



SERODUS

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# ANNUAL REPORT 2018

## MOVING FORWARD TOWARDS A PIVOTAL CLINICAL STUDY

Serodus is a private, mid-stage clinical Scandinavian company.

Serodus focuses on novel treatments of patients with diabetic complications.

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## Serodus in Brief

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Serodus is a Scandinavian private clinical mid-stage biotech company whose pipeline fundamentally shifts the current treatment paradigm by introducing novel anti-inflammatory compounds to treat diabetic complications in patients with either type 1 diabetes (T1D) or type 2 diabetes (T2D).

In a Phase 2 study in patients with diabetic kidney disease (DKD), our lead asset SER150 has shown to have no safety and tolerability issues. At the same time SER150 demonstrated a statistically significant decrease in urinary albumin, a strong sign of efficacy.

Serodus has finalized the production of a new, large batch of SER150 material and is preparing for pre-clinical toxicological testing for 6-month in rodents and 9-month in non-rodents allowing  $\geq 6$  months dosing of patients.

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

The corporate strategy centers on taking programs through to the "proof of clinical concept" stage and out-license or partnering the asset ahead of the later, more expensive clinical stages.

The management is experienced, with a proven track record of bringing new compounds from the discovery phase, through pre-clinical and clinical development phases, of getting new products registered and to the market and of concluding major partnering deals.

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

Terri: new about the animal model but patent not public yet

## Letter from the CEO

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We are very grateful for our current shareholders who continued to financially support the company during 2018.

In 2018, a batch of SER150, the active pharmaceutical ingredient (API) produced under GMP (Good Manufacturing Practice) conditions, was finalized. The material will be used for the next pre-clinical toxicological testing and the coming clinical trials in patients with either Type 1 Diabetes (T1D) or Type 2 Diabetes (T2D).

The Contract Research Organization performing the 6- and 9-months toxicological studies was chosen. These studies will be carried out during 2019.

Pharmacological *in vivo* testing in a new T1D animal model was finalized and results have elucidated new, exciting facets of SER150 that can be supportive in the coming clinical studies and be the basic for a new use patent.

In the Phase 2 study, patients with diabetic kidney disease were treated for only one month and significantly decreased urinary albumin was recorded. Serodus is currently planning for the next Annual Report 2018

clinical development phases that will include one SER150 study in T1D and another study in T2D. The patients will be treated with SER150 for 6 months. In both Europe and the USA it is a regulatory requirement that the pre-clinical long-term Safety and Tolerability testing has to be finalized before filing applications for clinical trials to the authorities. These clinical studies are due to start H1-2020 after completion of a new financial round.

Through 2018 Serodus continued to manage the company on a very tight budget. and will raise new funds in the private market to finance the planned clinical programs.

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

Chief Executive Officer

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## Pipeline

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T1D and T2D are multifactorial, metabolic and immunological disorders which lead to serious debilitating and fatal complications, such as diabetic nephropathy, retinopathy and diabetic foot ulcer.

Through a combination of acquisition and licensing, Serodus has created an interesting, innovative pipeline consisting of a clinical compound (SER150) for the treatment of patients with diabetic kidney disease. In addition, Serodus has early stage compounds for the treatment of patients with diabetic retinopathy (SER130) and diabetic foot ulcer (SER190).

Another pre-clinical compound (SER140) delays  $\beta$ -cell destruction in newly diagnosed patients with type 1 diabetes.

T1D is a disorder dominated by autoimmunological processes (the immune system mistakenly attacks its own organ systems) directed to the insulin producing pancreatic  $\beta$ -cells. T1D signs and symptoms can appear relatively suddenly and has a dramatic disease progression in youth. In most patients T1D develops very fast within few months to a couple of years.

T2D does not have a clear etiological background, however, there is a strong correlation between increased bodyweight and T2D. The prevalence of T2D is growing pandemically. T2D develops very slow and is dominating in middle-age and elderly people.

The T1D and T2D accompanied hyperglycaemia induces oxidative stress followed by an activation of several pro- and anti-inflammatory endogenous agents, i.e. a low-grade inflammatory process. The pro-inflammatory IL-1 is dominating and one of the most pronounced factors involved in the different diabetic organ complications.

Serodus' novel compounds re-establish the balance between pro- and anti-inflammatory endogenous processes hereby addressing one of the core components in diabetes and involved in developing the serious complications.

All currently available treatments for T1D and T2D are effective at reducing blood glucose and thereby delay onset of complications. However, they lack the ability to halt the chronic low-

grade systemic inflammation driving the pathophysiological processes of diabetes and its complications.

