

DiAGENiC

**ANNUAL REPORT 2013**

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## Report from the Board of Directors

### **Highlights**

*Disappointing results from research and development*

*All R&D activities has been suspended*

*Organisational downsizing implemented*

*Financing secured after the end of the year*

### **Research and development**

As DiaGenic entered 2013, the Alzheimer Disease (AD) portfolio in development consisted of the following product candidates:

1. ADtect® – to detect mild to moderate AD in the dementia stage and for the differential diagnosis of AD versus other forms of dementia.
2. MCItect® – to detect patients with amnesic Mild Cognitive Impairment (MCI) who will develop AD within two years.
3. AMYtect™ – to detect patients with brain amyloid; test correlating with amyloid PET imaging. Developed in collaboration with GE Healthcare, who has an FDA approved amyloid PET tracer.

In 2013, DiaGenic experienced significant setbacks in product development, with a failed validation study for MCItect® and disappointing results from an exploratory study for AMYtect. More details on the product candidates are described below:

#### **MCItect®**

On 29 July 2013, DiaGenic announced that the validation study for MCItect® had failed to reach the study goals. Consequently, the planned CE marking and US trials for the current version of MCItect® were cancelled. Following the validation study failure, DiaGenic initiated a re-calibration study for a modified version of MCItect®, based on samples in the biobank from a larger and more ethnically diverse patient population. The total prediction accuracy from the re-calibration study was 75%, with 75% sensitivity and 73% specificity. The required investment and development work, should MCItect be developed into a commercial product, is expected to be substantial. So is also the inherent risk of developing novel concepts into commercial products. After the end of 2013, DiaGenic has suspended any further development work on MCItect® and the board will evaluate alternative development scenarios for the Company which may or may not include further development of MCItect®.

#### **AMYtect™**

On 23 January 2014, DiaGenic announced final results from an exploratory study that examines the agreement between gene expression in blood and brain amyloid PET imaging. The primary goal of

the exploratory study was to identify a gene expression biomarker which detects whether an individual has normal or elevated levels of amyloid in the brain as determined by brain amyloid PET imaging. In a patient population of 144 patients, of which 118 were diagnosed with suspected mild cognitive impairment and 26 were healthy controls, a gene expression biomarker was identified that demonstrated an agreement of 69% with brain amyloid PET imaging. After the end of 2013, DiaGenic has suspended any further development work on AMYtect® and the collaboration with GE Healthcare has lapsed after completion of the study. The board will evaluate alternative development scenarios for the Company which may or may not include further development of AMYtect®.

#### **ADtect®**

With reference to the interim report for the second quarter 2013 the development of ADtect® was halted due resource constraints pending completion of the AMYtect™ study. In the fourth quarter, DiaGenic initiated a process to restructure the Company and/or divest all or selected company assets, and it was also decided not to pursue any further development of a new version of ADtect®. In addition, all commercial activities related to the CE marked ADtect® were terminated.

#### ***Business strategy***

Following the setbacks in product development, DiaGenic has suspended any further research and development activities until the Company has decided on the way forward. The Board and Management are reviewing the Company's strategic options and will make a decision on the future of its remaining corporate and technological assets over the coming months. Steps have also been taken to address the Company's equity position, organizational structure and cost base.

#### ***Organisation and environment, staff and management***

In 2013 DiaGenic carried out organizational downsizing through three rounds of redundancies. In October 2013 all of the remaining employees were given notice of termination. DiaGenic had 11 employees at the end of the year, compared to 17 employees last year. All of the 11 employees had been given notice of termination. Of the company's 11 employees at year end, 5 are women, one of whom was head of production and laboratory and one whom was head of project management. Women and men have equal rights for all types of assignments and promotions. All employees were employed at the company's premises in Oslo, which included both offices and a laboratory. After the end of the year the laboratory has been closed and the Company has moved to new office facilities.

Under the prevailing circumstances with three rounds of downsizing, the working environment is considered to be good. No accidents or injuries were recorded in 2013. Sick leave in 2013 totalled 2% of working hours which is similar to the figure for 2012.

At the Annual General Meeting on 23 May 2013 Hanne Skaarberg Holen was elected as chairman of the board and Patrik Dahlen, Ulrica Slåne and Tom Pike were elected as board members. At the Extraordinary General Meeting on 22 November a new board was elected, which consisted of Hanne Skaarberg Holen as chairman, Øystein Stray Spetalen and Martin Nes as board members.

The company does not pollute the external environment.

### ***Corporate governance***

DiaGenic's board and management are committed to maintaining high ethical standards and work for good corporate governance. The company believes that good corporate governance helps to build confidence among shareholders, customers and other stakeholders, thereby contributing to best possible value creation over time. The core of the company's corporate governance is equal treatment of all shareholders. The company has only one class of shares and all shareholders have equal rights. The company's shares are listed and freely transferable. DiaGenic's corporate governance report is based on the Norwegian Code of Practice for Corporate Governance dated 23 October 2012, which can be found on page 9-14 of the annual report and on the Company web page.

### ***Corporate social responsibility***

DiaGenic's board and management are committed to maintaining high ethical standards and have implemented guidelines with regard to values and ethics for which the purpose is to create a sound corporate culture and to preserve the integrity of DiaGenic by helping employees to promote standards of good business practice. Raising awareness of the guideline has been the Company's main actions with regards in this area. The Company is not aware of any breach of the implemented guideline. The Company does not have any other guidelines or actions with regard to Corporate Social Responsibility due to very limited size and resources.

