targovax

Interim report

Q3 2015

targovax

Interim Report third quarter 2015

Targovax is a clinical stage immuno-oncology company developing targeted immunotherapy treatments for cancer patients. Targovax has a broad and diversified immunotherapy portfolio and aims to become a leader in its area. The company is currently developing two complementary and highly targeted approaches in immuno-oncology.

ONCOS-102 is a virus-based immunotherapy platform based on engineered oncolytic viruses armed with potent immune-stimulating transgenes targeting solid tumors. This treatment may reinstate the immune system's capacity to recognize and attack cancer cells. TG01 is a peptide-based immunotherapy platform targeting the difficult to treat RAS mutations found in more than 85% of pancreatic cancers and 20-30% of all cancers. Targovax is working towards demonstrating that TG01 will prolong time to cancer progression and increase survival.

Highlights

- In November, Targovax announced an agreement with Ludwig Cancer Research (LICR) and the Cancer Research Institute (CRI) in New York to evaluate ONCOS-102 in combination with other immunotherapies such as checkpoint inhibitors

- Also in November, Targovax entered into an agreement with the biotech company Sotio to run a collaboration study combining ONCOS-102 and Sotio's dendritic cell therapy to evaluate the safety and tolerability in the treatment of advanced prostate cancer.

- At the SITC (Society for Immunotherapy of Cancer) conference in Washington DC in November, Targovax presented immune biomarker data from a phase I study, suggesting that local immunotherapy with ONCOS-102 has the potential to activate immunologically silent tumors and reduce local immune suppression in advanced tumors

- Targovax completed an agreement on 2 July 2015 with the shareholders of Oncos Therapeutics Oy to acquire the shares of Oncos creating an emerging leader within immuno-oncology

- The company issued 8 million new shares in a private placement on 9 July which raised NOK 200m

- A new experienced management team and organization was established

- Eva-Lotta Allan and Diane Mellet were appointed to the Board of Directors

- The TG01 clinical trial in resected pancreatic cancer progressed as planned

Key figures

Amounts in NOK thousands	Q3 2015	Q3 2014	9M 2015	9M 2014	FY 2014
Total operating revenues	144	-	144	52	72
Total operating expenses	-29 478	-4 115	-48 997	-9 361	-17 642
Operating profit/loss	-29 333	-4 115	-48 853	-9 310	-17 570
Net financial items	487	1	500	-85	-77
Income tax	-43	-	-43	-	-
Net profit/loss	-28 889	-4 114	-48 396	-9 395	-17 646
Basic and diluted EPS (NOK/share)	-1.08	-0.44	-3.18	-1.33	-2.50
Net increase/(decrease) in cash and cash equvivalents	162 228	-3 232	144 141	60 639	54 182
Cash and cash equivalents at beginning of period	44 465	72 241	62 552	8 370	8 370
Cash and cash equivalents at end of period	206 694	69 009	206 694	69 009	62 552

Operational Review

The Targovax/Oncos merger[1]

In the third quarter of 2015 Targovax and Oncos joined forces, creating a leading immuno-oncology biotech company:

- With unique technologies and promising data
- With multiple future value inflection points
- Led by an experienced management team
- Backed by leading life science focused investors

The merger closed on 2 July, marking the start of the integration process of the two companies.

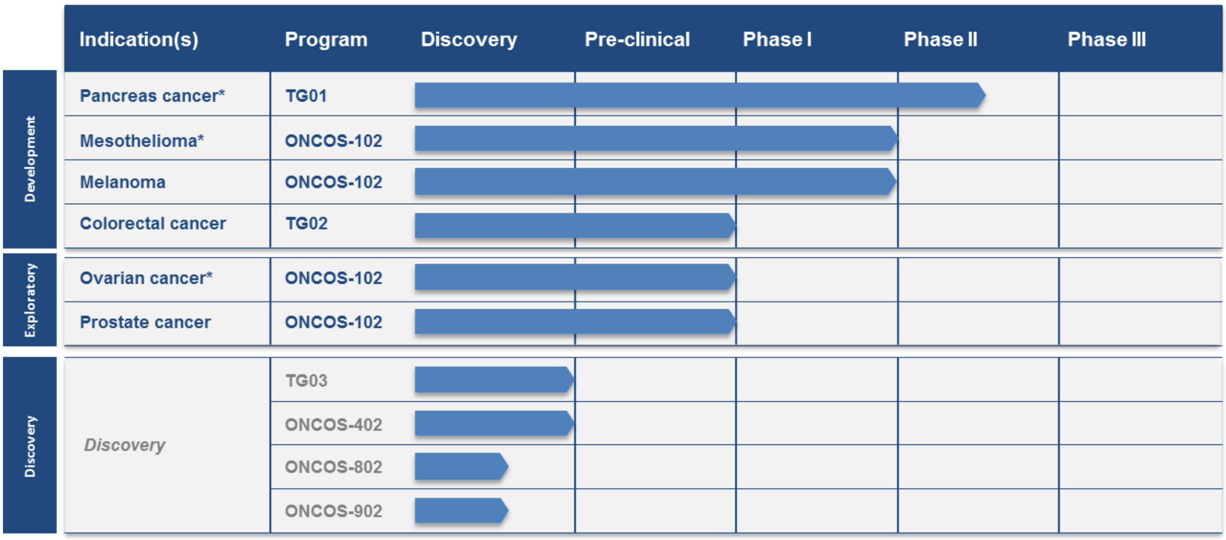
The merged company has several product lines based on two different technologies. On-going clinical programs will continue as separate projects. However, the organisation is already experiencing positive synergistic effects from a joint management through shared competences and exchange of experiences. Pipeline synergies will also be explored.

