Quarterly Report

Q4 2023

SoftOx Solutions AS (SoftOx) is a medtech and pharmaceutical company listed on Euronext Growth Oslo under 'SOFTX'. SoftOx Solutions AS was founded in 2012 and is headquartered in Oslo. The SoftOx Solutions Group includes: the holding company SoftOx Solutions AS, Water Innovation AB, and subsidiaries SoftOx Defense Solutions AS and SoftOx Disinfection AS. SoftOx is developing a highly effective antimicrobial solution for use in biofilm, viral and antimicrobial resistant infections. The patent-protected technology is based on extensive research and development in partnership with leading Nordic research institutes.

SOFT·OX

Highlights for Q4 2023 and subsequent events

SoftOx Solutions, a Medtech and clinical-stage pharmaceutical company, have entered into agreements with its creditors to restructure its financial obligations, thereby moving towards a position without outstanding debt.

The company's creditors, including bondholders and employees, have agreed to convert their total outstanding loan amounts, including accrued interest and costs, totaling NOK 77 million, to shares in the company. Furthermore, the company is closing in on a capital raise of NOK 25 million in equity by making agreements with administrative suppliers to convert short-term debt of NOK 15 million and by raising NOK 10 million in new capital. When completed, the company has fulfilled the requirements set out in the conditional agreements as noted in the stock note of January 24, 2024.

To approve the raise of new capital and conversion of debts, the board on the 13th of March 2024 called for an extraordinary general assembly (EGA) on the 27th of March 2024 at 10 am.

Proposed “drop down” and “split”.

The Board has, according to stock notes of 11th of January 2024, decided to drop down the Skin and Wound care business from the company to a separate entity. The Board plans to propose, at a later date, that the shares of the Skin and Wound Care business are distributed to the shareholders of SoftOx Solutions AS. At the same time SoftOx Solutions AS will be renamed to SoftOx Inhalation Solutions AS. Existing Shareholders of SoftOx Solutions AS will, after the distribution, receive one share in the new company for each share already held in SoftOx Solutions AS.

If the Board’s propositions are implemented by the EGA, SoftOx Inhalation Solutions AS will keep todays listing and focus on Ventilator Associated Pneumonia (VAP) and its subsidiary SoftOx Defense Solutions AS will focus on the Medical Counter Measure against respiratory biological threats. SoftOx Skin and Wound Care will become a non-listed company with a focus on Wound Care management.

SoftOx Inhalation Solutions AS enters into a later stage of clinical development. This requires different skills and experience than today’s top management and Board of Directors hold. Therefore, the management and Board suggest that the General Assembly elect a new Board of Directors that will take over after the split is executed. Today’s Board of Directors intends to continue in SoftOx Skin and Wound Care until the ordinary General Assembly scheduled for Summer 2024.

By splitting the company in two the Board intends to realise a significant value potential for the shareholders within the SoftOx Technology.

The "drop down" and "split" in brief:

- Shareholders in SoftOx Solutions AS will after the “drop down” receive the shares in the subsidiary SoftOx Skin and Wound Care Solutions AS as dividend.
- SoftOx Solutions AS will change name to SoftOx Inhalation Solutions AS
- SoftOx Inhalation Solutions AS will:
    - Continue the listing at Euronext Growth
    - Focus on establishing Proof of Concept in Ventilator Associated Pneumonia (VAP)

  - Control 100% of SoftOx Defense Solutions AS – Focus on Medical Counter Measures for respiratory biological threats.
  - After the split has taken place, a new board and management of SoftOx Inhalation Solutions AS will be established.
  - Operations will move to Copenhagen.
  - Seek separate funding for a VAP phase 2 trial – discussions already initiated with strategic investors.
- SoftOx Skin and Wound Care Solutions AS will:
  - Be a non-listed company.
  - Continue to focus on developing next generation antimicrobial solutions for topical use.
  - The company has initiated talks with potential partners for the wound care area. The talks are at an early stage, but the goal is to get partners for product development, distribution or out licensing the technology.

Funding

The company is reorganised to a small and slim project-based organisation with only key personnel inhouse. Product development will predominately be executed by external service providers and product development partners. This strategic change is expected to reduce the product development costs significantly.

The next step in this reorganization is the crawl out and split of the company. Before we do the split, the company will seek to do a repair issue of NOK 15 million towards existing shareholders, who did not participate in the NOK 25 million share issue. The repair issue is expected to open the 15th of April and closed the 29th of April. Afterwards the split will take place, and the two companies will seek separate funding.