### ***Shareholders and financing***

DiaGenic shares are listed on the Oslo Stock Exchange under the ticker "DIAG". At the end of 2013, the company had 8,159,873 outstanding shares, divided across 2,409 shareholders. Nominal value is NOK 0.20 per share.

On the basis of the fully underwritten Rights Issue of NOK 50 million, as resolved by the extraordinary general meeting on 25 February 2014, the company estimates that it has sufficient working capital for the next 12 months from the balance sheet date. The completion of the Rights Issue is conditional upon registration of the increased share capital in the Norwegian Register of Business Enterprises. In accordance with Section 3(3a) of the Norwegian Accounting Act, the board therefore confirms that the requirement for continued operation is in place and that the annual accounts have been prepared in accordance with this requirement.

The Company put considerable emphasis on providing the shareholders and investors in general with timely, relevant new information regarding the Company and its activities in compliance with prevailing laws and regulations. DiaGenic is committed to increase awareness of the stock in Norway and abroad. Its list of shareholders has a considerable number of Nordic institutional investors and private investors.

### ***Finance***

#### **Comprehensive income**

#### ***Income and research grants***

DiaGenic had operating income of NOK 157 thousand in 2013 (NOK 126 thousand in 2012). Operating revenues for 2013 and 2012 relates to pilot sales of ADtect® in Spain. Research grants are entered

net into the accounts (reducing other operating costs). Research grants in 2013 were NOK 2,274 thousand (NOK 3,160 thousand in 2012).

### ***Operating costs***

Total operating costs net of government grants amounted to NOK 37,342 thousand in 2013 (NOK 42,078 thousand in 2012). Of this, salaries and personnel expenses amounted to NOK 20,843 thousand (NOK 25,216 thousand). The reduction in salaries and personnel expenses year over year is mainly due to reduced pension cost and reduced salaries from lower headcount, partly offset by an accrual for severance pay. The average staff size decreased from 19 in 2012 to 15 in 2013. Of the total operating costs for 2013, depreciation and amortisation, impairment of intangible assets, write-downs and other operating costs amounted to NOK 15,945 thousand (NOK 16,194 thousand). Impairment testing of tangible and intangible assets concluded with a decision to perform write down of tangible assets to estimated realizable values and intangible assets has been adjusted to nil.

Net financial income amounted to NOK 553 thousand in 2013 against NOK 1,051 thousand in 2012.

Other comprehensive income of NOK 1,030 thousand (NOK -4,974 thousand in 2012) relates to actuarial losses of the Company's pension plan. Comprehensive income for 2013 amounted to NOK -37.7 million, compared to NOK -35.9 million in 2012.

The Board propose that the loss for 2013, which totals NOK 36.6 million, will be covered by transfers from the share premium and other reserve.

### **Financial position**

Total assets stood at NOK 15,224 thousand on 31 December 2013 (NOK 26,546 thousand), of which current assets amounted to NOK 14,889 thousand (NOK 24,277 thousand). Cash accounted for most of the current assets and stood at NOK 11,492 thousand (NOK 18,446 thousand) at the end of December 2013. Impairment testing of tangible and intangible assets concluded with a decision to perform write down of tangible assets to estimated realizable values and intangible assets has been adjusted to nil. The value of inventory has also been written down to nil per 31 December 2013 (NOK 924 thousand).

On 31 December 2013, equity was NOK 8,675 thousand (NOK 16,449 thousand). On 31 December 2013, current liabilities were NOK 6,549 thousand (NOK 8,803 thousand). The pension plan is assumed to cease per 31 December 2013, and the estimated surplus funds in the pension plan are not recognized in the balance sheet as it belongs to the members of the pension plan. Pension liabilities per 31 December 2012, after implemented adjustments to the accounting standards for IAS 19 Employee benefits, amounted to NOK 1,294 thousand. The loan to Innovation Norway, which had a current debt balance of is NOK 1,667 thousand at 31 December 2012, was redeemed in 2013.

Based on the financial situation of the Company, the Board propose not to pay dividends for 2013.

DiaGenic has not recognised deferred tax assets because of the uncertainty as to the company's ability to take advantage of this tax benefit.

In 2013, the company did not capitalise development costs and the book value of capitalised development costs as at 31 December 2012 has been written down to nil (NOK 553 thousand).

## **Cash flows**

Net change in cash for 2013 amounted to NOK -6,953 thousand (NOK -40,413 thousand). The reduced loss before tax from 2012 to 2013 is the main driver for the change cash flow from operating activities in 2013 compared to 2012. There are no significant deviations between loss before tax and net cash flow from operating activities. The 2013 cash flow from operating activities was NOK -35,493 thousand (NOK -37,644 thousand). Net cash flow from financing in 2013 was NOK 28,531 thousand (NOK -2,626 thousand). The company's liquid assets are held in bank deposits and amounted on 31 December 2013 to NOK 11,492 thousand (NOK 18,446 thousand).

## ***Risk***

DiaGenic has since its inception been focused on the development of diagnostic tests based on peripheral gene expression for early detection of diseases. However, the development has so far been unsuccessful and on 28 October 2013 DiaGenic announced that its board and management will seek to restructure the Company. On 25th February the extraordinary general meeting resolved the rights issue for which the use of proceeds is to consider and pursue growth and/or development within its existing business or through new opportunities within biotech/pharmaceuticals or other areas. The description of the risk factors that follows is based on what DiaGenic has done historically, which may or may not be representative of the business description going forward.

