SERODUS

ANNUAL REPORT 2017

SETTING THE SCENE FOR A SIGNIFICANT SHIFT

Serodus is a private, Scandinavian drug development company focused on the complications of diabetes. In 2017, its lead program, SER150, has reported encouraging data from a Phase 2a study in patients with diabetic kidney disease. The strength of the results has sparked interest from investors and potential industry partners.

Table of Content

Serodus in Brief

Serodus is a private Scandinavian drug development company focused on treatment of complications of diabetes.

In a Phase 2a study in patients with diabetic kidney disease (DKD), our lead asset SER150, has shown no safety and tolerability issues along with a statistically significant sign of efficacy.

The strategy centers on taking programs through to the "proof of concept" stage (typically Phase 2) and then seeking to out-license or partner ahead of the later, more expensive clinical stages.

Serodus operates as a lean structure, out-sourcing the required functions through a network of contract research organizations (CROs) and contract manufacturers.

The management is experienced, with a proven track record of bringing new compounds to the market and closing major collaboration deals.

The company was listed on the Oslo stock exchange (Axess) in April 2013 and delisted in February 2017.

Highlights in 2017

In January the positive results from the SER150 Phase 2a study in DKD became available, after dosing with 15mg and 30mg twice daily for 4 weeks. Results highly significant signs of efficacy and, importantly, was well tolerated with no safety signals at all.

If the positive outcome is replicated in an confirmatory clinical trial SER150 could become a widely used add-on therapy to the current standard treatment armamentarium.

Trinity Delta, a UK-based, experienced, healthcare and life sciences analysts house initiated its coverage on Serodus. Their Serodus analysis can be seen at www.trinitydelta.org/serodus

Serodus met with potential partners and investors and during the week of JPMorgan Health care conference in San Francisco.

In February, Serodus was delisted from Oslo Stock Exchange. Last trading day for Serodus shares was 15 February 2017 with a closing share price of 2,30 NOK equivalent to a market cap of NOK 102 million.

In March, Serodus completed the subscription of a convertible loan of 25 MNOK.

In April, Serodus initiated the manufacturing of SER150 clinical trial materials at its new, international contract manufacturer.

In May, Serodus met with potential investors during the annual Bio€quity Meeting in Paris.

In June, Serodus met with potential partners at the annual Bio International Convention in San Diego. Serodus requested a Pre-Investigational New Drug (pre-IND) meeting with the Food and Drug Administration (FDA), USA. The objective was to obtain guidance for the development path for the lead compound SER150 in patients with diabetic kidney disease.

In September, Serodus held the SER150 pre-IND meeting with the FDA and received valuable input for the next clinical study design.

In November, Serodus met with potential partners at the annual Bio Europe Partnering conference in Berlin. Pharma companies are following our progress with great interest. The Board of Directors decided to convert the loan from our current shareholders to common shares.

In December, an extraordinary general assembly approved to increase the common share capital among the current shareholders.

Serodus submitted the SER100 annual renewal of its Orphan Drug Designation in the US.

Letter from the CEO

Setting the scene for a significant shift

2017 was a determining year for SER150, with our clinical Phase 2a study showing statistically significant signs of efficacy and, importantly, was well tolerated with no safety signals at all.

Our lead asset, SER150, reported positive Phase 2a results in patients with diabetic kidney disease in January 2017. The strength of our data sparked interest from potential industry partners and specialist investors. The positive clinical data encouraged Serodus to contact the US regulatory authorities (FDA) with the request of a Pre-IND meeting in September. The aim was to obtain FDAs opinion on Serodus' proposed regulatory path forward in the US.

Following the FDA Pre-IND meeting, Serodus is on track to file an Investigational New Drug (IND) application before the next SER150 clinical study to be initiated around mid-2019.

Building success through partnerships

Our Management team has a history of successful development, out-sourcing and licensing.

We build for success by maintaining a lean and agile organization and by establishing partnerships with the experts in their respective fields, leading to greater efficiency and better results.

Serodus will continue to rely on external partnerships across all stages of the business.

In 2017, we initiated a cooperation with an international contract manufacturer for the manufacturing of SER150 drug substance.

During 2017, we nursed our relationships with pharma companies and expert biotech companies interested in SER150, our most advanced asset with blockbuster potential.

Our current investors

During 2017, we searched for new financial resources to prepare for the next SER150 confirmatory clinical study. Our current investor base provided us with the required financial support which we are very grateful for and we thank them for their loyalty.

Financially, we are now sufficiently positioned in 2018 to continued preparation of SER150 supply for the next clinical trial.

I am therefore confident that we will successfully take the transformational step to the next level and deliver on our ambitions.

In 2018-19, we aim to create more value through (1) moving SER150 towards an IND for the next clinical study and (2) to partner with Pharma company/companies.

Other development activities beside our lead candidate (e.g. SER100. SER130, SER160) will depend on available funds.

I would like to thank all our shareholders for their support and confidence in Serodus' Management.

In 2018, we will move into a new era. Together with my colleagues, I look forward to further advancing our SER150 program and to creating value for all stakeholders.

Eva Steiness, Professor, M.D., D.Sc.

Chief Executive Officer

Pipeline

Through a combination of acquisition and licensing, Serodus has created an interesting, innovative pipeline of clinical (SER150 and SER100) and pre-clinical programs (SER130, SER140, SER160 and SER190), predominantly focusing on diabetic complications.

Type 2 Diabetes is a multifactorial metabolic disorder of epidemic proportions and leads to serious debilitating and fatal complications, such as diabetic kidney disease (SER150, SER160), acute myocardial infarction (SER130) and diabetic foot ulcer (SER190).

All currently available treatments for T2D are initially effective at reducing blood glucose and thereby delay onset of complications. However, they lack the ability to halt the systemic inflammation driving the pathophysiological processes of diabetes and its complications.

Diabetes is a disease affecting more than 415 million people worldwide (International Diabetes Federation 2016) – a number expected to grow to 642 million by 2040. Approximately 90% of

these patients have T2D. Approximately 75% of all patients with type 2 diabetes develop complications from different organs such as the eye, the heart, the brain, the kidney and foot (ulcer & amputations).

The increased prevalence of diabetes has also led to an increase in the number of macro- and microvascular complications of diabetes.

Whilst, SER150 is the primary focus, Serodus also has four other development programs. The other diabetes related drugs are SER140; which has the potential to stop progression of Type 2 diabetes and thereby development of complications, SER130; which is ready to enter the clinic for the reduction of myocardial scarring in patients with acute coronary infarct, and SER190; with the potential of improving foot ulcer healing in diabetic patients.

Another pipeline program is SER100 for Pulmonary Arterial Hypertension (PAH), which is ready to enter a Phase 2a trial, having orphan drug designation in the USA.

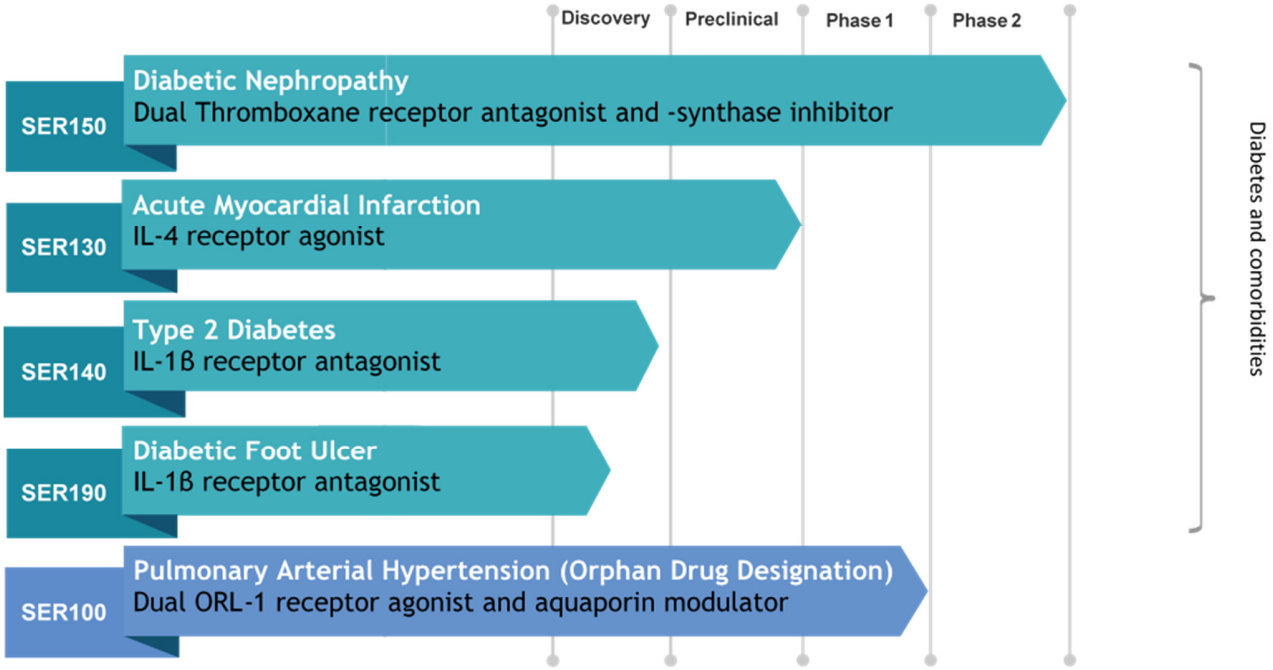

Figure 1 Status and development perspective of pipeline

SER150 Diabetic Kidney Disease

SER150 was acquired from Evolva after a Phase 2a clinical study in diabetic patients with normal kidney function.

A new (Serodus sponsored) Phase 2a study in patients with diabetic kidney disease, using 15mg and 30mg twice daily, showed statically significant signs of efficacy after only 4 weeks treatment and, importantly, was well tolerated with no safety signals at all.