For the Respiratory part the company will seek funding of NOK 45 million to finance the phase 2 study of Ventilator Associated Pneumonia. The company has already initiated talks with potential investors who has expressed interest in investing in the company as soon as the company is free of debts and the crawl out and split of the company has taken place.

The Wound Care part of the company has already on the 11th of January informed the market that the Board will seek funding of up to EUR 10 million to continue to develop the wound care business, but before this issue takes place the Board will recommend a smaller share issue of up to NOK 10 million to fund the company through the stage of planning a phase 2b/3 and explore the possibility of licensing out the Skin and Wound Care business to industrial players.

Near-term considerations

Subsequent offering - placement of MNOK 15 as a repair issue

The Board proposes that the Company's General Assembly on the 27th of March passes the following resolution:

- The share capital of the Company shall be increased by minimum NOK 0.02 and maximum NOK 500,000 through the issuance of minimum 1 and maximum 25,000,000 new shares, each with a nominal value of NOK 0.02.
- The new shares are issued at a subscription price of up to NOK 1 per share.
- The subscription period starts on 15th of April 2024 and ends on 29th of April 2024. If the prospectus is not approved before 15th of April 2024, the subscription period will start on such later date as is one business day after the approved prospectus is ready, and the subscription period expires 14 days later.

For further details please see the Board's call for general assembly published the 13th of March 2024.

Key figures for the SoftOx Solutions Group as of 31.12.2023

Financial figures for the SoftOx Solutions Group are not audited (figures in brackets are comparable figures for 2022).

SoftOx Solutions Group	Fourth quarter		Year	
NOK 1,000	**2023**	**2022**	**2023**	**2022**
Total operating revenue	-4 777	2 678	6 980	7 114
Total operating expenses	13 981	26 114	39 615	98 169
Operating result	**-18 758**	**-23 436**	**-32 635**	**-91 055**
Profit before tax	**-28 479**	**-25 547**	**-42 083**	**-93 700**
Net proceeds from equity issues	0	0	0	0
Net change in cash and cash equivalents	-4 074	3 629	748	-50 077
Cash and cash equivalents at end of period	**7 652**	**6 907**	**7 652**	**6 907**
Outstanding shares, beginning of the period	10 727 871	10 342 871	10 342 871	10 342 871
Outstanding shares, end of the period	10 727 871	10 342 871	10 727 871	10 342 871
Employees, end of the period	7	25	7	25

The Q4 pre-tax results ended with a loss of NOK 28,5 million (loss of NOK 25,5 million). Full year pre-tax results ended with a loss of NOK 42,1 million (loss of NOK 93,7 million). Results are characterized by the restructuring and cost cut program.

SoftOx Inhalation Solution (SIS)

STRATEGY

SoftOx Inhalation Solution (SIS) will focus on developing the technology to prevent and treat respiratory tract infections caused by viruses and bacteria. SIS utilizes the SoftOx technology, designed to be safe and tolerable to the airways when inhaled in aerosolised form. Aerosolization will occur using a CE marked nebuliser device. Proof of Concept/Phase 2 study in Ventilator Associated Pneumonia (VAP) patients is the next step.

RESEARCH AND PRODUCT DEVELOPMENT

SoftOx hypothesizes that SIS inactivates and kills viruses and bacteria in the upper and lower respiratory tract, resulting in fewer symptoms, faster recovery and reduced disease transmission. The hypothesis is proven to be valid in mouse studies.

The SoftOx Research Department led by Prof. Thomas Bjarnsholt has shown broad antimicrobial efficacy of SIS in vitro. Also, in animal models reproducible dose dependent virucidal effects have been shown in mouse models of Influenza A. In addition, the team has shown that administration of SIS can prevent the spread of Sendai/Parainfluenza virus among co-housed mice. This makes SIS a very promising candidate to prevent and treat airway infections e.g. ventilator associated pneumonia, other pneumonias, and typical viral infections like SARS-CoV-2 and influenza. The team continues to investigate the effects of SIS in animal models.

SoftOx's first-in-human (FIH) trial in healthy volunteers of SIS ended successfully in April 2022 with no safety concerns, and with a full toxicology package ready the plan is to continue to a proof of concept/Phase 2 on patients with Ventilator Associated Pneumonia (VAP) when funding has been secured.