Following the merger, the combined company has also reached critical mass concerning pipeline and organization. This has made the company more visible to investors and potential partners. As a result, Targovax has already experienced better access to and increased interest from big pharma.

Increased visibility also means that Targovax will stand out as an attractive employer, improving opportunities to retain and recruit highly competent staff.

[1] The combination of Targovax AS and Oncos Therapeutics Oy was technically an acquisition, where Targovax acquired all shares in Oncos and Oncos's shareholders were paid in new Targovax shares. It is was nevertheless a merger of equals and is referred to as a merger.

Clinical development



** Orphan drug status*

Targovax has a broad and diversified pipeline of several promising product candidates targeting multiple indications. TG01 is being developed for the treatment of resected pancreatic cancers and is the most advanced program, currently in Phase II development.

Indications planned for development also include ONCOS-102 in melanoma and mesothelioma, and TG02 in colorectal cancer.

In addition, the company will collaborate with external scientific partners on exploratory studies in several other indications.

ONCOS-102 Data Presented at SITC

At the 2015 SITC (Society for Immunotherapy of Cancer) conference in Washington DC in November, Targovax presented immune biomarker data from a previously completed phase I study, suggesting that local immunotherapy with ONCOS-102 has the potential to activate immunologically silent tumors and reduce local immune suppression in advanced tumors.

Development Trials

TG01 Pancreatic Cancer

TG01 is a peptide based therapeutic anticancer vaccine targeting the difficult to treat RAS mutations found in more than 85% of pancreatic cancers and 20 - 30% of all cancers. Targovax aims to demonstrate that TG01 can prolong time to cancer progression and increase survival by inducing immune responses in cancer patients with RAS mutations.

TG01 is used together with the immune stimulator granulocyte macrophage-colony stimulating factor (GM-CSF). TG01 is currently being investigated in combination with gemcitabine (chemotherapy) in a phase II clinical study for the adjuvant treatment of patients with resected (operable) pancreatic cancer.

In a first cohort, 19 patients have received TG01/GM-CSF treatment and gemcitabine treatment. Of the 17 patients eligible for immune response assessment, 14 (82%) had established a detectable immune response.

The regimen was generally well tolerated, with events related to TG01 being those expected for a peptide vaccine (local reactions and flu-like symptoms). Grade 3/4 reactions were primarily related to gemcitabine. There were four related allergic reactions to vaccination, where two were severe, representing dose limiting toxicity (DLT).

This has led the company to study a slightly different regimen. In the first quarter 2015 Targovax decided to expand the study with a second cohort of up to 13 patients in order to further optimize the vaccine regimen. The study centers are open for recruitment and patients are being treated.

ONCOS-102 Mesothelioma

This trial will be a randomised phase II open label study with a Phase Ib safety lead-in of ONCOS-102 and standard of care chemotherapy in patients with unresectable malignant pleural mesothelioma.

The study is planned to include approximately 30 patients in the EU and will commence in the first half of 2016.

ONCOS-102 Melanoma

This trial will be an explorative open-label study to determine anti-tumor immune activation and clinical response of ONCOS-102 given with pembrolizumab, a checkpoint inhibitor (human programmed PD-1-blocking antibody) in patients with advanced melanoma who have stopped responding to prior treatment with check point inhibitors.

The study is planned to include approximately 12 patients in the US and will commence in the second half of 2016.

TG02 Colorectal Cancer

This will be an open label trial to determine anti-tumor immune activation, safety and clinical response of TG02 in patients with colorectal cancer with progressive disease waiting for pelvic mass resection. Immune activation will be measured through skin DTH-test, PBCM (cancer antigen specific T-cells) and resected tumor material (cytotoxic T-cells).

The study is planned to include approximately 20 patients at sites in Australia and will be initiated in the first half of 2016.

Exploratory Trials

On 18 November, Targovax entered into an agreement with the US institutions Ludwig Cancer Research (LICR) and the Cancer Research Institute (CRI) to evaluate ONCOS-102 in early phase clinical trials, testing the virotherapy in combination with other, potentially synergistic immunotherapies such as checkpoint inhibitors. The publication of exact indications and commencement of a trial is expected during 2016.

Through this collaboration, Targovax will gain access to the well-known expertise and network of CRI and Ludwig Cancer Research, which provides new opportunities for combinatorial research. The focus will be on mechanistic synergies with clinical impact combining ONCOS-102 with other immune therapies.

