



SERODUS

ANNUAL REPORT 2019

MOVING
FORWARD
TOWARDS NEXT
CLINICAL STUDY
WITH URINARY
ALBUMIN AS
VALID PRIMARY
ENDPOINT

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

Serodus focuses on novel treatments of patients with diabetic complications.

Table of Content

Table of Content	2
Serodus in Brief	4
Letter from the CEO	5
Pipeline.....	6
SER150 Diabetic Kidney Disease	7
SER190 Diabetic Foot Ulcer.....	9
Corporate Strategy	10
Corporate Governance	11
Overall objectives.....	11
Code of Ethics and Conduct.....	11
Board of Directors	15
Corporate Management	17
Report from Board of Directors	19
Operational review	19
Future Outlook.....	19
Working environment and human resources.....	19
Environment.....	19
Financial review.....	20
Statement of Comprehensive Income	23
Statement of Financial Position	24
Statement of Changes in Equity	25
Statements of Cash Flow	26
Notes to the financial statements.....	27
Note 1 - General information	27
Note 2 - Summary of significant accounting principles	27
Note 3 - Government grants	33
Note 4 - Segments.....	34
Note 5 - Salaries and allowances	35
Note 6 - Other Operating costs.....	36
Note 7 - Tax	37

Note 8 - Intangible assets	38
Note 9 - Other receivables.....	40
Note 10 - Cash and Cash equivalents.....	40
Note 11 - Share capital	41
Note 12 - Other current liabilities.....	42
Note 13 - Financial risk management, objectives and guidelines	42
Note 14 - Related parties.....	45
Note 15 - Impairment testing of goodwill.....	45
Note 16 - Financial items	45
Note 17 - Events after balance sheet date	46
Note 18 - Subsidiary	46
Note 19 - Contingent Liabilities	46
Responsibility Statement.....	47

Serodus in Brief

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 type 2 diabetes (T2D).

In a Phase 2 study our lead asset SER150 was safe and tolerated by all treated patients. All participating T2D patients had a disruption of their kidney function as they suffered from loss of protein (i.e. albumin) in the urine with 20% of the patients having a severe damage to the kidney with excessive loss of albumin in the urine. After 4-weeks treatment, SER150 demonstrated a statistically significant decrease in urinary albumin an indicator of some healing of kidney function. Urinary albumin is a strong biomarker for inhibition of inflammation in the kidney and decreasing of urinary albumin a strong indicator for an improvement of kidney function.

Serodus finalized the production of a new, large batch of high quality SER150 material (active pharmaceutical ingredient [API]) in 2018 which was used in 6-months toxicological studies in rats and dogs in 2019. Completion of a 9-months toxicological study in dogs will be finalized in the first half of 2020. Final validated reports will be received Q2 2020. After successful completion of the toxicological studies, Serodus will be able to dose diabetic patients as long as needed for documentation of relevant clinical effects on the kidney function in diabetic patients

Serodus operates a lean management structure, out-sourcing the required pre- and clinical studies and other needed activities through a network of contract research organizations (CROs), contract manufacturers (CMO) and consultants.

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, getting new products registered, bringing drugs to the market and of concluding major partnering deals.

Letter from the CEO

We are very grateful for the tremendous, persistent support from our current shareholders who have continued to financially support the company during 2019.

In 2019 a Contract Research Organization successfully completed the 6-months toxicological studies in two different animal species. The collaboration has been successful with many contacts during the dosing periods. Preliminary reports from these studies were received and approved by Serodus during January 2020.

Based on the pharmacological *in vivo* study in an acute diabetes model analysis of existing materials have given further information about SER150 mechanism of actions and is the basis for new use patents.

In Serodus' first SER150 Phase 2 study in patients with diabetic kidney disease the patients were treated for one month and a significantly reduced loss of urinary protein (albumin) was observed. Albumin is a strong biomarker of reducing or stopping the inflammatory processes in the diabetic kidney.

Serodus had an informative 15 minutes teleconference with FDA late 2019 where the principle of the next clinical study was discussed.

Mainly based on the discussion with FDA Serodus is currently planning the next SER150 clinical development study in patients with T2D and at the same time have a high concentration of albumin in urine, i.e. significantly higher than in the first SER150 clinical study in diabetic patients. The patients will be treated with SER150 for at least 3 months and urinary albumin, kidney function, safety and tolerability of SER150 will be further evaluated.

Through 2019 Serodus continued to manage the company on a very limited budget and the company has in June 2020 raised new funds in the private market to finance the planned clinical program.

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

Chief Executive Officer

Pipeline

Type 2 diabetes is a multifactorial, metabolic and immunological disorder which lead to serious debilitating and fatal complications, such as diabetic nephropathy, diabetic retinopathy and diabetic foot ulcer.

Through a combination of acquisition and licensing, Serodus has created an interesting, innovative pipeline consisting of three anti-inflammatory compounds which inhibit the inflammatory processes in type 2 diabetes and one compound which stimulate the body's own production of anti-inflammatory substance. SER150 is for the treatment of patients with diabetic kidney disease, SER130 for the treatment of diabetic retinopathy, SER190 for the treatment of diabetic foot ulcer and SER140 where the indication within diabetes is still considered.