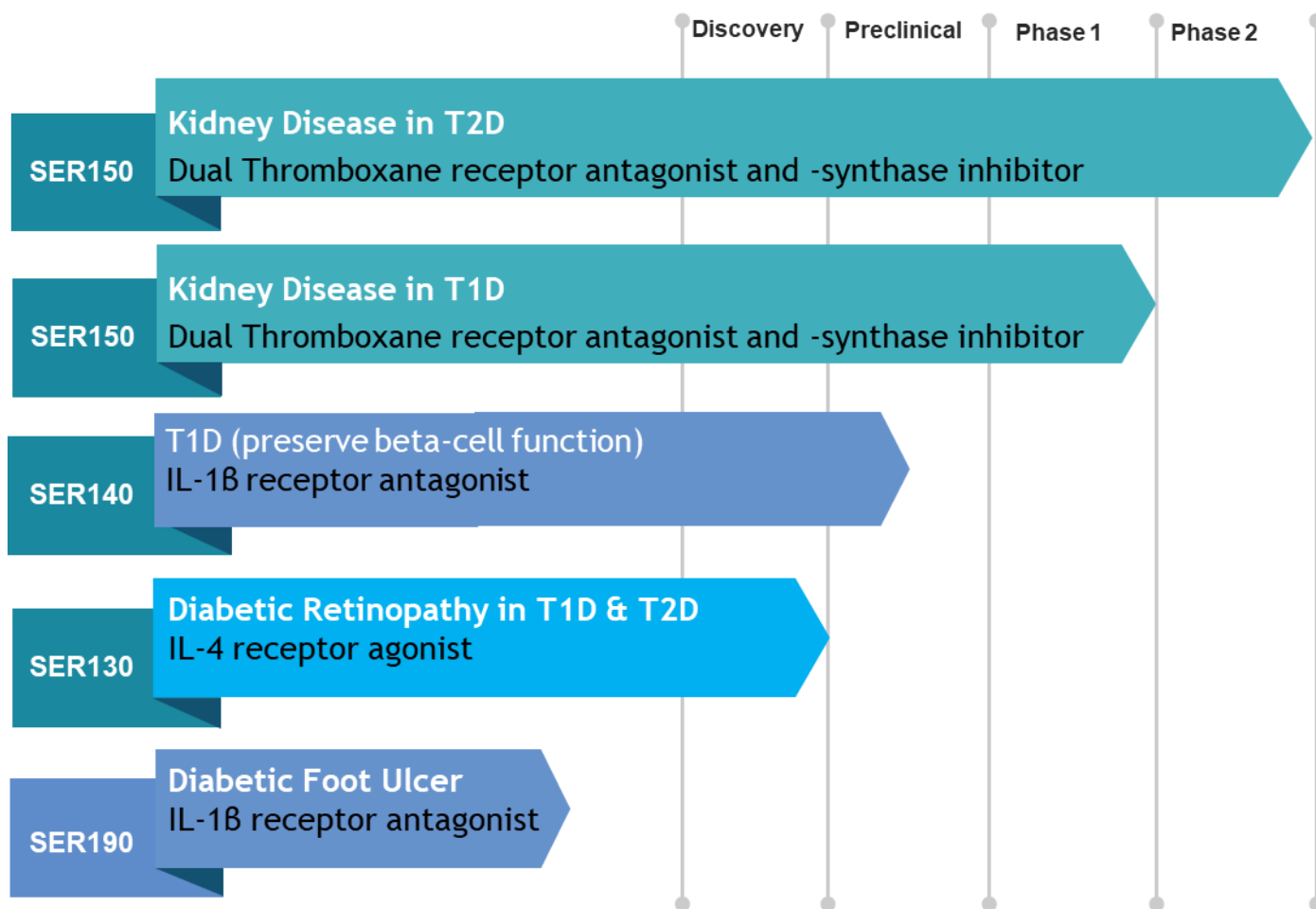


Figure 1 Pipeline Status

Currently, the standard of care of complications in T1D and T2D patients involve treatment with glucose lowering drugs administered either by tablets, subcutaneous injections or by adjusting the insulin requirements via an insulin pump that needs to be carried at all time.

Through 2018 Serodus performed a critical re-examination of all the portfolio compounds which included evaluation of patent & data protection life, clinically relevant endpoints and clinically relevant efficacy parameters. In the light of this examination Serodus changed the indication for SER130.

Serodus' operating model is based on a lean organization with highly skilled staff with complementary experiences in research and development, licensing and marketing.

The company has no research facilities of its own but collaborates with internationally recognized contract organizations.

## SER150 Diabetic Kidney Disease

Serodus has finalized a Phase 2 safety study with the lead candidate SER150 in patients with diabetic kidney disease. The compound was very well tolerated, and no safety concerns were observed. In addition, patients treated with SER150 for 4 weeks showed statistically significant reduction of the biomarker urinary albumin. Amount of urinary albumin is an indicator for the severity of the disease, i.e. a high amount of urinary albumin reflects the severity of kidney damage. Therefore, an important clinical effect of a SER150 treatment would be to diminish or halt the loss of proteins.

### **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 diabetic patients has increased from 100 million in 1980 to 442 million in 2014, with adult prevalence rising from 4.7% to 8.5% in the same period.

Diabetic kidney disease is a complication in 30-40% of patients with either T1D or T2D and the leading cause of end-stage renal disease. The condition is a progressive loss of renal function and localized in both the kidney's glomeruli and proximal tubules, characterized by persistent albuminuria, progressive decline in the glomerular filtration rate and often elevated arterial blood pressure.

### **What is SER150?**

SER150 is an orally administered new chemical entity, a potent dual-acting competitive thromboxane receptor antagonist and thromboxane synthesis inhibitor.

SER150 is believed to inhibit the inflammatory processes in the small arteries in all organs and of even more importance in the various glomerular cells such as podocytes and endothelial cells. More fundamentally, SER150 is expected to reduce the progression of renal impairment typically seen in patients with diabetic kidney disease.

The pathogenesis behind the progression of diabetic kidney disease is still not fully understood. It is believed that the complex signaling between many classes of cells and organs result in abnormal inflammatory responses deteriorating the basic function of the kidney.

Thromboxane is an inflammatory endogenous mediator and thromboxane is increased in patients with T1D and T2D. SER150 reduces the effect of thromboxane by its dual blockade of the thromboxane synthase and the thromboxane receptor. This mode of action reduces the inflammation in all glomerular cells.

## Clinical Phase 2 study and continued development:

Results from the SER150 Phase 2 study in 72 patients with diabetic kidney disease evaluated two dose strengths (15mg and 30mg, twice daily versus placebo treatment) administered for one month were announced in January 2017.

The data confirmed a significant reduction in urine protein (albumin) and no biochemical abnormalities or bleeding tendencies were identified. Only few adverse events (all mild or moderate) were reported and events were distributed evenly between active treatment and placebo groups.

Successful GMP production of API has followed the planned time schedule and budget. The production of SER150 is now finalized and ready to be used in the coming pre-clinical and long-term toxicology studies.

## Next clinical studies

The next SER150 clinical studies will target two patient subpopulations of T1D and T2D. Patients will be treated for 6 months to evaluate the effect on a composite of clinical endpoints (i.e. loss of urinary albumin and glomerular filtration). This composite of endpoints was suggested by the FDA in a pre-IND meeting in 2017.

However, before these studies can be initiated the pre-clinical 6 months toxicological testing need to be finalized. The next SER150 clinical study is expected to be initiated H1 2020.