If the positive outcome can be replicated in larger clinical trials, SER150 could become a widely used add-on therapy to the current standard treatment options.

SER150 targets a large, growing, and poorly treated market segment

The diabetic kidney disease market opportunity is significant with a large and growing patient population. WHO estimates that the global number of diabetics has increased from 100m in 1980 to 442m in 2014, with adult prevalence rising from 4.7% to 8.5% in the same period. Diabetic kidney disease is one of the more important complications; whilst its understanding may have changed in recent years, it is still expected to affect around a third of diabetic patients.

The market analysts from Global Data estimate that there will be approx. 20m patients with diabetic kidney disease by 2022 in the seven major markets (i.e. US, Canada, Great Britain, France, Italy, Germany and Japan) alone.

Currently, the standard of care involves treatment with an ACE inhibitor or angiotensin II receptor blocker antihypertensives but these, whilst effective, do not address the underlying inflammatory cause of the renal damage and therefore only delay time to dialysis.

What is SER150?

The immune-modulator, SER150, is an oral administered, small molecule with a novel mode of action for the treatment of diabetes induced loss of kidney function. SER150 simultaneously inhibits thromboxane synthase and blocks the thromboxane receptor

SER150 is believed to specifically inhibiting the inflammatory processes in the small-diameter blood vessels, the arterioles. Of even more importance, SER150 also inhibits the inflammation in the various glomerular cells in the kidney and so more fundamentally reduce the progression of renal impairment typically seen in diabetic kidney disease.

Studies over the past decade have established podocytes (cells that wrap around blood capillaries in the kidney) as the most sensitive cell in the kidney and critical for glomerular function, thus making them an ideal therapeutic target to develop therapies directed towards preserving glomerular filtration function.

A glomerulus is the filtration unit of a kidney; its major function is to filter the blood and produce pre-urine.

Podocyte injury is an important cause for diabetic kidney disease progression. The podocytes have a unique architecture composed of a cell body and many arms communicating with the neighboring podocyte arms which all together create a sieve allowing water with soluble

molecules to pass and retain larger molecules like proteins in the bloodstream. The podocytes are the most sensitive cells in the kidney since they cannot replicate as many other cell types.

The pathogenesis behind the progression of diabetic kidney disease is still not fully understood, with complex signaling between many classes of cells believed to result in abnormal inflammatory responses. Thromboxane is an inflammatory mediator and its amount is increased in patients with Type 2 Diabetes. SER150 is thought to reduce the effect of thromboxane by its dual blockade of the thromboxane synthase and the thromboxane receptor. This novel mode of action reduces the inflammation in all glomerular cells.

Serodus' first clinical Phase 2a study with SER150

Top-line results from the Serodus' Phase 2a study in 72 patients with diabetic kidney disease evaluating two dose strengths (15mg and 30mg, twice daily) for one month were announced in January 2017.

These data showed a statistical significant reduction of protein (albumin) excretion in the urine after treatment with SER150 for only 4 weeks. Urinary albumin is a good biomarker of kidney damage in patients with diabetes. No safety issues, biochemical abnormalities or bleeding tendencies were identified. The adverse events, all classified as mild or moderate, were distributed evenly between the placebo and SER150-treated groups.

Serodus has discussed these results with many international experts. In addition, Serodus had a pre-IND meeting with the FDA in September 2017 to discuss the development strategy for SER150 in diabetic kidney disease. This meeting provided valuable input to the next clinical study in these patients.

The preparatory work (including the manufacturing of clinical samples) for the next clinical study is ongoing in order to qualify for an IND application that can be submitted mid-2019.

Filing the next IND

Financially, Serodus is now sufficiently funded to perform the preparatory work for the next clinical trial, including the manufacture of sufficient clinical trial materials, the completion of an ongoing pharmacology study in rats.

The clinical protocol will be subject to a regulatory discussion. Consequently, the cost of the next clinical study is currently being calculated but will depend on the number of patients needed.

Clearly, Serodus is seeking to partner SER150 ahead of embarking on the next clinical trial as a partner involvement will allow to speed up further development by performing activities in parallel.

SER130 Acute Myocardial Infarction in patients with diabetes

SER130 aims to reduce the myocardial scar after cardiac infarcts in diabetics

SER130 is a 16-amino acid peptide that is an anti-inflammatory IL-4 receptor agonist. It mimics the response of the endogenous anti-inflammatory human IL-4 and hence, inhibits a cascade of endogenous pro-inflammatory responses after a tissue damage. It has been developed as a treatment for acute myocardial infarction in patients with diabetes with the aim of reducing the serious tissue damage after the infarction. This effect will improve the myocardial function and as such reduce the severity of post infarction heart failure. Diabetic patients have chronic hyperactive low-grade inflammation that exacerbates the pro-inflammatory responses seen during and following an acute myocardial infarction. Further development is depending on financial support.

SER140 Diabetes Type 2

SER140 is in pre-clinical testing for the prevention of diabetic progression and complications.

SER140 is a tetramer of 14-amino acids peptide that is a potent antagonist of the IL-1β receptor. In animal models it has been shown to protect pancreatic β-cells from cytokine-induced (IL-1β mediated) cell death (apoptosis) and to reduce the fundamental low-grade inflammation associated with diabetes progression.

SER160 a derivate from SER140

SER160 with its complete different way of stopping the inflammatory process in the diabetic kidney is thought to be tested in a relevant pharmacological test model of diabetic kidney disease.

SER190 Diabetic Foot Ulcer

SER190 is in the concept stage for diabetic wound healing.

Patients with diabetes are predisposed to developing chronic diabetic wounds commonly known as diabetic foot ulcers and suffer from significant deficits in wound healing processes despite aggressive therapy. Diabetic foot ulcers are an increasingly common problem and often resulting in severe morbidity, high mortality and an economic burden for society and the patient.

Diabetic foot ulcers are often accompanied with neuropathy with symptoms of pain followed by loss of feeling in the foot. Neuropathy also reduce nervous control of oil and moisture of skin, which then may crack. If ulcers are not treated carefully, patients with diabetic ulcers are far more likely to have a foot or leg amputated than other people. SER190 will improve healing of the wound.

SER190 is a dimer of 14-amino acids having effect as an IL-1β receptor antagonist (IL-1Ra). Wound healing is a complicated, well-orchestrated biological process with three phases: inflammation, proliferation and maturation.

In poorly healing diabetic wounds persistent inflammation is the dominating phase. In humans and experimental in vivo studies, predominance of pro-inflammatory cytokines such as IL-1β and TNFα are found in diabetic wounds. IL-1 participate in the pro-inflammatory positive feedback loop that sustains the pro-inflammatory macrophage phenotype seen in the poorly healing diabetic wounds.

Targeting the IL1β pathway with SER190, an IL-1Ra in chronic diabetic wounds will be a novel approach for improving wound healing in diabetic patients (Mirza 2013).

SER100 Pulmonary Arterial Hypertension (Orphan)

SER100 is in early clinical phases for pulmonary arterial hypertension (PAH)

The disease

PAH is a chronic and debilitating disease that affects the blood vessels in the lungs, leading to heart failure and leaves the affected patients with a feeling of breathlessness and exhaustion.

Once diagnosed with pulmonary arterial hypertension, a person has a 30 per cent chance of dying within three years and the condition affects more women than men.

The disease is classified a rare condition.

Current treatment

Current treatment recommendations support the use of a combination of therapies that target the endothelin, nitric-oxide, and prostacyclin pathways. Despite the benefits of intravenous prostacyclin therapy, many patients with PAH die without ever receiving sufficient treatment. The burden and risks related to the administration of prostacyclin therapy are probably contributing factors.

Current treatment options improve exercise capacity and the blood circulation, but a cure is rarely achieved without a lung transplantation.

Mortality is still very high, and there is a significant need to improve morbidity as well as mortality.

What is SER100?

SER100 is a synthetic peptide targeting the ORL-1 (Opiate Receptor-Like) receptor, where its competitive activity (it is a partial agonist) is thought to result in potent but selective vasodilation. As a second mode of action, SER100 increases the pulmonary concentration of aquaporin water channel 1 (AQP1) demonstrated in a pre-clinical program investigating Pulmonary Arterial Hypertension suggesting that SER100 may represent with its dual mode of action a novel therapeutic candidate in systemic and pulmonary hypertension.

A Phase 1 study demonstrated good safety and tolerability.

In October 2016 the FDA granted SER100 Orphan Drug status for PAH.

Very recently, Prof. Nick Morrell (Cambridge) has identified AQP-1 as a new causally-related candidate gene in PAH. This was discovered as part of the BRIDGE study in the UK which explores the genomics of rare diseases as part of the 100,000 genomes project funded by the UK government. The work is to be published in Nature Communications shortly.

What next?

If financial support become available it is the aim to test SER100 in an additional pre-clinical model that is frequently used to evaluate PAH therapeutics. This should provide additional evidence of efficacy in PAH, necessary for triggering interest from potential partners.

Strategy

Through a combination of acquisition and licensing, Serodus has created an interesting, innovative pipeline of clinical and pre-clinical programs, predominantly focusing on diabetic complications.

At the current stage the company is giving priority to SER150 addressing diabetic kidney disease.

2017 was a momentous determining year for SER150, with our clinical Phase 2a study showing statistically significant signs of efficacy and importantly, was well tolerated with no safety signals at all.

The strength of our data sparked interest from potential industry partners and current and new investors.

Serodus is now on track to file an IND application for SER150 next clinical study by year mid-2019.

Filing of the IND will be an important milestone for investors and potential partners because it will clarify the regulatory path going forward.

We will seek new funding from both current and new investors, seek funding from governmental institutions (non-diluting funding) and/or from pharma companies that will license our pipeline candidates.

The new funds will be used to develop our pipeline along set priorities.

We will create more value for our stakeholders through (1) progressing our pipeline and (2) through partnering with Pharma company/companies.