Research and development of new diagnostic tests all the way to regulatory approval and commercialisation is a risky and capital-intensive process. The business model is characterised by high risk and there is no guarantee that strategic deals or trade sale can be performed at terms acceptable to the shareholders, or that long term funding for in house development can be achieved, or that projects will achieve its planned end points and gain market acceptance.

The company has three types of risk factors that must be addressed: operational, financial and marketing.

DiaGenic has actively worked to create the best possible conditions for implementing projects and other operations in a balanced manner with regard to risk. Despite continuous efforts to balance the risk, there will always be factors which the company will not be able to influence. For example, there is a significant risk in connection with developing diagnostic tests. The risk exists through the entire course of development, even after regulatory approval has been given, and may be caused by problems related to clinical effectiveness, product robustness, patient safety and patent protection.

DiaGenic's products address market opportunities where current diagnostic methods are based on concepts, technologies and procedures which are fundamentally different. The sale and marketing of new products involves significant risks. This relates to regulatory issues as well as to uncertainty about market conditions, including reimbursement.

The company's financial risks include liquidity risk, credit risk, interest rate risk and currency risk, which are discussed in greater detail in Note 21 to the annual financial statements. The most prominent financial risk is considered to be liquidity risk, related to the risk to obtain sufficient capital for continued operations. There is also a more detailed review of operational and market risk factors.

### Outlook

- Secure financing of the Company by finalizing the rights issue as resolved by the general meeting on 25 February 2014.
- Continue the restructuring process of DiaGenic to enable the Company to pursue growth and development in its existing business, through new opportunities within biotech/ pharmaceuticals or other areas

Oslo, 20th March 2014



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Hanne Skaarberg Holen  
Chairman of the Board



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Øystein Stray Spetsten  
Board member



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Martin Nes  
Board member



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Ruben Ekbråten, Acting CEO



## **Corporate governance**

### ***1. Report on corporate governance***

The Norwegian recommendations on good corporate governance are intended to strengthen confidence in listed companies and thereby contribute to the best possible value creation over time - for the benefit of shareholders, employees and other stakeholders. Observance of the recommendations is based on the “comply or explain” principle. DiaGenic’s board and management has resolved as a main principle to follow the recommendations of the Norwegian Corporate Governance Code to the extent not considered unreasonable due to the company size. The Norwegian Code of Practice for Corporate Governance can be found on: [www.nues.no](http://www.nues.no). DiaGenic will provide explanations of non-compliance of the code if not fully implemented.

DiaGenic has established corporate values, and the board has adopted guidelines for ethics. The guidelines mean that the company’s board and employees should have a high ethical standard in carrying out their work and their duties. DiaGenic’s guidelines for values and ethics concern the company’s dealings with various interest groups, but the company has not established guidelines specifically for social responsibility.

### ***2. Business***

The objects clause in the Articles of Association provides as follows: The Company’s business is to conduct business, invest in and/or own rights in biotech/pharmaceuticals or other areas. DiaGenic has since its inception been focused on the development of diagnostic tests based on peripheral gene expression for early detection of diseases. However, the development has so far been unsuccessful and on 28 October 2013 DiaGenic announced that its board and management will seek to restructure the Company. On 25th February the extraordinary general meeting resolved the rights issue for which the use of proceeds is to consider and pursue growth and/or development within its existing business or through new opportunities within biotech/pharmaceuticals or other areas. The description of the Company’s business is based on what DiaGenic has done historically, which may or may not be representative of the business description going forward. The company’s business strategy is described in the annual report under “report from the board of directors”.

### ***3. Capital and dividends***

DiaGenic has not yet generated a positive cash flow from its operations. The business is financed through equity, government grants and borrowing. Particular emphasis is being placed on securing finance through the stock market until the company generates a positive cash flow from its operations. The Company does not expect to pay any dividend until the financial situation justifies such transactions.

The Board has a proxy to increase the share capital by up to NOK 160,000 by issuing up to 800,000 new shares, each with a nominal value of NOK 0.20. The pre-emptive rights of the existing shareholders under section 10-4 of the Public Limited Liabilities Act may be set aside and the authorisation is valid until the Annual General Meeting in 2014. The authorisation does not comprise a decision to merge according to the Public Limited Liabilities Act section 13-5. The authorisation shall only be used to issue shares in connection with strategic partnerships for the Company.

#### ***4. Equal treatment of shareholders and transactions with related parties.***

Equal treatment of all shareholders is at the heart of the company's corporate governance. All shares in DiaGenic carry one vote and the shares are freely transferable. The company has only one share class and all shareholders have equal rights. Existing shareholders are given priority in the case of share capital increases, unless special circumstances warrant deviation from this principle. Such a deviation would then be justified. The company has no authorisations to repurchase its own shares.

Transactions between the company and related parties, including members of the board or persons employed by the company, either personally or through companies belonging to related parties, must be based on terms which can be achieved in an open, free and independent market or based on a third-party valuation. Major transactions with related parties must be approved by the General Meeting. The board will report in its Annual Report, and prospectus, the volume of any transactions with related parties.

#### ***5. Free transferability.***

The company's shares are listed and are freely transferable. The Articles of Association contain no restrictions on transferability.

#### ***6. General Meeting***

Shareholders can exercise their rights in the General Meeting and the company wants the General Meeting to be a meeting place for shareholders and the company's board. The company will make it possible for as many shareholders as possible to participate in the General Meeting. Meeting documents will be sufficiently detailed and published on the company's website not later than 21 days before the General Meeting. The company endeavours to ensure that meeting documents are detailed enough to enable shareholders to take a view on all matters to be considered. The deadline for notice of attendance at General Meetings is set as close to the meeting as possible.