Likewise in November, Targovax and the biotech company Sotio agreed to design and run a collaboration study combining ONCOS-102 and Sotio's dendritic cell therapy DCVAC/PCa to evaluate the safety and tolerability of the combination therapy in the treatment of advanced prostate cancer. The plan is to recruit the first patient in first half 2016.

The design of the planned study with Sotio is subject to regulatory approvals in the Czech Republic and Finland.

Cost sharing is a shared aspect of the two collaborations. The cash flow effect of conducting collaboration trials is expected to be small for Targovax.

Intellectual Property Rights

Targovax owns a broad patent portfolio protecting its pipeline, with patents and patent applications from different patent families covering its products and peptides.

Orphan Drug status is granted for TG01 within pancreatic cancer in the EU and USA, ensuring 10 and 7 years of market protection respectively from the date of market approval. The company also holds Orphan Drug status for ONCOS-102 within mesothelioma, ovarian cancer as well as soft tissue sarcoma.

Experienced management team

Targovax has a highly experienced management team with backgrounds in successful biotechs as well as big pharma.

Management team:

Name	Position
Gunnar Gårdemyr	CEO
Øystein Soug	CFO
Jon Amund Eriksen	COO
Magnus Jäderberg	CMO
Antti Voulanto	EVP
Nicolaj Knudtzon	Head of HR
Tina Madsen	VP Quality Assurance
Peter Skorpil	VP Business Development

Experienced Board of Directors

The Board consists of highly skilled professionals with a broad range of relevant competences.

In addition to Per Samuelsson, Johan Christenson and Robert Burns who joined the Board in July, the Board was expanded further in September with Eva-Lotta Allan and Diane Mellet.

Eva-Lotta Allan has more than 25 years of business development experience from the biotechnology and life science industry in both private and public companies. Ms Allan currently holds the position as Chief Business Officer at Immunocore Ltd, an immune-oncology company specializing in the development of soluble T cell receptor based drugs. She has previously held senior positions at Ablynx, Vertex Pharmaceuticals, Oxford Asymmetry (now Evotec) and Oxford GlycoSciences (now UCB).

Diane Mellett is a consultant to biotech and medical device companies. She qualified in law in both US and UK. Diane provides advice to biotechnology companies in commercial contract and intellectual property matters. She was formerly General Counsel for Cambridge Antibody Technology and led the US NASDAQ listing of that company as well as serving on the Board of Directors.

Following the recent additions, the Board now consists of Jonas Einarsson (chair), Bente-Lill Romøren, Lars Lund-Roland, Per Samuelsson, Robert Burns, Johan Christenson, Eva-Lotta Allan and Diane Mellett.

Shareholder information

Through the merger and the private placement completed in July 2015 the shareholder structure of Targovax changed. By 30 September, there were 26,858,808 shares outstanding, distributed to 180 shareholders. The 20 largest shareholders controlled some 84 percent of the shares:

Shareholder	# shares	%
HealthCap	8 490 918	31,6 %
Radiumhospitalets Forskningsstiftelse	3 410 589	12,7 %
Trojan AS	2 462 000	9,2 %
Arctic Funds PLC	907 000	3,4 %
Timmuno AS	724 650	2,7 %
Prieta AS	720 000	2,7 %
Portia AS	640 000	2,4 %
Danske Bank A/S	587 971	2,2 %
Nordnet Bank AB	569 522	2,1 %
KLP Aksje Norge VPF	460 000	1,7 %
Eltek Holding AS	442 000	1,6 %
Statoil Pensjon	436 000	1,6 %
Storebrand Vekst	425 000	1,6 %
Pactum AS	400 000	1,5 %
Birk Venture AS	386 680	1,4 %
Op-Europe Equity Fund	357 869	1,3 %
Trygve Schiørbecks Eff. AS	286 449	1,1 %
Viola AS	280 000	1,0 %
Kommunal Landspensjonskasse	270 000	1,0 %
Verdipapirfondet DNB Grønt NORDEN	250 919	0,9 %
20 largest shareholders	**22 507 567**	**83,8 %**
Other shareholders (160)	4 351 241	16,2 %
Total shareholders	**26 858 808**	**100,0 %**

Financial Review

Since Targovax merged with Finnish Oncos on 2 July 2015, the figures in this report includes the combined businesses from the third quarter 2015. Figures in parenthesis are from the comparable period in 2014, pre-merger.

The company issued 8 million new shares in a private placement on 9 July 2015 which raised NOK 200m and expanded the investor base considerably. Net proceeds from this transaction was NOK 191m.

Results third quarter 2015

In the third quarter 2015 Targovax had an income of NOK 0.1m related to a service fee of compassionate use (versus NOK 0.0m in the third quarter last year).

Operating expenses amounted to NOK 29m (NOK 4m) in the quarter. The operating expenses are reported net of governmental grants, which amounted to NOK 1m in the period (NOK 2m). The higher operating expenses reflects the combination with Oncos and more activities in all areas of business.

The net loss amounted to NOK 29m in the third quarter 2015 (NOK 4m).

Results first nine months 2015

Revenues were NOK 0.1m (NOK 0.0m) in the first nine months of 2015. Operating expenses amounted to NOK 49m (NOK 9m) during this period. The operating expenses are presented net of governmental grants. The grants during the first nine months of 2015 amounted to NOK 7m (NOK 4m). The increase in other operating costs reflects the combination with Oncos and more activities in all areas.

