- The Board was granted authorization to increase the share capital by up to 84,000,000 shares to be used in connection with a strategic process or in connection with a capital increase in order to finance the group's operations
- Helene Jebsen Anker was elected as new board member.

On 26 April 2016, the company announced that Dr. David Horn Solomon and Bionor's Board of Directors had agreed that Dr. David Horn Solomon on the same day would leave his position as Chief Executive Officer of Bionor Pharma ASA, owing to a shareholder led change in company strategy. The Board of Directors has appointed MSc Pharmacist Unni Hjelmaas as acting CEO.

Three board members, Benedicte Fossum, Kirsten Drejer and Jerome B. Zeldis resigned from the Board on 28 April 2016.

The Board is composed as follows:

- Per Thoresen as Chairman of the Board
- Lars H. Høie as board member
- Ingrid Leisner as board member
- Steen Krøyer as board member
- Helene Jebsen Anker as board member

FINANCIAL REVIEW

Income statement

Revenues in Q2 2016 were NOK 0.1 million (Q2 2015: NOK 0.0 million) and NOK 0.2 million in H1 2016 (H1 2015: 0.0 million), related to sublease of offices.

Employee Benefit Expenses in Q2 2016 were NOK 12.5 million (Q2 2015: NOK 5.5 million). The increase is mainly due to the full effect of the establishment in the first half of 2015 of a new management team to support Bionor's strategy and clinical development program and severance payment to former CEO. Employee Benefit Expenses in H1 2016 were NOK 20.9 million (H1 2015: NOK 10.4 million)

Other operating expenses in Q2 2016 were NOK 7.1 million (Q2 2015: NOK 7.0 million). R&D expenses, including effects of government grants received, were NOK 5.4 million in Q2 2016 (Q2 2015: NOK 6.1 million), primarily related to preparation of the BIOSKILL clinical trial. Government grants received in Q2 2016 were NOK 1.8 million (Q2 2015: NOK 1.9 million). Other operating expenses in H1 2016 were NOK 14.0 million (H1 2015: NOK 14.4 million). R&D related operating expenses in H1 2016, including effects of government grants received, were NOK 11.5 million (H1 2015: 11.5 million).

Total operating expenses in Q2 2016 were NOK 27.9 million (Q2 2015: NOK 21.4 million). The increase is primarily related to the increase in Employee Benefit Expenses, as explained above. Total operating expenses in H1 2016 were 52.1 million (H1 2015: NOK 41.8 million).

The company monitors its financial performance based on its Core cost base. The Core cost base is defined as Employee Benefit Expenses plus Other operating expenses. The Core cost base thus refers to costs that are required to run the business, excluding external R&D expenses, which can vary over time (see Table 1). In Q2 2016, the Core cost base amounted to NOK 19.6 million (Q2 2015: NOK 12.5 million). In H1 2016 the Core costs base amounted to NOK 34.9 million (H1 2015: 24.8 million). From 1 January 2017, the Core cost base will be reduced by approximately NOK 6 million per quarter, including the effect of lease cancellation or subleases of offices in the US, Denmark and Norway, but excluding the effect of any organizational changes implemented in H2 2016.

Due to the lease cancellations or sublease of offices in the US, Denmark and Norway, housing liabilities have been substantially reduced from NOK 15.9 million in Q1 2016 to only NOK 2.1 million in Q2 2016. In addition, realized severance payment to former CEO and lower R&D liabilities have further reduced total liabilities from NOK 32.5 million in Q1 2016 to NOK 7.6 million in Q2 2016 (see note 7).

TABLE 1: Core cost base

In NOK millions	Q2 2016	Q2 2015	H1 2016	H1 2015	FY 2015
Employee Benefit Expenses	12.5	5.5	20.9	10.4	26.5
Other operating expenses	7.1	7.0	14.0	14.4	36.6
Core cost base	**19.6**	**12.5**	**34.9**	**24.8**	**63.1**

Due to rounding differences certain summations might not add up.

Depreciation and amortization in Q2 2016 amounted to NOK 2.9 million (Q2 2015: NOK 2.8 million). Depreciation and amortization in H1 2016 amounted to NOK 5.7 million (H1 2015: NOK 5.6 million).