Shareholders who are unable to participate themselves may vote by proxy and a person can also be appointed to vote for the shareholders as a proxy. The proxy form should, as far as possible, be so designed that it can be used for voting on each matter to be considered and on candidates for election.

The company will encourage board members to attend General Meetings. In addition, members of the Election Committee and external auditors are invited to attend the General Meeting. In 2013, the board's chair was represented at the General Meetings, in addition to the chair of the Nomination Committee and the auditor.

In accordance with the Articles of Association, the General Meeting is chaired by the board chair if no one else is elected chair. Minutes of General Meetings are published through stock exchange notifications and are thus made available on the company's website.

#### ***7. Nomination Committee.***

In accordance with DiaGenic's Articles, the General Meeting has established a Nomination Committee which consists of three members. Members must be shareholders or representatives of shareholders. The Nomination Committee prepares and proposes the nomination of board members

to the General Meeting, and gives recommendations on director's fees. No board members or representatives of the management are members of the Nomination Committee. Nomination Committee members are elected for a term of one year at a time.

Names of members of the Nomination Committee and the deadline for submitting proposals to the Committee can be found on the company's website.

### ***8. Corporate Assembly and board, composition and independence***

DiaGenic has chosen not to have a corporate assembly due to the limited size of the company and the small number of employees. The functions of the corporate assembly have been transferred to the General Meeting and the board.

The board and board chair are elected by the General Meeting. The board is composed so as to cover in the best way possible the interests of all shareholders and the company's need for expertise, capacity and balanced decision-making and so as to function as an effective collegiate body. The board is elected for a term of one year at a time and board members may stand for re-election. The CEO is not a member of the board. According to the Articles, DiaGenic's board must consist of 3-7 members. From the 2013 Annual General Meeting and to the Extraordinary General Meeting on 22 November, the board has had four members, two women and two men. Since the Extraordinary General Meeting on 22 November, the board has had three members, one woman and two men.

All Board members are considered to be independent from the company's day-to-day management and important business connections. The company's shares are widely held and no controlling shareholders (i.e. shareholder holding in excess of 10 % of the issued shares). The board may assess the day-to-day management and significant contracts entered into by the company on an independent basis.

The composition of the board members expertise has changed during 2013, from expertise within life science to experience with restructuring to reflect the main challenges facing the Company. The board's current composition is set out in the Annual Report, together with key information which highlights the directors' expertise. The shareholdings of directors and senior management have been presented in the notes to the annual accounts.

### ***9. The board's work***

A plan for the board's work is prepared every year. The board has also adopted board instructions and instructions for the CEO, detailing the work and responsibilities of the board and the CEO respectively. The board ensures that business is properly organised and that plans and budgets are prepared for the company's business. The board plan and rules of procedure ensure that the board is kept informed about the company's financial position, and that the business, asset management and accounts are subject to control.

The chair ensures that the board functions well and fulfils its obligations. The chair chairs board meetings and prepares board matters in cooperation with the Chief Executive Officer. The chair keeps minutes from board meetings and the minutes are approved and signed by all board members. In addition to ordinary board meetings, strategy meetings devoted to an in-depth assessment of major challenges and opportunities for the company are held on an annual basis. The board manages the company's strategic planning, and assesses its strategy regularly.

The board appoints a deputy chair who can act when the chair either cannot or should not chair the board's deliberations.

The board has considered establishing an Audit Committee and a Remuneration Committee. Because of its size, the company has not used formal board committees so far. Thorough and independent assessment of financial reporting and the remuneration of senior management have been ensured by matters being considered by all the board members, with all members being considered independent of the day-to-day management.

The board evaluates its composition and board work at least once a year.

#### ***10. Risk management and internal control***

Risk management and internal control are important to DiaGenic in enabling it to achieve its strategic objectives and form an integral part of the management's decision-making processes and are key elements of organisation, procedures and systems. Requirements for risk management and internal control have been evaluated by the management and board, and a set of appropriate systems established. In connection with this, emphasis is also placed on ensuring that the company operates within accepted ethical guidelines and values, including guidelines on how employees can communicate matters relating to illegal or unethical behaviour on the company's part to the board. DiaGenic believes that values and control procedures meet social responsibility requirements in relation to the scope and nature of its business, but has not yet developed guidelines specifically for social responsibility.

DiaGenic operates in an industry which is well-regulated, which is why risk management is a natural part of the company's operations. The company's commercial products are covered by a quality system which covers all aspects of the organisation that may affect products. The company has also identified, mapped and documented significant risk factors, whether operational, commercial or financial risks. These risk factors are described in more detail in the notes to the annual accounts.

The company's financial reporting complies with the laws and regulations which apply to a company listed on the Oslo Stock Exchange. In addition to external laws and regulations, there are basic procedures and guidelines related to financial reporting. At the end of every quarter the Board of Directors review the financial statements. In addition the Board of Directors review the Company's financial position through frequent reporting and review in Board meetings. At least once a year the board assesses the company's risk profile in terms of strategic, operational and transaction-related factors.

As a listed company, there is a special responsibility in connection with requirements relating to insider trading rules, the provision of information and share trading. DiaGenic has guidelines which ensure that board members, senior management and other insiders follow relevant legislation and rules with regard to insider trading in the company's shares.