Type 2 diabetes does not have a clear etiological background, however, there is a strong correlation with increased bodyweight and the prevalence of diabetes is growing globally. The T2D disease develops very slow over time and is dominating in middle-aged and elderly people.

The hyperglycaemia which accompany patients with type 2 diabetes induces oxidative stress followed by an activation of several pro- and anti-inflammatory endogenous agents, i.e. causing low-grade inflammatory processes.

The pro-inflammatory interleukin, IL-1, is an important factor and one of the most pronounced components involved in the different organ complications seen in long-term diabetic patients.

Serodus product portfolio act as anti-inflammatory entities and the compounds re-establish the balance between pro- and anti-inflammatory endogenous processes. This addresses one of the core components in type 2 diabetes and is especially interesting as a treatment target as it is involved in developing the serious diabetic complications.

All currently available treatments options of type 2 diabetes are effective at reducing blood glucose and control blood pressure and thereby delay onset of complications. However, they all lack the ability to halt the chronic, low-grade systemic inflammation driving the pathophysiological processes of diabetes and its complications.

Serodus' operating model is based on a lean organization with highly skilled staff with complementary experiences in drug research and development, financing, 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 first Phase 2 safety and tolerability 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 a predictable biomarker of the severity of the kidney 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 a diminish or halt the loss of proteins and prevent further degradation of the kidney function.

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.

Worldwide 145 million patients are suffering of diabetic kidney disease and 29 million patients have high content of urinary albumin (micro- or macro-albuminuria). Diabetic kidney disease is the leading cause of end-stage renal disease which is treated with chronic dialysis and ultimately, patients need a kidney transplantation. The disease causes a progressive loss of renal function and changes are 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. Treatment cost of a patient with end-stage kidney disease is approximately 90.000 Euros annually both in Europe and US.

What is SER150?

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

SER150 inhibits the inflammatory processes in the small arteries in all organs and of even more importance in the various kidney glomerular cells such as podocytes and endothelial cells. More fundamentally, SER150 is expected to reduce or stop 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 a pro-inflammatory endogenous mediator and thromboxane is increased in patients with type 2 diabetes. 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 sequentially (15mg and 30mg; administered twice daily versus placebo treatment) administered for one month were announced in January 2017.

The data confirmed a statistically significant reduction in urine 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 Good Manufacturing Practice (GMP) production of drug substance took place during 2018

The new GMP-grade SER150 batch has been used for preparation of capsules with a content of 15mg for the next clinical study. It was also used to finalise the pre-clinical 6- and 9-month toxicological studies in two animal species. Final reports are received in April and May 2020.

Next clinical study

The next SER150 clinical study will target patients with T2D and macro-albuminuria, i.e. kidney function is severely hampered. Patients will be treated for no less than 3-month and the effect on urinary albumin excretion, kidney function, safety and tolerability will frequently be followed during the treatment.

SER130 Diabetic Retinopathy

Devastation damages in retina occurs both in type 1 diabetic and type 2 diabetic 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.

The first stage of diabetic retinopathy, 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 could potentially be clinically beneficial for 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 local or systemic administration of SER130 will have a high priority. Before the first clinical trial can be initiated, SER130 must be tested in relevant pre-clinical toxicological studies.

SER190 Diabetic Foot Ulcer

Patients with treatment resistant type 1 diabetes and type 2 diabetes 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 is an economic burden for the patient and society.

SER190 is a small peptide. It is an IL-1 β receptor antagonist, and it is in the concept stage for diabetic wound healing.

Corporate Strategy

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.

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 diabetic complications

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, contract manufacturers and consultants.

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

Corporate Governance

Serodus has adopted “The Norwegian Code of Practice for Corporate Governance” dated 17 October 2018. The purpose of the Code of Practice is to clarify the respective roles of shareholders, board of directors and executive officers beyond the requirements of the legislation.

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 and the CEO must be present at the Annual General 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 General Meeting. All members of the board of directors 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.

Audit committee.

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 a deviation from the recommendations. Anyhow, Serodus wants to give options to board members to attract competent people to the board.

Remuneration committee

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 executive management.

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 Board 2013 and as Chairman 2017

Mr. Ingerslev is an attorney at law and partner in the Danish law firm Elmann Advokatpartnerselskab. Mr. Ingerslev has extensive international experience and business acumen within mergers and acquisitions, company law, business development and international business agreements. He is head of Elmann's Corporate and M&A department and serves as a non-executive member of the board of directors of several listed and privately held companies including Immudex ApS, Immumap ApS and Biostrip ApS.



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



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 Nelea AS, which is a significant shareholder in Serodus.

Corporate Management



Eva Steiness
CEO

Professor Eva Steiness was the first female Dean at the Faculty of Health Science, University of Copenhagen, professor in medicine fields Senior Vice President and deputy CEO at Lundbeck AS. 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 both Cipramil® (citalopram) an antidepressant drug that reached blockbuster status and and Serdolect® (sertindole) an neuroleptic drug.

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.

She became CEO of Serodus in 2011 when Serodus had no pipeline.

Prof. Steiness has held a string of leadership positions among others: Chairman of the Board of Genmab and other biotech upstart companies in the Copenhagen area and Norway, 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.