Net financial items were NOK 0.3 million in Q2 2016 (Q2 2015: NOK 0.1 million). Net financial items were NOK 0.1 million in H1 2016 (H1 2015: NOK 0.3 million)

Loss before tax and net loss in Q2 2016 was NOK 27.5 million (Q2 2015: NOK 21.3 million). Loss before tax in H1 2016 was NOK 51.8 million (H1 2015: NOK 41.5 million).

Cash flow and liquidity

In Q2 2016, Cash flow from operations was NOK -29.3 million (Q2 2015: NOK -21.1 million), and NOK -53.6 million for H1 2016 (H1 2015: NOK -38.9 million). Net working capital was NOK 0.4 million at period end Q2 2016 (end Q2 2015: NOK -0.7 million).

Net cash flow in Q2 2016 was NOK –29.3 million (Q2 2015: NOK -19.7 million). Net cash flow for H1 2016 was NOK 1.9 million (H1 2015: -37.6 million). A positive cash flow in H1 2016 was due to the issue of share capital of NOK 55.4 million in Q1 2016 through a private placement and a subsequent repair offering.

Cash flow from investments was NOK 0.0 million in Q2 2016 and in Q2 2015.

Cash and cash equivalents at period end Q2 2016 amounted to NOK 12.4 million (end Q2 2015: NOK 55.5 million).

Financial position

Total assets were NOK 87.6 million at the end of Q2 2016 (end Q2 2015: NOK 132.2 million). The main reason for the decrease was the reduction of the Group's intangible assets due to depreciations and amortizations and due to reduction of cash and cash equivalents. Equity ratio amounted to 79.5 percent at the end of Q2 2016 (end Q2 2015: 91.0 percent).

Related party transactions

There have been no major transactions with related parties in the first half of 2016.

Risk factors

The company's business is exposed to a number of general operational and financial risks that have been explained in Bionor's Annual Report 2015 available on the company's website www.bionorpharma.com. In addition, a number of risks have been identified in relation to the company's financial position, capital requirements, the private placement and ownership of the company' shares:

- The company has incurred substantial net operating losses since its inception and anticipates that it will continue to incur such losses in connection with clinical and product development. The company is not certain that it will achieve or sustain profitability.
- The proceeds from the private placement and the subsequent, fully underwritten rights offering will not be sufficient to carry the company through to commercialization of Vacc-4x or HIV related product candidates. A failure by the company to obtain additional financing when needed could force it to delay, limit or terminate its product development or commercialization efforts and could also force the company to enter into bankruptcy proceedings.
- The market price of the company's shares has and may continue to fluctuate widely in response to various factors, and investors may not be able to resell their shares in the company at or above the applicable subscription price.
- The company's major shareholder owns a significant percentage of the company's shares and is able to exercise significant influence over matters subject to shareholder approval.
- Future sales of the company's shares, by any of the company's major shareholders or otherwise, or the perception that such sales could occur, could reduce the market price of the company's shares and adversely affect the company's ability to raise additional capital.

Financial guidance for 2016

For the full year 2016, Bionor now expects a Core cost base of NOK 52-59 million. Previously, a Core cost base of NOK 58-66 million was expected. The reduced Core cost base is due to cost saving initiatives

implemented in Q2 2016. Currently, expected savings will amount to approximately NOK 6 million per quarter when fully implemented by 1 January 2017, excluding any organizational changes implemented in H2 2016.

Following the private placement of NOK 52.5 and subsequent fully underwritten rights offering of NOK 52.5 million, the company will be fully funded under the current strategy for no less than 12 months. The Core cost base is defined as Employee Benefit Expenses plus Other operating expenses.

2016 FINANCIAL CALENDAR

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DECLARATION BY THE BOARD OF DIRECTORS AND ACTING CEO OF BIONOR PHARMA ASA

We confirm, to the best of our knowledge, that the financial statements for the period 1 January to 30 June 2016, which have been prepared in accordance with IAS 34 Interim Financial Reporting, provides a true and fair picture of the company's assets, liabilities, financial position and results of operations.

We declare, to the best of our knowledge, that the interim report gives a true and fair overview of important events in the reporting period and their impact on preliminary results, the most important risk and uncertainties for the remaining six months of the accounting period, and significant transactions with related parties.