## SER140 Type 1 Diabetes with residual $\beta$ -cell function

Worldwide, T1D is the major type of diabetes in younger people, with approximately 85% of all diabetic patients < 20 years. Onset of diabetes in young patients (<20 years) have generally a very rapid loss of pancreatic  $\beta$ -cells, i.e. lack insulin production.

Serodus expects that SER140 halts the predestined decline of  $\beta$ -cell function after initial diagnosis of T1D (“newly diagnosed”). When halting the rapid decline of  $\beta$ -cell function at an early disease stage, some endogenous insulin production is maintained.

## What is SER140?

SER140 is a small peptide having an IL-1 receptor antagonistic effect. SER140 has demonstrated significant *in vitro* and *in vivo* pre-clinical anti-inflammatory effects.

An experimental study of SER140 effect in a T1D rat model demonstrated a significant delay in development of blood sugar elevation (i.e. halting development of diabetes), a significant higher blood concentration of insulin compared to placebo and a significant larger number of



pancreatic insulin synthesising cells. A compound with such clinical profile is a paradigm shift in treatment of newly diagnose youngT1D patients having a residual  $\beta$ -cell function.

### **Next step in development**

Before the first clinical trial can be initiated, SER140 API needs to be produced in a quality needed for preclinical toxicological testing and clinical trials.

## **SER130 Diabetic Retinopathy**

Devastation damages in retina occurs both in T1D and T2D patients who have had diabetes for more than 10-20 years. It is a major cause of blindness and accounts in US for a more than 10% of all new cases of blindness.

Diabetic retinopathy occurs in the age group of 20-60 years. The first stage, called non-proliferative diabetic retinopathy, has often no symptoms or warnings. In the second stage, abnormal new blood vessels formed at the back of the eye as part of proliferative diabetic retinopathy; these can burst and bleed and cause blurred vision. Bleeding will gradually worsen and end with blindness.

It is generally accepted that various components are involved in the development of retinopathy, and inflammatory processes are key moderators in the early stages of the disease.

SER130 may be clinically beneficial in patients with signs of diabetic retinopathy.

### **What is SER130?**

SER130 is an IL-4 receptor agonistic small peptide. SER130 has demonstrated significant in *vitro* and *in vivo* pre-clinical anti-inflammatory effects.

SER130 mimics the endogenous anti-inflammatory interleukin IL-4.

### **SER130 next development step**

Pharmaceutical development focusing on parental (injection) or systemic (oral) administration of SER130 will have a high priority and will affect the initial toxicological testing. Before the first clinical trial can be initiated, SER130 shall be tested in some pre-clinical toxicological studies.

## SER190 Diabetic Foot Ulcer

Patients with treatment resistant T1D and T2D are predisposed to develop chronic diabetic wounds commonly known as diabetic foot ulcers and suffer from significant deficits in wound healing processes despite aggressive healing therapy. Diabetic foot ulcers are an increasingly common problem which might end with series of amputations often resulting in severe morbidity, high mortality and an economic burden for the patient and society.

SER190, an IL-1 $\beta$  receptor antagonist small peptide, is in the concept stage for diabetic wound healing.

## Corporate Strategy

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Serodus' strategy is to in-license or acquire early phase drug candidates and mature the candidates to "proof-of-clinical-concept". Serodus plan to out license the projects before final larger clinical studies.

For Orphan indications, Serodus may consider a different development and/or partnering strategy in order to optimize the asset.

Management has extensive experience and knowledge in qualifying and evaluating early stage drug candidates, as well as expertise in maturing the individual candidates from the early stage through the various pre-clinical, clinical and regulatory phases.

The company has a dedicated focus on diabetes induced complications and possesses a broad, chemically diversified basket of compounds to treat the various complications in diabetic patients.

Serodus is striving for risk mitigation by securing

1. a multiple drug pipeline
2. different mode of action of the individual drug candidates
3. different indications
4. drug candidates at different development stages

Serodus' strategy is to collaborate with contract research organizations and contract manufacturers.

At the current stage the company has a primary focus on the development of SER150 addressing diabetic kidney disease.

## Corporate Governance

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Serodus has adopted “The Norwegian Code of Practice for Corporate Governance” dated 30 October 2014.

### 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.

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.

The following principles underline our approach to corporate governance:

- All shareholders will be treated equally
- Serodus will ensure that all shareholders 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, 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 base its practical work on the principles for good corporate governance applicable at all times.

### 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. Serodus intend to use its equity to develop products.

## **Equal treatment of shareholders and transactions with related parties Serodus has one class of shares.**

All material transactions between the company and shareholders, members of the board of directors, key employees or parties closely associated with the same are to be assessed by an independent third party. 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.

## **Freely negotiable shares**

All shares are freely negotiable with no form of restriction.

## **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 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 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.

Serodus does not have a remuneration committee.

### **Information and communication**

Serodus` reporting of financial and other information is based on openness and considers requirements for equal treatment of investors. Serodus publishes a financial calendar on an annual basis, including dates of release of quarterly reports.

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](http://www.serodus.com).

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## Board of Directors

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**Søren Elmann Ingerslev**  
*Chairman*

Elected as member of the Board 2013 and as Chairman 2017

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 Zynerva 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



**Kathrin Kortschak**  
**Board Member**

Elected as member of the Board 2018

Kathrin Kortschak is Director at Hestia Investments Ltd., an early-stage biotechnology investment company, as well as co-founder of EB Europe Ltd. a Lifestyle Drinks Manufacturing Startup. Prior to joining Hestia in 2012 Kathrin worked as a Technology Consultant at FimpactT AG in Switzerland. Kathrin has a BA in History & French Literature from The University of Oxford.



**Arnstein Endresen**  
**Board Member**

Elected as member of the Board 2016

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.



## Corporate Management

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**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.

# Report from Board of Directors

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## Operational review

Serodus is a lean, virtual, clinical stage biotech company. The pipeline is diversified within diabetic complications and the lead program has finalized phase 2 study in patients with diabetic kidney disease. Serodus' goal is to mature its pipeline candidates up to the late, larger clinical studies and to enter into partnerships for the remaining development, regulatory market approvals and global marketing.