PROOF of CONCEPT/PHASE 2 - VENTILATOR ASSOCIATED PNEUMONIA (VAP)

There could be many approaches to testing proof of concept of SIS, we have chosen VAP, as this is a severe lung infection with currently limited effectful treatment options. Further, from a trial perspective, the patient group is well-defined and already hospitalized making enrolment quicker than in an outpatient setting. On top of that ICU personal is experience in using inhalation medicine and devices for nebulization.

VAP is a severe type of bacterial pneumonia occurring to 10-30% of intubated patients at intensive care units (ICU)1. It is estimated that ~70,000 ICU patients in EU have VAP diagnosed yearly2, in US the number is ~90,000 patients yearly3. Despite antibiotic treatment, the mortality is reported up to 50%4. Thus, a new more efficient treatment is needed.

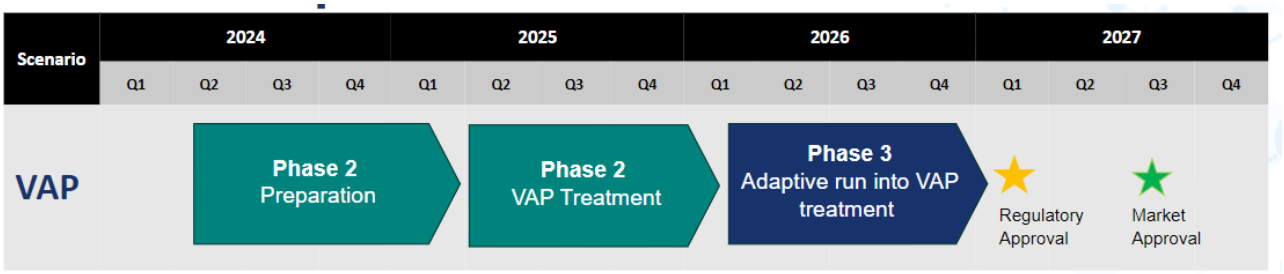
As SIS was proven safe to inhale in our FIH/phase 1 trial, and animal data show effect on respiratory infections and SIS furthermore has very broad antimicrobial effects and show no signs of resistance developing, we believe SIS would effectively be able to kill bacteria in the ventilator system/tubus and in the upper airways and lungs of the VAP patients, whereby improving outcome and increasing survival of these patients.

[1] https://emedicine.medscape.com/article/304836-overview?form=fpf
[2] https://www.sundhed.dk/content/cms/12/4712_did_aarsrapport2022.pdf
[3] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC9051358/

[4] https://www.ahrq.gov/hai/pfp/haccost2017-results.html

The trial is planned to take place at ICUs in the Capital Region of Denmark, in a possible collaboration with Incept.dk. Time schedule for the VAP phase 2 trial is that planning, and preparation is ongoing and will be intensified upon funding. The VAP phase 2 trial is currently planned to start mid-2025 and can potentially directly continue with an adaptive design into a phase 3 trial in 2026. Potential market approval in 2027-28.

Phase 2 trial costs can be kept fairly low, as these are hospitalised patients already. We expect to enrol ~200 patients at up to 10 ICUs and the total trial cost will be NOK ~45 million which includes design, trial and data management, sites and patient fees, analysis, monitoring, IMP production and minimum company running cost for two years.



Estimated timeline for SIS Ventilator Associated Pneumonia (VAP) trial.

Pathway to market and potential SoftOx exit

Since VAP is a hospital acquired infection, the hospitals must cover the cost of treatment themselves, which gives them high saving and the purchase is not subject to reimbursement. Since the potential costumer are highly professional hospitals and mortality rate of getting VAP is high, we expect buyers to be early adopters and quite a few costumers to reach compared with the potential turnover.

Estimated potential for cost reductions after treatment with SIS is up to USD 6bn in the EU and the US. Based on earlier experience, product developers estimate an income potential of USD 2bn per year. The numbers will be further explored during performance of phase 2 as preparation for a potential sign up with partners, which is expected to take place after the results of phase 2, which is expected to be available late 2025.

EUROPEAN DEFENCE FUND /COUNTERACT

The work for the European Defence Fund (EDF) is progressing well. Since the project is fully financed by European Defence Fund, and the product development is outsourced to University of Copenhagen, the project has not been influenced by the financial situation in SoftOx Solutions AS. All commercial rights to the project belong to SoftOx Defense Solutions AS, a 100% subsidiary of SoftOx Solutions AS.