#### ***11. Remuneration of the board***

DiaGenic's General Meeting determines the remuneration of the Board based on a recommendation by the Nomination Committee. Remuneration of the Board must reflect the board's expertise, time and the complexity of the business as well as the fact that DiaGenic is a listed company.

Remuneration is paid in the form of a fixed annual amount and is not tied to the company's performance or share price.

Information on all remuneration paid to individual directors and the board chair is provided in the Annual Report.

## ***12. Remuneration of senior management***

The board prepares guidelines for the remuneration of the company's senior management. Guidelines for, and elements of, the remuneration of Chief Executive Officer and other senior executives are set out in the notes to the annual accounts. Guidelines for the remuneration of senior management must be submitted to the General Meeting. The board considers that the remuneration of the senior management is at market levels and that there are no unreasonable elements, for example, in connection with resignation or termination of employment.

Incentive schemes for the Chief Executive Officer and other employees are set out in the notes to the annual accounts. Incentive schemes cover all non-temporary employees, and have been submitted in detail for the General Meeting's approval. Incentive schemes for employees have been so designed as to foster long-term positive ties with the company and a shared interest with the shareholders, without contributing to short-term employment which can be harmful to the company. The incentive scheme has a cap on the size of the remuneration which share options can bring. As all employees of DiaGenic have been given notice of termination per October 2013, all share options have lapsed. For more details on the share option programme see note 7 in the financial statements in the annual report.

## ***13. Information and communication***

The company publishes a financial calendar on an annual basis, including the dates of General Meetings and dates for the presentation of interim reports. All press releases and stock exchange notifications are posted on the company's website [www.diagenic.com](http://www.diagenic.com). Stock exchange notifications are also available at [www.newsweb.no](http://www.newsweb.no).

The company complies with the laws and practice related to the disclosure requirement, including the requirements for equal treatment. The ability to give information about the company in addition to the published reports will be limited in accordance with stock exchange regulations. Any inside information will only be given to persons other than primary insiders in cases where the company considers it necessary, and then on the basis of insider declarations and the listing of insiders. The insider lists are maintained by the Chief Executive.

DiaGenic wishes to maintain a good, open dialogue with its shareholders, analysts and the stock market in general. The company holds regular presentations for investors, analysts and shareholders. The company's Chief Executive is responsible for information and investor relations. The Chief Executive and board chair may both speak on behalf of the company and delegate such authority as is appropriate in relevant cases.

## ***14. Company takeovers***

In the event of a takeover, the company's board and management will endeavour to ensure equal treatment of shareholders. The board will ensure that shareholders are given information and time

to evaluate the bid and will endeavour to provide a recommendation to shareholders as to whether the bid should be accepted or not. The board and management will not hinder or obstruct take-over bids. The board and management will also ensure that there are no unnecessary disruptions to the business in the event of a takeover. Moreover, such a situation will be governed by the provisions applicable to listed companies.

### **15. Auditor**

The auditor attends the board meeting at which the annual financial statements are reviewed. The auditor presents an annual audit plan to the board.

The board holds at least one annual meeting with the auditor without the presence of the CEO or other members of the day-to-day management.

The board has established guidelines for the management's use of the auditor for services other than auditing. The notes to the accounts state that use of the auditor for other services has been limited.

The fee payable to the auditor is specified in note 5 to the annual financial statements and is categorised in statutory audit and other services. Proposals for fees for statutory audit are submitted by the board to the General Meeting for approval.

# **Financial statements DiaGenic ASA**

# DiaGenic ASA

## Statement of comprehensive income

NOTE	OPERATING INCOME AND OPERATING EXPENSES	2013	2012
3	Operating income	156 940	126 411
	<b>Total operating income</b>	<b>156 940</b>	<b>126 411</b>
	Cost of goods sold	554 274	667 409
5,7,17	Salaries and personnel expenses	20 842 998	25 216 004
12,13,	Depreciation and amortisation	731 087	895 122
12	Impairment of tangible and intangible assets	1 194 804	572 437
4,5,9,18	Other operating expenses	14 019 200	14 726 843
	<b>Total operating expenses</b>	<b>37 342 364</b>	<b>42 077 815</b>
	<b>Operating profit / (loss)</b>	<b>-37 185 424</b>	<b>-41 951 404</b>
	<b>FINANCIAL INCOME AND FINANCIAL EXPENSES</b>		
21	Interest income	563 640	1 274 863
9,21	Agio	179 085	52 211
21,21	Interest expense	51 004	150 920
9,21	Disagio	138 898	125 411
	<b>Net financial items</b>	<b>552 823</b>	<b>1 050 743</b>
	<b>Pre-tax profit / (loss)</b>	<b>-36 632 601</b>	<b>-40 900 661</b>
10	Tax for the year	0	0
	<b>Net profit / (loss)</b>	<b>-36 632 601</b>	<b>-40 900 661</b>
	<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</b>		
	Remeasurement gains/(losses) on defined benefit plans	1 029 648	-4 973 508
	<b>Comprehensive income profit / (loss)</b>	<b>-37 662 249</b>	<b>-35 927 153</b>
	<b>TRANSFER AND ALLOCATIONS</b>		
	Transferred to retained earnings	-37 662 249	-35 927 153
	<b>Total transfer and allocations</b>	<b>-37 662 249</b>	<b>-35 927 153</b>
11	Earnings per share	-5,66	-15,14
11	Diluted earnings per share	-5,66	-15,14



