DiaGenic ASA – Interim Report Q2 2010

for early disease detection

DIAGENIC

Pharma and Imaging Companies interactions have progressed

HIGHLIGHTS

- Distributor sales continue to be slow and below expectations
  - BCtect® is promoted by the first clinic in UK and 6 more is starting after summer
- Strength of IP and competitive position drives Pharma and PET imaging companies' interest in DiaGenic. Multiple interactions ongoing in Alzheimers area (ADtect/MCItect)
- New Board of Directors elected – more focus on partnering options for DiaGenic

POST QUARTER HIGHLIGTS

- Notice of Allowance on a family 3 Patent covering 30 countries in Europe

BIOMARKERS FOR DRUG DEVELOPMENT AND COMPANION DIAGNOSTICS

Providing biomarkers for drug development and companion diagnostics is a key strategic focus area for DiaGenic and has been a priority in the last quarter. Within the field of Alzheimer's disease successful development of innovative imaging technology (18F PET imaging) from leading healthcare companies are close to authority submissions (phase III completion). Therapy options and new drugs delivered by large pharmas operating in the field of Alzheimer's drug therapy continues to be challenging with clear demand for higher accuracy in the diagnosis of the disease, both in drug development programs and in clinical practice. This has given rise to intense interest last 2 quarters from both therapy and diagnostic players towards DiaGenic's technology.

World leading Pharma and Imaging companies have expressed strong interest in collaboration with DiaGenic, triggered by our strong IP and development of ADtect®, - the world's first CE-market blood based test for early Alzheimer's disease detection, and our unique competitive advantage and capabilities in developing biomarkers by measuring gene expression in blood. These companies state the need for an easy to use biomarker and finally an IVD approved diagnostic test, such as a blood test, for patient selection for treatment or for qualifying to a high cost PET imaging.

DiaGenic's final aim for such collaborations is companion diagnostic products with the use of DiaGenic's blood based tests together with a new drug or imaging product. DiaGenic recognises the extensive marketing and sales organizations these companies represent.

As a result of the renewed focus, the company has reconstituted a new board of Directors in DiaGenic with extensive experience from international pharmaceutical industry, chaired by Henrik Lund MD PhD, former Vice President in AstraZeneca and vice-chairman Ingrid Wiik M Pharm & MSc, former CEO in the NYSE listed Alpharma Inc. Also 4 of the board members have background from this industry segment (Mr Shah, Mr Kihlström, Ms Holmlund and Ms Blair). Henrik Lund has an additional consultative role for DiaGenic, approved by the general assembly, regarding the partnering activity towards the pharmaceutical industry. DiaGenic has in the quarter reallocated internal resources from IVD sales to manage these projects.

INVITRO DIAGNOSTIC SALES AND MARKETING

Europe - Building the market slowly

The sales of ADtect® and BCtect® through distributors are building slowly and below expectations. The market barriers for direct sales of new innovative diagnostic products using gene expression remain high in some segments. However, marketing feedback from clinicians now clearly support a cost efficient use of diagnostic capabilites by supporting the combined use of blood based tests and high cost imaging products like PET. Therapeutic players developing Alzheimer drug therapy both emphasize correct diagnosis beyond clinical assessment and the need to adress the early stages of cognitive impairment that might lead to Alzheimer's disease.

In order to fully utilize our pan European wholesaler distributor network, endorsement, support and marketing push from large players is instrumental to drive revenue and income. This reflects the quarterly focus on obtaining partnership with industry leading companies.

During the quarter the first clinic, The London Breast Clinic, started marketing the use of BCtect® as a tool to diagnose cancer in women with suspicious mammography findings. Although a niche position, the BCtect attracts interest from other private clinics, media and some concerned patients. After the quarter seven private clinics will offer BCtect® using the same positioning.

In the first quarter DiaGenic and Ferrer signed a distribution agreement for ADtect®. The agreement gives Ferrer, the exclusive right to sell and market ADtect® initially in Germany, Belgium, the Netherlands, Luxemburg, France, Italy, Spain and Portugal followed by Latin America.

