

INTERIM REPORT - Q4 2009



DiAGENiC

FOR EARLIER DISEASE DETECTION

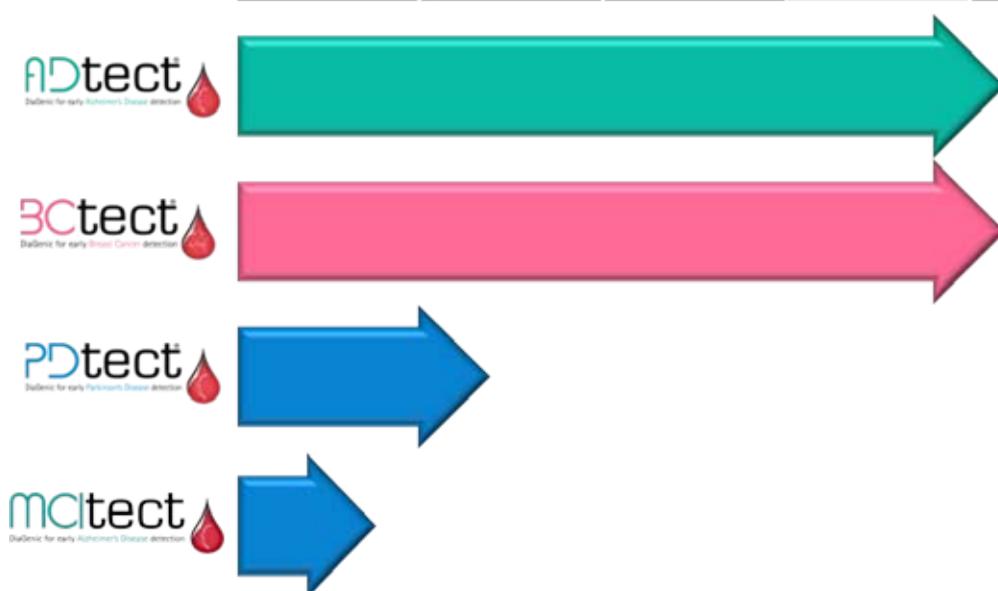
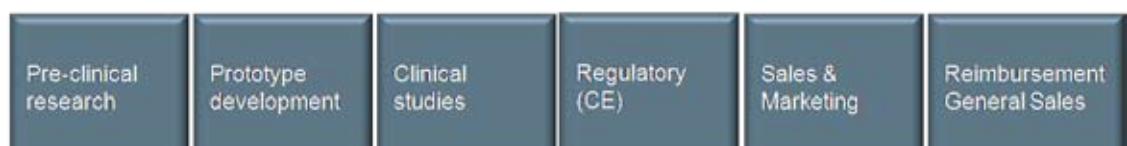
HIGHLIGHTS

- First product sales in Europe
- Distributor contract for UK and Ireland
- “Norway’s most innovative company” (The Research Council of Norway)
- Private placement of MNOK 34

POST QUARTER HIGHLIGHTS

- Distribution agreement with Ferrer (32 countries)
- Share issue of MNOK 9.6

Product Portfolio Molecular Diagnostics and Biomarkers



Sales and Marketing

Europe - Building the market

In the quarter DiaGenic recorded its first revenue from sales in Europe with sales of collection kits to distributors preparing for first sample collections. A collection kit contains components used to collect patient blood samples for analysis using a DiaGenic diagnostic test.



In accordance with our plan for scientific marketing, DiaGenic's distributors, together with representatives from DiaGenic, targeted several Key Opinion Leaders (KOL's) across Europe to gain clinical acceptance.

In fourth quarter 2009 DiaGenic entered an agreement with a world leading provider of diagnostic testing and services to patients and doctors. The agreement comprises marketing of BCtect® for early detection of breast cancer and ADtect® for early detection of Alzheimer's disease in the UK and in Ireland. Upon launch in UK the first breast cancer clinic is ready for implementing BCtect® into their clinical procedures.