During 2018 the company finalized SER150 GMP API production and is now preparing for pre-clinical toxicological testing to be performed in 2019 before initiating clinical trials with SER150 in patients with T1D and T2D.

Through 2018 Serodus performed a critical re-examination of all the portfolio compounds. In the light of this examination Serodus decided to stop further development of SER100 for the treatment of Isolated Systolic Hypertension and Pulmonary Arterial Hypertension

## Future Outlook

During 2019 Serodus will publish the results from the SER150 pre-clinical toxicological testing and the outline of the next clinical studies in patients with T1D or T2D.

The company has secured new funds from existing shareholders 2019 by a total of NOK 27, 4 million. This will finance defined activities of the company until end of Q1-2020. In addition, the company is working to secure additional funding that will support the continuous pipeline development and overhead costs.

Serodus will continue the out-licensing efforts of the drug candidates towards the pharmaceutical industry through participation in relevant conferences and individual one-to-one meetings.

## 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. At the end of the year 2018 one woman is employed by the company.

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

## 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 2018.

The Groups operating expenses for 2018 amounted to NOK 20.6 million for the full year, compared to NOK 21.5 million for 2017. Net loss for the Group during 2018 was NOK 21 million compared to a net loss of NOK 21.9 million for 2017.

### Cash flow and balance sheet

The Serodus Group has total assets as of 31 December 2018 of NOK 20 million compared to NOK 18.9 million at year end 2017. For Serodus ASA the total assets position as of 31 December 2018 was NOK 21,6 million towards NOK 20.1 million for 2017.

Total equity for the Group as of 31 December 2018 was NOK 13,3 million compared to a negative equity of NOK 10.9 million at year end 2017. The registered share capital of Serodus ASA as of 31 December 2018 was NOK 106 125 964.10 divided into 81 635 357 shares, each with a nominal value of NOK 1.30.

The cash balance at 31 December 2018 was NOK 17.1 million compared to NOK 14.2 million at year end 2017.

### Going concern assumption

In accordance with the Norwegian accounting act section § 3-3a the Board confirms that the going concern assumptions are valid.

Serodus succeeded with raising NOK 27,4 million in new equity early in 2019. The available cash at the end of the year and the secured NOK 27,4 million in new funds are sufficient to

operate the company until the end of Q1 2020, then additional funding is required to maintain the planned level of activities.

### **Financial risk**

Serodus is exposed to financial risk in various areas. The long-term 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 is in foreign currency. Most of the exposure is related to transactions in USD, Euro and GBP. The company is currently not hedging positions to reduce this risk but are monitoring the situation carefully.

### **Interest risk**

Serodus do not have any loans. The interest risk associated with loans is thus not present.

### **Liquidity risk**

Serodus is exposed through significant liquidity risk through 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 completed synthesis of GMP SER150 API and has drafted the protocols for 6- and 9-months toxicological testing in 2019.

## Allocation of the net result for the year

The Serodus (group) generated net loss for the year 2018 of NOK 20 990 793 after tax while the parent company's loss for the year was NOK 20 649 470. The parent company has no distributable reserves as of 31 December 2018. The Board proposes the following allocation of the result for Serodus ASA for the year:


Net profit/-loss	- 20 649 470 NOK
Transferred to/-from Other Equity	- 20 649 470 NOK

Oslo, 02 May 2019

Board of Directors Serodus ASA



Søren Elmann Ingerslev  
Chairman of the Board



Terri Sebree  
Board member



Kathrin Kortschak  
Board member



Arnstein Endresen  
Board member



Eva Steiness  
CEO

# Statement of Comprehensive Income

Group				Serodius ASA	
2018	2017	Note	Note	2018	2017
<b>Operating revenues</b>					
-	-	3,4	3	-	-
-	-			58 377	-
-	-			<b>58 377</b>	-
<b>Operating costs</b>					
10 671 591	7 016 278	6	6	10 671 591	7 013 551
5 711 559	8 716 376	5	5	5 710 917	8 716 376
179 004	179 004	9	9	42 038	42 038
4 058 699	5 610 185	2, 6	2, 6	3 891 612	5 102 572
<b>20 620 851</b>	<b>21 521 842</b>			<b>20 316 157</b>	<b>20 874 537</b>
<b>(20 620 851)</b>	<b>(21 521 842)</b>			<b>(20 257 780)</b>	<b>(20 874 537)</b>
<b>Financial income</b>					
13 597	9 771	17		13 597	9 771
45 776	63 481	17		45 776	83 541
<b>59 373</b>	<b>73 252</b>			<b>59 373</b>	<b>93 312</b>
<b>Financial expenses</b>					
248 259	432 278	17		247 781	432 278
211 188	145 536	17	17,19	203 281	3 485 536
<b>459 447</b>	<b>577 814</b>			<b>451 062</b>	<b>3 917 814</b>
<b>(400 074)</b>	<b>(504 562)</b>	17	17	<b>(391 690)</b>	<b>(3 824 502)</b>
<b>(21 020 926)</b>	<b>(22 026 405)</b>			<b>(20 649 470)</b>	<b>(24 699 039)</b>
(30 133)	(30 133)	7	7	-	-
<b>(20 990 793)</b>	<b>(21 996 272)</b>			<b>(20 649 470)</b>	<b>(24 699 039)</b>
6 297	63 221	Exchange differences to be reclassified to profit or loss in subsequent periods			
<b>(20 984 496)</b>	<b>(21 933 051)</b>			<b>(20 649 470)</b>	<b>(24 699 039)</b>
<b>Earnings per share</b>					
(0,29)	(0,49)	8	8	(0,29)	(0,56)
(0,29)	(0,48)	8	8	(0,28)	(0,54)