Patent overview

17th of August 2010

Countries/Region	Family 1 (WO 98/49342) Expiry year 2017			Family 2 (WO 2004/046382) 2023			Family 3 (WO 2005/118851) 2024		
	G	A	P	G	A	P	G	A	P
US	1	0	2	0	0	1	0	0	1
Europe*	2	0	1	0	0	0	0	0	1
Europe**	0	0	0	1	0	0	0	1	0
Norway	2	0	0	0	0	1	0	0	1
Japan	1	0	0	0	0	1	0	0	1
Canada	0	0	0	0	0	1	0	0	1
Hong Kong	2	0	0	0	0	1	0	0	1
China	0	0	0	0	0	1	0	0	1
Australia	0	0	0	1	0	0	0	0	1
New Zealand	0	0	0	1	0	0	1	0	0
India	0	0	0	1	0	0	0	0	1
South Africa	0	0	0	1	0	0	1	0	0
ARIPO*	0	0	0	0	0	1	0	0	1

G Number of patents granted
A Number of patents accepted by examiner
P Number of patents in progress

Europe*
Designated countries
Austria, Belgium, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, United Kingdom, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, The Netherlands, Portugal and Sweden

Europe**
Designated countries
Austria, Belgium, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, United Kingdom Greece, Ireland, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Portugal, Romania, Sweden, Slovenia, Slovakia and Turkey

ARIPO* (African Regional Intellectual Property Organization)
Designated countries
Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe

List of granted patents/allowed patent applications
US 6720138; EP 0979308; EP 1323728; NO 317247; NO 20040371; JP 4163758; HK 1026003; HK 03109502.9; AU 2003286262; NZ 540750; IN 2701/DELNP/2005; ZA 2005/03797; ZA 2006/10644; HK 1057217; NO 327084; EP 156557431

RESEARCH 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. The independent validation within the CE-study had a limited number of patients included, and was lately extended 130 new cases. This extended study was presented at ICAD 2010 under the title "Impact of Clinical Accuracy in the Development and Validation of a Blood based Test for Early Detection of Alzheimer's Disease". The presentation also discussed the challenge with apparent low accuracy among clinicians on diagnosing Alzheimers, which leads to an underestimation of the tests real accuracy. Included was a study comparing ADtect® with spinal fluid (CSF) biomarkers in AD patients demonstrating >80% agreement. Another presentation from DiaGenic in the Hot Topic Section and was "How closely is the gene expression in blood of Alzheimer's disease patients associated with the known biology of the disease". This presentation links 32 of the genes included in our ADtect® test to known genes associated with Alzheimers or brain and neuronal function. This observation associates for the first time the biology within our blood based diagnostic test with the known disease pathology of AD patients.

Breast Cancer

The CE studies support the claim for use of BCtect® to aid in diagnosis of breast cancer in patients suspected of having cancer, and not as a first line or screening tool for cancer. To develop documentation of the latter use, DiaGenic now has been offered access to blood samples from a recently started clinical study in the UK. In this study 3.000 younger females will be monitored over 2 years for breast cancer development with mammography and blood sampling.

During the first half of 2010 BCtect and its use were presented at the following international congresses;
7th European Breast Cancer Conference, EBCC 2010, "Early breast cancer detection: Validation of a commercially available blood-based gene expression test".
IMPAKT 2009 Breast Cancer Conference, "Validation of a blood based gene expression test, BCtect®, for the detection of breast cancer."

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

The development of a test for early detection of Parkinson's disease is supported by a research grant from the Norwegian Research Council, through their user directed innovation programme (BIA). The ongoing sample collection studies in Europe are progressing, and have reached the gene identification and selection phase. DiaGenic is currently performing whole genome analysis of a subset of samples.

Patents

Earlier in the first half of 2010 DiaGenic received a "Notice of Allowance" for its family 3 patent application in New Zealand, which is the second patent in family 3. The patent has now been granted and covers a set of gene sequences and gene families for diagnosis of breast cancer.

After the second quarter, the company received "Notice of Allowance" in Europe for its family 3 patent application. The claims allowed cover a set of gene sequences for diagnosis of breast cancer. The patent when granted will be valid in 30 European countries. DiaGenic has now more than 100 patents (granted/allowed) within the three patent families, reflecting its position as a world leader among molecular diagnostic companies developing blood based gene expression tests.

The company also filed a new patent application having a short title "Diagnostic gene expression platform" (earliest priority date 10th January, 2010). The invention here relates to oligonucleotide probes, provided in kit form, which may be used to prepare gene expression patterns and identify, diagnose or monitor breast cancer or stages thereof.

FINANCIAL REVIEW

Costs in Q2 2010 down from Q1 2010. NOK 20 million in cash at quarter end.

At current cost levels the company is financed for a period of less than one year. Work is thus proceeding to secure financing of the Company, including but not limited to exercise of warrants and equity financing.

