



SERODUS

**Interim report
Fourth quarter 2010**

Serodus ASA

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Company background

Serodus ASA is a Norwegian research and development company dedicated to the development of compounds for the treatment of patients with cardiovascular diseases with unmet clinical needs. The Company was founded based on a discovery from the University of Oslo. The initial product pipeline focuses on the following three diseases:

- **SER 100 - Isolated Systolic Hypertension (ISH)** – reducing the systolic blood pressure with only minor effect on diastolic pressure
- **SER 101 - Heart Failure (HF)** - improvement of the pump function of the heart
- **SER 102 - Post operative Atrial Fibrillation (AF)** – normalization of heart rhythm

Two of the drug candidates are in clinical development and ready for phase II Proof-of-Concept studies. The third drug candidate is in pre-clinical phase. The drug candidates are all covered by extensive intellectual property (patent and patent applications) held or licensed by the Company.

The product pipeline addresses significant markets with substantial unmet clinical needs, and potential revenue from partnering agreements is estimated to be significant.

Q4 2010 events

- Secured NOK 2.0 million in new equity in December 2010
- Started preparation for IPO and listing on Oslo Axess during first half of 2011
- Signed a license agreement with F. Hoffmann-La Roche Ltd for SER101- enabling the Company to move its heart failure program directly into the clinic without waiting for own pre-clinical development
- Continued the internal development of SER102 – the compound has passed lead candidate selection

Events after the balance sheet date

There are no events after the reporting period that is assessed to have a material impact on the Company's financial situation.

Operational review

Serodus' product pipeline consists of the following drug candidates:

Product candidate	Indication	Status	Clinical endpoints of studies	Market potential
SER100	Isolated Systolic Hypertension (ISH)	Entering Clinical Phase II Proof-of-concept study	Reduction of systolic blood pressure by more than 10 mmHg and only minor effect on diastolic pressure	The lifetime risk of hypertension for individuals of 55 years of age is approximately 90 %.
SER 101	Heart Failure (HF)	Entering Clinical Phase II Proof-of-concept study	Improvement of the pump function of the heart	It is estimated that about 30 million patients are suffering from heart failure in the western world.
SER 102	Per and Post operative Atrial Fibrillation (AF)	Entering preclinical tox studies	Prevention of Atrial fibrillation	The risk of AF is 30 % in coronary by-pass surgery and 30 % in lung cancer surgery.

The Company will continue the further development of the compounds through outsourcing of the non-clinical and clinical development work to pre-clinical and Clinical Research Organizations (CRO) and Clinical Manufacturing Organizations (CMO).

Serodus will pursue partnering agreements with large pharmaceutical companies upon having successfully established clinical Proof-of-Concept for its compounds - or alternatively partner at an earlier stage, if such collaborations and licensing arrangements would advance the development of the drug candidates. Licenses deals with large pharmaceutical companies often take place on the basis of the results from a clinical Proof of Concept Study.

SER100 – Isolated Systolic Hypertension

SER100 is the name of Serodus' drug compound to be developed for the treatment of the Isolated Systolic Hypertension (ISH). The compound represents a key commercial asset for the Company addressing an increasing market potential due to the aging population.

The Company has acquired the patent, all rights and know-how to SER100 from Zealand Pharma A/S (Denmark), and holds the sole right for the development and world-wide commercialization of the product. The compound has obtained pre-clinical and phase-I documentation. During these studies, the possibility of using SER100 as a treatment for ISH was hypothesized on the basis of data from two clinical studies in acute and chronic heart failure respectively. Among the patients in the treated groups, who in the two studies were normotensive, about 50 % had a reduction of systolic blood pressure by more than 10 mmHg with little effect on the diastolic pressure. The

compound is now entering the clinical phase II Proof-of-Concept study with the primary goal to demonstrate that the patent protected compound reduces the elevated systolic blood pressure with only minor effect on the diastolic pressure under co-treatment with a thiazide. Serodus expects that the effect of this new drug compound, in patients with ISH, will be equal or better than the results from the two studies already performed.

ISH is pathophysiological characterized by a loss of elasticity and the development of stiffness in the aorta and the major arteries. The definition of ISH is a systolic blood pressure above 140 mmHg and a diastolic blood pressure below 90mmHg, and is the most common form of hypertension in those older than 50 years. The pattern of blood-pressure elevation changes with age. Before reaching 50 years of age, most people with hypertension have elevated diastolic pressure. After the age of 50 years, as systolic pressure continues to rise and diastolic pressure tends to fall, ISH predominates. The condition has no subjective symptoms and it is often diagnosed when health professionals for other reasons examines the patient. It is estimated that only approximately 50 % of the patients are diagnosed.