Torben Skarsfeldt
COO

Dr. Skarsfeldt is M.Sc. in Biology and D.Sc. in neurobiology from University of Copenhagen. He worked 17 years in Research and Development at Lundbeck and is co-inventor of an approved antipsychotic compound.

For 6 years he was Licensing Manager and Director Business Opportunities in Copenhagen and New York.

After returning to Copenhagen he gained a position as Project Director heading global core teams within depression, Alzheimer's disease and stroke. In parallel, he was employee elected member of Lundbeck's Supervisory Board for 16 years when the company grew from a Scandinavian company with 800 heads to an international pharmaceutical company with more than 5000 people.

He is the Founder and CEO of Pharma Guidance, a consulting company providing services to US and EU biotech.

He was successfully supporting NuPathe Inc as Project Director to develop novel proprietary formulations.

Previously, he was CEO of Phlogo ApS before joining Serodus in 2013.



Henrik Mordhorst
CFO

Mr. Mordhorst holds a M.Sc. (economics) from Copenhagen Business School. He has worked for 30 years in financial positions within Real Estate, Investment Banking, project financing, portfolio management and start-ups.

Starting right out of business school in real estate in Denmark, he then went to London for 6 six years working for Merrill Lynch and Nomura. He then took on a position as CFO with a development company in New York.

After the expiry of the US contract he went to Switzerland where he settled for 15 years working for UBS as client advisor and a single family office as CIO.

He then returned to Denmark to co-found and act as CEO of Dansk Farm Management A/S, a fund management company specialising in the acquisition of danish farms (farmland and buildings only), and then select highly skilled young farmers as tenants.

He is the founder and CEO of HeMo ApS, a consulting company providing financial advice, management and support to SME's. Since 2016 he has worked as CFO in a number of start-ups and the Caladanian Group of companies in the UK.

Mr. Mordhorst joined Serodus in 2019.

Report from Board of Directors

Operational review

Serodus is a lean, virtual, clinical stage biotech company. The pipeline is diversified within diabetic complications and the lead program has a completed 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 2019 the company finalized SER150 GMP drug (API) production and the pre-clinical toxicological testing.

Serodus is now planning the next SER150 clinical study in patients with diabetic kidney disease and severe albuminuria.

Future Outlook

During 2020 Serodus will publish the results from the SER150 pre-clinical toxicological testing and the outline of the next clinical studies in patients with type 2 diabetes and severe albuminuria.

The Company has in June 2020 obtained new funding from private investors to finance the next SER150 clinical study and general G&A cost.

Serodus will continue the out-licensing efforts with the focus on SER150 towards the pharmaceutical industry through one-to-one meetings and participation in relevant conferences.

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 2019 one woman, the CEO, is employed by the company.

The Board of Serodus ASA is made up of two women and two men 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 revenue during 2019.

The Groups operating expenses for 2019 amounted to NOK 25.2 million for the full year, compared to NOK 20.6 million for 2018. Operating costs in 2019 includes impairment charges of NOK 0.6 million for goodwill and NOK 1.6 million for patent (SER 130) acquired in the Phlogo acquisition. Net loss for the Group during 2019 was NOK 25.2 million compared to a net loss of NOK 21 million for 2018.

Serodus ASA (parent company) had a net loss of NOK 27.5 million in 2019 compared to a net loss of NOK 20.6 million in 2018. The net loss in 2019 includes impairment charges of shares in Phlogo ApS and receivables on Phlogo ApS by NOK 4.4 million in total.

Cash flow and balance sheet

The Serodus Group has total assets as of 31 December 2019 of NOK 22,5 million compared to NOK 20,1 million at year end 2018. For Serodus ASA the total assets position as of 31. December 2019 was NOK 22,1 million towards NOK 21,6 million for 2018. Serodus increased the shareholders' capital by NOK 29.5 million early in 2019.

Total equity for the Group as of 31 December 2019 was NOK 17,9 million compared to equity of NOK 13,6 million at year end 2018. The registered share capital of Serodus ASA as of 31 December 2019 was NOK 10.455.442 divided into 10.455.442 shares, each with a nominal value of NOK 1.

The unrestricted cash balance at 31 December 2019 was NOK 12.1 million compared to NOK 17.1 million at year end 2018.

At the AGM in May 2019 a capital reduction was approved together with an adjusted nominal value of the shares of the company. The capital reduction was registered in the Company Register 27. June 2019. The capital reduction has been used for coverage of losses and provision for funds.

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 45.9 million in new equity in June 2020 through a private placement from private investors with purpose to finance the next SER150 clinical study and general G&A cost.

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 DKK. 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 has completed a Private Placement of NOK 45.9 million in June 2020 (please see note 17)

Covid-19 became known close to the turn of the year 2019/2020 and was declared a global public health crisis on 30 January 2020. In the subsequent period, proliferation and its consequences have escalated, and on March 11, Covid-19 was defined as a global pandemic.

This has in the short term resulted in major social and economic consequences worldwide, with strong restrictions from the authorities, falling demand for goods and services, high unemployment and volatile financial markets. However, there is considerable uncertainty about the long-term consequences of the pandemic, both in

terms of further spread or possible control of the virus, and the severity and effect on the global economy.