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

Comprehensive income

Revenues and research grants

DiaGenic had NOK 8k operating revenues in the second quarter and for the first half of 2010 (NOK 0 and NOK 5k respectively). Research grants are entered net into the accounts (reducing operating costs). Research grants for the second quarter 2010 were NOK 971k (NOK 1,379k). For the first six months of 2010 research grants totalled NOK 1,834k (NOK 2,121k).

Operating costs

Total operating costs after deducting research grants were NOK 10,525k (NOK 7,577k) for the second quarter. Salaries and personnel expenses amounted to NOK 4,202k (NOK 3,625k) and all other operating costs were NOK 6,253k (NOK 3,890k) for the second quarter. The increase in other operating costs in second quarter 2010 compared with the corresponding period in 2009 is mainly due to less income from research grants (which are entered as a reduction in operating costs) and patent expenditure. Cost of Goods Sold for second quarter 2010 totalled NOK 71k (NOK 62k).

For the first half of 2010 total operating costs after deducting research grants were NOK 22,459k (NOK 19,196k). Salaries and personnel expenses amounted to NOK 10,576k (NOK 9,336k) and all other operating costs were NOK 11,618k (NOK 9,795k) for the first half. The increase in other operating costs in the first half 2010 compared with the corresponding period in 2009 is mainly due to less income from research grants (which are entered as a reduction in operating costs), increased patent expenditure and costs related to stepping up the focus towards the pharmaceutical industry. Cost of Goods Sold for first half of 2010 totalled NOK 265k (NOK 71k) and relates in principal to a provision for obsolescence in inventory.

Financial position

Total assets at 30 June 2010 were NOK 30,249k (NOK 18,080k), of which current assets amounted to NOK 26,888k (NOK 14,097k). Cash and cash equivalents accounted for the largest share of current assets at the end of June 2010 with a balance of NOK 19,812k (NOK 8,101k). Total value of inventory was NOK 2,589k (NOK 2,455k) at 30 June 2010.

Equity at 30 June 2010 amounted to NOK 15,550k (NOK 9,782k). Current liabilities at the end of June 2010 was NOK 6,248k (NOK 5,147k) and pension liabilities totalled NOK 2,977k (NOK 2,302k). Other long term liabilities at 30 June 2010 totals NOK 5,474k (NOK 849k) 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 flows

Net cash flow from operating activities for second quarter 2010 was NOK -12,679k (NOK -9,567k), and NOK -23,674k (NOK 18,849k) for the first half of 2010. The main drivers for the year over year variance in operating cash flows are operating loss. Financing activities for first half of 2010 includes a completed share offering for total net proceeds (after deducting issue expenses) in the amount of NOK 8,431k. The company's cash and cash equivalents are held in bank deposits and amounted to NOK 19,812k (NOK 8,101) on 30 June 2010.

Equity and Financing

In the first half of 2010 the Company issued 3.5 million shares for total gross proceeds of NOK 9.6 million and consequently increased share capital by NOK 175k to NOK 3,512k. As resolved by the general meeting on 18 December 2009 participants in the private placement on 26 November 2009 and the share issue on 22 December 2010 were allotted 1 warrant for each share allotted in the share issues. Subscription price for the warrants are set to NOK 3.25 per share and the warrants may be exercised up to 22 September 2010.

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 2009 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 collaborative agreements with key healthcare players and liquidity risk related to need for sufficient capital for future operations until revenues from operations can cover operating costs.

Future prospects

- Accelerate the companion diagnostics strategy, including marketing of our biomarkers to the pharmaceutical and imaging industry, leading to partnering agreements.
- Gain market acceptance of BCtect® and ADtect® in selected countries in Europe.
- Continue with ADtect® US market entry plan