ISH can lead to serious health problems such as stroke, heart disease, chronic kidney disease and dementia. These patients have also a significant higher incidence of congestive heart failure than those with only increased diastolic pressure.

There are currently no other drugs available, which selectively reduce the abnormal high systolic blood pressure in patients with ISH. Hence, the treatment of ISH with SER100 is expected to reduce the systolic blood pressure selectively and thereby reduce the higher incidences of heart failure and reduce other serious health problems.

Heart failure (HF) - SER 101:

SER101 is Serodus' drug compound to be developed for the treatment of HF. The Company has acquired the exclusive, worldwide right for the development and commercialization of SER101 from Roche. The compound has obtained pre-clinical and phase-I documentation, and has already demonstrated a good safety profile in 3 months toxicology studies and clinical studies in healthy volunteers and in patients with hyperactive bladder. Serodus plans to conduct a clinical phase II Proof-of Concept study in HF patients. The primary goal will be to demonstrate that SER101 can improve cardiac function in patients with heart failure.

The product candidate is a selective and highly potent 5-HT₄ receptor antagonist. Professor Finn Olav Levy's research group, at the University of Oslo, discovered the role of 5-HT₄ receptors in heart failure in 2001. The earlier understanding had been that 5-HT₄ receptors were present in the atria, but not in the cardiac ventricles. The finding of functional 5-HT₄ receptors in the ventricles from failing hearts, led to the hypothesis of a serotonergic effect on the failing heart, which could be disadvantageous for disease progression and long-term survival.

HF is a condition in which the heart's pump function is inadequate to deliver oxygen rich blood to the body. HF can be caused by disease that weaken the heart muscle, diseases that cause stiffening of the heart muscles, or diseases that increase oxygen demand by the body tissue beyond the capability of the heart to deliver adequate oxygen-rich blood. It is a very serious

disease with a high burden to society and mortality comparable with the most serious forms of cancer.

The treatment of HF aims at interfering with the compensatory mechanisms, which aggravate the clinical devastating symptoms. Diuretic drugs block the salt and water retention in the kidney, and the effect is seen soon after introduction of the treatment. However, the effect of drugs, which interfere with the hormonal compensatory mechanisms, is significantly more discrete, and maximum effects are often not seen before after a couple of month's treatment. This is the case for beta-receptor blocking drugs, which inhibit the sympathetic activity by blocking the adrenergic receptors, and for ACE inhibitors, which reduces the angiotensin and renin activity by reducing an enzyme activity essential for angiotensin/renin activity.

The largest group of compounds currently in use for HF is drugs, which have already been launched for other indications, e.g. hypertension and dyslipidemia but additionally also are believed to have a secondarily long term beneficial effect on the treatment of HF. SER101 is unique in being a drug to be developed specifically for heart failure focusing on a newly discovered disease mechanism that has not previously been addressed.

Post operative Atrial Fibrillation (AF) – SER102:

SER102 is Serodus' own compound. It is a 5-HT₄ receptor antagonist. The Company intends to develop SER102 for the treatment of AF in patients undergoing intra-thoracical surgery. The compound has passed lead candidate selection and pre-clinical activities are about to be initiated.

The product candidate is a small molecule with low intestinal absorption. The compound can however be given parenterally and Serodus intends to develop a formulation for intravenous or subcutaneous treatment in patients developing AF during or 6 hours after intra-thoracical surgery. SER102 is expected to block the serotonin stimulation of the atria and consequently convert the AF to sinus rhythm.

Acute AF is common in patients undergoing cardiac surgery. Risk of AF following valve surgeries is 1 in 2 and for coronary artery by-pass grafting, it is 1 in 3. The consequences of pre or postoperative AF are increased hospital length of stay and increased risk of postoperative stroke.

Financial review

Profit and Loss

The Company reported an operating income of NOK 40,000 in Q4, 2010 compared to NOK 57,200 in the same period in 2009. Total operating income for 2010 totalled NOK 40,000 compared to NOK 57,200 in 2009.