# Statement of Financial Position

Group		Serodus ASA			
31.12.2018	31.12.2017	Note	Note	31.12.2018	31.12.2017
<b>ASSETS</b>					
<i>Fixed assets</i>					
2 274 169	2 453 173	9,16		630 563	672 600
599 230	599 230			-	-
-	-		19	1 800 000	1 800 000
<b>2 873 399</b>	<b>3 052 403</b>			<b>2 430 563</b>	<b>2 472 600</b>
<i>Current assets</i>					
66 428	1 694 197	10	10	2 356 784	3 614 512
17 131 551	14 224 857	11	11	16 763 760	13 993 613
17 197 979	15 919 054			19 120 543	17 608 125
<b>20 071 378</b>	<b>18 971 456</b>			<b>21 551 106</b>	<b>20 080 725</b>
<b>EQUITY AND LIABILITIES</b>					
<i>EQUITY</i>					
106 125 964	57 852 681	12	12	106 125 964	57 852 681
-	-			-	-
50 948 410	50 948 410			50 948 410	50 948 410
(4 461 445)	(1 335 761)			(4 461 445)	(1 335 761)
(139 310 276)	(118 325 780)			(137 471 894)	(116 822 424)
13 302 653	(10 860 452)			15 141 034	(9 357 095)
<i>Long-term debt</i>					
361 593	391 726	7	7	-	-
-	21 574 151	14, 18	14, 18	-	21 574 151
361 593	21 965 877			-	21 574 151
<i>Current liabilities</i>					
5 313 850	2 397 459	14,15	14,15	5 313 850	2 395 623
800 782	5 468 572	13	13	803 722	5 468 047
6 114 632	7 866 031			6 117 572	7 863 669
<b>19 778 878</b>	<b>18 971 456</b>			<b>21 258 606</b>	<b>20 080 725</b>

Oslo, 02 May 2019

Board of Directors Serodus ASA

  
Søren Elmann Ingerslev  
Chairman of the Board

  
Terri Sebree  
Board member

  
Kathrin Kortschak  
Board member

  
Arnstein Endresen  
Board member

  
Eva Steiness  
CEO

## Statement of Changes in Equity

2018

<b>Serodus ASA</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Other paid-in-capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Equity 01.01.2018	57 852 681	50 948 410	(1 335 761)	(116 822 424)	(9 357 095)
- Total comprehensive income 2018		-	-	(20 649 470)	(20 649 470)
Issues from convertible loan	24 869 319	-	-3 125 684	-	21 743 635
Issues from cash contributions	23 403 965				23 403 965
Issues (not registered)*	292 500				292 500
<b>Equity 31.12.2018</b>	<b>106 418 465</b>	<b>50 948 410</b>	<b>(4 461 445)</b>	<b>(137 471 893)</b>	<b>15 433 535</b>

<b>Group</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Other paid-in-capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Equity 01.01.2018	57 852 681	50 948 410	(1 335 761)	(118 325 780)	(10 860 450)
- Total comprehensive income 2018	-	-	-	(20 984 496)	(20 984 496)
Issues from convertible loan	24 869 319		-3 125 684	-	21 743 635
Issues from cash contributions	23 403 965				23 403 965
Issues (not registered)*	292 500				292 500
<b>Equity 31.12.2018</b>	<b>106 418 465</b>	<b>50 948 410</b>	<b>(4 461 445)</b>	<b>(139 310 276)</b>	<b>13 595 154</b>

The share issue was registered in the Company Register 3. Jan. 2019.

2017

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

<b>Group</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Other paid-in-capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
Equity 01.01.2017	57 852 681	50 948 410	(4 926 994)	(96 392 731)	7 481 366
- Total comprehensive income 2017	-	-	-	(21 933 051)	(21 933 051)
Share-based compensation			465 549		465 549
Reclassified convertible loans			3 125 684	-	3 125 684
<b>Equity 31.12.2017</b>	<b>57 852 681</b>	<b>50 948 410</b>	<b>(1 335 761)</b>	<b>(118 325 780)</b>	<b>(10 860 452)</b>



## Statements of Cash Flow

Group					Serodus ASA	
2018	2017	Note		Note	2018	2017
<b>Cash flow from operating activities</b>						
(21 020 927)	(22 026 405)		Ordinary result before tax		(20 649 470)	(24 699 039)
-	-		Impairment of subsidiary	17	-	3 340 000
179 005	179 003	9	Amortisation of intangible assets	9	42 039	42 037
-	465 549	5	Share-based payment	5	-	465 549
4 544 159	1 397 995		Changes in trade receivables and creditors		4 175 955	1 360 177
(4 661 492)	3 953 844		Other accruals		(4 664 325)	3 954 170
<b>(20 959 256)</b>	<b>(16 030 014)</b>		<b>Net cash flow from operating activities</b>		<b>(21 095 802)</b>	<b>(15 537 105)</b>
<b>Cash flow from financing activities</b>						
26 699 133	-	12	Proceeds from issue of shares	12	26 991 633	-
(3 125 684)	-		Issue expenses recognised directly in equity		(3 125 684)	-
-	-		Change borrowings proceeds to issue of shares		-	-
-	(234 889)		Payment of borrowings		-	(234 889)
-	24 934 724		Proceeds from borrowings		-	24 934 724
<b>23 573 449</b>	<b>24 699 835</b>		<b>Net cash flow from financing activities</b>		<b>23 865 949</b>	<b>24 699 835</b>
<b>2 614 193</b>	<b>8 669 821</b>		<b>Net change in cash and cash equivalents</b>		<b>2 770 147</b>	<b>9 162 730</b>
14 224 857	5 555 036	11	Cash and cash equivalents at the beginning of the period	11	13 993 613	4 830 883
16 839 050	14 224 857	11	<b>Cash and cash equivalents at the end of the period</b>	11	16 763 760	13 993 613

# Notes to the financial statements

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## 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 2 May 2019.

## 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 17.0 million in available cash at the end of the year. Additional capital has been added to the company in 2019 and the company has sufficient liquidity to operate until beginning of 2020 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 2018, but expects revenues in the future from the company's operations.

## **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. The impact of IFRS 15 has no significant effects in 2018.

## **2.20 New standard effective for periods beginning after Jan. 1. 2019;**

- 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. Serodus does not expect that the implementation of IFRS 16 will have any significant effects.

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



### Note 3 – Government grants

Group 2018	Group 2017	Serodus ASA 2018	Serodus ASA 2017
0	0	0	0
0	1 398 200	0	1 398 200
0	1 398 200	0	1 398 200

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 2017, 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 2018, the company had no revenue from customers.