In the COUNTERACT project under the European Defence Fund, SoftOx and partners work to develop a medical countermeasure against biological weapons, using SoftOx' unique technology with broad spectrum efficacy. Our product has undergone in vitro testing against several viruses and bacteria (incl. severe pathogens like bacillus anthracis) and show good efficacy.

According to the agreement, approximately EUR 4,1 million will be awarded to SoftOx and approximately EUR 4,2 million will be granted to the consortium partners to support SoftOx in developing the inhaled medical counter measure based on the SoftOx technology against inhaled biological threats. SoftOx has received approximately NOK 9 million as prepayment funding. The remaining amount will be paid according to EDF funding plan. In addition, SoftOx will receive up to NOK 9,6 million from the Norwegian Ministry of Defence. If SoftOx outsource more of the activities these numbers will be adjusted accordingly.

In December 2023, SoftOx obtained scientific advice at the Danish Medicines Agency in order to guide our product development and trial design for the upcoming phase 1b trial. We got very useful and relevant feedback from the Danish Medicines Agency, that we are implementing in our non-clinical and clinical strategies. In November 2023, we settled an agreement with a CMO, which will produce IMP for our Phase 1b trial (EDF project) and the planned VAP phase 2 trial.

Efficacy testing in animal models is starting up Spring 2024 at three of our international partners and we expect confirmation of earlier studies, that the product also in vivo reduces the bacterial/viral burden and disease progression. Further, exploratory stability studies on first-and second-generation SIS show great results regarding quality and stability of second-generation SIS.

SoftOx Skin and Wound Care

STRATEGY

SoftOx Skin and Wound Care Solutions AS will focus on developing next generation antimicrobial solutions for topical use.

SoftOx Skin and Wound Care is suggested to be formed as a delisted entity through a drop down and crawl out. An unlisted entity is assessed to be beneficial at this stage.

Several solutions have been considered for Skin and Wound care, including discussions of a merger. After careful consideration the Board recommends the following steps:

- Finance the new company with separate funding.
- Based on the powerful clinical results from phase 1a /1b the company will seek to go straight to phase 3 for SoftOx Biofilm Eradicator (SBE) and perform phase 2b and 3 in one study. The estimated probability of success is ~80%.
- In the long tun the company will seek to establish a portfolio of products for treatment of chronic wounds, surgical, acute and war wounds, which is expected to also include treatment for exposure to biological and chemical warfare agents.
- The company has initiated talks with potential partners for the wound care area. The talks are at an early stage, but the goal is to get partners for product development, distribution or out licensing of the technology.

The company expects the estimated value to increase significantly after potentially finishing a successful phase 2b/3 study on SBE.

RESEARCH AND PRODUCT DEVELOPMENT

SoftOx Biofilm Eradicator (SBE) is an antimicrobial treatment for chronic wounds and is formulated to penetrate and kill microbes including biofilms within the wound bed. Studies have shown that antimicrobial-resistant bacteria are present in more than 50 percent of chronic wounds. Due to broad spectrum and multi-targeted antimicrobial effects, SBE has been shown to kill antibiotic-resistant bacteria (such as Methicillin Resistant Staphylococcus aureus (MRSA)) and is unlikely to induce new antimicrobial resistance. Pre-clinical studies demonstrate the SBE formulations as non-toxic, and the first-in-human Phase 1 clinical study (SBE-01) has been completed. Phase 1a and phase 1b show that the solution is safe in humans, where a phase 1b study with 8 patients with VLU wounds, with only 5 days of treatment, proved 98 % reduction in bacterial load together with dose dependent wound healing.

SoftOx Wound Irrigation Solution (SWIS) is a wound rinse for acute wounds. The current recommended treatment for acute wounds is saline, which holds 80 percent market share. Based on clinical evidence of significant reduction in bacterial load and better wound healing in acute wounds the company aims to develop SWIS as the preferred wound cleansing product.

SoftOx disinfection products are safe, well tolerated and do not dry out healthy or compromised skin. The products are effective against all relevant microbes. The formula is alcohol-free and non-flammable making it safe for critical areas such as airplanes/airports, kindergartens, and schools. SoftOx's hand disinfectant is clinically documented as skin friendly, making it an ideal disinfectant for healthcare settings.