After the end of the quarter DiaGenic and Ferrer inCode signed a distribution agreement for the blood-based ADtect® test for early diagnosis of Alzheimer's disease covering a total of 32 countries. The agreement gives Ferrer inCode, a biotech subsidiary of Grupo Ferrer Internacional, the exclusive right to sell and market ADtect® initially in Germany, Belgium, the Netherlands, Luxemburg, France, Italy, Spain and Portugal followed by Latin America.

Biomarkers for drug development and companion diagnostics

Biomarkers for drug development and companion diagnostics are a strategic focus area for DiaGenic. In accordance with the option contract with Merz Pharmaceuticals we increased the research activities in the US through the collaboration with University of California, Davis. US patients are now being monitored in the US arm of the ongoing multicentre study for development of a test for diagnosing Mild Cognitive Impairment, MCItect. As of yearend, 450 patients and controls have been included out of a total of 900.

In November 2009 DiaGenic was represented at the Alzheimer Association Research Roundtable on "Global

issues in drug development for Alzheimer's disease" in Washington D.C., presenting DiaGenic to key contacts from big pharma.

Products and Product development

Alzheimer's Disease

The development of ADtect® was based on a multi centre clinical study with patients recruited from memory clinics and hospitals. ADtect® demonstrated the same accuracy within the challenging group of early AD patients as in more advanced AD, contrary to the lower clinical accuracy normally obtained in the former group of patients. This study supports the use of ADtect® as an aid in the diagnosis of Alzheimer's disease in this patient population in memory clinics.

DiaGenic participates in the EU funded project EDAR. EDAR is the acronym for "*Beta amyloid oligomers in the early diagnosis of AD and as marker for treatment response*", with activities across Europe building KOL collaborations.

After the quarter the article "*A novel blood test for early detection of Alzheimer's disease*" by P. Rye et al was submitted for publication. This article describes the final development of our ADtect® test.

Breast Cancer

The clinical use of the BCtect® test is being presented to key opinion leaders. The CE studies support the claim for aid in diagnosis of breast cancer in patients on diagnostic workup of suspected cancer and with competitive advantage in premenopausal females.

In December 2009 a poster presentation on the results from the multicentre study performed with BCtect® in Scandinavia and North America was presented at the San Antonio Breast Cancer Symposium in Texas, USA, with the title "*Validation of a blood-based gene-expression test for the detection of breast cancer*".

After the quarter the article: "*Gene expression profiling of peripheral blood cells for early detection of breast cancer*" by J. Aaroe et al was published in Breast Cancer Research 2010. This article discusses our probe selection based on whole genome screening of breast cancer patients and is the reference for coming publications on BCtect®.

Parkinson's disease

Based on the collaboration with Harvard Medical School, DiaGenic has developed a diagnostic model for detection of Parkinsons Disease. The results were presented to the Michael J. Fox foundation scientific board demonstrating the successful completion of the project funded by the foundation.

The collection of blood samples from multiple sites supporting development of a CE marked diagnostic tests,

PDtect®, was expanded to several new European sites. As of yearend, 230 patients have been included from Nordic sites.

This study is supported by a research grant from the Norwegian Research Council, through their user directed innovation programme (BIA).

Collection kits

DiAGenic has developed, and are now offering, collection kits containing the necessary equipment and consumables for collecting blood samples from the patients. The collection kits are branded respectively as ADtect® collection kit and BCtect® collection kit. The collection kits increase availability of our tests in clinics and in doctor offices where some of the consumables are not so common. By using the certified consumables in the collection kit, we ensure that the consumables are being used according to our sample collection procedures. The financial margins on the collection kits are in line with the other products from DiAGenic.

Recognition

On 14 October DiAGenic received the Norwegian Research Council's prestigious "Most Innovative Company of the Year" award. The purpose of this award is to encourage innovation in Norwegian business and industry by making innovative companies more visible. More than 1,000 business and industry leaders voted. The award was presented to DiAGenic by Norway's Minister for Trade and Commerce.

Financial review

Costs in Q4 '09 flat from Q4 '08, 35 MNOK in cash at quarter end.

Comparative figures from the corresponding period last year are shown in parentheses.