The net loss for the period amounted to NOK 48m (NOK 9m).

Financial position and cash flow

Net cash was NOK 207m at the end of the third quarter compared to NOK 63m at the end of 2014. The change in net cash level was driven by the NOK 200m capital increase undertaken in July offset primarily by operating activities. Net cash outflow in the third quarter was negative NOK 30m from operating activities and positive NOK 1m from investing activities.

The company had NOK 38m in interest bearing debt, all to Tekes, the Finnish Funding Agency for Technology and Innovation.

Outlook

Targovax' focus during the next 12 months will be to continue the development of TG01 in resected pancreatic cancer, in addition to starting trials with

- Oncos-102 in melanoma
- Oncos-102 in mesothelioma
- TG02 in colorectal cancer

Furthermore, Targovax, together with its scientific collaborators Sotio and LICR/CRI, is planning to start trials in advanced prostate cancer and other solid tumor indications.

In the first half of 2016, the company intends to publish immune data for the second cohort of patients in the TG01 trial in pancreatic cancer, as well as the 12-month interim clinical results for the first cohort.

Targovax is continuously working to improve and strengthen its organization and infra-structure to meet its objectives. Access to capital is vital to this development. A part of the company's strategy is to expand its IR outreach in preparation for an initial public offering (IPO). Targovax aims to list at the Oslo Stock Exchange before the end of June 2016.

According to current plans, the company has funds to finance its activities into the second half of 2016. Targovax has retained flexibility in its cost structure and has the possibility to change prioritizations and thereby enable the cash position to last into 2017.

Third quarter accounts 2015

Condensed consolidated statement of profit or loss and other comprehensive income

(Amounts in NOK thousands except per share data)	Note	Unaudited Q3 2015	Unaudited Q3 2014	Unaudited 9M 2015	Unaudited 9M 2014	Audited FY2014
Other revenues		144	-	144	52	72
Total revenue		**144**	**-**	**144**	**52**	**72**
Cost of manufacturing for R&D		-2 874	-878	-5 601	-1 765	-6 316
Payroll and related expenses	4, 7	-13 304	-1 050	-19 991	-2 778	-5 367
Depreciation		-63	-3	-81	-3	
Other operating expenses	4	-13 236	-2 184	-23 324	-4 816	-5 949
Total operating expenses		***-29 478***	***-4 115***	***-48 997***	***-9 361***	***-17 642***
Operating profit/ loss (-)		**-29 333**	**-4 115**	**-48 853**	**-9 310**	**-17 570**
Financial income		1 572	34	1 954	55	343
Financial expenses		-1 084	-34	-1 454	-141	-420
Net financial items		***487***	***1***	***500***	***-85***	***-77***
Loss before income tax		**-28 846**	**-4 114**	**-48 353**	**-9 395**	**-17 646**
Income tax		-43		-43		
Loss for the period		**-28 889**	**-4 114**	**-48 396**	**-9 395**	**-17 646**
Other comperehensive income /loss (-), net of income tax						
Income/ loss (-) for the period		-28 889	-4 114	-48 396	-9 395	-17 646
Exchange differences arising from the translation of foreign operations		-667	-	-667	-	-
Total comprehensive income/ loss (-) for the period		**-28 889**	**-4 114**	**-49 063**	**-9 395**	**-17 646**
Income/ loss (-) for the period attributable to owners		-28 889	-4 114	-49 063	-9 395	-17 646
Total comprehensive income/ loss (-) for the period attributable to owners		***-28 889***	***-4 114***	***-49 063***	***-9 395***	***-17 646***
Earnings/ loss (-) per share						
Basic and dilutive earnings/ loss (-) per share	6	-1.08	-0.44	-3.18	-1.33	-2.50

Condensed consolidated statement of financial position

(Amounts in NOK thousands)	Note	Unaudited 30.09.2015	Unaudited 30.09.2014	Audited 31.12.2014
ASSETS				
Intangible assets	3	327 411	-	-
Property, plant, and equipment		1 525	158	150
Total non-current assets		**328 936**	**158**	**150**
Receivables	4	14 546	5 545	***4 660***
Cash and cash equivalents		206 694	69 009	***62 552***
Total current assets		**221 240**	**74 554**	**67 213**
TOTAL ASSETS		**550 177**	**74 711**	**67 362**
EQUITY AND LIABILITIES				
Shareholders equity				
Share capital	5	2 686	943	943
Share premium reserve		522 317	97 792	97 792
Other reserves		3 633	754	780
Retained earnings		-90 485	-30 590	-38 841
Translation differences		-667		
Total equity		**437 485**	**68 899**	**60 673**
Non-current liabilities				
Interest-bearing loans and borrowings	3	37 884	-	-
Deferred tax	3	51 952	-	-
Total non-current liabilities		**89 836**	-	-
Current liabilities				
Accounts payable and other current liabilities		8 091	2 362	2 564
Accrued public charges		1 359	438	781
Other short-term liabilities	3	13 406	3 012	3 344
Total current liabilities		**22 856**	**5 813**	***6 689***
TOTAL EQUITY AND LIABILITIES		**550 177**	**74 711**	**67 362**