Research and development of a second-generation formula is ongoing. This solution will have considerably improved shelf time and can be developed with higher concentration, which is important since SoftOx research shows high tolerability and dose dependent effects in much higher concentrations than today's competitive products allow. The second generation has altered the active substances and will require separate regulatory processes.

REGULATORY & COMMERCIAL

SoftOx is seeking a strategic partner to further develop and advance its wound care segment within acute and chronic indications. The SBE-01 trial indicates an early clinical proof of concept for the SoftOx wound care technology platform. On this basis, the Company has initiated talks with potential partners for the wound care area. The talks are at an early stage.

Financial matters

Financial figures for the SoftOx Solutions Group are not audited (figures in brackets are comparable figures for 2022).

Profit and loss statement

In 2023, the company recognized NOK 7 million (NOK 7 million) as income in connection with funding from European Defence Fund and Forskningsrådet.

In 2023, salary costs were NOK 7,8 million (NOK 26,4 million), a decrease of 70 percent compared to 2022 due to layoffs and cost cutting program. Other operating costs in 2023 are NOK 24,3 million (NOK 67,9 million). Total operating expenses in 2023 has decreased with 60 % to NOK 39,6 million (NOK 98,2 million) due to cost cutting program.

Pre-tax results ended with a loss of NOK 42,1 million (loss of NOK 93,7 million) for 2023.

Cash flow and consolidated balance sheet

Of the capitalized assets, the company has activated its IP and patent cost worth NOK 11,3 million (NOK 8,2 million). These are capitalized patent costs in the Swedish subsidiary, which are depreciated over 5 years. Deferred tax assets will not be addressed as the tax calculations will be performed at the end of the year on audited figures.

As reported at the end of the previous quarter, the company has a limited cash position, and there is a need to financially strengthen the company and its liquidity in the short and long term.

Outlook

Activities related to financing of the company after end of Q4:

- Reference is made to the stock exchange announcements by the Company on 13th of March the company will seek to successfully finish the refinancing of the company.
- On 11 May 2023, the Company announced that it had secured interim financing through a NOK 15,1 million funding from certain shareholders and investors. The funds will be 20% as equity and 80% as a loan to the Company's subsidiary WIAB Water Innovation AB plus 5.599.995 warrants to buy share for NOK 8 per share. The loan expires 31 Jan 2024.
- The convertible loan secured from existing shareholders of NOK 25 million and SoftOx refinanced the NOK 15 million convertible loan as reported on 28 June 2022 expires 15 Jan 2024.

R&D related activities:

- **SoftOx Inhalation Solution (SIS):** The work with phase 2 on SIS is in planning and will be intensified upon sufficient funding.
- **SoftOx Defense Solutions (SDS):** Work progresses according to plan within the framework of the European Defence Fund - “COUNTERACT”. Phase 1b study planned to start 2025
- **SoftOx Biofilm Eradicator (SBE):** The work with phase 2/3 on SBE is paused until the projects get sufficient funding.

- **SoftOx Wound Irrigation Solution (SWIS):** The work with SWIS is paused until the projects get sufficient funding.
- **SoftOx Second Generation:** Working on technology that will further improve stability and shelf time for the products.

Significant risk factors for the company

- Clinical research studies always involve an inherent risk of being delayed and not delivering results as expected.
- Financial risks mainly consist of currency, credit, and liquidity risk. The company depends on funding it's R&D activities with funds from investors.
- Intellectual property risks. SoftOx works closely with external patent counsels to minimize the risk of patent infringement claims and prepare any patent defence if necessary.

Declaration by the Board

We confirm, to the best of our knowledge, that the unaudited, summarised fourth quarter accounts for the period 1 January to 31 December 2023 have been prepared in accordance with accounting standards for the group and that the information contained in these accounts gives a true and fair view of the group's assets, liabilities, financial position and profits as a whole, and that the half year report provides a true and fair view of the information specified in Section 5-6, fourth paragraph, of the Norwegian Securities Trading Act.