Profit and loss

Revenues and research grants

DiAGenic had NOK 125k (NOK 0) in operating revenues in fourth quarter 2009 from sales of collection kits. A collection kit contains components used to collect patient blood samples. Operating revenues for full year 2009 totalled NOK 131k (NOK 0).

Research grants are entered net into the accounts (reducing operating costs). Research grants for the fourth quarter 2009 were NOK 1,504k (NOK 1,715k) and for full year 2009 research grants came to NOK 4,312k (NOK 6,225k). The main reason for the drop in research grants is the conclusion of the Alzheimer's project which was supported by The Norwegian Research Council through the FUGE programme.

Operating costs

Total operating costs after deducting research grants were NOK 11,390k (NOK 11,271k) for the fourth quarter. Salaries

and personnel expenses amounted to NOK 6,687k (NOK 5,273k) and other operating costs were NOK 4,527k (NOK 5,999k) for the fourth quarter. The increase in salaries and personnel expenses in fourth quarter 2009 compared with the corresponding period in 2008 is mainly due to an increase in the number of employees and settlement of annual salary review for 2009. A laboratory instrument no longer in use was written down in the quarter and caused write down of NOK 352k (NOK 0). Cost of Goods Sold for fourth quarter 2009 totalled NOK 175k (NOK 0) and relates to consumption of consumables in connection with release of ADtect® and BCtect® in Europe.

Total operating costs after deducting research grants were NOK 39,986k (NOK 36,384k) for full year 2009. Salaries and personnel expenses were NOK 21,275k (NOK 16,965k). The average number of employees increased from 19 in 2008 to 22 in 2009, and is the main reason for increased salaries and personnel expenses. Other operating costs for 2009 amounted to NOK 18,339k (NOK 19,419k). The main reason for the decrease in other operating costs is reduced laboratory costs. For 2009 Cost of Goods Sold were NOK 372k (NOK 0) which relates consumption of consumables in connection with release of ADtect® and BCtect® in Europe as well as write down of obsolete inventory in India.

Balance sheet

Total assets at 31 December 2009 were NOK 46,484k (NOK 38,900k), of which current assets amounted to NOK 42,777k (NOK 35,270k). Cash and cash equivalents accounted for the largest share of current assets at the end of December 2009 with a balance of NOK 35,404k (NOK 27,958k). Total value of inventory was NOK 2,127k (NOK 1,445k) at 31 December 2009.

Equity at 31 December 2009 amounted to NOK 29,373k (NOK 28,412k). Current liabilities at the end of December 2009 was NOK 8,842k (NOK 7,473k) and pension liabilities totalled NOK 2,571k (NOK 1,962k). Other long term liabilities at 31 December 2009 totals NOK 5,698k (NOK 1,054) and includes lease of laboratory equipment and 4 year loan from Innovation Norway in the amount of NOK 5 million. Current interest rate on the loan is 5.75% p.a.

Cash flow

Net cash flow from operating activities for fourth quarter 2009 was NOK -8,244k (NOK -11,347k). The main driver for improved operating cash flow in fourth quarter 2009 is increased accounts payable balances in fourth quarter 2009 compared with the corresponding period in 2008. Financing activities for fourth quarter 2009 includes a private placement for total net proceeds (after deducting issue expenses) in the amount of NOK 31,235k, and acceptance of a NOK 5 million loan from Innovation Norway.

Net cash flow from operating activities for full year 2009 was NOK -35,687k (NOK -31,959k). The year over year variance

is mainly due to higher pre-tax loss in 2009. The company's cash and cash equivalents are held in bank deposits and amounted to NOK 35,404k (NOK 27,958) on 31 December 2009.

Financing and equity

In 2009 two share issues were completed, with total gross proceeds in the amount of NOK 44 million. In July 2009 the Company issued 2.5 million shares for total gross proceeds of NOK 9.35 million and consequently increased share capital by NOK 125k to NOK 2,712k. On 26 November 2009 the Company issued 12.5 million shares at a subscription price of NOK 2.75 per share. The gross proceeds from the issue amounted to NOK 34.4 million. As a result of the issue the share capital has increased by NOK 625k to NOK 3,337k. As resolved by the general meeting on 18 December 2009 participants in the private placement will be allotted 1 warrant for each share allotted at a subscription price of NOK 3.25 per share. The warrants may be exercised up to 30 September 2010.