The Board recognizes that the company will be adversely affected by Covid-19 in some way if the long-term consequences are worse than what can now be observed. A delay for the start of planned studies can be a consequence as patient checks and monitoring can be affected.

However, as far as the Board of Directors can assess by the date of preparation of the annual accounts, Covid-19 has not had any additional impact on the company's position and operations

Allocation of the net result for the year

The Serodus (group) generated net loss for the year 2019 of NOK 25 196 771 after tax while the parent company's loss for the year was NOK 27 486 119. The parent company has no distributable reserves as of 31 December 2019. The Board proposes the following allocation of the result for Serodus ASA for the year:

Net loss	- 27 486 119 NOK
Transferred from Other Equity	- 27 486 119 NOK

Oslo, 15th of June 2020

Board of Directors Serodus ASA

Søren Elmann Ingerslev
Chairman of the Board

Kathrin Kortschak
Board member

Arnstein Endresen
Board member

Terri Sebree
Board member

Eva Steiness
CEO

Statement of Comprehensive Income

Group		Note	Note	Serodus ASA	
2019	2018			2019	2018
Operating revenues					
-	-	3,4	3	-	-
-	-			-	58.377
-	-			-	58.377
Operating costs					
18.279.033	10.671.591	6	6	18.279.033	10.671.591
5.107.819	5.711.559	5	5	5.121.191	5.710.917
2.234.875	179.004	8	8	42.038	42.038
(437.577)	4.058.699	2, 6	2, 6	(690.009)	3.891.612
25.184.149	20.620.851			22.752.252	20.316.157
(25.184.149)	(20.620.851)			(22.752.252)	(20.257.780)
Financial income					
16.622	13.597	16		16.622	13.597
70.383	45.776	16		55.901	45.776
87.005	59.373			72.523	59.373
Financial expenses					
1.365	248.259	16		12	247.781
382.802	211.188	16	16, 18	4.806.378	203.281
384.167	459.447			4.806.390	451.062
(297.162)	(400.074)	16	16	(4.733.867)	(391.690)
(25.481.311)	(21.020.926)			(27.486.119)	(20.649.470)
(350.594)	(30.133)	7	7	-	-
(25.130.718)	(20.990.793)			(27.486.119)	(20.649.470)
(66.053)	6.297				
(25.196.771)	(20.984.496)			(27.486.119)	(20.649.470)

Statement of Financial Position

Group				Serodus ASA	
31-12-2019	31-12-2018	Note	Note	31-12-2019	31-12-2018
ASSETS					
<i>Fixed assets</i>					
638.525	2.274.169	8,15	8	588.525	630.563
-	599.230			-	-
-	-		18	-	1.800.000
638.525	2.873.399			588.525	2.430.563
<i>Current assets</i>					
9.793.899	66.428	9	9	9.793.899	2.356.784
12.098.506	17.131.551	10	10	11.708.469	16.763.760
21.892.405	17.197.979			21.502.368	19.120.543
22.530.930	20.071.378			22.090.894	21.551.106
EQUITY AND LIABILITIES					
<i>EQUITY</i>					
10.455.442	106.125.964	11	11	10.455.442	106.125.964
-	292.500			-	292.500
0	50.948.410			-	50.948.410
34.480.374	(4.461.445)			34.480.374	(4.461.445)
(27.035.151)	(139.310.276)			(27.486.119)	(137.471.894)
17.900.665	13.595.153			17.449.697	15.433.534
<i>Long-term debt</i>					
11.000	361.593	7	7	-	-
-	-	13, 17	13, 17	-	-
11.000	361.593			-	-
<i>Current liabilities</i>					
3.327.446	5.313.850	13,14	13,14	3.327.446	5.313.850
1.291.818	800.782	12	12	1.313.750	803.722
4.619.265	6.114.632			4.641.196	6.117.572
22.530.930	20.071.378			22.090.894	21.551.106

Oslo, 15th, of June 2020

Søren Elmann
Chairman of the Board

Kathrin Christin Kortschak
Board member

Terri Sebree
Board member

Arnstein Gunnestad Endresen
Board member

Eva Steiness
CEO

Statement of Changes in Equity

2019

Serodus ASA	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
Equity 01.01.2019	106.418.464	50.948.410	(4.461.445)	(137.471.895)	15.433.533
- Total comprehensive income 2019		-	-	(27.486.119)	(27.486.119)
- Other income/expenses	-	-	-	-	-
<i>Total comprehensive income:</i>	-	-	-	(27.486.119)	(27.486.119)
Share-based compensation					-
Issues from cash contributions	29.502.282				29.502.282
Capital reduction	(125.465.304)	(50.948.410)	38.941.820	137.471.894	-
Equity 31.12.2019	10.455.442	-	34.480.374	(27.486.119)	17.449.697

Group	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
Equity 01.01.2019	106.418.464	50.948.410	(4.461.445)	(139.310.276)	13.595.153
- Total comprehensive income 2019	-	-	-	(25.196.771)	(25.196.771)
- Exchange differences	-	-	-	-	-
<i>Total comprehensive income:</i>	-	-	-	(25.196.771)	(25.196.771)
Share-based compensation					-
Issues from cash contributions	29.502.282				29.502.282
Capital reduction	(125.465.304)	(50.948.410)	38.941.820	137.471.894	-
Equity 31.12.2019	10.455.442	0	34.480.374	(27.035.151)	17.900.665

The capital reduction was registered in the Company Register 27. June 2019.
Reduction of capital has been used for coverage of losses and provision for funds.