Serodus will enter into partnerships for finalizing development, obtaining market authorization and marketing the drugs globally.

Management has extensive experience and knowledge (1) in qualifying and evaluating drug candidates, (2) in maturing the individual candidates from the early stage through the various clinical phases and (3) in business development.

Serodus has the pro-active strategy to out-source all laboratory, clinical activities and manufacturing and to use its cash efficiently.

While recognizing our responsibilities to our shareholders and the need to “create value” within the short/medium term, management is continuously assessing its options to create an exit for its investors within the coming three-four years period.

Corporate Governance

Overall objectives

Serodus objective is to ensure long-term value creation for its shareholders through clinical and preclinical achievements.

We believe that the best way to achieve this goal is through value-based performance culture, stringent ethical requirements and a code of conduct that promotes personal integrity and respect. Our corporate governance is based on the company’s corporate values and ethical guidelines.

We believe that good corporate governance is more than just a technical exercise – it is a fundamental element in the practical work of the company’s governing bodies, and it defines the criteria on which the trust of the company’s shareholders is based.

In addition, the work of the board of directors is based on the existence of a clearly defined division of roles and responsibilities between the shareholders, the board of directors and the management in Serodus.

The following principles underline our approach to corporate governance:

- Serodus will ensure that all shareholders are treated equally and have access to up-to-date, reliable and relevant information about the company's activities
- Serodus has a board of directors that is independent of the group's management. In accordance with our ethical guidelines, the board are to secure that there are no conflicts of interest between owners, the board of directors and the company's management.
- The board of directors will always base its practical work on the principles for good corporate governance applicable.

Code of Ethics and Conduct

Serodus intend to comply with the Norwegian Code of Practice for Corporate Governance. The statement including social responsibility is presented at the company website.

Business

Serodus business is defined in the articles of associations – presented at the company website. The focus areas are presented in the annual report.

Equity

Serodus will always intend to have enough equity to carry out its plans. Initiatives without enough equity will not be initiated. Combination of strategy, risks and cash is a key point in developing Serodus to become a successful company.

The company will not expect to pay recurring dividends until justified by recurring cash flows. Serodus intend to use its equity to develop its products.

Members of the board of directors and the management are obliged to notify the board of directors if they have any material interest – directly or indirectly – in any agreement entered by the company. The board of directors will report in the annual report any transactions with related parties.

If the board of directors proposes that the existing shareholders pre-emptive rights be waived in the case of share capital increases, the waiver will be based on the common interests of the company and the shareholders.

General meetings

The Board of directors has the responsibility to ensure that as many shareholders as possible can participate in the General meetings of the company. The board of directors also have the responsibility to ensure that the General meeting is an effective forum for shareholders and the board of directors.

The chairperson of the board of directors, the CEO must be present at the Annual Shareholders meeting. Shareholders who are not able to participate themselves can appoint another person by proxy.

Notice of the General meeting and relevant documents are made available on the company website two weeks in advance of the meeting. Notice of the meeting is sent to all shareholders individually or to their depository banks, two weeks in advance.

Composition and independence of the board of directors

The board of directors consists of 3-7 members. The composition of the board of directors is designed to ensure that it can attend to the common interests of all shareholders and that it meets Serodus requirements for expertise, capacity and diversity.

The members of the board are elected for 2-year period. All members are elected at the annual shareholders meeting. All members are independent from the company`s day-to-day management, main shareholders and material business connections.

The work of the board of directors

The board of directors prepares an annual plan for its work. The board of directors performs an annual review of its work and competencies.

The board of directors has established instructions for the CEO.

Risk management

It is the responsibility of the board of directors to ensure that the company has sound internal controls and systems for risk management that are appropriate in relation to the extent and nature of Serodus activities. Risks include strategic risks, financial risks, liquidity risks and operational risks related to development of products within Serodus portfolio. The risks are assessed by the board on an ongoing basis.

The finance function is responsible for the financial statements and to ensure that these are prepared and reported according to applicable laws and regulations and in accordance with IFRS. The finance function has changed at the end of 2017 and the former CFO will be replaced with a consultant. The board of directors receives monthly reports from management, which

includes financial update. The Board performs reviews of quarterly interim reports and annual financial statements with special focus on significant transaction and estimates

Serodus does not have an audit committee.

Remuneration of the board of directors

The remuneration of the board is to reflect their responsibility, expertise and time commitments as well as the complexity in Serodus. The remuneration of the board is not linked to Serodus` profit or product development progress. The remunerations of board include share options. Share options to board members are deviation from the recommendations. Anyhow, Serodus wants to give options to board members to attract competent people to the board.

Information and communication

Serodus` reporting of financial and other information is based on openness and considers requirements for equal treatment of investors.

The chairman of the board and the CEO are authorized to speak on behalf of the company. They can delegate this authorization to other members of the board or CEO.

Company take-overs

The board will always focus on what is in the shareholders interest. Any bid will be evaluated based on that principle.

Auditor

On an annual basis, the auditor presents to the board the performance of the audit work. The auditor participates in meeting with the board of directors that deal with the annual financial report. In this meeting, the auditor also presents a review of Serodus procedures for internal control.

For more information on Corporate Governance please refer to www.serodus.com.

Board of Directors

Søren Elmann Ingerslev
Chairman

Elected as member of the Board 2013

Mr. Elmann Ingerslev is an attorney at law and partner in the Danish law firm Elmann Advokatpartnerselskab. Mr. Ingerslev has extensive experience in company strategy and acquisitions. He was previously with the Danish law firms Bech-Bruun and Abel & Skovgård Larsen with responsibility for mergers/acquisitions, company law and international business agreements. Mr. Ingerslev currently serves as a non-executive member of the board of directors of several companies.

Terri Sebree
Board Member

Elected as member of the Board 2014

Ms. Sebree is an experienced pharmaceutical and biotechnology entrepreneur who has successfully founded, financed, grown, and taken public three biopharmaceutical companies. She is currently President of Zynerba Pharmaceuticals (Nasdaq: ZYNE) based in Devon, PA, USA. She co-founded NuPathe Inc. (Nasdaq: PATH) and served as President from February 2005 to March 2014. Prior to NuPathe, Ms. Sebree served as Senior Vice President, Development of Auxilium Pharmaceuticals (Nasdaq: AUXL) from January 2000 to January 2005. Prior to joining Auxilium, Ms. Sebree served as Executive Vice President, United States Operations at IBAH, Inc., a contract research organization. Previously, Ms. Sebree served in a variety of management roles with Abbott Laboratories for over nine years including its development head for psychopharmacology products. Ms. Sebree holds a BS from Texas A&M University

Merete Søby
Board Member

Elected as member of the Board 2016

Mrs. Søby has spent the majority of her career in the IT world. Started as Sales Manager in Hewlett Packard and became Managing Director for Hitachi Data Systems in Denmark since 2008.

“It is a world where transformation is the key”. Mrs. Søby focus has always been to advance technology to the market. “Good technology needs to be implemented locally in order to be a success”. This requires the right teams and the right partners.

In addition Mrs Søby is contributing to new Data Legislation, and is a member of the board in DHI and IT Branch Association.

Arnstein Endresen
Board Member

Elected as member of the Board 2017

Arnstein Endresen has had a long career in Norwegian and international finance and investment activities. He has 10 years of banking experience, he has served as CFO of two companies and he has headed a family office investing in health-related companies and other sectors.
Mr. Endresen is a board member in several private companies, and he is the chairman of Bjørns Invest AS, which is a significant shareholder in Serodus.

Management

Eva Steiness
CEO

Professor Eva Steiness was the first female Dean at the Faculty of Health Science, University of Copenhagen, she has served as; professor in Clinical Pharmacology in Denmark (Aarhus University), Senior Vice President at Lundbeck AS and as member of the Board of Management. Prof. Steiness, holds an MD and a DSc in Medicine from the University of Copenhagen.

In her time at Lundbeck AS, Prof. Steiness created a broad discovery and clinical pipeline including registering and launching Cipramil® (citalopram), an antidepressant drug, that reached blockbuster status.

Prof. Steiness later founded Zealand Pharma A/S in 1998. Under Prof. Steiness' leadership, a GLP-1 agonist (lixisenatide) for the treatment of Type 2 diabetes was developed and licensed to Aventis (Sanofi) in 2003. Lyxumia® (lixisenatide) was first launched into the European market in 2013.

Prof. Steiness has held a string of leadership positions among others: Chairman of the Board of Genmab, Member of the Board in several of Lundbeck's affiliates, Member of the Board of Directors of the Oticon Foundation, Member of the Medical Research Council and Chairman of the Danish Governmental Advisory Board on Research Politics.

Prof. Steiness later founded Zealand Pharma A/S in 1998. Under Prof. Steiness' leadership, a GLP-1 agonist (lixisenatide) for the treatment of Type 2 diabetes was developed and licensed to Aventis (Sanofi) in 2003. Lyxumia® (lixisenatide) was first launched into the European market in 2013.

Prof. Steiness has held a string of leadership positions among others: Chairman of the Board of Genmab, Member of the Board in several of Lundbeck's affiliates, Member of the Board of Directors of the Oticon Foundation, Member of the Medical Research Council and Chairman of the Danish Governmental Advisory Board on Research Politics.

Operational review

As a small, clinical stage biotech company, Serodus needs to carefully manage its financial and human resources.

The company needs to strengthen the organization to reach its 2018/19 objectives.

Serodus is focused on the development of SER150, as the positive clinical results has sparked interest from investors and potential industry partners.

Serodus' strategic goal is to search for substantial venture capital and in parallel, out-license its lead program to a partner, that will co-finance the next clinical study. After that, the partner is supposed to take over all remaining development, regulatory and commercial activities.

During first week of 2017 the company received the very positive results from the Phase 2a study in patients with diabetic kidney disease and announced the headline results on January 2nd, 2017. The results were strong with no safety issues and with a significant efficacy trend despite a short treatment period.