The group is regarded as a unit in 2018 and there are therefore no separate segments.

## Note 5 – Salaries and allowances

Group			Serodus ASA	
2018	2017		2018	2017
5 484 200	8 390 393	Salaries and directors' fees	5 484 200	8 390 393
200 243	295 916	Employer's contributions	200 243	295 916
22 336	89 307	Pensions	22 336	89 307
-	465 549	Option-based compensation	-	465 549
4 779	6 811	Other salary-related payments	4 138	6 811
-	(531 600)	Refunds from SkatteFUNN	-	(531 600)
<b>5 711 559</b>	<b>8 716 376</b>	<b>Total</b>	<b>5 710 917</b>	<b>8 716 376</b>

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	2018	2017
Eva Steiness	CEO	Total	1 688 797	1 724 476
		- Salary	1 684 405	1 710 755
		- Other payments	4 392	13 721
		- Sharebased payment expense		
Tore Kvam	CFO (until 31.12.2017)	Total		1 222 612
		- Salary		1 214 771
		- Other payments		7 841
		- Sharebased payment expense		
Søren Elmann Ingerslev #	Chairman	Total		
		- Directors' fees		
		- Sharebased payment expense		
Merete Søby	Board member	Total	100 000	150 000
		- Directors' fees	100 000	150 000
		- Sharebased payment		
Terri B. Sebree	Board member	Total	200 000	200 000
		- Directors' fees	200 000	200 000
		- Sharebased payment expense		
Arnstein Endresen	Board member	Total	200 000	150 000
		- Directors' fees	200 000	150 000
		- Other payments		
Håkon Sæterøy	Member of nomination	Total		
		Other payments		
Svein S. Jacobsen	Chairman (until 30.03.2017)	Total		75 000
		- Directors' fees		75 000
		- Sharebased payment expense		
Ole Peter Nordby	Board member (until 30.03.2017)	Total		37 500
		- Directors' fees		37 500
		- Sharebased payment expense		
<b>Total sum</b>			<b>2 188 797</b>	<b>3 559 588</b>

## Remuneration for the board 1)

### Remuneration for the board <sup>1)</sup>

Recipient	Role	2018	2017
Søren Elmann Ingerslev #	Chairman	-	-
Merete Søby	Board member	100 000	150 000
Terri B. Sebree	Board member	200 000	200 000
Arnstein Endresen	Board member	200 000	150 000
Svein S. Jacobsen	Chairman (until 30.03.2017)	-	75 000
Ole Peter Nordby	Board member (until 30.03.2017)	-	37 500

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

# Remuneration to the Chairman of the board has been paid to the Elmann advokaterne.

## 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	Strike price (NOK)	Fair value
Terri Sebree	75 000	21.11.2019	1,3	1,22
Terri Sebree	75 000	30.11.2021	1,3	1,22
Svein Jacobsen	75 000	30.11.2019	1,3	1,22
Peter Ole Nordby	75 000	30.11.2019	1,3	1,22
Søren Ingerslev	75 000	21.11.2019	1,3	1,22
Søren Ingerslev	75 000	30.11.2021	1,3	1,22
Merete Søby	75 000	21.11.2019	1,3	1,22
Arnstein Endrsen	75 000	30.11.2021	1,3	1,22
Tore Kvam	100 000	21.11.2019	1,3	1,22
Nikolai Brun	100 000	30.11.2019	1,3	1,22
Eva Steiness 1)	225 000	30.11.2021	1,3	1,22
Jürgen Langhärig	75 000	21.11.2019	1,3	1,22
Jürgen Langhärig	75 000	30.11.2021	1,3	1,22
Torben Skarsfeldt	100 000	21.11.2019	1,3	1,22
Torben Skarsfeldt	100 000	30.11.2021	1,3	1,22
Katrhin Kortschak	75 000	30.11.2021	1,3	1,22
<b>SUM</b>	<b>1 450 000</b>			

- 1) Eva Steiness – has exercised 225.000 options in dec. 2018. The exercise has been registered January 2019.

### 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 2018. Volatility 139% and the risk-free interest rate is set at 0,50%.

Subscription rights: Changes during the year	Number of subscription rights	Strike price
Number of subscriptions rights outstanding at beginning of year	550 000	3,7
Granted during the year	-	-
Lapsed or exercised during the year	550 000	3,7
Number of subscription rights outstanding at end of year:	-	

## Note 6 - Other Operating costs

Group			Serodus ASA	
2018	2017		2018	2017
		<u>Project costs</u>		
-	7 016 278	Research and development <sup>2)</sup>	10 671 591	7 013 551
		<u>Other operating costs</u>		
420 066	982 778	Travel expenses	420 066	982 778
175 451	479 474	Patents and licenses	146 516	372 243
2 853 739	3 925 180	Consultants and audit <sup>1)</sup>	2 769 623	3 574 700
609 442	1 089 353	Other costs	555 407	1 039 450
-	(866 600)	SkatteFUNN	-	(866 600)
<b>4 058 699</b>	<b>12 626 463</b>	<b>Total other operating expenses</b>	<b>14 563 203</b>	<b>12 116 123</b>
		<u>Remuneration of auditors</u>		
<b>2018</b>	<b>2017</b>		<b>2018</b>	<b>2017</b>
419 738	(63 481)	Audit	407 976	(83 541)
43 505		Other services	43 505	3 340 000
<b>463 243</b>	<b>(63 481)</b>	<b>Total, excl. VAT</b>	<b>451 481</b>	<b>3 256 459</b>

<sup>1)</sup> See Note 15 for transactions with related parties.

<sup>2)</sup> A substantial part of the company's costs is related to research and development. Research and development cost have been recognized in the income statement in according to IFRS.