2018

Serodus ASA	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
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)
- Other income/expenses	-	-	-	-	-
<i>Total comprehensive income:</i>	-	-	-	(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
Reclassified convertible loans					-
Equity 31.12.2018	106.418.464	50.948.410	(4.461.445)	(137.471.894)	15.433.534

Group	Share capital	Share premium	Other paid-in-capital	Retained earnings	Total equity
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)
- Exchange differences	-	-	-	-	-
<i>Total comprehensive income:</i>	-	-	-	(20.984.496)	(20.984.496)
Debt conversion				-	-
Share-based compensation					-
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
Equity 31.12.2018	106.418.464	50.948.410	(4.461.445)	(139.310.276)	13.595.154

Statements of Cash Flow

Group				Serodus ASA	
2019	2018	Note	Note	2019	2018
Cash flow from operating activities					
(25.481.311)	(21.020.927)			(27.486.119)	(20.649.470)
-	-		17	3.786.350	-
2.234.875	179.005	8	8	42.039	42.039
(1.919.977)	4.544.159			(3.972.755)	4.175.955
(9.368.915)	(4.661.492)			(6.927.088)	(4.664.325)
(34.535.328)	(20.959.256)			(34.557.573)	(21.095.802)
Cash flow from financing activities					
29.502.283	26.991.634	11	11	29.502.282	26.991.633
-	(3.125.684)			-	(3.125.684)
29.502.283	23.865.950			29.502.282	23.865.949
(5.033.045)	2.906.694			(5.055.291)	2.770.147
17.131.551	14.224.857	10	10	16.763.760	13.993.613
12.098.506	17.131.551	10	10	11.708.469	16.763.760

Notes to the financial statements

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 15 June 2020.

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 has 3 employees. The group has NOK 11.9 million in non-restricted cash at the end of the 2019. Serodus succeed with raising NOK 45.9 million in new equity in June 2020 through a private placement from private investors and the company has now sufficient liquidity to operate through 2020. The going concern assumption is considered to be fulfilled 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 2019.

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 2019, 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.

2.20 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. IFRS 16 is not relevant for Serodus ASA as the Group has no leases.

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 2019	Group 2018	Serodus ASA 2019	Serodus ASA 2018
6.102.581	0 SkatteFUNN	6.102.581	0
6.102.581	0 Total grants	6.102.581	0

SkatteFUNN

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..

The Company has received payment of SkatteFUNN in 2019 for approved costs in 2019 and 2018.

In 2019 the Company has recognized a receivable of NOK 4.6 million on the government based on recognized costs in 2019 that the SkatteFUNN grant is intended to compensate.

See notes 5 and 6

Note 4 - Segments

In 2019, the company had no revenue from customers.

The group is regarded as a unit in 2019 and there are therefore no separate segments.

Note 5 - Salaries and allowances

Group		Serodus ASA	
2019	2018	2019	2018
5.485.118	5.484.200	5.498.490	5.484.200
98.700	200.243	98.700	200.243
-	22.336	-	22.336
-	-	-	-
5.321	4.779	5.321	4.138
(481.320)	-	(481.320)	-
5.107.819	5.711.559	5.121.191	5.710.917

The Company had established a defined contribution pension plan in accordance with the OTP Act. From 2019 all employees are Danish citizens. The company is not obliged to pay pensions for Danish citizens.

Total remuneration of directors and management team

Recipient	Role	Description of the	2019	2018
Eva Steiness	CEO	Total	1.847.766	1.688.797
		- Salary	1.843.374	1.684.405
		- Other payments	4.392	4.392
		- Sharebased payment expense	-	-
Søren Elmann Ingerslev ²⁾	Chairman	Total	-	-
		- Directors' fees	-	-
		- Sharebased payment expense	-	-
Merete Søby	Board member (until 09.08.2018)	Total	-	100.000
		- Directors' fees	-	100.000
		- 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	200.000
		- Directors' fees	200.000	200.000
		- Sharebased payment	-	-
Kathrin Christin Kortschak ³⁾	Board member	Total	300.000	-
		- Directors' fees	300.000	-
		- Sharebased payment expense	-	-
Total sum			2.547.766	2.188.797

Remuneration for the board ¹⁾

Recipient	Role	2019	2018
Søren Elmann Ingerslev ²⁾	Chairman	-	-
Merete Søby	Board member (until 09.08.2018)	-	100.000
Terri B. Sebree	Board member	200.000	200.000
Arnstein Endresen	Board member	200.000	200.000
Kathrin Christin Kortschak ³⁾	Board member	300.000	-

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

²⁾ Remuneration to the Chairman of the board has been paid to the Elmann Advokatfirma, see note 14

³⁾ Directors fee for 2018 Q3 and Q4 was Paid in 2019.