Serodus is currently planning for the next clinical study, which is expected to be a larger confirmatory study. The next study is due to start mid-2019 after completion of SER150 clinical trial material production for the study and the filing for CTA/IND in 2019.

As Serodus is investigating a novel composite endpoint and new surrogate markers for the next clinical study, we are in the process discussing this topic with our clinical advisors, experts in the field and also with the US National Kidney Foundation.

In December we renewed our SER100 Orphan Drug Designation for PAH in the USA.

During 2017 Serodus delisted from Oslo Stock Exchange as the listing did not provided the expected financing opportunities for developing the company at the pace the Board of Directors wanted.

The company is sufficiently financed to prepare for the clinical supply for the next clinical study but needs additional funding to perform additional preclinical testing and the next clinical study. Therefore, Serodus will seek the necessary financing for these next activities through partnering and approaching the Venture and private market.

Future Outlook

During 2018 Serodus will prepare the SER150 material needed to perform the planned clinical study. In parallel, a pharmacological study in a relevant animal model will elucidate the potential surrogate markers that could be included in the clinical study. Serodus also expects that in case positive, the pharmacological data could generate additional from both pharmaceutical companies as well as the investors.

Working environment and human resources

Serodus is conscious when it comes to expectations regarding equal opportunities and ensures that all applicants to positions are treated equally.

The Board of Serodus ASA consist of two men and two women and meets the requirements stated by the Norwegian public limited liability companies act § 6-6a.

The working environment in Serodus is considered good. There has been no long-term sick leave. No working accidents or injuries occurred in 2017 and the company will continue to focus on occupational safety and health activities going forward.

Environment

Serodus does not pollute the environment more than what is normal in this kind of business which is not considered to be material.

Financial review

Profit and Loss

Serodus did not have any significant revenue during 2017, but have received a total of NOK 1.4 in government grants during the year.

The Groups operating expenses for 2017 amounted to NOK 21.5 million for the full year, compared to NOK 24.4 million for 2016. Net loss for the Group during 2017 was NOK 21.9 million compared to a net loss of NOK 24.3 million for 2016.

Cash flow and balance sheet

The Serodus Group has financial positions as of 31 December 2017 of NOK 18.9 million compared to NOK 11.9 million at year end 2016. Total intangible assets and goodwill as per 31 December 2017 amounted to NOK 3.1 million. For Serodus ASA the consolidated financial position as of 31. December 2017 was NOK 20,1 million towards NOK 15,2 million for 2016.

The Serodus Group total equity was negative as of 31 December 2017 by NOK 10.9 million compared to an equity of NOK 7.5 million at year end 2016. The registered share capital of Serodus ASA as of 31 December 2017 was NOK 57 852 680.60 divided into 44 502 062 shares, each with a nominal value of NOK 1.30.

The cash balance at 31 December 2017 was NOK 14.2 million compared to NOK 5.6 million at year end 2016.

Going concern assumption

In accordance with the Norwegian accounting act section § 3-3a these financial statements are prepared based on the going concern assumption.

At the end of 2017 the group had NOK 14,2 million in available cash. This was not sufficiently to operate the company until the end of 2018, thus additional funding was required. The board of directors have consequently decided to initiate work on evaluating the company's capital need and financing alternatives. The convertible loans that were received from the shareholders in 2017 have been converted to equity in April 2018. The capital increase amounts to NOK 19 407 176,-. The company has also increased the share capital in April from a cash payment of NOK 23 043 954,-. After these two transactions, the equity in Serodus ASA is again positive.

The new liquidity will secure the basic costs of operating the company for a minimum period of twelve months. However, costs related to further developing the company and ongoing projects will be decided subject to funding being available on a case-by-case basis. In addition, the group will continue to develop and finance ongoing projects in the future, and expect to strengthen the capital of the company during 2018 through a capital increase. The company is dedicated to continue the development of SER150 Phase 2 confirmatory study. After presenting strong results both on primary and secondary endpoints in the Phase 2a study for SER150, it is the intention of the Board of Directors to use this milestone to further strengthen the capital of the company in 2018. The board confirms that the requirements for the going concern assumption are fulfilled.

Financial risk

Serodus is exposed to financial risk in various areas. The longterm goal is to reduce this exposure where possible. For the time being the company uses no financial derivatives as measures to control this risk.

Currency risk

Serodus deals in an international market with exposure to different currencies. A substantial part of the project expenses are in foreign currency. Most of the exposure is related to transactions in Euro and GBP. The company is currently not hedging positions to reduce this risk but are monitoring the situation carefully.

Liquidity risk

Serodus is exposed to significant liquidity risk to the capital intensive development projects. The company will seek to minimize this risk by securing sustained financing that enables the company to reach key development milestones that are expected to create licensing interest from potential partners.

Market risk

Serodus operates in an international market and is exposed to market fluctuations across the world. The general economic situation may influence the progress in development of projects, but is not expected to influence the overall need for the product candidates developed by Serodus. The market risk is thus considered limited.

Subsequent events after year end

Serodus aims to secure financial resources in order to progress development of its product canditates and reach further milestones and value inflection points. The board of directors have consequently decided to initiate work on evaluating the company`s capital need and financing alternatives.

Allocation of the net result for the year

The Serodus (group) generated net loss for the year 2017 of NOK 21 996 272 after tax while the parent company's loss for the year was NOK 24 699 039 which is charged to Retained earnings. The parent company has no distributable reserves as of 31 December 2017.

Oslo, 9th, of May 2018

Board of Directors Serodus ASA

Søren Elmann Ingerslev
Chairman

Terri Sebree
Board member

Merete Søby
Board member

Arnstein Endresen

Eva Steiness
CEO

Statement of Comprehensive Income

Group 2017	Group 2016	Note		Note	Serodus ASA 2017	Serodus ASA 2016
			Operating revenues			
-		3,4	Sales revenue	3	-	-
-	-		Other operating revenue		-	224 043
-	**-**		**Total operating revenues**		**-**	**224 043**
			Operating costs			
8 716 376	9 840 412	5	Personnel costs	5	8 716 376	9 839 444
179 004	179 003	9	Amortization of intangible assets	9	42 038	42 037
12 626 463	14 443 716	2	Other operating costs	2	12 116 123	13 574 042
21 521 842	**24 463 131**		**Total operating costs**		**20 874 537**	**23 455 523**
(21 521 842)	**(24 463 131)**		**Operating profit (loss)**		**(20 874 537)**	**(23 231 480)**
			Financial income			
9 771	44 115	17	Interest income		9 771	45 611
63 481	306 925	17	Other financial income		83 541	242 243
73 251	**351 040**		**Total financial income**		**93 312**	**287 854**
			Financial expenses			
432 278	994	17	Interest expenses		432 278	994
145 536	190 062	17	Other financial costs	17,19	3 485 536	189 110
577 814	**191 056**		**Total financial costs**		**3 917 814**	**190 104**
(504 562)	**159 984**	6	**Net financial items**	6	**(3 824 502)**	**97 750**
(22 026 405)	**(24 303 147)**		**Result before tax**		**(24 699 039)**	**(23 133 730)**
(30 133)	(91 768)	7	Tax	7	-	-
(21 996 272)	**(24 211 379)**		**Result after tax**		**(24 699 039)**	**(23 133 730)**
63 221	**(141 815)**		Exchange differences to be reclassified to profit or loss in subsequent periods			
(21 933 051)	**(24 353 194)**		**Total comprehensive income**		**(24 699 039)**	**(23 133 730)**
			Earnings per share			
(0,49)	(0,60)	8	Basic earnings per share	8	(0,56)	(0,57)
(0,48)	(0,58)	8	Diluted earnings per share	8	(0,54)	(0,56)

Statement of Financial Position

Group					Serodus ASA	
31.12.2017	31.12.2016	Note		Note	31.12.2017	31.12.2016
			ASSETS		-	
			Fixed assets			
2 453 173	2 632 176	9,16	Intangible assets	9	672 600	714 638
599 230	599 230		Goodwill		-	-
-			Financial assets	19	1 800 000	5 140 000
3 052 403	**3 231 406**		**Total fixed assets**		**2 472 600**	**5 854 638**
			Current assets			
1 694 197	3 131 180	10	Other short-term receivables	10	3 614 512	4 524 414
14 224 857	5 555 036	11	Bank deposits	11	13 993 613	4 830 883
15 919 054	8 686 216		**Total current assets**		17 608 125	9 355 297
18 971 456	11 917 622		**Total assets**		20 080 725	15 209 935
			EQUITY AND LIABILITIES			
			EQUITY			
57 852 681	57 852 681	12	Share capital	12	57 852 681	57 852 681
50 948 410	50 948 410		Share premium		50 948 410	50 948 410
(1 335 761)	(4 926 994)		Other paid in capital		(1 335 761)	(4 926 994)
(118 325 780)	(96 392 731)		Retained earnings		(116 822 424)	(92 123 386)
(10 860 452)	7 481 366		**Total equity**		(9 357 095)	11 750 711
			Long-term debt			
391 726	421 858	7	Deferred taxes	7	-	-
21 574 151		14, 18	Convertible loans	14, 18	21 574 151	
21 965 877	421 858		**Total long-term debt**		21 574 151	-
			Current liabilities			
2 397 459	2 499 670	14,2	Accounts payable	14,2	2 395 623	1 945 346
5 468 572	1 514 728	13	Other current liabilities	13	5 468 047	1 513 877
7 866 031	4 014 398		**Total current liabilities**		7 863 669	3 459 223
18 971 456	11 917 622		**Total equity and debt**		20 080 725	15 209 935