Condensed consolidated statement of changes in equity

(Amounts in NOK thousands)	Note	Share capital	Share premium	Other reserves	Translation differences	Retained earnings (Accumulated losses)	Total equity
Balance at 1 January 2014		**470**	**20 368**	**633**		**-21 195**	**276**
Loss for the period						-9 395	-9 395
Other comprehensive income/loss, net of tax							
Total comprehensive income for the period						**-9 395**	**-9 395**
Recognition of share-based payments	7			121			**121**
Issue of ordinary shares - Capital increase	5	473	77 424				**77 896**
Unaudited balance at 30 September 2014		**943**	**97 792**	**754**		**-30 590**	**68 899**
Balance at 1 January 2015		**943**	**97 792**	**780**		**-38 841**	**60 673**
Loss for the period						-48 396	**-48 396**
Exchange differences arising from the translation of foreign operations					-667		**-667**
Other comprehensive income/loss, net of tax							
Total comprehensive income for the period					**-667**	**-48 396**	**-49 063**
Issue of ordinary shares - Aquiring Oncos Therapeutics OY		943	234 792				235 735
Transaction costs - Oncos Therapeutics OY			-260				-260
Issue of ordinary shares - Capital increase - Private Placement		800	199 200				200 000
Transaction costs - Private Placement			-9 207				-9 207
Translation difference - Oncos Therapautics OY					-3 070		-3 070
Reclassification of share-based payment Oncos Th.OY				177		-177	
Recognition of share-based payments	7			2 676			2 676
Unaudited balance at 30 September 2015		**2 686**	**522 317**	**3 633**	**-3 737**	**-87 415**	**437 485**

Condensed consolidated statement of cash flow

(Amounts in NOK thousands)	Note	Unaudited Q3 2015	Unaudited Q3 2014	Unaudited 9M 2015	Unaudited 9M 2014	Audited FY2014
Cash flow from operating activities						
Loss before income tax		-28 846	-4 114	-48 353	-9 395	-17 646
Adjustments for:						
Net interest income and expense		-487	84	-701	85	-206
Share option expense	6	1 236	41	2 694	121	147
Depreciation		63	3	81	3	11
Change in receivables		-1 636	-1 025	-5 894	282	1 166
Change in other current liabilities		-20	1 948	4 113	1 817	2 694
Net cash flow from /(used in) operating activities		**-29 690**	**-3 063**	**-48 061**	**-7 087**	**-13 835**
Cash flow from investing activities						
Purchases of property, plant, and equipment (PPE)		-36	-160	-53	-160	-160
Purchases of intangible assets						
Aquisition of subsidiary, net of cash acquired		1 313		1 313		
Net cash received from/(paid in) investing activities		**1 277**	**-160**	**1 260**	**-160**	**-160**
Cash flow from financing activities						
Net interest income and expense		401	-9	701	-10	287
Other finance expense						-5
Share issue expense - Aquisition of Oncos OY		-260		-260		
Share issue expense - PP		-9 207		-9 207	-4 604	-4 604
Proceeds from issuance of shares -PP		200 000		200 000	72 500	72 500
Net cash generated from financing activities		**190 934**	**-9**	**191 234**	**67 886**	**68 178**
Net increase/(decrease) in cash and cash equivalents		**162 521**	**-3 232**	**144 434**	**60 639**	**54 182**
Net exchange gain/loss on cash and cash equivalents		-292		-292		
Cash and cash equivalents at beginning of period		**44 465**	**72 241**	**62 552**	**8 370**	**8 370**
Cash and cash equivalents at end of period		**206 694**	**69 009**	**206 694**	**69 009**	**62 552**

Notes

1. General information

Targovax ASA ("the Company") and its subsidiaries (together the Group) is a clinical stage immuno-oncology company dedicated to the development of targeted immunotherapy treatments for cancer patients.

Targovax is targeting complementary approaches to cancer immunotherapy: A cancer vaccine platform developed for patients with RAS-mutated cancers and an immunotherapy platform based on engineered oncolytic viruses armed with potent immune-stimulating transgenes for patients with solid tumors. Both treatment approaches harness the patient’s own immune system to fight the cancer.

The Company is a limited liability company incorporated and domiciled in Norway. The address of the registered office is Vollsveien 6, 1366 Lysaker, Norway.

The figures in this third quarter 2015 report are non-audited figures. These financial statements were approved for issue by the Board of Directors on 25 November, 2015.

2. Significant accounting principles/Critical accounting estimates and judgments

The quarterly consolidated financial statements for the Group are prepared using the same accounting principles and calculation methods as used for the statutory, annual financial statements 2014 for Targovax AS. Targovax’ accounting principles/ critical accounting estimates and judgments are presented in Targovax’ annual financial statements 2014, and the quarterly financial statements should be read in conjunction with this.

The accounting principles used have been consistently applied in all periods presented, unless otherwise stated.

Amounts are in thousand Norwegian kroner unless stated otherwise. The functional currency of the Group is NOK (Norwegian kroner).