Per S. Thoresen, Chairman

Ingrid Leisner, board member

Lars H. Høie, board member

Steen Krøyer, board member

Helene Jebsen Anker, board member

Unni Hjelmaas, Acting CEO

Disclaimer:
THE BOARD OF DIRECTORS EMPHASIZE THAT IN GENERAL THERE IS SIGNIFICANT UNCERTAINTY WITH REGARDS TO FORWARD LOOKING STATEMENTS GIVEN IN THE REPORT.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (BIONOR PHARMA GROUP)

Amounts in NOK thousands	Note	Q2 2016	Q2 2015	H1 2016	H1 2015	FY 2015
Total revenue		**68**	**15**	**154**	**15**	**85**
Cost of goods sold		-	-	-	-	-
Employee Benefit Expenses	3	(12 541)	(5 514)	(20 896)	(10 398)	(26 465)
Depreciation and amortisation		(2 852)	(2 771)	(5 713)	(5 564)	(11 287)
External R&D	4	(5 392)	(6 072)	(11 495)	(11 475)	(23 143)
Other operating expenses		(7 121)	(7 031)	(14 006)	(14 406)	(36 643)
Total operating expenses		**(27 906)**	**(21 387)**	**(52 111)**	**(41 843)**	**(97 538)**
Operating loss		**(27 838)**	**(21 372)**	**(51 957)**	**(41 828)**	**(97 453)**
Finance income		351	274	391	766	2 143
Finance costs		(40)	(207)	(272)	(454)	(1 416)
Net financial items		312	67	120	312	728
Loss before tax		**(27 526)**	**(21 305)**	**(51 837)**	**(41 516)**	**(96 726)**
Income tax expense		-	-	-	-	-
Loss after tax		**(27 526)**	**(21 305)**	(51 837)	(41 516)	**(96 726)**
Net loss	5	**(27 526)**	**(21 305)**	**(51 837)**	**(41 516)**	**(96 726)**
Other comprehensive income						
Items that may be reclassified subsequently to profit or loss						
Exchange differences arising on translation of foreign operations		95	53	46	53	(51)
Total comprehensive income for the period		**(27 432)**	**(21 252)**	**(51 791)**	**(41 463)**	**(96 777)**
Earnings (loss) per share (NOK) basic and diluted:		(0.09)	(0.09)	(0.39)	(0.17)	(0.39)

FY 2015 financial statements are audited. All other financial statements are unaudited.

Due to rounding differences certain summations might not add up.

The notes are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BIONOR PHARMA GROUP)

	Note	30.06.2016	30.06.2015	31.12.2015
ASSETS				
Non-current assets				
Goodwill		8 715	8 715	8 715
Intangible assets		42 506	53 282	47 894
Property, plant and equipment		3 221	2 135	3 634
Other long term receivables		3 877	1 375	3 880
Total non-current assets		**58 319**	**65 506**	**64 122**
Current assets				
Receivables				
Accounts receivables		38	-	18
Other short term receivables		16 756	11 204	22 710
Cash and cash equivalents		12 449	55 535	10 571
Total current assets		**29 242**	**66 739**	**33 300**
Total Assets		**87 561**	**132 245**	**97 422**
EQUITY AND LIABILITIES				
Equity				
Share capital	6	83 917	62 249	62 328
Share premium		300 198	266 464	266 350
Share-based options	3	5 318	4 475	5 539
Retained earnings and reserves		(319 800)	(212 810)	(268 008)
Total equity		**69 633**	**120 378**	**66 209**
Liabilities				
Current liabilities				
Accounts payables		7 656	7 570	4 921
Public duties payable		4 754	949	12 477
Other current liabilities		4 124	3 033	12 259
Provisions		1 394	**314**	1 557
Total liabilities		**17 928**	**11 867**	**31 213**
Total Equity and Liabilities		**87 561**	**132 245**	**97 422**

31.12.2015 financial statements are audited. All other financial statements are unaudited.