Operating expenses for the fourth quarter 2010 amounted to NOK 0.4 million and totalled NOK 3.4 million for the full year of 2010. This compares to NOK 1.7 million in the fourth quarter 2009 and NOK 3.7 million for the full year of 2009.

Net loss for the fourth quarter was NOK 0.3 million and a loss of NOK 3.3 million for the full year of 2010 compared to a net loss of NOK 1.7 million in the corresponding quarter of 2009 and a loss of NOK 3.7 million for the full year 2009.

EBITDA was minus NOK 0.4 million in the fourth quarter 2010 compared to minus NOK 0.3 million in the corresponding quarter 2009 and minus NOK 3.4 million in the full year of 2010 compared to minus NOK 0.9 million in the corresponding period in 2009.

Cash flow and balance sheet

Serodus' total consolidated financial position as of 31 December 2010 was NOK 6.3 million, compared to NOK 4.5 million at year-end 2009. Total intangible assets as of 31 December 2010 amounted to NOK 1.5 million. Total intangible asset at year-end 2009 was zero.

Total equity as of 31 December 2010 was NOK 4.2 million including not registered capital of NOK 2.0 million at year-end compared to a total equity of NOK 3.0 million at year-end 2009.

The cash balance at 31 December 2010 was NOK 2.6 million compared to NOK 2.8 million at year-end 2009.

The registered share capital of the Company as of 31 December 2010 was NOK 5,147,350 divided into 27,736,750 shares, each with a nominal value of NOK 0.20.

Outlook

Serodus works towards the goal to utilize its expertise and proprietary know-how to optimize and develop its patent protected compounds from their present states to establish clinical Proof-of-Concept for each of the compounds.

Serodus is focused on reaching significant value-generating milestones before partnering its compounds after successful Proof-of-Concept. Serodus' compounds offer new therapies with large unmet clinical needs and commercial potential for the treatment of patients with cardiovascular diseases.

Serodus has started the preparations for an IPO and listing on Oslo Axess during first half of 2011 in order to strengthen the Company's financial position and to pursue its business strategies.

Statement of comprehensive income

	Note	Unaudited Fourth quarter		YTD Q4	
		2010	2009	2010	2009
Operating income					
Revenue		40,000	57,200	40,000	57,200
Operating expenses					
Cost of sales		17,206	42,349	74,760	78,057
Personnel expenses		2,617	(0)	105,307	175
Impairment of intangible assets		-	1,371,000	-	2,786,576
Other operating expenses	2	391,123	284,379	3,221,172	834,607
Total operating expenses		410,947	1,697,728	3,401,239	3,699,415
Operating profit (loss)		(370,947)	(1,640,528)	(3,361,239)	(3,642,215)
Financial items					
Interest income		69,202	33,063	69,202	33,207
Other financial income		5,685	1,375	14,101	8,374
Total finance income		74,887	34,438	83,303	41,581
Finance cost					
Interest expense		-	116,406	-	116,406
Other finance expense		3,078	1,685	15,355	14,590
Total finance cost		3,078	118,091	15,355	130,996
Net from finance		71,809	(83,653)	67,948	(89,415)
Profit (loss) before tax		(299,138)	(1,724,180)	(3,293,291)	(3,731,630)
Income tax expense		-	-	-	-
Profit (loss) for the period/ Total comprehensive income		(299,138)	(1,724,180)	(3,293,291)	(3,731,630)
Earnings per share:					
Basic earnings per share		(0.01)	(0.10)	(0.29)	(0.24)
Diluted earnings per share		(0.01)	(0.10)	(0.29)	(0.24)

Statement of financial position

	Note	31.12.2010	31.12.2009	01.01.2009
ASSETS				
<i>Non-current assets</i>				
Intangible assets		1,520,125	-	1,371,000
Total non-current assets		1,520,125	-	1,371,000
<i>Current assets</i>				
Trade and other receivables		2,112,070	1,692,703	2,392,752
Cash and cash equivalents		2,630,847	2,814,953	153,491
Total current assets		4,742,917	4,507,656	2,546,243
Total assets		6,263,042	4,507,655	3,917,242
EQUITY AND LIABILITIES				
<i>Capital and reserves</i>				
Issued capital	2	5,147,350	4,147,350	2,937,739
Share premium		4,679,833	3,179,833	1,632,334
Other paid in capital		73,000	73,000	-
Retained earnings		(7,700,006)	(4,406,715)	(1,934,116)
Total equity		2,200,177	2,993,468	2,635,957
Not registered capital		2,000,000	-	-
<i>Current liabilities</i>				
Trade payables		541,337	1,514,187	1,281,285
Other current liabilities		1,521,528	-	-
Total current liabilities		2,062,865	1,514,187	1,281,285
Total equity and liability		6,263,042	4,507,655	3,917,242