There is increased operational activity in Finland and Norway due to the acquisition of Oncos Therapeutics OY. However, the Group's activity is currently organized in one operating segment.

2.1 Basis of preparation

The quarterly financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis.

2.2 Standards and interpretations in issue but not yet adopted

At the date of authorization of these quarterly financial statements, there are no Standards or Interpretation that have been issued where the Management consider any material impact.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of Targovax ASA and its subsidiaries as at 30 September 2015. The subsidiaries include Targovax OY, located at Helsinki, Finland and Oncos Therapeutics AG, Meggen, Switzerland, all 100% owned and controlled subsidiaries. Targovax OY is the parent company of Oncos Therapeutics AG.
Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

In general, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. 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.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it ceases to recognize the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognize d in profit or loss. Any investment retained is recognize d at fair value.

2.4 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognize d at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognize d in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognize d for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognize d at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognize d in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.5 Going concern

As a result of the private placement in third quarter 2015 and the current liquidity situation, Directors have expectation that the Group has available financial resources sufficient for the planned activities in the foreseeable future. The Group therefore continue to adopt the going concern basis in preparing its consolidated financial statements.

3. Acquisition of Oncos Therapeutics OY

On 2 July 2015, the Company acquired all the shares in Oncos Therapeutics Oy ("Oncos"), an unlisted privately funded company based in Finland. Oncos is a clinical-stage biotechnology company, which also is focusing on the design and development of targeted cancer immunotherapy. The transaction was structured as a share for share exchange whereby Targovax ASA issued 9 429 404 new shares to the shareholders of Oncos as consideration for the shares in Oncos (the "Oncos Acquisition").

Following the Oncos Acquisition, Oncos is a wholly-owned subsidiary of the Company at the closing date of the agreement 2 July 2015 (the "Acquisition date"). Following the share capital increase registered on July 2 2015, the share capital of Targovax is NOK 1 885 880.80, divided into 18 858 808 shares, each with a nominal value of NOK 0.10.

The combination of Targovax and Oncos complementary technologies creates a unique platform for the development of cutting-edge vaccines and immunotherapies. The combined group of Targovax and Oncos is positioned as a leading immuno-oncology company with clinical experience to date validates safety and mechanism of action of both technology platforms.

The main drivers for Oncos are the patented technology and mainly the product technology for the ONCOS-102 product. The allocation of value to the patented technology is done by a cost based valuation approach, analyzing the total fund invested in the intangible assets and additional value created as part of the product development.

The purchase price allocation is preliminary as of 26 November 2015 as there is still some uncertainty related to the identified assets and liabilities acquired from Oncos. No residual value of the purchase price is recognized as goodwill, and no other excess values than patented technology is identified as part of the transaction.

Total transaction costs related to the acquisition is NOK 4 million.

No contingent consideration arrangements are identified as part of the acquisition.

The fair values of the identifiable assets and liabilities of Oncos, as at the date of acquisition, as a result of the preliminary purchase price allocation were:

(Amounts in NOK/EUR thousands)	NOK	EUR
Assets		
Intangible assets	327 409	37 227
Tangible assets	1 298	148
Other current assets	6 324	719
Cash and cash equivalents	1 313	149
Total assets	**336 344**	**38 243**
Liability		
Deferred tax	51 952	5 907
Other non-current liabilities	33 584	3 819
Other current liabilities	15 073	1 714
Total liabilities	**100 609**	**11 439**
TOTAL CONSIDERATION (THE "PURCHASE PRICE")	**235 735**	**26 803**

Intangible assets

Intangible assets of NOK 327 409 083 comprises the patented technology, which is a key value driver for Oncos. The patented technology consists mainly of the product technology for the ONCOS-102 product. ONCOS-102 has shown promising results in cellular immune response stimulation. The product has succeeded in passing the critical phase I in the development cycle and is ready to start phase II in several solid tumor indications. In addition, ONCOS-102 has been designated orphan drug status both in Europe and the US for the indications mesothelioma, ovarian cancer, and soft tissue sarcoma. The other products and patents developed by Oncos are still at a discovery stage and invested capital in these products is insignificant. No excess value is allocated to other products than ONCOS-102.

Deferred tax

Deferred tax is calculated on temporary differences on intangible assets. The value of the identified intangible assets acquired amounts to TNOK 327 409. Net tax value of assets capitalized for tax purposes amounts to TNOK 67 649, resulting in a temporary difference of TNOK 261 058 and a deferred tax of TNOK 51 952 using statutory tax rate in Finland of 20%. The deferred tax will be calculated on the same basis going forward.

In addition, recognition of deferred tax asset has been assessed in the purchase price allocating. Accumulated tax losses from Oncos' operations amounts to EUR 8.1 million as of 31 December 2014. With a current tax rate in Finland of 20%, the corresponding deferred tax asset is EUR 1.6 million. Oncos has not recognized any deferred taxes under FGAAP. Tax losses in Finland can be carried forward and offset against taxable income in ten years for tax purposes. Oncos has not generated taxable income in prior years and is not expected to generate taxable income in the nearest future. Due to the uncertainty for future taxable profit within the ten years limitation of use, the Company has assessed that it cannot be considered as probable that future taxable profit can be used against the tax losses carried forward. No deferred tax asset is recognized in the purchase price allocation.