Due to rounding differences certain summations might not add up.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (BIONOR PHARMA GROUP)

Amounts In NOK thousands	Share capital	Share premium	Share-based options	Retained earnings	Total equity
Equity at 1 January 2016	**62 328**	**266 350**	**5 539**	**(268 009)**	**66 208**
Share-based payment	-	-	(221)	-	(221)
Net loss for the period	-	-	-	(51 837)	(51 837)
Other comprehensive income for the period	-	-	-	46	46
Issue of share capital	21 590	39 725	-	-	61 315
Transaction cost issue of share capital	-	(5 878)	-	-	(5 878)
Exercise of options and warrants	-	-	-	-	-
Equity at 30 June 2016	**83 917**	**300 198**	**5 318**	**(319 800)**	**69 633**
Equity at 1 January 2015	**62 082**	**265 183**	**4 408**	**(171 233)**	**160 441**
Share-based payment	-	-	67	-	67
Total comprehensive income for the year	-	-	-	(41 463)	(41 463)
Issue of share capital	-	-	-	-	-
Transaction cost issue of share capital	-	-	-	-	-
Exercise of options and warrants	167	1 167	-	-	1 333
Equity at 30 June 2015	**62 249**	**266 350**	**4 475**	**(212 696)**	**120 379**

1 January 2016 and 1 January 2015 financial statements are audited. All other financial statements are unaudited.

Due to rounding differences certain summations might not add up.

The notes are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (BIONOR PHARMA GROUP)

Amounts in NOK thousands	Q2 2016	Q2 2015	H1 2016	H1 2015	FY 2015
OPERATING ACTIVITIES					
Profit (loss) before tax	(27 525)	(21 252)	(51 837)	(41 463)	(96 726)
Depreciation and amortisation	2 852	2 771	5 713	5 564	11 287
Share-based payments	(753)	320	(221)	(9)	964
Change in accounts receivables	37	-	(20)	1 383	1 364
Change in accounts payables	(3 956)	230	2 735	3 940	1 290
Change in other assets and liabilities	33	(3 136)	(9 930)	(8 308)	(248)
Net cash from operating activities	**(29 311)**	**(21 068)**	**(53 560)**	**(38 894)**	**(82 068)**
INVESTING ACTIVITIES					
Payments of property, plant and equipment	-	-	-	-	(1 869)
Net cash flows (used in)/from investing activities	**-**	**-**	**-**	**-**	**(1 869)**
FINANCING ACTIVITIES					
Proceeds from issue of share capital	-	-	55 437		79
Proceeds from exercise of options	-	1 333	-	1 333	1 333
Net cash flows (used in)/from financing activities	**-**	**1 333**	**55 437**	**1 333**	**1 413**
	-			-	
Cash and cash equivalents at beginning of period	**41 760**	**75 269**	**10 571**	**93 096**	**93 096**
Net increase/(decrease) in cash and cash equivalents	(29 311)	(19 734)	1 878	(37 561)	(82 525)
Effect of currency translation of cash and cash equivalents	-	-	-	-	-
Cash and cash equivalents at period end	**12 449**	**55 535**	**12 449**	**55 535**	**10 571**

FY 2015 financial statements are audited. All other financial statements are unaudited.

Due to rounding differences certain summations might not add up.

The notes are an integral part of these consolidated financial statements.

SELECTED NOTES TO THE ACCOUNTS (BIONOR PHARMA GROUP)

NOTE 1 BASIS FOR PREPARATION

The financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as adopted by EU. All significant accounting principles applied in the consolidated financial statements are described in the Annual Report 2015. No new standards have been applied in H1 2016 and the Interim Financial Report 1 January - 30 June 2016 is based on the accounting principles described in the Annual Report 2015.

NOTE 2 SEGMENT

The main focus of the Bionor Pharma Group is development of vaccines for viral diseases. This is reflected in the Group's organization and management reports, and is as such the Groups only reporting segment.

NOTE 3 SHARE-BASED PAYMENT

The Company has had a share option program to align the Company's long-term performance with shareholder values and interest. In connection with entering into a Subscription and Guarantee Agreement with a new group of investors, all employees will forfeit all options received, both vested and unvested. Certain former employees and consultants will retain valid options.