Share-based payment

Serodus has in 2018 issued share options to management. If the options were exercised, they would be settled in

Options valued at fair value	Number of options	Expiry	Strike price (NOK)	Fair value
Jürgen Langhärig	7.500	30.04.2020	13,00	1
Torben Skarsfeldt	10.000	30.04.2020	13,00	1
Peter Holm Tygesen	7.500	30.04.2020	13,00	1
SUM	25.000			

The strike price was at grant date similar to the fair value of the shares and the fair value of the options were considered to be insignificant.

The options were not exercised before the expiry date 30.04.2020.

Note 6 - Other Operating costs

Group			Serodus ASA	
2019	2018		2019	2018
		Project costs		
18.279.034	10.671.591	Research and development ²⁾	18.279.034	10.671.591
		Other operating costs		
426.059	420.066	Travel expenses	355.279	420.066
354.454	175.451	Patents and licenses	326.517	146.516
3.444.941	2.853.739	Consultants ¹⁾	3.390.306	2.769.623
958.229	609.442	Other costs	859.150	555.407
(5.621.261)	-	SkatteFUNN ³⁾	(5.621.261)	-
17.841.457	14.730.290	Total other operating expenses	17.589.025	14.563.203
		Remuneration of auditors		
2019	2018		2019	2018
302.118	419.738	Audit	302.118	407.976
56.549	43.505	Other services	56.549	43.505
358.667	463.243	Total, excl. VAT	358.667	451.481

¹⁾ See Note 14 for transactions with related parties.

²⁾ A substantial part of the company's costs are related to research and development.

Research and development cost has been recognized in the income statement in according to IFRS

³⁾ See Note 3 for government grants

Note 7 - Tax

Group		Specification of tax expenses:		Serodus ASA	
2019	2018			2019	2018
-	-	Taxes payable			-
(350.594)	(30.133)	Change in deferred tax			-
(350.594)	(30.133)	Tax			-

31-dec 2019	31-dec 2018	Specification of temporary differences and deferred tax:	31-dec 2019	31-dec 2018
(1.499.328)	(919.579)	Temporary differences	(1.499.328)	(919.579)
(205.931.986)	(176.709.393)	Tax losses carried forward	(205.931.986)	(176.709.393)
(207.431.314)	(177.628.972)	Basis for deferred tax assets (Norway) not recognised	(207.431.314)	(177.628.972)
(624.527)	(234.490)	Basis for temporary differences related to Phlogo not recognised		
50.000	1.643.607	Temporary differences related to patent in Phlogo ApS		
(45.772.285)	(39.129.962)	Deferred tax asset (22%) not recognised	(45.634.889)	(39.078.374)
11.000	361.593	Deferred tax (22%) as a result of patent		

2019		2018		Reconciliation of effective tax rate:		2019	2018
(25.481.311)	(21.020.926)	Result before tax		(27.486.119)		(20.649.470)	
(5.605.888)	(4.834.813)	Expected income tax (22% 2019 and 23% 2018)		(6.046.946)		(4.749.378)	
		<i>Adjusted for the tax effect of the following items:</i>					
	1.780.004	Effect change tax rate - calculation				1.776.290	
(1.387.029)	(497)	Permanent differences		(509.569)		(497)	
6.642.323	3.025.173	Change unrecognised deferred tax assets		6.556.515		2.973.585	
(350.594)	(30.133)	Tax		0		0	

Because of uncertainty about future utilisation of losses that can be carried forward, the company believes there is no basis for the recognition of deferred tax assets.

Note 8 - Intangible assets

Serodus ASA	Patents	Total
Acquisition cost		
Cumulative 1 January 2018	2.360.875	2.360.875
Additions during the year	-	-
Disposals during the year	-	-
Cumulative 31 December 2018	2.360.875	2.360.875
Additions during the year	-	-
Disposals during the year	-	-
Cumulative 31 December 2019	2.360.875	2.360.875
Depreciation and impairment		
Cumulative 1 January 2018	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
Impairment	-	-
Depreciations for the year	42.038	42.038
Cumulative 31 December 2019	1.772.348	1.772.348
Value entered on the balance sheet		
Carrying value as of 31 December 2018	630.563	630.563
Carrying value as of 31 December 2019	588.525	588.525

The carrying value of patents consists of patents related to SER 140, SER 150 and SER 190. The patents expire in the period 2032 - 2039

Group	Licenses	Goodwill	Patents	Total
Acquisition cost				
Cumulative 1 January 2018	2.360.875	599.230	2.396.919	5.357.024
Additions during the year				-
Disposals during the year	-	-	-	-
Cumulative 31 December 2018	2.360.875	599.230	2.396.919	5.357.024
Additions during the year				-
Disposals during the year	-	-	-	-
Cumulative 31 December 2019	2.360.875	599.230	2.396.919	5.357.024
Depreciation and impairment				
Cumulative 1 January 2018	1.688.276	-	616.347	2.304.623
Impairment	-	-		-
Depreciations for the year	42.038	-	136.966	179.004
Cumulative 31 December 2018	1.730.313	-	753.312	2.483.625
Impairment		599.230	1.593.607	2.192.837
Depreciations for the year	42.038	-		42.038
Cumulative 31 December 2019	1.772.351	599.230	2.346.919	4.718.500
Value entered on the balance sheet				
Value entered on the balance sheet 31 December 2018	630.562	599.230	1.643.607	2.873.399
Value entered on the balance sheet 31 December 2019	588.524	-	50.000	638.525

Agreement with Evolva AG (Licences)

In 2013, Serodus entered into an agreement with Evolva AG regarding rights for licenses. Licenses totalling NOK 840,750 were capitalised.