Oslo, 9th, of May 2018

Søren Elmann Ingerslev
Chairman of the Board

Merete Søby
Board member

Terri Sebree
Board member

Arnstein Gunnestad Endresen
Board member

Eva Steiness
CEO

Statement of Changes in Equity

2017

Serodus ASA	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
Equity 01.01.2017	57 852 681	50 948 410	(4 926 994)	(92 123 386)	11 750 711
- Statement of comprehensive income 2017		-	-	(24 699 039)	(24 699 039)
- Other income/expenses	-	-	-	-	-
Total comprehensive income:	-	-	-	*(24 699 039)*	*(24 699 039)*
Share-based compensation			465 549		465 549
Issues		-		-	-
Reclassified convertible loans			3 125 684		3 125 684
Equity 31.12.2017	**57 852 681**	**50 948 410**	**(1 335 761)**	**(116 822 424)**	**(9 357 095)**

Group	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
Equity 01.01.2017	57 852 681	50 948 410	(4 926 994)	(96 392 731)	7 481 366
- Statement of comprehensive income 2017	-	-	-	(21 933 051)	(21 933 051)
- Exchange differences	-	-	-		-
Total comprehensive income:	-	-	-	*(21 933 051)*	*(21 933 051)*
Debt conversion			-	-	-
Share-based compensation			465 549		465 549
Issues				-	-
Issue costs					-
Reclassified convertible loans			3 125 684	-	3 125 684
Equity 31.12.2017	**57 852 681**	**50 948 410**	**(1 335 761)**	**(118 325 780)**	**(10 860 452)**

Serodus ASA	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
Equity 01.01.2016	47 870 033	50 948 410	(4 583 558)	(68 989 656)	25 245 230
- Statement of comprehensive income 2016		-	-	(23 133 730)	(23 133 730)
- Other income/expenses	-	-	-	-	-
Total comprehensive income:	-	-	-	*(23 133 730)*	*(23 133 730)*
Share-based compensation			522 627		522 627
Issues	9 982 648	-		-	9 982 648
Issue costs			(866 063)		(866 063)
Equity 31.12.2016	**57 852 681**	**50 948 410**	**(4 926 994)**	**(92 123 386)**	**11 750 711**

Group	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
Equity 01.01.2016	47 870 033	50 948 410	(4 583 558)	(72 039 538)	22 195 347
- Statement of comprehensive income 2016	-	-	-	(24 353 194)	(24 353 194)
- Exchange differences	-	-	-	-	-
Total comprehensive income:	-	-	-	*(24 353 194)*	*(24 353 194)*
Debt conversion			-	-	-
Share-based compensation			522 627		522 627
Issues	9 982 648			-	9 982 648
Issue costs			(866 063)		(866 063)
Capital increase			-	-	-
Equity 31.12.2016	**57 852 681**	**50 948 410**	**(4 926 994)**	**(96 392 731)**	**7 481 366**

Statements of Cash Flow

Group 2017	Group 2016	Note		Note	Serodus ASA 2017	Serodus ASA 2016
			Cash flow from operating activities			
(22 026 405)	(24 444 962)		Ordinary result before tax		(24 699 039)	(23 133 730)
-	-		Impairment of subsidiary	17	3 340 000	
179 003	179 003	9	Amortisation of intangible assets	9	42 038	42 037
465 549	522 627	5	Share-based payment	5	465 549	522 627
1 397 995	800 807		Changes in trade receivables and creditors		1 360 177	256 848
3 953 844	237 680		Other accruals		3 954 170	223 939
(16 030 014)	**(22 704 845)**		**Net cash flow from operating activities**		**(15 537 105)**	**(22 088 279)**
			Cash flow from investment activities			
-	**-**		**Net cash flow from investment activities**		**-**	**-**
			Cash flow from financing activities			
-	9 982 648	12	Proceeds from issue of shares	12	-	9 982 648
-	(866 063)		Issue expenses recognised directly in equity		-	(866 063)
(234 889)			Payment of borrowings		(234 889)	
24 934 724			Proceeds from borrowings		24 934 724	
24 699 835	**9 116 585**		**Net cash flow from financing activities**		**24 699 835**	**9 116 585**
8 669 821	**(13 588 262)**		**Net change in cash and cash equivalents**		**9 162 730**	**(12 971 694)**
5 555 036	19 143 298	11	Cash and cash equivalents at the beginning of the period	11	4 830 883	17 802 577
14 224 857	5 555 036	11	**Cash and cash equivalents at the end of the period**	11	13 993 613	4 830 883

Notes to the financial statements

Note 1 - General information

Note 1 General information

Serodus ASA (the company) is a private company incorporated and domiciled in Norway. The company is a virtual company without a permanent place of business. The staff work largely from home or in facilities nearby home. Serodus is a bio-medical company that works on the development of new and innovative medicines for the treatment of diabetes related complications. The accounts were approved by the company's Board of Directors on 9 May 2018.

Note 2 - Summary of significant accounting principles

Note 2 Summary of significant accounting principles

The principal accounting principles applied in preparing the financial statements are described below.

2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and in compliance with additional requirements pursuant to the Norwegian Accounting Act.

The accounts have been prepared based on historical cost.

The company went off Oslo Axess in February 2017. The company has 3 employees The group has NOK 14.million in available cash at the end of the year. Additional capital has been added to the company in 2018 and the company has sufficient liquidity to operate until beginning of 2019 where additional financing is required. The group will continue to develop and finance new and ongoing projects in the future. The going concern assumption is considered to exist and the financial statements have been prepared on this basis.

2.2 Consolidation principles

The financial statements include Serodus ASA and companies that Serodus ASA is in control of. Control is ordinarily achieved when the group owns more than 50% of the shares in the company. Control may also be achieved where the group owns less than 50% of the voting shares by agreement or that the group is capable of exercising actual control of the company. Non-controlling interests are included in the group's equity.

The acquisition method is used for recognition of business combinations. Companies acquired or disposed of during the year are included in the financial statements from the time control commences and until control ceases.

Changes in ownership interests in subsidiaries that do not result in loss of control are recognized as an equity transaction. The consideration is recognized at fair value and the difference between any considerations and the capitalized value of non-controlling ownership interests is recognized against the controlling owners' equity.

In the case of a change in ownership resulting in loss of control, the consideration is measured at fair value. The capitalized value of assets and liabilities in subsidiaries and non-controlling interests are derecognized at the date of loss of control. The difference between the consideration, capitalized value of net assets and any non-controlling interests are recognized in the income statement as gains or losses. Any interest retained is measured at fair value and any gains or losses are recognized in the income statement as share of gains/losses on sale of subsidiary. Amounts recognized in other comprehensive income is recognized or charged directly to equity – depending on the nature of the items.

Intercompany transactions and balances, including intercompany profits and unrealized profits and losses are eliminated. Unrealized gains arising from transactions with associated companies and jointly controlled entities are eliminated with the group's interest in the company/business. Correspondingly, unrealized losses are eliminated, but only to the extent that there is no indication of impairment of the asset sold internally.

2.3 Foreign currency

The functional currency of the company is NOK. The functional value for the subsidiary Phlogo Aps is DKK. Financial assets and liabilities in other currencies are converted at exchange rates at 31 December. Income and expenses in foreign currency are converted at the exchange rate at the transaction date. Exchange rate gains and losses are recognized respectively as other financial income and other financial expenses included in the determination of net income. Balance accounts for Phlogo are converted at exchange rate at period end. Result accounts are converted based on the average course for the period.

2.4 Intangible assets

Acquired intangible assets

Intangible assets acquired separately are capitalized at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight line basis over estimated useful life. Estimated useful life and depreciation method are reviewed at the end of each year. The effect of any changes in estimates are recognized over expected useful life.

Internally generated intangible assets - R&D costs

Research costs are recognized as an expense in the period incurred.

An internally generated intangible asset relating to development (or in the development stage of an internal project) is recognized when, and if, the following conditions exist:

- it will be technically feasible to complete the asset such that it will be available for use or sale;
- the company intends to complete the intangible asset and use or sell it;
- the ability to use or sell the asset;
- that the intangible asset will generate future economic benefits;
- that there are adequate technical, financial and other resources to complete development and to use or sell the asset
- it will be possible to reliably measure the costs related to development of the intangible asset.

The company considers that these criteria are not met before development has led to a product that has been approved by the relevant authorities. In this context, no internally developed intangible assets have been capitalized as of 31 December 2018.

2.5 Business combinations and goodwill

Business combinations are recognized using the acquisition method. Transaction costs are expensed as they are incurred.

Consideration in the case of acquisitions is measured at fair value at the date of the acquisition and comprises shares issued in Serodus ASA.

When buying a company, all assets and liabilities for classification and assignment in accordance with contractual terms, economic circumstances and relevant factors at the time of purchase are taken into consideration. Assets and liabilities are capitalized at fair value at the date of acquisition.

Allocation of goodwill in business combinations is changed if new information is forthcoming on fair value on the date of acquisition of control. Allocation may be changed up to 12 months from the date of acquisition. The choice of method is made for each individual business combination.

Goodwill is calculated as the sum of the consideration and fair value of previously owned shares, with deduction for the net value of identifiable assets and liabilities calculated on the date of acquisition. Goodwill is not amortized, but is tested annually for impairment. In connection with impairment assessment, goodwill is allocated to related cash generating units or groups of cash generating units.

If the fair value of the net assets in the business combination exceeds the consideration (negative goodwill), the difference is immediately recognized on the date of acquisition.

2.6 Depreciation of tangible and intangible assets

At the end of each reporting period, the company assesses the capitalized value of tangible and intangible assets to determine whether there are indications of loss or impairment. If such indications exist, the recoverable amount of the asset is calculated to determine the extent of any devaluation. Where it is not possible to estimate the recoverable amount for a given asset, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less selling costs and utility value. To calculate utility value, future cash flows discounted to present value are estimated.

If the recoverable amount for an asset (or cash-generating unit) is estimated to be less than the capitalized value of the asset (or cash-generating unit) the value is written down to the recoverable amount. Impairment losses are immediately recognized in the income statement.