The share option program currently approved and in force is summarized as follows: Up until the end of 2014, share options vested over a three-year period and usually vested according to the following plan; 33% of the options vest on the first anniversary of the grant date; 33% at year two and the remaining 33% of the options vest at year three. Options expire seven years after the grant date. Certain older options do not follow the same principles.

From 2015, options vest with 1/4 on the first annual anniversary of grant and thereafter by 1/48 each month for the next 36 months, and the CEO hired in February 2015 was granted options on these terms at the time of his employment. Key employees were granted a total of 2,350,000 share options in August 2015 as part of the company's incentive program. All option contracts include regulation that in the case of termination of employment, the employee will not vest further share options beyond notice of termination (with certain provisions of accelerated partial vesting). The exercise price for any new options granted is set at the market price of the shares at the time of grant of the options. Individual option grants are not capped by a maximum size of grant.

The Board of Bionor seeks a yearly authorization from shareholders at the annual general meeting to issue a maximum number of share options in total for all grants. Cap is approximately 5% of outstanding shares and options (fully diluted). As per 30 June 2016, current and previous management, employees and consultant were granted 5,587,916 share options of which 3,654,581 were fully vested as per 30.06.2016.

At the annual general meeting 22 April 2016, the general meeting did not approve the proposed authorization to issue shares under the company's incentive program as a group of shareholders proposed that the Board should reevaluate the company's option program. Subsequently, on the extraordinary general meeting on 6 June, the authorization to issue shares under the company's incentive program was approved.

	No of options	Average Price
Options fully vested	**3 654 581**	**2.22**
2016 Q3	501 038	2.05
2016 Q4	115 614	2.05
2017 Q1	115 614	2.05
2017 Q2	198 949	2.26
2017 Q3	115 629	2.05
2017 Q4	115 629	2.05
2018 Q1	115 624	2.05
2018 Q2	115 629	2.05
2018 Q3	115 631	2.05
2018 Q4	115 626	2.05
2019 Q1	115 632	2.05
2019 Q2	115 632	2.05
2019 Q3	77 088	2.05
Options not vested	**1 933 335**	**2.07**
Options not vested	**5 587 916**	**2.17**

Exercise price	No of options
2.00	2 266 667
2.05	1 850 000
2.37	781 249
2.48	240 000
2.55	250 000
3.50	200 000
Total no of options	**5 587 916**

	H1 2016		H1 2015	
	No of options	Average Price	No of options	Average Price
Outstanding options 1 January	**8 473 333**	**2.19**	**5 810 000**	**2.20**
Granted options in period	-	-	2 500 000	2.37
Forfeited options in period	2 218 751	2.30	1 520 000	2.39
Expired options in period	666 666	2.00	-	-
Exercised options in period	-	-	666 667	2.00
Outstanding options 30 June	**5 587 916**	**2.17**	**6 123 333**	**2.24**

NOTE 4 EXTERNAL R&D EXPENSES

Below table shows specification of external R&D expenses.

Amounts in NOK millions	Q2 2016	Q2 2015	H1 2016	H1 2015	FY 2015
Laboratory and preclinical R&D	(1 147)	(675)	(1 755)	(1 480)	(2 018)
Production cost	(20)	(60)	(124)	(200)	(812)
Clinical development expenses	(6 044)	(7 193)	(16 141)	(15 483)	(34 590)
Regulatory and quality assurance	-	-	-	(42)	(51)
Government grants	1 819	1 857	6 525	5 729	14 328
External R&D expenses	**(5 392)**	**(6 072)**	**(11 495)**	**(11 475)**	**(23 143)**

NOTE 5 DEFERRED TAX CARRIED FORWARD

Bionor Pharma ASA has tax losses carried forward in Norway, which can be offset by future tax profit in the company. The right to carry forward loss is unlimited. The deferred tax asset is not recognized as an asset in the statement of financial position. Total loss carried forward was NOK 632 million as per 31 December 2015.