FINANCIAL STATEMENTS- Q2/2010

STATEMENT OF COMPREHENSIVE INCOME

	Note	2010	2009	2010	2009	2009
(figures NOK thousands)		*Q2*	*Q2*	*1 Jan-30 June*	*1 Jan-30 June*	*1 Jan-30 Dec*
Operating Income						
Other income		8	0	8	5	131
Total operating revenue		**8**	**0**	**8**	**5**	**131**
Operating expenses						
Cost of goods sold	4	71	62	265	71	372
Total cost of goods sold		**71**	**62**	**265**	**71**	**372**
Operating costs						
Wages and social costs		4 202	3 625	10 576	9 336	21 275
Depreciation		235	226	470	451	966
Writedown		0	0	0	0	352
Other operating costs		6 018	3 664	11 148	9 344	17 021
Total other operating costs		**10 454**	**7 515**	**22 194**	**19 130**	**39 614**
Total operating costs		**10 525**	**7 577**	**22 459**	**19 201**	**39 986**
Operating profit (loss)		**-10 518**	**-7 577**	**-22 451**	**-19 196**	**-39 856**
Financial income		177	167	401	456	738
Financial expenses		194	50	300	95	214
Net financial income/expense		**-16**	**116**	**101**	**361**	**524**
Pre-tax profit (loss)		**-10 534**	**-7 460**	**-22 350**	**-18 835**	**-39 332**
Income tax costs (benefits)		0	0	0	0	0
Net profit (loss)		**-10 534**	**-7 460**	**-22 350**	**-18 835**	**-39 332**
Other comprehensive income		0	0	0	0	0
Comprehensive income		**-10 534**	**-7 460**	**-22 350**	**-18 835**	**-39 332**
Net profit per share (figures in NOK)	5	-0.15	-0.14	-0.32	-0.36	-0.73
Net profit per share after delution	5	-0.15	-0.14	-0.32	-0.36	-0.73

STATEMENT OF FINANCIAL POSITION

	Note	2010	2009	2009
(figures NOK thousands)		*30 June*	*30 June*	*31 Dec*
Assets				
Fixed assets				
Goodwill		572	572	572
Software		1 391	1 255	1 559
Fixed assets		1 398	2 155	1 576
Total non-current assets		**3 361**	**3 983**	**3 707**
Current assets				
Inventory	4	2 589	2 455	2 127
Trade receivables		8	0	141
Other receivables		4 480	3 542	5 105
Cash and cash equivalents		19 812	8 101	35 404
Total current assets		**26 888**	**14 097**	**42 777**
Total assets		**30 249**	**18 080**	**46 484**
EQUITY AND LIABILITIES				
Equity				
Share capital	2	3 512	2 587	3 337
Paid in equity	2	34 388	26 030	26 036
Retained earnings		-22 350	-18 835	0
Total equity		**15 550**	**9 782**	**29 373**
Provisions				
Pension liabilities		2 977	2 302	2 571
Total provisions		**2 977**	**2 302**	**2 571**
Other long term liabilities				
Other long term liabilities		5 474	849	5 698
Total other long term liabilities		**5 474**	**849**	**5 698**
Liabilities				
Accounts payable		2 900	2 609	3 307
Social security, VAT etc. payable		1 451	1 056	1 950
Other current liabilities		1 897	1 482	3 586
Total current liabilities		**6 248**	**5 147**	**8 842**
Total equity and liabilities		**30 249**	**18 080**	**46 484**

CASH FLOW STATEMENTS

Note	2010	2009	2010	2009	2009
(figures NOK thousands)	*Q2*	*Q2*	*1 Jan-30 June*	*1 Jan-30 June*	*1 Jan-30 Dec*
Cash flow from operating activities					
Pre-tax profit (loss)	-10 534	-7 460	-22 350	-18 835	-39 332
Income taxes paid	0	0	0	0	0
Ordinary depreciation	235	226	470	451	966
Impairment of fixed assets	0	0	0	0	352
Fair value granted option rights	48	102	96	205	409
Loss on sale of fixed assets	0	0	0	0	0
Change in pension scheme liabilities	203	170	406	341	609
Change in inventories, accounts receiveable and accounts payable	418	152	-735	-1 872	-988
Change in other short-term receivables and other short-term liabilities	-3 050	-2 757	-1 562	862	2 296
Net cash flow from operating activities	*-12 679*	*-9 567*	*-23 674*	*-18 849*	*-35 687*
Cash flow from investment activities					
Proceeds from sale of fixed assets	0	0	0	0	0
Acquisitions of fixed assets	-16	-494	-124	-804	-1 394
Net cash flow from investing activities	*-16*	*-494*	*-124*	*-804*	*-1 394*
Cash flow from financing activities					
Contribution of share capital	-316	0	8 431	0	39 883
Proceeds from new loan					
Payment of long term liabilities	-98	-88	-224	-204	-356
Net cash flow from financing activities	*-414*	*-88*	*8 207*	*-204*	*39 527*
Net change in cash and cash equivalents	*-13 109*	*-10 150*	*-15 591*	*-19 857*	*2 446*
Cash and cash equivalents	**19 812**	**8 101**	**19 812**	**8 101**	**35 404**

STATEMENT OF CHANGES IN EQUITY AND NUMBER OF SHARES:

(figures in NOK/numbers)	*Note*	*Share capital*	*Share prem. reserve*	*Other reserves*	*Other equity*	*Total equity*	*Number of shares*
As at 1st January 2009		**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	9 225 000	0	0	9 350 000	2 500 000
Transaction cost		0	-702 115	0	0	-702 115	0
Increase of capital - 26th November 2009		625 000	33 750 000	0	0	34 375 000	12 500 000
Transaction cost		0	-3 139 705	0	0	-3 139 705	0
Comprehensive income 01.01.-31.12.2009		0	0	0	-39 331 572	-39 331 572	0
Allocation of comprehensive loss		0	-38 922 250	-409 322	39 331 572	0	0
As at 31st December 2009		**3 336 826**	**26 036 088**	**0**	**0**	**29 372 916**	**66 736 520**
Fair value granted subscription rights		0	0	96 042	0	96 042	0
Increase of capital - 22nd February 2010	2	175 000	9 450 000	0	0	9 625 000	3 500 000
Transaction cost		0	-1 193 795	0	0	-1 193 795	0
Comprehensive income 01.01.-30.06.2010		0	0	0	-22 349 762	-22 349 762	0
As at 30th June 2010		**3 511 826**	**34 292 293**	**96 042**	**-22 349 762**	**15 550 401**	**70 236 520**

STATEMENT BY THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

We confirm to the best of our belief that the financial statements for the first half of 2010, that have been prepared in accordance with IAS 34 – Interim Reporting, gives a true and fair view of the Company's assets, liabilities, financial position and results of operation. We also declare, to the best of our belief, that the half-year report provides a fair view of the information required under § 5-6 (4) of the Norwegian Securities Act.

Oslo, 18th of August 2010

Henrik Lund
Chairman

Ingrid Wiik
Deputy Chairman

Maria Holmlund
Board member

Mina Blair
Board member

Atul Shah
Board member

Praveen Sharma
Board member

Gustav Ingmar Kihlström
Board member

Erik Christensen
Managing Director

Note 1: Presentation

The financial information is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). This financial information should be read together with the financial statements for the year ended 31st of December 2009 prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies used and the presentation of the Interim Financial Statements are consistent with those used in the latest Annual Financial Statements.

The preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Note 2: Going concern

The financial statement is presented on the going concern assumption under International Financial Reporting Standards. Accordingly, the financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts, the amounts and classification of liabilities, or any other adjustments that might result should the Company be unable to continue as going concern.

As per the date of this report the Company does not have sufficient working capital for its planned business activities over the next twelve month period. Proceeds from operating revenue are not expected to be adequate in order to cover necessary funding requirement for the coming twelve month period.
In February 2010 the Company carried out a share issue with gross proceeds of NOK 9.6 million. In accordance with the resolution at the Extraordinary General Meeting on 18th of December 2009, the Company issued a total of 16 million warrants in February 2010. Each warrant holds the right to subscribe for one new share in the Company at a subscription price of NOK 3.25. The warrants may be exercised up to and including 22nd of September 2010. Upon full exercise of the warrants as mentioned above, the company will have sufficient working capital for the next 12 months at today's cost levels. Targeted efforts are pursued in order for the warrants to be exercised. If the warrants are not exercised it might lead to needs for further refinancing of the Company. Sources of funding include loans, equity financing and research funding. The Board of Directors and the management team are positive that efforts to secure further funding can be completed. The Board of Directors confirmed on this basis that the going concern assumption is valid, and that financial statements are prepared in accordance with this assumption.

Note 3: Related parties

Transactions with related parties by way of consultancy services took place in the quarter and in the first half of 2010. All transactions and agreements are made on commercial terms from the market for goods and services.

Other transactions

Transactions with companies that have connections to related parties are conducted at market terms, based on the principle of arm's length.

Note 4: Inventory – figures in thousand NOK

	30 June 2010	30 June 2009
Inventory	2,589	2,455

Inventory is valued at lower of cost and net selling price. Inventory is valued to cost. A provision for obsolescence resulted in a TNOK 107 reduction in inventory value and increased Cost of Goods Sold in the first half of 2010.

Note 5: Earnings per share - figures in NOK

The following table shows the changes in number of shares in first half-year of 2010:

	Ordinary shares
Number of shares as of 1st of January	66 736 520
Share issue – paid 22.02.2010	3 500 000
Number of shares as of 31st of December	70 236 520
Average number of shares per 30th of June	69 211 658

Note 6: Events after the balance sheet date

At the date of this report, there are no events after the balance sheet date which will affect the company's position on the balance sheet date which, or which are essential for the company's future financial position.

DiaGenic ASA

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