In the event of a reversal of the impairment, the capitalized value of the asset (or cash generating unit) is increased to the revised estimate of the recoverable amount, but such that the increased capitalized value does not exceed the capitalized value that would have been determined had it not been written down previously. A reversal of impairment is recognized immediately in the income statement.

2.7 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short term liquid investments with original maturities of three months or less.

2.8 Government grants

Government grants, such as e.g. “Skattefunn” are recognized on a systematic basis in the period the company recognizes costs that the grant is intended to compensate. Grants are presented as a part of other operating expenses, i.e. netted against associated costs. Government grants related to assets are presented in the balance sheet by deducting the grant from the capitalized value of the asset.

2.9 Revenue

Serodus ASA is a bio-medical company that works on the development of new and innovative medicines for the treatment of diabetes related complications. The company has no operating income in 2017, but expects revenues in the future from the company's operations. The company

2.10 Taxes

Tax for the period includes payable tax and changes in deferred tax.

Tax is recognized in the income statement, except to the extent it is related to items recognized in the statement of comprehensive income or directly in equity. In this case the tax is also recognized in comprehensive income or directly in equity.

Deferred tax assets and liabilities are calculated on the basis of temporary differences between the capitalized value of assets and liabilities in the financial statements and their tax values, as well as tax losses carried forward at the balance sheet date. Deferred tax assets and liabilities are calculated on the basis of tax rates and tax regulations that are expected to exist when the assets are realized or the liability is settled, based on tax rates and tax regulations that are adopted or substantially have been adopted at the balance sheet date. Deferred tax assets are only recognized to the extent it is likely that future taxable profit will be available against which the assets can be utilized.

2.11 Share-based payment

The company has a share-based compensation scheme, whereby the company receives services as consideration for equity instruments. The total amount to be expensed is determined with reference to fair value of the options and subscription rights.

In those cases where it is considered that it is not possible to determine the equity instruments' fair value, the equity instruments are valued at intrinsic value at the grant date. An updated assessment of intrinsic value will be used for subsequent periods.

Equity instruments granted by the company are subject to vesting conditions related to service period/association period to the company, the estimated cost associated with the options is accrued over the vesting period for the options. The cross entry to the cost recognition is an increase in equity. If the vesting criterion is not met, the charge is reversed against equity.

2.12 Provisions

Provisions are recognized when the company has a legal or self-imposed obligation as a result of past events, if it is likely that the provision must be met and the amount can be estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions are measured to the present value of expected expenditures to settle the obligation. The increase in liability due to change in time to maturity is recorded as financial costs.

For convertible debt, the various components of the instruments are identified. Then the fair value of the liability component is determined at the

fair value of a similar liability that does not have an associated equity conversion feature. Then the equity component is calculated as the residual amount and credited directly to equity. The equity component will not be remeasured subsequently.

2.13 Contingent liabilities

Contingent liabilities are not recognized in the financial statements. Significant contingent liabilities are disclosed, with the exception of contingent liabilities where the likelihood of liability is low.

2.14 Segment reporting

The company has only one operating segment, and does not report segment information.

2.15 Cost of equity transactions

Transaction costs directly attributable to an equity transaction are recognized directly in equity, net after tax.2.16 Events after the balance sheet date

The financial statements will be amended to reflect events after the balance sheet date that provides information on conditions that existed on the balance sheet date. The financial statements will not be amended for events after the balance sheet date that are due to conditions that have arisen after the balance sheet date. Such events are described in a note if they are material.

2.17 Cash flow statement

The cash flow statement is prepared using the indirect method.

2.18 Use of accounting estimates and assumptions

The preparation of financial statements in compliance with IFRS requires the management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Future events could cause the estimates to change. Estimates and the underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period the change occurs. If changes also apply to future periods, the effect is distributed across the current and future periods. Accounting items affected by estimates and assumptions are;

a) Intangible assets

Recognition and measurement of intangible assets: The application of the criteria for when development costs qualify for recognition as intangible assets are subject to the judgement of the management cf. note 2.3. Even though projects have been capitalized, there may exist uncertainty about the market and future margins, and consequently it is difficult to estimate the recoverable amount in relation to impairment tests.

To determine whether an intangible asset is impaired, one must calculate the utility value of the asset or the cash generating unit. Calculation of utility value requires management to make estimates of future cash flows and to determine an appropriate discount rate to calculate present value.

b) Share-based compensation

Expenses related to share-based compensation is sensitive to assumptions used in the calculation of fair value, but the total expenses related to share-based compensation are small.

If the fair value of the net assets in the business combination exceeds the consideration (negative goodwill), the difference is immediately recognized on the date of acquisition.

2.19 New and amended standards and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018.

- IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations.

The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. Serodus is currently assessing the impact of IFRS 15. The potential effects are not yet known but are not expected to be significant. The company plans to adopt the new standard on the required effective date.

- IFRS 16, ‘Leases’ replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer (‘lessee’) and the supplier (‘lessor’). The new leases standard requires lessees to recognize assets and liabilities for most leases, which is a significant change from current requirements. For lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, but the standard is currently not adopted by the EU. The group is currently considering the impact that initial application of IFRS 16 will have on the financial statements, and potential effects on the Serodus financial statements are not yet known.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a significant impact on Seroudus’ financial statements.

Note 3 – Government grants

Group 2017	Group 2016		Serodus ASA 2017	Serodus ASA 2016
	122 667	Government grants	0	122 667
1 398 200	2 548 552	SkatteFUNN	1 398 200	2 548 552
1 398 200	**2 671 219**	**Total grants**	**1 398 200**	**2 671 219**

Government grants are recognized as a reduction in costs over the period in which the Company accrues costs that the grants are intended to cover. See Note 5 and 6 for further information.

SkatteFUNN

During the period, the company has one ongoing SkatteFUNN projects. Recognition does not include marketing activities and does not cover experimental production and testing of products, services or production processes that can be used or modified in order to be used for industrial or commercial purposes. In other respects, the Research Council's minimum requirements for project management shall apply. The main objectives of the projects are development of medicine to reduce systolic blood pressure and the treatment of patients with heart failure.

Note 4 – Segments

In 2017, the company had no revenue from customers.

The group is regarded as a unit in 2017 and there are therefore no separate segments.

Note 5 – Salaries and allowances

Group			Serodus ASA	
2017	**2016**		**2017**	**2016**
8 390 393	9 344 361	Salaries and directors' fees	8 390 393	9 344 361
295 916	433 402	Employer's contributions	295 916	433 402
89 307	134 096	Pensions	89 307	134 096
465 549	522 627	Option-based compensation	465 549	522 627
6 811	12 646	Other salary-related payments	6 811	11 678
(531 600)	(606 720)	Refunds from SkatteFUNN	(531 600)	(606 720)
8 716 376	**9 840 412**	**Total**	**8 716 376**	**9 839 444**

The Company has established a defined contribution pension plan in accordance with the OTP Act.

Total remuneration of directors and management team

Recipient	Role	Description of the	2017	2016
Eva Steiness	CEO	Total	1 724 476	1 212 475
		- Salary	*1 710 755*	*1 158 377*
		- Other payments	*13 721*	*4 392*
		- Sharebased payment expense		*49 706*
Tore Kvam	CFO (until 31.12.2017)	Total	1 222 612	1 157 519
		- Salary	*1 214 771*	*1 084 615*
		- Other payments	*7 841*	*7 612*
		- Sharebased payment expense		*65 292*
Søren Elmann Ingerslev	Chairman	Total		1 943
		- Directors' fees		
		- Sharebased payment expense		*1 943*
Merete Søby	Board member	Total	150 000	1 943
		- Directors' fees	*150 000*	
		- Sharebased payment		*1 943*
Terri B. Sebree	Board member	Total	200 000	345 820
		- Directors' fees	*200 000*	*300 000*
		- Sharebased payment expense		*45 820*
Arnstein Endresen	Board member	Total	150 000	20 000
		- Directors' fees	*150 000*	
		- Other payments		*20 000*
Håkon Sæterøy	Member of nomination	Total		20 000
		Other payments		*20 000*
Svein S. Jacobsen	Chairman (until 30.03.2017)	Total	75 000	346 468
		- Directors' fees	*75 000*	*300 000*
		- Sharebased payment expense		*46 468*
Ole Peter Nordby	Board member (until 30.03.2017)	Total	37 500	248 881
		- Directors' fees	*37 500*	*225 000*
		- Sharebased payment expense		*23 881*
Christina Carnigie	Board member (until 11.08.2016)	Total		253 721
		- Directors' fees		*200 000*
		- Sharebased payment expense		*53 721*
Total sum			3 559 588	3 608 770

Remuneration for the board 1)

Recipient	Role	2017	2016
Søren Elmann Ingerslev	Chairman	-	-
Merete Søby	Board member	150 000	-
Terri B. Sebree	Board member	200 000	300 000
Arnstein Endresen	Board member	150 000	-
Svein S. Jacobsen	Chairman (until 30.03.2017)	75 000	300 000
Christina Carnigie	Board member (until 11.08.2016)	-	200 000
Ole Peter Nordby	Board member (until 30.03.2017)	37 500	225 000

[1] Shares and options for the board are shown in a separate table below.

Share-based payment

Serodus has issued share options to management and board members. If the options are exercised, they will be settled in shares. The following vesting conditions apply:

Options valued at fair value	Number of options	Expiry [1]	Strike price (NOK)	Fair value
Jürgen Langhärig	175 000	13.03.2018	3,05	3,03
Tore Kvam	50 000	17.08.2018	2,95	2,74
Tore Kvam	100 000	10.12.2018	2,35	2
Terri Sebree	75 000	21.11.2019	1,3	1,22
Søren Ingerslev	75 000	21.11.2019	1,3	1,22
Merete Søby	75 000	21.11.2019	1,3	1,22
Tore Kvam	100 000	21.11.2019	1,3	1,22
Eva Steiness	225 000	21.11.2019	1,3	1,22
Jürgen Langhärig	75 000	21.11.2019	1,3	1,22
Torben Skarsfeldt	100 000	21.11.2019	1,3	1,22
SUM	**1 050 000**			

[1] The options expires 3 years after issued.