With consideration to the principle of equal treatment of the Company's shareholders, the general meeting resolved to offer shareholders that did not participate in the private placement, shares at similar terms as in the private placement. On 8 February 2010 the subscription period ended for the subsequent offering, with a total of 3.5 million shares on offer. Approximately 7.8 million subscriptions were received at a subscription price of NOK 2.75 per share. The gross proceeds from the subsequent offering are NOK 9.6 million. For each share allotted in the subsequent offering one warrant will be allotted on equal terms as in the private placement. Provided that all warrants, including private placement warrants, are exercised, the gross proceeds from all warrants will amount to NOK 52 million.

This interim report has been prepared in accordance with IAS 34 and the accounting principles specified in the annual accounts for the year 2008. New standards implemented with effect from 1 January 2009 are amendments to IAS 1, which involves changes to the profit and loss statement and the changes in equity statement such as: changes in equity from transactions with owners are now to be separated from equity changes from transactions by other than owners.

There are no material related party transactions for fiscal year 2009.

Risk factors

The information contained in this report includes certain forward looking statements that address activities, events or developments that the company expects, projects, believes in or anticipates will occur in the future. These statements are based on various assumptions made by the Company which are beyond the Company's control and subject to risk factors and uncertainties. The Company is exposed to a large number of risk factors including, but not limited to, market acceptance of the company's products, necessary approvals from the authorities and the clinical effectiveness of the company's products. Reference is made to the annual report for 2008 and Prospectus dated 21 January 2010 for further information relating to risk factors. As a result of the above-mentioned or other risk factors actual events and the actual result may differ significantly from that indicated in the forward looking statements. For 2010 key risks are considered to evolve around product launch and sales progression of the tests. There is a risk related to need for sufficient capital for future operations until revenues from operations can cover operating costs. This liquidity risk will be reduced to the extent that warrants are exercised.

FUTURE PROSPECTS

- Launch of ADtect® in European countries covered by the Ferrer contract.
- Launch of ADtect® and BCtect® in UK and Ireland
- Strengthen the sales and marketing organization in order to increase distributor support capabilities.
- Proceed with US market entry plan
- Proceed with the companion diagnostics strategy, including marketing of our biomarkers towards the pharmaceutical industry.

PROFIT & LOSS ACCOUNT (figures NOK thousands)	2009	2008	2009	2008
	Q4	Q4	1 Jan-31 Dec	1 Jan-31 Dec
Operating Income				
Other income	125	0	131	0
Total operating revenue	125	0	131	0
Operating expenses				
Cost of goods sold	175	0	372	0
Total cost of goods sold	175	0	372	0
Operating costs				
Wages and social costs	6,687	5,273	21,275	16,965
Depreciation	262	226	966	860
Writedown	352	0	352	0
Other operating costs	3,913	5,772	17,021	18,559
Total other operating costs	11,215	11,271	39,614	36,384
Total operating costs	11,390	11,271	39,986	36,384
Operating profit (loss)	-11,265	-11,271	-39,856	-36,384
Financial income	126	577	738	1,976
Financial expenses	91	57	214	174
Net financial income/expense	35	521	524	1,802
Pre-tax profit (loss)	-11,229	-10,751	-39,332	-34,582
Income tax costs (benefits)	0	0	0	0
NET PROFIT (LOSS)	-11,229	-10,751	-39,332	-34,582
Other comprehensive income	0	0	0	0
Comprehensive income	-11,229	-10,751	-39,332	-34,582
Net profit per share (figures in NOK)	-0.19	-0.21	-0.73	-0.71
Net profit per share after dilution	-0.19	-0.21	-0.73	-0.71
BALANCE SHEET				
(figures NOK thousands)				
			2009	2008
			31 Dec	31 Dec
ASSETS				
Fixed assets				
Goodwill			572	572
Software			1,559	451
Fixed assets			1,576	2,607
Total non-current assets			3,707	3,630
Current assets				
Inventory			2,127	1,445
Trade receivables			141	0
Other receivables			5,105	5,866
Cash and cash equivalents			35,404	27,958
Total current assets			42,777	35,270
TOTAL ASSETS			46,484	38,900
EQUITY AND LIABILITIES				
Equity				
Share capital			3,337	2,587
Paid in equity			65,368	60,407
Retained earnings			-39,332	-34,582
Total equity			29,373	28,412
Provisions				
Pension liabilities			2,571	1,962
Total provisions			2,571	1,962
Other long term liabilities				
Other long term liabilities			5,698	1,054
Total other long term liabilities			5,698	1,054
Liabilities				
Accounts payable			3,307	3,472
Social security, VAT etc. payable			1,950	1,230
Other current liabilities			3,586	2,771
Total current liabilities			8,842	7,473
TOTAL EQUITY AND LIABILITIES			46,484	38,900