# DiaGenic ASA

## Statement of financial position as of 31 December

NOTE	ASSETS	2013	2012	01.01.2012
	<b>Fixed assets</b>			
	<b>Intangible assets</b>			
12	Goodwill	0	0	572 437
12	Software	<u>0</u>	<u>552 599</u>	<u>887 903</u>
	<b>Total intangible assets</b>	<u>0</u>	<u>552 599</u>	<u>1 460 340</u>
	<b>Tangible assets</b>			
13	Machinery, equipment, fixtures and fittings etc.	<u>334 940</u>	<u>1 716 477</u>	<u>2 133 346</u>
	<b>Total tangible assets</b>	<u>334 940</u>	<u>1 716 477</u>	<u>2 133 346</u>
	<b>Total fixed assets</b>	<u>334 940</u>	<u>2 269 076</u>	<u>3 593 686</u>
	<b>Current assets</b>			
	<b>Inventory</b>			
14	Inventories	<u>0</u>	<u>923 896</u>	<u>914 803</u>
	<b>Receivables</b>			
20,21	Accounts receivable	56 407	71 816	53 480
20	Other receivables	<u>3 340 759</u>	<u>4 835 831</u>	<u>5 182 899</u>
	<b>Total receivables</b>	<u>3 397 166</u>	<u>4 907 647</u>	<u>5 236 379</u>
15	Cash and cash equivalents	<u>11 492 216</u>	<u>18 445 839</u>	<u>58 858 630</u>
	<b>Total current assets</b>	<u>14 889 382</u>	<u>24 277 382</u>	<u>65 009 812</u>
	<b>TOTAL ASSETS</b>	<u>15 224 322</u>	<u>26 546 458</u>	<u>68 603 498</u>

# DiaGenic ASA


## Statement of financial position as of 31 December

NOTE	EQUITY AND LIABILITIES	2013	2012	01.01.2012
	<b>Equity</b>			
	<b>Paid in capital</b>			
16	Share capital	1 631 975	13 511 826	13 511 826
	Share premium	45 015 301	38 497 374	75 979 062
	Other capital reserves	-309 883	367 448	237 233
	<b>Total paid in capital</b>	<b>46 337 392</b>	<b>52 376 648</b>	<b>89 728 121</b>
	<b>Other equity</b>			
	Retained earnings	-37 662 249	-35 927 153	-36 759 552
	<b>Total other equity</b>	<b>-37 662 249</b>	<b>-35 927 153</b>	<b>-36 759 552</b>
	<b>Total equity</b>	<b>8 675 143</b>	<b>16 449 495</b>	<b>52 968 568</b>
	<b>Liabilities</b>			
	<b>Provisions</b>			
17	Pension liabilities	0	1 294 020	5 874 001
	<b>Total provisions</b>	<b>0</b>	<b>1 294 020</b>	<b>5 874 001</b>
	<b>Long term debt</b>			
18,21	Other long term debt	0	0	1 666 667
	<b>Total long term debt</b>	<b>0</b>	<b>0</b>	<b>1 666 667</b>
	<b>Current liabilities</b>			
	Accounts payable	276 731	1 811 676	1 689 352
	Public duties payable	1 672 772	1 831 914	1 553 769
20	Other current liabilities	4 599 676	5 159 353	4 851 143
	<b>Total current liabilities</b>	<b>6 549 179</b>	<b>8 802 943</b>	<b>8 094 264</b>
	<b>Total liabilities</b>	<b>6 549 179</b>	<b>10 096 963</b>	<b>15 634 931</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15 224 323</b>	<b>26 546 458</b>	<b>68 603 498</b>

Oslo, 20th March 2014



Hanne Skaarberg Holen  
Chairman of the Board



Øystein Stray Spetalen  
Board member



Martin Nes  
Board member



Ruben Ekbråten, Acting CEO

# DiaGenic ASA

## Statement of cash flows

	Notes	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		-37 662 249	-40 900 661
Depreciation and amortisation	12,13,	731 087	895 122
Write-downs of tangible fixed assets	12	1 194 804	572 437
Fair value granted option rights		-309 883	367 448
Change in pension plan liabilities		-1 294 020	393 528
Change in inventories	14	923 896	-9 093
Change in trade payable		-1 534 945	122 325
Changes in other current assets and other liabilities	20	2 458 329	915 086
<b>Net cash flow from operating activities</b>		<b>-35 492 981</b>	<b>-37 643 808</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES</b>			
Proceeds from sale of tangible fixed assets		8 246	0
Investment in tangible fixed assets	12,13	0	-142 949
<b>Net cash flow from investment activities</b>		<b>8 246</b>	<b>-142 949</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net cash flow from share issue - negativ amount is share issue expenses		30 198 000	-959 367
Payment of short and long term debt	20	-1 666 667	-1 666 667
<b>Net cash flow from financing activities</b>		<b>28 531 333</b>	<b>-2 626 034</b>
Net change in cash and cash equivalents		-6 953 623	-40 412 791
Cash balance as of January 1st	15	18 445 839	58 858 631
<b>Cash balance as of 31st of December</b>		<b>11 492 216</b>	<b>18 445 839</b>