Valuation of share options:

For options the expected volatility is calculated from the stock price listed at Oslo Børs from the listing date. No options have been exercised in 2017. Volatility 139% and the risk-free interest rate is set at 0,50%.

Subscirption rights: Changes during the year	Number of subscription rights	Strike price
Number of subscriptions rights outstanding at beginning of year	450 000	3,7
Granted during the year	-	-
Lapsed or exercised during the year	450 000	3,7
Number of subscription rights outstanding at end of year:	-	

Note 6 - Other Operating costs

Group			Serodus ASA	
2017	2016		2017	2016
982 778	999 699	Travel expenses	982 778	999 699
7 016 278	9 858 127	Research and development [1,2]	7 013 551	9 858 127
479 474	1 394 470	Patents and licenses	372 243	777 542
3 925 180	2 620 798	Consultants and audit [1]	3 574 700	2 371 452
1 089 353	1 635 121	Other costs	1 039 450	1 631 721
-	(122 667)	Government grants	-	(122 667)
(866 600)	(1 941 832)	SkatteFUNN [3]	(866 600)	(1 941 832)
12 626 463	**14 443 716**	**Total other operating expenses**	**12 116 123**	**13 574 042**

Remuneration of auditors

2017	2016		2017	2016
(63 481)	222 023	Audit	(83 541)	217 000
		Certifications		
-	191 623	Other services	3 340 000	191 623
(63 481)	**413 645**	**Total, excl. VAT**	**3 256 459**	**408 623**

1) See Note 15 for transactions with related parties.

2) A substantial part of the company's costs is related to research and development. As of 31.12.2017, the company's expenses for research and development do not conform to the criteria for reconciling under IFRS. More detailed information about the criteria for reconciliation are provided in Note 2 - Accounting principles.

3) 3) The company will have NOK 1 398 700 refunded in 2017 through its SkatteFUNN schemes. NOK 866 600 is recognized as a reduction

Note 7 – Tax

Specification of tax expenses:

Group 2017	Group 2016		Serodus ASA 2017	Serodus ASA 2016
-	-	Taxes payable		-
(30 133)	(91 768)	Change in deferred tax		-
(30 133)	(91 768)	Tax		-

Specification of temporary differences and deferred tax:

31.des 2017	31.des 2016		31.des 2017	31.des 2016
(978 883)	(1 038 187)	Temporary differences	(978 883)	(1 038 187)
(155 998 460)	(133 647 858)	Tax losses carried forward	(155 998 460)	(133 647 858)
(156 977 343)	(134 686 045)	Basis for deferred tax assets	(156 977 343)	(134 686 045)
1 780 573	1 917 538	Temporary differences related to patent in Phlogo ApS		
(36 104 789)	(32 324 651)	Deferred tax asset (23%, 24% in 2016) (not recognised)	(36 104 789)	(32 324 651)
391 726	421 858	Deferred tax (22%) as a result of patent		

Reconciliation of effective tax rate:

2017	2016		2017	2016
(22 026 405)	(24 303 147)	Result before tax	(24 699 039)	(23 133 730)
(5 286 337)	(6 075 787)	Expected income tax (24%, 25% in 2016)	(5 927 769)	(5 783 433)
-	-	Difference between income tax Norway/Denmark		
		Adjusted for the tax effect of the following items:		
1 569 773	1 346 860	Effect change tax rate in temporary differences	1 569 773	1 346 860
		Temporary difference related to patent in Phlogo ApS		
577 858	(853 010)	Permanent differences	577 858	(853 010)
3 108 573	5 490 168	Change unrecognised temporary differences	3 780 138	5 289 582
(30 133)	(91 768)	Tax	0	0

Because of uncertainty about future utilization of losses that can be carried forward, the company believes there is no basis for the recognition of deferred tax assets. Deferred tax liabilities for the Group are entirely related to the acquisition of subsidiaries.

Note 8 – Earnings per share

Basis

Basic earnings per share are calculated by dividing the earnings attributable to shareholders by the average number of ordinary shares outstanding during the year.

Diluted

Diluted earnings per share are calculated by adjusting the number of shares for the effects of dilutive options if they have a dilutive effect.

	Group 2017	Group 2016	Serodus ASA 2017	Serodus ASA 2016
Earnings attributable to shareholders in the company	(21 933 051)	(24 353 194)	(24 699 039)	(23 133 730)
Weighted average number of ordinary shares	44 502 062	40 662 582	44 502 062	40 662 582
Shares with dilutive effect:				
- Share options	1 050 000	1 475 000	1 050 000	1 475 000
Basic earnings per share	(0,49)	(0,60)	(0,56)	(0,57)
Diluted earnings per share[1)]	(0,48)	(0,58)	(0,54)	(0,55)

[1)] Potential dilution from share options is not included in the calculation of diluted earnings per share, as they do not have a diluting effect.

Note 9 – Intangible assets

Serodus ASA	Licenses	Total
Acquisition cost		
Cumulative 1 January 2016	2 360 875	2 360 875
Additions during the year	-	-
Disposals during the year	-	-
Cumulative 31 December 2016	2 360 875	2 360 875
Additions during the year	-	-
Disposals during the year	-	-
Cumulative 31 December 2017	2 360 875	2 360 875
Depreciation and impairment		
Cumulative 1 January 2016	1 604 201	1 604 201
Impairment	-	
Depreciations for the year	42 038	42 038
Cumulative 31 December 2016	1 646 239	1 646 239
Impairment	-	
Depreciations for the year	42 038	42 038
Cumulative 31 December 2017	1 688 275	1 688 275
Value entered on the balance sheet		
Value entered on the balance sheet 31 December 2016	714 636	714 636
Value entered on the balance sheet 31 December 2017	672 600	672 600

Group	Licenses	Goodwill	Patents	Total
Acquisition cost				
Cumulative 1 January 2016	2 360 875	599 230	2 396 919	5 357 024
Additions during the year				-
Disposals during the year	-	-		-
Cumulative 31 December 2016	2 360 875	599 230	2 396 919	5 357 024
Additions during the year				-
Disposals during the year	-	-		-
Cumulative 31 December 2017	2 360 875	599 230	2 396 919	5 357 024
Depreciation and impairment				
Cumulative 1 January 2016	1 604 201	-	342 415	1 946 616
Impairment	-	-		-
Depreciations for the year	42 038	-	136 966	179 004
Cumulative 31 December 2016	1 646 239	-	479 381	2 125 620
Impairment	-	-		
Depreciations for the year	42 038	-	136 966	179 004
Cumulative 31 December 2017	1 688 276	-	616 346	2 304 622

Value entered on the balance sheet

Value entered on the balance sheet 31 December 2016	714 636	599 230	1 917 538	3 231 405
Value entered on the balance sheet 31 December 2017	672 599	599 230	1 780 573	3 052 403

Serodus has acquired a patent, all rights and know-how for SER100 from Zealand Pharma A/S (Denmark), and has sole possession rights for development and commercialization of the product. Serodus paid a small advance for the acquisition of the product and will pay a percentage of future returns from development as well as royalties from potential partners and sales.

In connection with the acquisition of Phlogo ApS, a goodwill item of NOK 599,230 and patent cost of NOK 2,396,919 occurred. Goodwill arises as a technical item as a result of allocation of deferred tax. Since the basis for depreciation should take the tax effect into account, there will be no basis for writing down Goodwill. The patents have an average lifespan of 17.5 years and will be depreciated over the estimated useful life. In 2013, the patents are depreciated from the acquisition date.

Agreement with Evolva AG

In 2013, Serodus entered into an agreement with Evolva AG regarding rights for licenses. Licenses totaling NOK 840,750 have been capitalized. These licenses will be depreciated over 20 years.

Note 10 – Other receivables

Group			Serodus ASA	
2017	2016		2017	2016
51 441	281 959	VAT receivables	51 441	123 833
1 398 200	2 548 552	Claims on government grants	1 398 200	2 548 552
244 556	300 668	Prepaid costs	242 717	522 873
0	-	Receivables from subsidiaries	1 922 154	1 329 155
1 694 197	**3 131 179**	**Total other receivables**	**3 614 512**	**4 524 413**

Note 11- Cash and Cash equivalents

2017	2016		2017	2016
13 932 044	5 303 573	Cash and bank deposits - unrestricted funds	13 700 800	4 579 419
292 813	251 464	Cash - restricted assets related to deduction of tax	292 813	251 464
14 224 857	**5 555 037**	**Cash and cash equivalents in the balance sheet**	**13 993 613**	**4 830 883**

Note 12 – Share capital

Share capital:

	2017	31.des 2016
Shares, nominal value NOK 2		
Shares, nominal value NOK 1.30[1)]	44 502 062	44 502 062
Share options	1 050 000	1 475 000
Subscription rights	0	450 000

All shares in the company have equal voting rights and equal rights to dividends.