The carrying value of licences consists of licences related to SER150.

Impairment of patents in 2019

The Company's patent related to SER 130 has in 2019 been written down by NOK 1.593.607 to NOK 50.000

The SER140, SER150 and SER190 patents are valued under SER150. These patents expire during 2032-2039

Note 9 - Other receivables

Group			Serodus ASA	
2019	2018		2019	2018
31.056	27.769	VAT receivables	31.056	27.769
5.144.382	38.659	Prepaid costs 1)	5.144.382	36.932
4.618.461		Government grants	4.618.461	
-		- Receivables from subsidiaries	-	2.292.083
9.793.899	66.428	Total other receivables	9.793.899	2.356.784

1) Prepaid costs represents raw materials and other materials hold in inventory until used in studies on SER150. The material is expensed when is used in clinical tests

Note 10 - Cash and Cash equivalents

2019	2018		2019	2018
11.936.536	16.999.650	Cash and bank deposits - unrestricted funds	11.546.499	16.631.859
		Cash - restricted assets related to taxes withdrawn	161.970	131.901
161.970	131.901			
12.098.506	17.131.551	Cash and cash equivalents in the balance sheet	11.708.469	16.763.760

Note 11 - Share capital

Share capital:

	31- des. 2019	31-dec 2018
Shares, nominal value NOK 1	10.455.442	106.125.964

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

Nominal value was NOK 13,00 per share at the end of 2018. On the AGM 2019 it was decided to decrease the capital of the company by decreasing the nominal value to NOK 1,00.

Serodus increased the shareholders capital by NOK 29,5 million early in 2019.

The 20 largest shareholders as of 31.12.2019 are:

Shareholders	Number of shares	Percentage of capital
VIGGO HARBOE HOLDING APS	4.742.770	45,36%
NELEA AS	828.413	7,92%
ROBERT HELGE BECK	470.000	4,50%
EVA STEINESS	367.105	3,51%
LARS THOMSEN	350.000	3,35%
CACEIS BANK	248.604	2,38%
UBS SWITZERLAND AG	209.438	2,00%
ROLFS HOLDING AS	170.900	1,63%
MP PENSJON PK	169.607	1,62%
OLA RUSTAD A.S	146.539	1,40%
MARIANNE STEINESS	130.269	1,25%
SPAR KAPITAL INVESTOR AS	122.500	1,17%
SÆRVOLL HOLDING AS	111.634	1,07%
LARS PETER SKOU HANSEN	100.000	0,96%
SKEIKAMPEN INVEST APS	93.300	0,89%
SAMSOFT APS	91.093	0,87%
NORDNET BANK AB	77.675	0,74%
ACADIA HOLDING AS	71.324	0,68%
HØVIK FINANS AS	67.100	0,64%
MEDIA TECHNOLOGY GROUP AS	63.952	0,61%
Total for the 20 largest shareholders	8.632.223	82,56%
Other shareholders	1.823.219	17,44%
Total number of shares	10.455.442	100,00%

Shares owned directly or indirectly by management and board as of 31.12.2019

Name	Role	# of shares	Percentage of capital
Arnstein Gunnestad Endresen (NELEA AS)	Board member	828.413	7,92%
Katrin Kortschak (through nominees accounts)	Board member	268.286	2,57%
Eva Steiness	CEO	367.105	3,51%
Torben Skarsfeldt	SVP	2.500	0,02%
		1.466.304	14,02%

Note 12 - Other current liabilities

Group			Serodus ASA	
2019	2018		2019	2018
47.718	28.810	Unpaid government charges	69.650	32.600
809.365	161.309	Accrued costs	809.365	160.459
434.734	610.663	Other current liabilities	434.734	610.663
1.291.818	800.782	Total other current liabilities	1.313.750	803.722

Note 13 - Financial risk management, objectives and guidelines

Categories of financial instruments

		Serodus ASA			
Category		2019		2018	
		Book value	Fair value	Book value	Fair value
Financial assets:					
Trade accounts receivable	Loans and receivables	-	-	2.292.083	2.292.083
Other accounts receivable ¹⁾	Loans and receivables	-	-	-	-
Cash and cash equivalents.	Loans and receivables	11.708.469	11.708.469	16.763.760	16.763.760
Total financial assets		11.708.469	11.708.469	19.055.842	19.055.842
Financial liabilities:					
Accounts payable	Financial liabilities at amortised cost	3.327.446	3.327.446	5.313.850	5.313.850
Other liabilities ²⁾	Financial liabilities at amortised cost	504.384	504.384	643.263	643.263
Total financial liabilities		3.831.831	3.831.831	5.957.113	5.957.113

		Group			
Category		2019		2018	
		Book value	Fair value	Book value	Fair value
Financial assets:					
Trade accounts receivable	Loans and receivables	-	-	-	-
Other accounts receivable ¹⁾	Loans and receivables	-	-	-	-
Cash and cash equivalents.	Loans and receivables	12.098.506	12.098.506	17.131.551	17.131.551
Total financial assets		12.098.506	12.098.506	17.131.551	17.131.551
Financial liabilities:					
Accounts payable	Financial liabilities at amortised cost	3.327.446	3.327.446	5.313.850	5.313.850
Other liabilities ²⁾	Financial liabilities at amortised cost	482.453	482.453	639.473	639.473
Total financial liabilities		3.809.899	3.809.899	5.953.323	5.953.323

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.