Other non-current liabilities

Targovax OY (Oncos Therapeutics OY) has received funding from Tekes in the forms of R&D loans in the principal outstanding amount of EUR 5 842 312 for the commercialisation of ONCOS-102. Tekes is a publicly financed funding agency that finances research and development activities for young innovative companies in Finland.

Three separate R&D loans with special terms have been granted under loan agreements dated September 2010, January 2012 and December 2013. The loans usually have a 10 years duration, of which the first five years are free of repayment. However, one of the three loans has a term of 13 years duration with 8 years free of repayment.

Repayment shall be made in equal annual instalments during the latter five years, while interest is paid annually throughout the entire loan period. The applicable interest rate under the R&D loans is the European Central Bank's steering rate less 3 percentage points per annum, although no less than 1 percent.

Should the project fail, it is possible to get a remission on part of the debt in accordance with the EU competition legislation. The final amount of the non-recovered part of the principal depends on factors such as the time and the materialised interest rate trend. The final sum will be determined when an eventual decision on non-recovery is made.

Targovax Group has issued an on-demand guarantee in favour of Tekes for the repayment obligation of Targovax OY (Oncos Therapeutics OY) under the R&D loans. The loan agreements include no financial covenants.

From the date of acquisition, Targovax OY has contributed €15 805 of revenue and €890 913 to the net loss before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been €15 805 and the loss before tax from continuing operations for the period would have been €2 849 651.

4. Government grants

Government grants have been recognized in profit or loss as a reduction of the related expense with the following amounts:

(Amounts in NOK thousands)	Q3 2015	Q3 2014	9M 2015	9M 2014	FY2014
Cost of manufacturing for R&D	84	144	765	326	
Payroll and related expenses	290	564	2 273	1 466	2 003
Other operating expenses	615	1 039	4 496	2 149	6 034
Total	**988**	**1 747**	**7 535**	**3 940**	**8 038**

For the period 2013 through 2016, the Group has been awarded a grant from The Research Council (program for user-managed innovation arena (BIA)) of NOK 12 361 000 in total. For the nine months period ended 30 September 2015, The Group has recognized NOK 4 473 000 as cost reduction in Payroll and related expenses and Other Operating expenses.

R&D projects have been approved for Skatte Funn for the period 2011 through 2016. For the first nine months of 2015 the Group has recognized NOK 3 062 000 as cost reduction in Payroll and related expenses and Other Operating expenses.

5. Share capital and number of shares

Share capital as at 30 September 2015 is 2 685 881 (30 September 2014: 942 940) being 26 858 808 ordinary shares at nominal value NOK 0.10 (30 September 2014: 9 429 404 at NOK 0.10). All shares carry equal voting rights.

The movement in the number of shares during the period was as follows:

	Q3 2015	Q3 2014	9M 2015	9M 2014	FY2014
Ordinary shares at beginning of period	9 429 404	9 429 404	9 429 404	4 703 000	4 703 000
Share issuance - private placement	8 000 000	-	8 000 000	4 726 404	4 726 404
Aquisition of Oncos Therapeutics OY	9 429 404	-	9 429 404	-	-
Ordinary shares at end of period	**26 858 808**	**9 429 404**	**26 858 808**	**9 429 404**	**9 429 404**

Changes in shareholders subsequent to June 30 2015

After the share capital increase of 9 429 404 new shares to the shareholders in Oncos as a result of the Oncos transaction 2 July 2015, and the subsequent private placement of NOK 200m registered at 9 July 2015, the 20 largest shareholders are as follows at 30 September 2015:

Shareholder	# shares	%
HealthCap	8 490 918	31,6 %
Radiumhospitalets Forskningsstiftelse	3 410 589	12,7 %
Trojan AS	2 462 000	9,2 %
Arctic Funds PLC	907 000	3,4 %
Timmuno AS	724 650	2,7 %
Prieta AS	720 000	2,7 %
Portia AS	640 000	2,4 %
Danske Bank A/S	587 971	2,2 %
Nordnet Bank AB	569 522	2,1 %
KLP Aksje Norge VPF	460 000	1,7 %
Eltek Holding AS	442 000	1,6 %
Statoil Pensjon	436 000	1,6 %
Storebrand Vekst	425 000	1,6 %
Pactum AS	400 000	1,5 %
Birk Venture AS	386 680	1,4 %
Op-Europe Equity Fund	357 869	1,3 %
Trygve Schiørbecks Eftf. AS	286 449	1,1 %
Viola AS	280 000	1,0 %
Kommunal Landspensjonskasse	270 000	1,0 %
Verdipapirfondet DNB Grønt NORDEN	250 919	0,9 %
20 largest shareholders	**22 507 567**	**83,8 %**
Other shareholders (160)	4 351 241	16,2 %
Total shareholders	**26 858 808**	**100,0 %**