The 20 largest shareholders as of 31.12.2017 are:

Shareholders	Number of shares	Percentage of capital
VIGGO HARBOE HOLDING APS	12 588 824	28,29 %
BJØRNS INVEST AS	3 804 896	8,55 %
DANSKE BANK A/S	3 591 657	8,07 %
EVA STEINESS	2 268 854	5,10 %
MP PENSJON PK	1 796 561	4,04 %
CFM INDOSUEZ WEALTH	1 582 866	3,56 %
SPAR KAPITAL INVESTOR AS	1 530 000	3,44 %
DANSKE BANK A/S	1 104 878	2,48 %
ROLFS HOLDING AS	1 013 992	2,28 %
NORDEA BANK DANMARK A/S	928 938	2,09 %
UBS SWITZERLAND AG	774 807	1,74 %
NORDNET BANK AB	717 352	1,61 %
HERSETH AS	569 637	1,28 %
OLA RUSTAD A.S	550 000	1,24 %
MEDIA TECHNOLGY GROUP AS	387 517	0,87 %
SÆRVOLL HOLDING AS	383 655	0,86 %
NORSEMETER AS	375 000	0,84 %
ACADIA HOLDING AS	367 085	0,82 %
HØVIK FINANS AS	365 000	0,82 %
ROLAND MARTIN WALTER BØNI	340 000	0,76 %
Total for the 20 largest shareholders	35 041 519	78,74 %
Other shareholders	9 460 543	21,26 %
Total number of shares	**44 502 062**	**100,00 %**

Shares owned directly or indirectly by management and board as of 31.12.2017

Name	Role	Number of shares
Arnstein Gunnestad Endresen	Board member	3 804 896
Eva Steiness	CEO	2 268 854
Tore Kvam*	CFO	157 800
Torben Skarsfeldt	VP Project Director	25 000
Jürgen Langhärig	VP Business Development	100 000
		6 356 550

*Tore Kvam, is not employed as CFO in 2018.

Note 13 - Other current liabilities

Group			Serodus ASA	
2017	2016		2017	2016
245 188	295 260	Unpaid government charges	245 514	295 260
4 537 878	341 407	Accrued costs	4 537 878	341 406
685 505	878 060	Other current liabilities	684 655	877 209
5 468 572	**1 514 728**	**Total other current liabilities**	**5 468 047**	**1 513 877**

Note 14 – Financial risk management, objectives and guidelines

Categories of financial instruments

		Serodus ASA			
		2017		2016	
	Category	Book value	Fair value	Book value	Fair value
Financial assets:					
Trade accounts receivable	Loans and receivables	1 922 154	1 922 154	1 329 155	1 329 155
Other accounts receivable [1)]	Loans and receivables	1 398 200	1 398 200	2 805 189	2 805 189
Cash and cash equivalents.	Loans and receivables	13 993 613	13 993 613	4 830 883	4 830 883
Total financial assets		**17 313 967**	**17 313 967**	**8 965 227**	**8 965 227**
Financial liabilities:					
Accounts payable	Financial liabilities at amortised cost	2 395 623	2 395 623	1 945 346	1 945 346
Other liabilities [2)]	Financial liabilities at amortised cost	930 169	930 169	1 172 472	1 172 472
Convertible loans [3)]		21 574 151	21 574 151		
Total financial liabilities		**24 899 942**	**24 899 942**	**3 117 818**	**3 117 818**

		Group			
		2017		2016	
	Category	Book value	Fair value	Book value	Fair value
Financial assets:					
Trade accounts receivable	Loans and receivables	0	0	-	-
Other accounts receivable [1)]	Loans and receivables	1 398 200	1 398 200	2 581 146	2 581 146
Cash and cash equivalents.	Loans and receivables	14 224 857	14 224 857	5 555 036	5 555 036
Total financial assets		**15 623 057**	**15 623 057**	**8 136 182**	**8 136 182**
Financial liabilities:					
Accounts payable	Financial liabilities at amortised cost	2 397 459	2 397 459	2 499 670	2 499 670
Other liabilities [2)]	Financial liabilities at amortised cost	930 694	930 694	1 173 323	1 173 323
Convertible loans [3)]		21 574 151	21 574 151		
Total financial liabilities		**24 902 304**	**24 902 304**	**3 672 993**	**3 672 993**

[1)] VAT receivables and prepaid expenses are not included, since they are not considered as financial assets.
[2)] Accrued costs are not included, since they are not considered as financial liabilities.
3) The nominell interest rate on the loans have been 4% per annum. NOK 19,022,935, - was converted into share capital as of 1. April 2018. Remaining loans will be returned, including interest.

Financial risk management

The financial liabilities of the company/Group consist primarily of other liabilities such as unpaid government charges and vacation pay due. The financial assets consist primarily of cash.

The company/Group is exposed to market risk, credit risk and liquidity risk. Serodus ASA's management monitors the administration of these risks.

Market risk

Market risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate due to changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, commodity prices and other price risk. The financial assets and liabilities of the company/Group have only limited exposure to these risks.

a) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices. The company/Group has no borrowings and is therefore not currently exposed to interest rate risk.

b) Currency risk

Currency risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate due to changes in market prices. The company/Group has some currency risks from foreign currency transactions. At year-end 2017, the company/Group had accounts payable in DKK, GBP, USD and EUR equivalent to NOK 1 900 000. If the respective exchange rates against the NOK changed by +/- 10%, the profit before tax would change by +/- NOK 150 000.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations so that it results in a financial loss for the company. The company/Group is exposed to credit risk mainly through deposits in banks. There are also receivables from VAT and grants. VAT receivables are included in the table below, even though, in accordance with IAS 39, they do not represent financial assets.

The recognised value of financial assets represents the maximum credit exposure. The maximum exposure for credit risk at the reporting date was:

Company accounts	31.des 2017	31. des. 2016
Cash and cash equivalents	13 993 613	4 830 883
Other accounts receivable	3 614 512	4 524 414
The maximum credit exposure	**17 608 125**	**9 355 297**

The receivables are not due on the reporting dates.

Consolidated accounts	31.des 2017	31. des. 2016
Cash and cash equivalents	14 224 857	5 555 036
Other accounts receivable	1 694 197	3 131 180
The maximum credit exposure	**15 919 054**	**8 686 216**

The receivables are not due on the reporting dates.

Liquidity

The company/Group monitors the risk of lack of funding by continually monitoring the maturity of financial assets and liabilities and projected cash flows from operations. The possibility of further issues are an integral part of these assessments.

At the balance sheet dates, the financial commitments of significance are accounts payable and debts to related parties. At the end of 2016 and 2017, accounts payable fall due for payment three months or less from the respective reporting dates.

Capital management

An important objective in relation to capital management is to ensure that the company/Group maintains an adequate capital structure to fund business development. The company/Group considers its capital structure in light of current and projected cash flow, new business opportunities and the company's financial obligations. To maintain or adjust the capital structure, the Company can issue new shares or sell assets to reduce debt.

Market value of financial instruments

The booked value of cash and cash equivalents, short-term financial receivables and accounts receivable are approximated fair value because of the short maturity.

Note 15 – Related parties

In order to get access to important knowledge, the company has entered into agreements with related parties:

Services purchased from	Description of the service	2017	2016
Elmann Advokatpartnerselskap1)	Legal fees	410 111	217 138

The amounts above include remuneration for the roles as board members, where applicable.

1) Søren Elmann Ingerslev is a partner of the company

Outstanding with related parties:		
	31.des 2017	31.des 2016
Accounts payable:		
Viggo Harboe Holding A/S	104 044	300 000
Total from related parties	104 044	300 000

Note 16 – Impairment testing of goodwill

Recognized goodwill in the Group amounted on 31.12.2017 to NOK 599,230. The goodwill is entirely related to the acquisition of Phlogo ApS, which was completed in 2013. This is a technical goodwill item generated from deferred tax. The impairment test shall be performed after deduction of deferred tax.

The residual value for testing will thus be NOK 0. Goodwill is monitored and tested for groups of cash-generating units (CGU) that are similar to what is defined as an operating segment in accordance with Note 4 "Segments".

There are not considered to be any separate cash-generating units in the Group.

The recognised amount of goodwill:	2017	2016
Phlogo ApS	599 230	599 230

The Group tests goodwill for impairment at least annually or whenever there are indications of impairment. The assessment was made on 31.12.2017.

Acquisition of Phlogo ApS and associated goodwill was acquired in order to strengthen Serodus within the defined priority areas.

Goodwill is based on marked value. There are no observable indications that the value has changed from the date of acquisition and write-down is not considered necessary.

Note 17 – Financial items

Group		Total finance income	Serodus ASA	
2017	**2016**		**2017**	**2016**
9 771	44 115	Interest income	9 771	45 611
63 481	306 925	Other financial income	83 541	242 243
73 252	**351 040**	**Total finance income**	**93 312**	**287 854**

Group		Total finance costs	Serodus ASA	
2017	**2016**		**2017**	**2016**
432 278	994	Interest expenses	432 278	994
		Impairment of subsidiary	3 340 000	
145 536	190 062	Other financial expenses	145 536	189 110
577 814	**191 056**	**Total finance costs**	**3 917 814**	**190 104**

Note 18 – Events after balance sheet date

The company aims to secure financial resources in order to progress development of its product candidates and reach further milestones and value inflection points. The board of directors have consequently decided to initiate work on evaluating the company's capital need and financing alternatives. The convertible loans that were received from the shareholders in 2017 have been converted to equity in April 2018. The capital increase amounts to NOK 19 407 176,-. The company has also increased the share capital in April from a cash payment of NOK 23 043 954,-.

Note 19 – Subsidiary

Subsidiary	Voting share	Acquisition costs	Book value	Fair value
Phlogo ApS	100,00 %	5 140 000	1 800 000	1 800 000

The shares have been written down by NOK 3 340 000 in 2017.

Responsibility Statement

We confirm, to the best of our knowledge, that the financial statements for the year 2017 which has been prepared in accordance relevant accounting and reporting standards and gives a true and fair view of the assets, liabilities, financial position and results of operations for the entity and the group as a whole. We also confirm that the Board of Directors report includes a true and fair review of the development and performance of the business and the position of the entity and the group, and a description of the main risks and uncertainties facing the entity and the group.

Oslo, 9th, of May 2018

Board of Directors Serodus ASA

Søren Elmann
Chairman of the Board

Terri Sebree
Board member

Merete Søby
Board member

Arnstein Gunnestad Endresen
Board member

Eva Steiness
CEO