Statement of change in equity

2009

	Share Capital	Share premium	Other paid in capital	Retained earnings	Total Equity
Equity at 01.01.2009	2,937,739	1,632,334	-	(1,934,116)	2,635,957
- Profit for the year	-	-	-	(3,731,630)	(3,731,630)
<i>Total comprehensive income:</i>	-	-	-	(3,731,630)	(3,731,630)
Reduction in nom. amount	(1,259,031)			1,259,031	-
Share issues	1,552,066	1,578,099			3,130,165
Transaction costs	-	(30,600)		-	(30,600)
Contribution in kind	916,576		-	-	916,576
Share based payments	-		73,000	-	73,000
Equity at 31.12.2009	4,147,350	3,179,833	73,000	(4,406,715)	2,993,468

2010

	Share Capital	Share premium	Other paid in capital	Retained earnings	Total Equity
Equity at 01.01.2010	4,147,350	3,179,833	73,000	(4,406,715)	2,993,468
- Profit for the year	-	-	-	(3,293,291)	(3,293,291)
<i>Total comprehensive income:</i>	-	-	-	(3,293,291)	(3,293,291)
Share issues	1,000,000	1,500,000		-	2,500,000
Equity at 31.12.2010 ¹⁾	5,147,350	4,679,833	73,000	(7,700,006)	2,200,177

¹⁾ In December an emission of NOK 2,000,000 was agreed. The emission was not registered at 31.12.2010 and consequently is not included in the reconciliation above. Of the agreed emission, NOK 546,338 was not paid at 31.12.2010. The capital has been paid in January.

Statement of cash flows

	2010	2009
Cash flow from operating activities		
Ordinary profit before tax	(3,293,291)	(3,731,630)
Impairment of intangible assets	-	2,287,576
Share based payments	-	73,000
Changes in accounts receivable and creditors	(845,879)	232,902
Changes in other accruals	1,402	700,049
Net cash flow from operating activities	(4,137,768)	(438,103)
Cash flows from investing activities		
Investment in intangible assets	-	-
Net cash flow from investing activities	-	-
Cash flows from financing activities		
Proceeds from issue of shares	3,953,662	3,099,565
Proceeds from borrowing	-	-
Net cash flow from financing activities	3,953,662	3,099,565
Net changes in cash and cash equivalents	(184,106)	2,661,462
Cash and cash equivalents at the beginning of the period	2,814,953	153,491
Cash and cash equivalents at the end of the period	2,630,847	2,814,953
Interest paid	-	116,406

Note 1 – General information and basis for preparation

Serodus ASA (the company) is a public limited liability company incorporated and domiciled in Norway, with its main office in Oslo. Serodus is a biopharmaceutical company dedicated to the development of new and innovative compounds for the treatment of patients with cardiovascular diseases.

These interim condensed financial statements for the twelve months ending 31 December 2010 have not been audited. The interim financial statements have been prepared under the assumption of a going concern basis for the Company and in accordance with IAS 34 Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosure required in the annual financial statement and should be read in conjunction with the Company's Annual Financial Statement for 2010.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's Annual Financial Statement for the year ended 31 December 2010.

This report is the first interim financial reporting under IFRS, and the translation effects are described in conjunction with the 2010 Financial Statements for Serodus. Since the annual financial statement has been prepared and approved at the same time as this interim report, the translation effects are not repeated here.

Note 2 – Significant transactions and events

Government grants:

In Q4, 2010 the Company recognized government grants amounting to NOK 1,440,400. Government grants are recognized in the profit and loss statement as a reduction of cost in which the Company recognizes expenses the related cost for which the grant is intended to compensate.

Increase in share capital

In December 2010 a private placement of NOK 2,000,000 was agreed. The private placement was not registered at 31 December 2010 and consequently, it is not presented as a part of the equity as per 31 December 2010.

Note 3 – Related parties transactions

To provide the Company with access to important knowledge, the Company has entered into consultancy agreements for management services. The aggregated amount for Q4, 2010 amounted to NOK 667,622.

Note 4 – Segment reporting

The company does only have one business segment, and is consequently not reporting segment information.