HealthCap, Radiumhospitalets Forskningsstiftelse, Timmuno AS and Prieta AS have entered into lock-up agreements for their shares for the period until the earliest of:

(1) completion of an initial public offering

(2) the day falling 12 Months after the completion of the private placement 9 July 2015

Shareholdings Key management

The following table provides the total number of shares owned by the key management of the Group and member of the Board of Directors as of 30 September 2015:

Name	Position	No. of shares outstanding at 30 Sep. 2015
Key management:		
Gunnar Gårdemyr	Chief Executive Officer	20 000
Magnus Jäderberg	Chief Medical Officer	20 000
Jon Amund Eriksen	Chief Operating Officer	724 650 1)
Øystein Soug	Chief Financial Officer	20 000 2)
Peter Skorpil	VP, Business Development	2 000
Antti Vuolanto	Executive VP	61 773
Total no. of shares owned by key management of the Group		**848 423**
Board of directors:		
Robert Burns	Board member	29 063
Total no. of shares owned by the Board of Directors of the Group		**29 063**

1 The shares are held through Timmuno AS
2 The shares are held through Abakus Invest AS
Jonas Einarsson, Leader of the Board of Directors, is CEO in the Radium Hospital Research Foundation
Johan Christenson and Per Samuelsson, both Member of the Board, are partners at HealthCap

6. Earnings per share

Amounts in NOK thousand	3Q 2015	3Q 2014	9M 2015	9M 2014	FY 2014
Loss for the period	-28 889	-4 114	-48 396	-9 395	-17 646
Average number of outstanding shares during the period	26 859	9 429	15 239	7 066	7 066
Earnings/ loss per share - basic and diluted	**-1,08**	**-0,44**	**-3,18**	**-1,33**	**-2,50**

Share options issued have a potential dilutive effect on earnings per share. No dilutive effect has been recognized as potential ordinary shares only shall be treated as dilutive if their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. As the Group is currently loss-making an increase in the average number of shares would have anti-dilutive effects.

7. Share based payment

At the Extraordinary general meeting in September 2015 the Board was authorized to increase the Group's share capital in connection with share incentive arrangements by up to the lower of NOK 500 000 and 10% of the Share capital.

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in Targovax ASA.
Each share option converts into one ordinary share of the Company on exercise. Options may be exercised at any time from the date of vesting until expiry. The options generally vest over a period of four years and expire seven years after the grant date. In general, the exercise price of the options is set at the fair value of the shares at grant date.

There were granted 740 405 share options during the first nine months of 2015, no share options were granted during 2014. As a result of the Oncos transaction 2 July 2015 380 827 share options in Oncos were converted into Targovax share options. The conversion of the share options entailed no added value. In addition, 1 329 657 share options were granted at 1 October to the Groups key management and other employees.

Fair value of the options has been calculated at grant date. The fair value of the options were calculated using the Black-Scholes model. The expected volatility for options issued in 2015 is estimated at average of 0.9093, based on the volatility of comparable listed companies. The volume weighted average interest rate applied to the share options grants in first half of 2015 is 1.1%.

	2015		2014	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	100 000	7.5	100 000	7.5
Granted during the period	740 405	23.25	-	-
Convertion of Oncos option program 2/7-2015	380 827	21.77	-	-
Outstanding no. of options at 30 September	**1 221 232**	**21.27**	**100 000**	**7.5**
Granted during the period	1 329 657	24.57	-	-
Outstanding no. of options at 25 November	**2 550 889**	**23.24**	**100 000**	**7.5**

The following table shows the outstanding and granted options for shares to Key Management of the Group at 30 September 2015 and 25 November 2015:

Name	Position	Options		Options	
		Granted 9M 2015	Outstanding 30.09.2015	Granted 01.10.2015-25.11.2015	Outstanding 25.11.2015
Key management:					
Gunnar Gårdemyr	Chief Executive Officer	300 000	300 000	200 000	500 000
Magnus Jäderberg	Chief Medical Officer	133 265 [1)]	133 265	256 735	390 000
Jon Amund Eriksen	Chief Operating Officer	-	-	160 000	160 000
Øystein Soug	Chief Financial Officer	300 000	300 000	90 000	390 000
Antti Vuolanto	Executive VP	21 768 [1)]	21 768	159 232	181 000
Tina Madsen	VP, Quality Assurance	-	-	53 000	53 000
Peter Skorpil	VP, Business Development	-	-	45 000	45 000
Total option for shares to key management of the Group		**755 033**	**755 033**	**963 967**	**1 719 000**

1 Conversion of Oncos Therapeutics OY's option program to Targovax option program 2 July 2015

Subsequent events

In November, Targovax entered into two agreements. One agreement with Ludwig Cancer Research (LICR) and the Cancer Research Institute (CRI) in New York to evaluate ONCOS-102 in combination with other immunotherapies such as checkpoint inhibitors and one agreement with the biotech company Sotio to run a collaboration study combining ONCOS-102 and Sotio’s dendritic cell therapy to evaluate the safety and tolerability in the treatment of advanced prostate cancer (see Operational review).

At 1 October 2015 the Group granted 1 294 657 new share options to key management and other employees (see Note 7).