Oslo, 19th of March 2024

SIGNED

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Geir Hermod Almås, Chairman of the Board

SIGNED

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Olav Jarlsby, Board Member

SIGNED

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Henrik Nielsen, Board Member

SIGNED

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Adrian Bignami, Board Member

SIGNED

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Jørgen Berggrav, Board Member

SIGNED

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Christian Harstad, ICEO

Profit and Loss Statement

Profit and loss statement
Accounts for fourth quarter 2023

SoftOx Solutions Group	Fourth quarter		Year	
NOK 1,000	**2023**	**2022**	**2023**	**2022**
Other operating revenues	-4 777	2 678	6 980	7 114
Total operating revenues	**-4 777**	**2 678**	**6 980**	**7 114**
Personnel expenses	783	7 466	7 795	26 383
Other operating expenses	9 182	17 500	24 341	67 886
Depreciation	4 016	1 148	7 479	3 900
Depreciation, goodwill	0	0	0	0
Total operating expenses	**13 981**	**26 114**	**39 615**	**98 169**
Operating result	**-18 758**	**-23 436**	**-32 635**	**-91 055**
Net financial items	**-9 721**	**-2 111**	**-9 449**	-2 645
Profit before tax	**-28 479**	**-25 547**	**-42 083**	**-93 700**
Tax				22 559
Annual profit/loss				**-71 141**

Balance sheet 31.12.23

Statement of financial position	31.12.2023	31.12.2022
SoftOx Solutions Group		
NOK 1,000		
Other intangible assets	11 301	7 927
Deferred tax asset	74 053	74 053
Goodwill from acquisition of subsidiary	0	0
Total intangible assets	**85 354**	**81 981**
Production equipment	647	3 891
Total fixed assets	**647**	**3 891**
Non-current assets	**86 002**	**85 872**
Inventory	0	0
Total inventory	**0**	0
Other receivables	949	7 790
Total receivables	**949**	**7 790**
Cash and cash equivalents	6 025	5 280
Deposits	1 627	1 627
Current assets	**8 602**	**14 696**
Total assets	**94 603**	**100 568**

Share capital	215	207
Share premium reserve	59 021	109 323
Total paid up capital	**59 235**	**109 530**
Other equity	-59 504	-70 789
Total equity	**-268**	**38 741**
Other long term debts	45 589	41 065
Other non-current liabilities	**45 589**	**41 065**
Public duties payable	-70	619
Shareholder loans	0	0
Other current liabilities	28 410	8 826
Accounts payable	20 942	11 317
Total current liabilities	**49 283**	**20 762**
Total liabilities	**94 872**	**61 827**
Total equity and liabilities	**94 603**	**100 568**

Cash Flow Statement

Cash flow statement	Fourth quarter		Year	
	2023	2022	2023	2022
SoftOx Solutions Group				
NOK 1,000				
Cash flow from operating activities				
Net result before taxes	-28 479	-25 547	-42 083	-93 700
Tax paid	0	0	0	0
Depreciation	4 016	1 148	7 479	3 900
Change in current assets	-67	-2 489	6 841	1 081
Change in current liabilities	16 543	-10 110	28 521	2 784
Net cash flow from operating activities	**-7 987**	**-36 999**	**757**	**-85 936**
Cash flow from investment activities				
Investments in non-current assets	-2 033	-759	-7 609	-4 854
Net cash flow from investment activities	**-2 033**	**-759**	**-7 609**	**-4 854**
Cash flow from financing activities				
Proceeds from equity issues	0	0	3 080	0
Other financing activities	4 900	41 065	4 524	40 715
Translation differences	1 047	323	-4	-2
Net cash flow from financing activities	**5 947**	**41 388**	**7 600**	**40 713**
Net change in cash and cash equivalents	**-4 074**	**3 629**	**748**	**-50 078**
Cash and cash equivalents at begining of period	11 726	3 278	6 907	56 984
Cash and cash equivalents at end of period	**7 652**	**6 907**	**7 652**	**6 906**

Statement of changes in equity (*)

Statement of changes in equity				
SoftOx Solutions Group				
	Fourth quarter		Year	
NOK 1,000	2023	2022	2023	2022
Equity at end of prior period	**27 164**	**42 116**	**38 741**	**109 737**
Share issues	0	0	3 080	0
Loss for the period	-28 479	-25 547	-42 083	-71 141
Other changes in equity	-1 055	-562	-4	145
Equity at end of period	**-2 370**	**16 006**	**-268**	**38 741**

(*) Fourth quarter 2022 and 2023 are before tax, 2022 Full year is after tax, 2023 Full year is before tax.

General accounting Principles

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in small companies in Norway.