NOTE 6 SHARES AND SHARE CAPITAL

In NOK thousands	Q2 2016	Q2 2015	H1 2016	H1 2015	FY 2015
Share capital at period start	83 917	62 082	62 328	62 082	62 082
Share capital increase private placement	-	-	15 845	-	79
Share capital increase exercise of options	-	-	-	-	167
Share capital increase subsequent offering	-	-	5 745	-	-
Share capital at period end	**83 917**	**62 082**	**83 917**	**62 082**	**62 328**

Amounts of shares thousands	Q2 2016	Q2 2015	H1 2016	H1 2015	FY 2015
Outstanding number of shares at period start	335 669	**248 326**	249 310	**248 326**	248 326
Share issuance private placement	-	-	63 380	-	317
Share capital increase exercise of options	-	-	-	-	667
Share issuance Subsequent Offering	-	-	22 979	-	-
Outstanding number of shares at period en	**335 669**	**248 326**	**335 669**	**248 326**	**249 310**

The par value per share is NOK 0.25. Change in share capital in 2016 reflects the equity issue through a private placement 11 February 2016 followed by a subsequent repair offering 3 March 2016.

NOTE 7 OFF-BALANCE SHEET OBLIGATIONS

The Group has contractual obligations, such as rental and operational lease obligations. As of 30 June 2016 the Group's contractual obligations, excluding employee obligations, amounted to NOK 7,608 thousand. Of these, the contractual obligations for R&D related activities accounted for NOK 1,392 thousand The table below shows the maturity structure of the Group's contractual obligations (off balance sheet) as of 30 June 2016.

Due to the lease cancellations or sublease of offices in the US, Denmark and Norway, housing liabilities have been substantially reduced from NOK 15.9 million in Q1 2016 to only NOK 2.1 million in Q2 2016. In addition, realized severance payment to former CEO and lower R&D liabilities have further reduced total liabilities from NOK 32.5 million in Q1 2016 to NOK 7.6 million in Q2 2016.

Amounts in NOK thousands	Matures within 6 months	Matures within 6 - 12 months	Matures in 1 year	Matures after 5 years	Total
External R&D expenses	1 257	135	-	-	1 392
Housing	1 655	387	51	-	2 093
Other	2 767	1 303	53	-	4 123
Total	5 679	1 825	104	-	7 608

NOTE 8 GOING CONCERN

On 18 August 2016, the company announced that it had entered into an agreement with certain new investors regarding full subscription of a NOK 52.5 million private placement, subject to approval at an extraordinary general meeting, and that the Board proposes to carry out a subsequent fully underwritten rights offering of NOK 52.5 million. Following completion of the private placement, the company will be fully funded under the current strategy for no less than 12 months.

The Group's working capital is based on the above and considered sufficient for Bionor to continue as a going concern for the next 12-months period.

NOTE 9 EVENTS AFTER THE BALANCE SHEET DATE

On 18 August 2016, the company announced that it had raised a total of NOK 105 million in new equity by an agreement with certain new investors regarding full subscription of a NOK 52.5 million private placement, subject to approval at an extraordinary general meeting 9 September 2016, as well as a proposed, subsequent, fully underwritten rights offering of NOK 52.5 million. Following completion of the private placement, the company will be fully funded under the current strategy for no less than 12 months. The company's main shareholder has committed to vote in favor of the private placement and the rights offering, and not to sell any Bionor shares prior to the extraordinary general meeting.

The current strategy of Bionor is to further advance Vacc-4x in clinical development to develop a functional cure for HIV. As a consequence of the new, expected ownership structure following the private placement and subsequent fully underwritten rights offering, a new Board of Directors will be elected at the extraordinary general meeting on 9 September 2016. Accordingly, the company's strategy will be evaluated by the new Board of Directors, which may lead to a reassessment of the company's current short and long-term strategies.

Until such further assessments have been undertaken all planning of clinical trials is put on hold.

In connection with the agreement with certain new investors regarding the private placement and fully underwritten rights offering, all operations in Denmark and the U.S. have been terminated or are in the process of being terminated, and the following has been agreed with regard to the company's management and key employees:

- SVP Chief Strategy and Business Officer, Kamilla Rolsted, and VP for Investor Relations and Communications, Jørgen Fischer Ravn, agreed with the company that their employment would discontinue from and including 1 September 2016. SVP General Counsel and Chief Patent Officer Barbara Ruskin will continue to provide services to the company on a part-time consultancy basis and CFO Jens Krøis will continue his role as CFO in the company on a full-time consultancy basis until 31 December 2016.