## DiaGenic ASA

### Statement of changes in equity

	Number of shares	Share capital	Share premium	Other reserve	Other equity	Total equity
<b>Equity as of 31st of December 2011</b>	<b>27 023 652</b>	<b>13 511 826</b>	<b>75 979 062</b>	<b>237 233</b>	<b>-34 753 039</b>	<b>54 975 081</b>
Principle change pension liabilities					-2 006 513	-2 006 513
<b>Equity as of 1st of January 2012</b>	<b>27 023 652</b>	<b>13 511 826</b>	<b>75 979 062</b>	<b>237 233</b>	<b>-36 759 552</b>	<b>52 968 568</b>
Allocation of net loss 2011			-36 522 320	-237 233	36 759 552	0
Fair value granted options				367 448		367 448
Share issue expence			-959 367			-959 367
Other comprehensive income					4 973 508	4 973 508
Net profit(loss)					-40 900 661	-40 900 661
<b>Equity as of 31st of December 2012</b>	<b>27 023 652</b>	<b>13 511 826</b>	<b>38 497 375</b>	<b>367 448</b>	<b>-35 927 153</b>	<b>16 449 496</b>
Allocation of net loss 2012			-35 559 705	-367 448	35 927 153	0
Fair value granted options				-309 883		-309 883
Share issue 8th of April 2013	50 000 000	25 000 000	5 000 000			30 000 000
Share issue 8th of May 2013	4 575 078	2 287 539	457 508			2 745 047
Share capital reduction 16th of August 2013 *)	-73 438 857	-39 167 390	39 167 390			0
Share issue expence			-2 547 267			-2 547 267
Other comprehensive income					-1 029 648	-1 029 648
Net profit(loss)					-36 632 601	-36 632 601
<b>Equity as of 31st of December 2013</b>	<b>8 159 873</b>	<b>1 631 975</b>	<b>45 015 301</b>	<b>-309 883</b>	<b>-37 662 249</b>	<b>8 675 144</b>

Costs related to share issues are booked as a reduction of share premium reserve in 2012 with NOK 959,367.

Costs related to planed share issue in 2013 are booked as a reduction of share premium reserve in 2013 with NOK 2,547,267.

\*) Reversed share split with ratio 10:1 on the same day of the share capital reduction.

## **Note 1**

### **Company information**

DiaGenic ASA (org. no 979 938 799) was formed in 1998 and is a Norwegian public limited company listed on the Oslo Stock Exchange. The company's head office is in Sjølyst plass 2, NO-0278 Oslo, Norway.

DiaGenic ASA business is to conduct business, invest in and/or own rights in biotech/pharmaceuticals or other areas.

## **Note 2**

### **Accounting principles and estimates**

#### **2.1 Basis for the preparation of the annual accounts**

The company's annual accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) which are approved by EU.

Accounts are based on the principles of historical cost

The financial statements are presented in Norwegian kroner, which is also the functional currency of the company.

The annual accounts were approved by the Board of Directors on 20 March 2014.

#### **2.2 The use of estimates**

The preparation of financial statements require the management to make assessments and to prepare estimates and assumptions that influence amounts recognised in the accounts for assets and obligations, revenues and expenses. Estimates and related assumptions are based on the best of the management's knowledge of historical and relevant events, experience and other factors that seem reasonable under the circumstances. The actual results may deviate from such assumptions. Estimates and underlying assumptions are subject to continuous assessment. Critical accounting estimates for DiaGenic are as follows:

##### Pensions:

The present value of the pension obligation depends on the actuarial company-specific and financial assumptions. All changes in the assumptions will influence the calculated pension obligation and the future costs. Calculations of pension liabilities are done according to IFRS (IAS 19 Employee Benefits), and the Norwegian Actuary Association standard for actuary technical calculations. The assumptions are according to the Guidance of pension assumptions (January 2014) from the Norwegian Accounting Institution. The Guidance of pension assumptions is used as a basis for DiaGenic's

company-specific assumptions. The discount rate for 2013 is determined under the guidance of NRS and based on the market rate for bonds (OMF) and considers the market for OMF to be sufficiently deep / liquid for use as the basis for the discount rate under IAS 19. The pension plan is assumed to cease due to all employees are given notice of termination and this assumption is taken into the company's liability or assets per 31<sup>st</sup> of December 2013.

#### Share-based remuneration:

The fair value of employee options is calculated on their grant date. The fair value is calculated using Black & Scholes - Merton option pricing model. All variables included in this model are stipulated on the issue date for the options. Significant factors include the time that elapses from the grant date to the first possible exercise date, the share's volatility, the risk-free interest rate, the share price on the issue date, the exercise price and the lifetime of the option. Costs relating to share-based remuneration are expensed over the vesting period. In connection with the accrual of costs, estimates will be made with respect to the future retirement rate. These estimates will be updated on each balance sheet date. Changes in estimates will influence costs relating to share-based remuneration in the period in question.

#### Accounting treatment of the deferred tax asset:

DiaGenic provides for expected tax obligations on the basis of estimates. When the final outcome deviates from the estimates that are basis for the original provision, the deviations will affect the tax expense and the provision for deferred tax in the period in which the decision is made. The deferred tax asset of loss carry forwards is included when it is probable that the loss carry forward can be utilized. Historical earnings and expected future earnings will be used as the basis for assessing probability in this context.

#### Goodwill:

In accordance with IFRS the company tests annually whether it is necessary to do an impairment of capitalised goodwill. The value of the cash generating unit will be stipulated as the recoverable amount, which is the higher of net sales value and utility value. The estimated recoverable amount is calculated on the basis of the present value of budgeted cash flows. The calculation requires the use of estimates relating to future cash flows. Uncertainty will normally be attached to budgeted cash flows. Events, changes in assumptions and management assessments will all affect the evaluation of impairments in the relevant period.