## Note 7 – Tax

Group		Specification of tax expenses:		Serodus ASA	
2018	2017			2018	2017
-	-	Taxes payable			-
(30 133)	(30 133)	Change in deferred tax			-
(30 133)	(30 133)	Tax			-
<b>Specification of temporary differences and deferred</b>					
31.des 2018	31.des 2017	tax:		31.des 2018	31.des 2017
(919 579)	(978 883)	Temporary differences		(919 579)	(978 883)
(176 709 393)	(155 998 460)	Tax losses carried forward		(176 709 393)	(155 998 460)
(177 628 972)	(156 977 343)	Basis for deferred tax assets (Norway) not recognised		(177 628 972)	(156 977 343)
(234 490)		Basis for temporary differences related to Phlogo not recognised			
1 643 607	1 780 573	Temporary differences related to patent in Phlogo ApS			
(39 129 962)	(36 104 789)	Deferred tax asset (22%, 23% in 2017) not recognised		(39 078 374)	(36 104 789)
361 593	391 726	Deferred tax (22%, 23% in 2017) as a result of patent			
<b>Reconciliation of effective tax rate:</b>					
2018	2017			2018	2017
(21 020 926)	(22 026 405)	Result before tax		(20 649 470)	(24 699 039)
(4 834 813)	(5 286 337)	Expected income tax (23%, 24% in 2017)		(4 749 378)	(5 927 769)
-	-	Difference between income tax Norway/Denmark			
<i>Adjusted for the tax effect of the following items:</i>					
1 780 004	1 569 773	Effect change tax rate - calculation		1 776 290	1 569 773
(497)	577 858	Permanent differences		(497)	577 858
3 025 173	3 108 573	Change unrecognised temporary differences		2 973 585	3 780 138
(30 133)	(30 133)	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 2018	Group 2017	Serodus ASA 2018	Serodus ASA 2017
Earnings attributable to shareholders in the company	(20 984 496)	(21 933 051)	(20 649 470)	(24 699 039)
Weighted average number of ordinary shares	71 232 388	44 502 062	71 232 388	44 502 062
<i>Shares with dilutive effect:</i>				
- Share options	1 450 000	1 050 000	1 450 000	1 050 000
Basic earnings per share	(0,29)	(0,49)	(0,29)	(0,56)
Diluted earnings per share <sup>1)</sup>	(0,29)	(0,48)	(0,28)	(0,54)

<sup>1)</sup> 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
<b>Acquisition cost</b>		
Cumulative 1 January 2017	2 360 875	2 360 875
Additions during the year	-	-
Disposals during the year	-	-
Cumulative 31 December 2017	2 360 875	2 360 875
Additions during the year	-	-
Disposals during the year	-	-
Cumulative 31 December 2018	2 360 875	2 360 875
<b>Depreciation and impairment</b>		
Cumulative 1 January 2017	1 646 239	1 604 201
Impairment	-	-
Depreciations for the year	42 038	42 038
Cumulative 31 December 2017	1 688 275	1 688 275
Impairment	-	-
Depreciations for the year	42 038	42 038
Cumulative 31 December 2018	1 730 312	1 730 312
<b>Value entered on the balance sheet</b>		
Value entered on the balance sheet 31 December 2017	672 600	672 600
Value entered on the balance sheet 31 December 2018	630 563	630 563



Group	Licenses	Goodwill	Patents	Total
<b>Acquisition cost</b>				
Cumulative 1 January 2017	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
<b>Depreciation and impairment</b>				
Cumulative 1 January 2017	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	-	616 347	2 304 623
<b>Impairment</b>				
Impairment	-	-		-
Depreciations for the year	42 038	-	136 966	179 004
Cumulative 31 December 2018	1 730 313	-	753 312	2 483 625
<b>Value entered on the balance sheet</b>				
Value entered on the balance sheet 31 December 2017	672 599	599 230	1 780 572	3 052 402
Value entered on the balance sheet 31 December 2018	630 562	599 230	1 643 607	2 873 400

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.

### 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		Serodius ASA	
2018	2017	2018	2017
27 769	51 441	27 769	51 441
-	1 398 200	-	1 398 200
38 659	244 556	36 932	242 717
-	0	2 292 083	1 922 154
<b>66 428</b>	<b>1 694 197</b>	<b>2 356 784</b>	<b>3 614 512</b>

## Note 11- Cash and Cash equivalents

2018	2017	2018	2017
16 999 650	13 932 044	16 631 859	13 700 800
131 901	292 813	131 901	292 813
<b>17 131 551</b>	<b>14 224 857</b>	<b>16 763 760</b>	<b>13 993 613</b>

## Note 12 – Share capital

### Share capital:

	31. des. 2018	31. des. 2017
Shares, nominal value NOK 1.30 <sup>1)</sup>	106 125 984	57 852 681
Share options	1 450 000	1 050 000

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

### The 20 largest shareholders as of 31.12.2018 are:

Shareholders	Number of shares	Percentage of capital
VIGGO HARBOE HOLDING APS	35 890 106	33,82 %
BJØRNS INVEST AS	6 784 125	6,39 %
EVA STEINESS	3 446 051	3,25 %
BECK THOMSEN	2 821 537	2,66 %
CFM INDOSUEZ WEALTH	2 486 035	2,34 %
UBS SWITZERLAND AG	2 022 609	1,91 %
MP PENSJON PK	1 696 061	1,60 %
OLA RUSTAD A.S	1 465 384	1,38 %
ROLFS HOLDING AS	1 398 992	1,32 %
SPAR KAPITAL INVESTOR AS	1 225 000	1,15 %
MARIANNE STEINESS	1 052 697	0,99 %
SKEIKAMPEN INVEST APS	933 000	0,88 %
SAMSOFT APS	910 931	0,86 %
SÆRVOLL HOLDING AS	808 331	0,76 %
NORDNET BANK AB	754 704	0,71 %
ACADIA HOLDING AS	713 238	0,67 %
HØVIK FINANS AS	671 000	0,63 %
MEDIA TECHNOLOGY GROUP AS	639 517	0,60 %
HERSETH AS	531 168	0,50 %
POUL VAGN JENSEN	471 144	0,44 %
Total for the 20 largest shareholders	66 721 630	62,87 %
Other shareholders	39 404 354	37,13 %
<b>Total number of shares</b>	<b>106 125 984</b>	<b>100,00 %</b>