CASH FLOW STATEMENT	2009	2008	2009	2008
(figures NOK thousands)	Q4	Q4	1 Jan-31 Dec	1 Jan-31 Dec
Cash flow from operating activities				
Pre-tax profit (loss)	-11,229	-10,751	-39,332	-34,582
Income taxes paid	0	0	0	0
Ordinary depreciation	262	226	966	860
Impairment of fixed assets	352	0	352	0
Fair value granted option rights	102	69	409	432
Loss on sale of fixed assets	0	0	0	0
Change in pension scheme liabilities	98	-32	609	355
Change in inventories, accounts receiveable and accounts payable	1,937	139	-988	290
Change in other short-term receivables and other short-term liabilities	234	-999	2,296	686
<i>Net cash flow from operating activities</i>	<i>-8,244</i>	<i>-11,347</i>	<i>-35,687</i>	<i>-31,959</i>
Cash flow from investment activities				
Proceeds from sale of fixed assets	0	0	0	0
Acquisitions of fixed assets	-268	-445	-1,394	-894
<i>Net cash flow from investing activities</i>	<i>-268</i>	<i>-445</i>	<i>-1,394</i>	<i>-894</i>
Cash flow from financing activities				
Proceeds from share issue	31,235	0	39,883	41,508
Proceeds from new loan	5,000	0	5,000	0
Payment of long term liabilities	-61	-63	-356	-363
<i>Net cash flow from financing activities</i>	<i>36,174</i>	<i>-63</i>	<i>44,527</i>	<i>41,145</i>
<i>Net change in cash and cash equivalents</i>	<i>27,662</i>	<i>-11,854</i>	<i>7,446</i>	<i>8,292</i>
Cash and cash equivalents	35,404	27,958	35,404	27,958

Changes in Equity and Number of Shares:

(figures in NOK/numbers)	Share capital	Share prem reserve	Other reserves	Other equity	Total equity	Number of shares
As at 1st January 2008	2,186,826	18,866,541	0	0	21,053,367	43,736,520
Fair value granted subscription rights	0	0	432,249	0	432,249	0
Increase of capital - 7th May 2008	400,000	41,108,221	0	0	41,508,221	8,000,000
Net loss 1st January - 31st December 2008	0	0	0	-34,581,853	-34,581,853	0
Allocation of net loss	0	-34,149,604	-432,249	34,581,853	0	0
As at 31st December 2008	2,586,826	25,825,158	0	0	28,411,984	51,736,520
Fair value granted subscription rights	0	0	409,322	0	409,322	0
Increase of capital - 8th July 2009	125,000	8,522,885	0	0	8,647,885	2,500,000
Increase of capital - 26th November 2009	625,000	30,610,295	0	0	31,235,295	12,500,000
Net loss 1st Jan. - 31st December 2009	0	0	0	-39,331,572	-39,331,572	0
As at 31st December 2009	3,336,826	64,958,338	409,322	-39,331,572	29,372,916	66,736,520

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