Basis for consolidation

The Group's consolidated financial statements comprise SoftOx Solutions AS and companies in which SoftOx Solutions AS has a controlling interest. A controlling interest is normally obtained when the Group owns more than 50% of the shares in the company and can exercise control over the company. Minority interests are included in the Group's equity. Transactions between group companies have been eliminated in the consolidated financial statement. The consolidated financial statement has been prepared in accordance with the same accounting principles for both parent and subsidiary.

The purchase method is applied when accounting for business combinations. Companies which have been bought or sold during the year are included in the consolidated financial statements from the date when control is achieved and until the date when control ceases.

An associate is an entity in which the Group has a significant influence but does not exercise control the management of its finances and operations (normally when the Group owns 20-50% of the company). The consolidated financial statements include the Group's share of the profits/losses from associates, accounted for using the equity method, from the date when a significant influence is achieved and until the date when such influence ceases.

When the Group's share of a loss exceeds the Group's investment in an associate, the amount carried in the Group's balance sheet is reduced to zero and further losses are not recognized unless the Group has an obligation to cover any such loss.

Use of estimates

The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information on potential liabilities in accordance with generally accepted accounting principles in Norway.

Foreign currency translation

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into NOK using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognized in the income statement as they occur during the accounting period.

Revenue recognition

Revenues from the sale of goods are recognized in the income statement once delivery has taken place and most of the risk and return has been transferred. Revenues from the sale of services are recognized in the income statement according to the project's level of completion provided the outcome of the transaction can be estimated reliably. Progress is measured as the number of hours spent compared to the total number of hours estimated. When the outcome of the transaction cannot be estimated reliably, only revenues equal to the project costs that have been incurred will be recognized as revenue. The total estimated loss on a contract will be recognized in the income statement during the period when it is identified that a project will generate a loss.

Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as the tax rate of temporary differences and the tax effect of tax losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will

be utilized. Taxes payable and deferred taxes are yearly recognized directly in equity to the extent that they relate to equity transactions.

Balance sheet classification

Current assets and short-term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets / long term liabilities. Current assets are valued at the lower of cost and fair value. Short-term liabilities are recognized at nominal value. Fixed assets are valued at cost, less depreciation and impairment losses. Long-term liabilities are recognized at nominal value.

Research and development

Development costs are capitalized providing that a future economic benefit associated with development of the intangible asset can be established and costs can be measured reliably. Otherwise, the costs are expensed as incurred. Capitalized development costs are amortized linearly over their useful life. Research costs are expensed as incurred.

Plant and equipment

Plant and equipment are capitalized and depreciated linearly over the estimated useful life. Significant fixed assets which consist of substantial components with dissimilar economic life have been unbundled; depreciation of each component is based on the economic life of the component. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property plant and equipment are added to the acquisition cost and depreciated with the related asset. If the carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net realisable value and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are discounted.

Subsidiaries

Subsidiaries are valued at cost in the company accounts. The investment is valued as the cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognized if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Inventories

Inventories are recognized at the lowest of cost and net selling price. The net selling price is the estimated selling price in the case of ordinary operations minus the estimated completion, marketing and distribution costs. The cost is arrived at using the FIFO method and includes the costs incurred in acquiring the goods and the costs of bringing the goods to their current state and location.

Accounts receivable and other receivables

Accounts receivable and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables. For the remaining receivables, a general provision is estimated based on expected loss.

Pensions

Under the defined contribution scheme the Group does not commit itself to paying specific future benefits but makes annual contributions to the employees' pension savings. The Group's payment to the defined contribution scheme amounts to 7% of salary for Norwegian employees.

Cash flow statement

The cash flow statement is presented using an indirect method. Cash and cash equivalents include cash, bank deposits and other short term, highly liquid investments with maturities of three months or less.

Glossary

CBRN	Chemical, Biological, Radiological and Nuclear
EDF	European Defence Fund
EN	European Norm
EU	European Union
FDA	U.S. Food and Drug Administration
IP	Intellectual property
KemI	Swedish Chemicals Agency
MRSA	Methicillin-resistant Staphylococcus aureus
OTA	Other Transaction Agreement
R&D	Research and Development
SBE	SoftOx Biofilm Eradicator (SoftOx Infection Remover)
SDS	SoftOx Defense Solutions AS
Shares	SoftOx Solutions issued and outstanding shares, unless the context indicates otherwise, including the Offer Shares offered in the Offering.
SIS	SoftOx Inhalation Solution
SWIS	SoftOx Wound Irrigation Solution

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