### Shares owned directly or indirectly by management and board as of 31.12.2018

Name	Role	Number of shares
Arnstein Gunnestad Endresen (Bjørns Invest AS)	Board member	6 784 125
Eva Steiness	CEO	3 446 051
Torben Skarsfeldt	VP Project Director	25 000
		<b>10 512 976</b>

## Note 13 - Other current liabilities

Group			Serodus ASA	
2018	2017		2018	2017
28 810	245 188	Unpaid government charges	32 600	245 514
161 309	4 537 878	Accrued costs	160 459	4 537 878
610 663	685 505	Other current liabilities	610 663	684 655
<b>800 782</b>	<b>5 468 572</b>	<b>Total other current liabilities</b>	<b>803 722</b>	<b>5 468 047</b>

## Note 14 – Financial risk management, objectives and guidelines

### Financial assets:

Trade accounts receivable	Loans and receivables	2 292 083	2 292 083	1 922 154	1 922 154		
Other accounts receivable <sup>1)</sup>	Loans and receivables	-	-	1 398 200	1 398 200	3 229 886	3 229 886
Cash and cash equivalents.	Loans and receivables	16 763 760	16 763 760	13 993 613	13 993 613	17 802 577	17 802 577
<b>Total financial assets</b>		<b>19 055 842</b>	<b>19 055 842</b>	<b>17 313 967</b>	<b>17 313 967</b>	<b>21 032 463</b>	<b>21 032 463</b>

### Financial liabilities:

Accounts payable	Financial liabilities at amortised cost	5 313 850	5 313 850	2 395 623	2 395 623	1 698 863	1 698 863
Other liabilities <sup>2)</sup>	Financial liabilities at amortised cost	643 263	643 263	930 169	930 169	1 740 566	1 740 566
Convertible loans		-	-	21 574 151	21 574 151		
<b>Total financial liabilities</b>		<b>5 957 113</b>	<b>5 957 113</b>	<b>24 899 942</b>	<b>24 899 942</b>	<b>3 439 429</b>	<b>3 439 429</b>

### Group

Category	2018		2017		2015		
	Book value	Fair value	Book value	Fair value	Book value	Fair value	
<b>Financial assets:</b>							
Trade accounts receivable	Loans and receivables	-	-	0	0	-	-
Other accounts receivable <sup>1)</sup>	Loans and receivables	-	-	1 398 200	1 398 200	3 231 825	3 231 825
Cash and cash equivalents.	Loans and receivables	17 131 551	17 131 551	14 224 857	14 224 857	19 143 297	19 143 297
<b>Total financial assets</b>		<b>17 131 551</b>	<b>17 131 551</b>	<b>15 623 057</b>	<b>15 623 057</b>	<b>22 375 122</b>	<b>22 375 122</b>
<b>Financial liabilities:</b>							
Accounts payable	Financial liabilities at amortised cost	5 313 850	5 313 850	2 397 459	2 397 459	1 698 863	1 698 863
Other liabilities <sup>2)</sup>	Financial liabilities at amortised cost	639 473	639 473	930 694	930 694	2 079 429	2 079 429
Convertible loans		-	-	21 574 151	21 574 151		
<b>Total financial liabilities</b>		<b>5 953 323</b>	<b>5 953 323</b>	<b>24 902 304</b>	<b>24 902 304</b>	<b>3 778 292</b>	<b>3 778 292</b>

<sup>1)</sup> VAT receivables and prepaid expenses are not included, since they are not considered as financial assets.

<sup>2)</sup> Accrued costs are not included, since they are not considered as financial liabilities.

## **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 2018, the company/Group had accounts payable in DKK, GBP, USD and EUR equivalent to NOK 69 987. If the respective exchange rates against the NOK changed by +/- 10%, the profit before tax would change by +/- NOK 7 000.

### **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:

<b>Company accounts</b>	<b>31. des 2018</b>	<b>31. des. 2017</b>
Cash and cash equivalents	16 763 760	13 993 613
Other accounts receivable	2 356 784	3 614 512
<b>The maximum credit exposure</b>	<b>19 120 543</b>	<b>17 608 125</b>

The receivables are not due on the reporting dates.

<b>Consolidated accounts</b>	<b>31. des 2018</b>	<b>31. des. 2017</b>
Cash and cash equivalents	17 131 551	14 224 857
Other accounts receivable	66 428	1 694 197
<b>The maximum credit exposure</b>	<b>17 197 979</b>	<b>15 919 054</b>

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 2018 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:

<b>Services purchased from</b>	<b>Description of the s</b>	<b>2018</b>	<b>2017</b>
Elmann Advokatpartnerselskap1)	Legal fees	362 438	410 111

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:**

	<b>31.des 2018</b>	<b>31.des 2017</b>
<b>Accounts payable:</b>		
Viggo Harboe Holding A/S	104 044	104 044
<b>Total from related parties</b>	<b>104 044</b>	<b>104 044</b>

## Note 16 – Impairment testing of goodwill

Recognized goodwill in the Group amounted on 31.12.2018 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 recognised amount of goodwill:	2018	2017
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 31.12.2018.

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	
2018	2017		2018	2017
13 597	9 771	Interest income	13 597	9 771
45 776	63 481	Other financial income	45 776	83 541
<b>59 373</b>	<b>73 252</b>	<b>Total finance income</b>	<b>59 373</b>	<b>93 312</b>

Group		Total finance costs	Serodus ASA	
2018	2017		2018	2017
248 259	432 278	Interest expenses	247 781	432 278
		Impairment of subsidiary		3 340 000
211 188	145 536	Other financial expenses	203 281	145 536
<b>459 447</b>	<b>577 814</b>	<b>Total finance costs</b>	<b>451 062</b>	<b>3 917 814</b>

## Note 18 – Events after balance sheet date

The company has increased the share capital in 2019 through a cash payment. The equity was increased by NOK 27.4 from this transaction.



## Note 19 – Subsidiary

<b>Subsidiary</b>	<b>Voting share</b>	<b>Acquisition costs</b>	<b>Book value</b>	<b>Fair value</b>
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.