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 other than for its bank accounts.

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 2019, the company/Group had accounts payable in DKK, GBP, USD, SEK and EUR equivalent to NOK 991.165. If the respective exchange rates against the NOK changed by +/- 10%, the profit before tax would change by +/- NOK 99.116.

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.

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-dec 2019	31- des. 2018
Cash and cash equivalents	11.708.469	16.763.760
Receivables and prepayments	-	2.292.082
The maximum credit exposure	11.708.469	19.055.842

The receivables are not due on the reporting dates.

Consolidated accounts	31-dec 2019	31- des. 2018
Cash and cash equivalents	12.098.506	17.131.551
Receivables and prepayments	-	-
The maximum credit exposure	12.098.506	17.131.551

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 2019, 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 14 - Related parties

Services purchased from	Description of the service	2.019	2.018
Elmann Advokatpartnerselskap 1)	Legal fees	325.645	362.438

The amounts above include remuneration for the role as Chairman of the Board members.
Søren Elmann Ingerslev is a partner of Elmann Advokatselskap

Outstanding with related parties:

	31-dec	31-dec
	2.019	2.018
Accounts payable:		
Viggo Harboe Holding A/S	-	104.044
Total from related parties	-	104.044

Note 15 - Impairment testing of goodwill

Recognized goodwill in the Group amounted on 31.12.2018 to NOK 599,230. The goodwill was entirely related to the acquisition of Phlogo ApS.

The Group tests goodwill for impairment at least annually or whenever there are indications of impairment.

Phlogo has currently no development activities that defends the value of the goodwill and the goodwill has consequently been written off to zero.

Note 16 - Financial items

Group		Total finance income	Serodus ASA	
2019	2018		2019	2018
16.622	13.597	Interest income	16.622	13.597
70.383	45.776	Other financial income	55.901	45.776
87.005	59.373	Total finance income	72.523	59.373

Group		Total finance costs	Serodus ASA	
2019	2018		2019	2018
1.365	248.259	Interest expenses	12	247.781
		Impairment of shares in subsidiary	3.786.350	
		Impairment of receivables on subs	639.053	
382.802	211.188	Other financial expenses	380.963	203.281
384.167	459.447	Total finance costs	4.806.378	451.062

Note 17 - Events after balance sheet date

Serodus succeed with raising NOK 45.9 million in new equity in June 2020 through a private placement from private investors with purpose to finance the next SER 150 clinical study and general G&A cost

Covid-19 became known close to the turn of the year 2019/2020 and was declared a global public health crisis on 30 January 2020. In the subsequent period, proliferation and its consequences have escalated, and on March 11, Covid-19 was defined as a global pandemic.

This has in the short term resulted in major social and economic consequences worldwide, with strong restrictions from the authorities, falling demand for goods and services, high unemployment and volatile financial markets. However, there is considerable uncertainty about the long-term consequences of the pandemic, both in terms of further spread or possible control of the virus, and the severity and effect on the global economy.

The Board recognizes that the company will be adversely affected by Covid-19 in some way if the long-term consequences are worse than what can now be observed. A delay for the start of planned studies can be a consequence as patient checks and monitoring can be affected.

However, as far as the Board of Directors can assess by the date of preparation of the annual accounts, Covid-19 has not had any additional impact on the company's position and operations.

Note 18 - Subsidiary

Subsidiary	Voting share	Acquisition costs	Book value	Fair value
Phlogo ApS	100,00%	7.126.350	-	-

The shares were written off by NOK 3 340 000 in 2017.

In 2019, Phlogo ApS performed a share capital increase by conversion of debt to its parent company Serodus ASA. The increase in cost price by NOK 3 786 350 was then written off to zero to reflect the fair value of Phlogo ApS.

Note 19 - Contingent Liabilities

In 2013 Serodus entered into an agreement with Evolva AG regarding rights for licences. The agreement was amended in 2015. In addition to a non-refundable consideration of ERU 100,000 for licenses, Serodus shall pay Evolva certain milestone payments subject to certain events related to the development and approvals of products under the licence agreement. The first event has occurred in 2020 and Serodus and Evolva has agreed that

Serodus will settle its commitments under the first event by issuing 315,000 shares to Evolva at a price of NOK 13 per share. The increase of the share capital is planned to take place ultimo June 2020.

The other events that trigger additional milestone payments (which represents potential material amounts) are currently not considered to meet the “more likely than not” criteria and no liabilities have therefor been recognized as of 31 December 2020.

Responsibility Statement

We confirm, to the best of our knowledge, that the financial statements for the year 2019 which has been prepared in accordance relevant with 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, 15th of June 2020

Board of Directors Serodus ASA

Søren Elmann
Chairman of the Board

Kathrin Christin Kortschak
Board member

Arnstein Gunnestad
Endresen
Board member

Terri Sebree
Board member

Eva Steiness
CEO