## **2.3 Accounting principles**

### **Principles for revenue**

Revenue is recognized when it is likely that transactions will generate future economic benefits that will accrue to the company, and when the amount and size can be estimated reliably. Sale of products is recognized at delivery time, i.e. when both the control and risk is mainly transferred to buyer. Revenue from services rendered is recognized in the income statement in the period the

service is performed. License revenues are recognized in line with the licensee sales of licensed products or use of licensed technology.

### **Research and development**

Research activities are defined as activities whose purpose is to generate new technological understanding or knowledge. Costs relating to clearly defined development projects that are considered technically feasible and for which sufficient resources are available are capitalised when it is substantiated that there is a connection between the incurred costs and future earnings. Sufficient substantiation is deemed to exist when necessary regulatory approvals for sales and marketing are in place, and when future economic benefits are supported through estimates. Research and development costs consist of costs relating to the company's own research and laboratory department, costs relating to the purchase of external laboratory- and research services and clinical studies. Capitalised development costs are recognised at cost price after the deduction of accumulated depreciation and impairments. The capitalised value is amortised over the period of expected future earnings from the related project. Gains and losses that arise on the sale of an intangible asset are measured as the difference between the net proceeds of the sale and the book value on the transaction date.

### **Business combinations and goodwill**

Business combinations are accounted for according to the purchase method. The remuneration of an acquisition is measured at fair value. Transaction costs are expensed as incurred. Assets and liabilities are recognized at fair value on the transaction. Acquisitions of businesses are recognised at fair value. Goodwill is the excess value of the difference between the acquisition cost on acquisition and the fair value of the net identifiable assets relating to the acquisition, including intangible assets and obligations that arise as a result of the transaction. Goodwill is recognised in the balance sheet at acquisition cost less any accumulated losses resulting from impairment. Goodwill is allocated to cash generating unit and is not depreciated, but tested annually for impairment.

### **Government grants**

Government grants are recognized in the income statement when there is reasonable assurance that the grant will be received and that the terms that are related to the grant are met. Accounting for the grant is recognized on a systematic basis over the grant period. Contributions are classified as a cost reduction and are recognized at the same time with the cost to reduce.

### **Employee benefits**

#### **Pensions**

The Company has defined benefit pension scheme for its employees. Pension costs and pension liabilities are calculated using a straight line earnings model based on the discounted rate, future increases in salaries, pensions and compensation from the state and actuarial assumptions regarding mortality, voluntary retirement, etc. The defined benefit obligation is calculated by an independent actuary and is measured as the present value of estimated future pension payments. The pension

costs charged to the income statement so that the regular costs are spread over employees' expected service period. The net pension costs are classified as salaries and personnel costs. Net pension liability is recorded as a liability. Pension assets are valued at market value and are deducted from net pension liabilities in the balance. Changes in defined benefit obligations due to changes in pension plans are distributed over the remaining estimated average accrual period. Actuarial gains and losses are recognized immediately in the statement of financial position with a corresponding debt or credit to other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

### **Share-based remuneration**

The Company has an option program for employees in shares. Options granted to employees are measured at fair value at grant date. The fair value of the options is recognized over the vesting period. Latent social security tax relating to the option intrinsic value is calculated on the basis of the market price at balance sheet date. Social security tax is based on the difference between intrinsic value and the exercise price on the balance sheet date, adjusted for the period before social security tax is applied. Estimates of latent social security tax is updated each balance sheet date. Fair value is calculated using the Black Scholes Merton option pricing model. The valuation is based on assumptions about the volatility of DiaGenic share, expectations about future exercise of the option and risk-free rate. Volatility is estimated by observing the historical fluctuations in share price. In assessing the future life of the option rights is the assumption that the licensee will exercise the options in the middle of exercise period.

### **Tax**

The tax expense in the income statement comprises of the tax payable for the period and of the change in deferred tax. Deferred tax is calculated on the basis of temporary differences that exist between accounting and tax values, as well as any tax loss carry forward at the end of the financial year. The deferred tax asset is recognised if it is probable that the company will have a sufficient tax profit to be able to utilise the tax asset. On each balance sheet date, the company will review any deferred tax asset not recognised in the income statement. The company recognises deferred tax assets not previously recognised in the accounts insofar as it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce the deferred tax asset insofar as it can no longer utilise it. Deferred tax and the deferred tax asset are calculated on the basis of expected future tax rates if temporary differences have arisen. Deferred tax and the deferred tax asset are recognised at their nominal value and are classified as fixed assets or long-term liabilities in the balance sheet. Unused loss carry forwards from before a business was acquired are recognised as deferred tax assets when it is expected that the loss can be utilised. Subsequent recognition in the balance sheet will entail a reduction in identified goodwill.

### **Tangible assets and software**

Tangible assets are recognised at cost price after deduction for accumulated depreciation and any impairment. The assets are depreciated using the straight-line method over the expected useful life of the asset. Costs of direct maintenance on the operating assets are expensed as they are incurred under Operating expenses, while additional spending or improvements are added to the asset's cost



price and depreciated in line with depreciation of the asset. The depreciation period and -method and potential residual value are assessed annually to ensure that the method and period used are in accordance with the economic realities of the asset. The same applies correspondingly to the residual value.

### **Software**

Expenses related to the purchase of new software is capitalized as an intangible asset, if these expenses are not part of the acquisition cost of the hardware. Software is normally depreciated linearly over 5 years. Expenses incurred due to service or maintenance of the future use of the software is expensed unless the changes in the software increase the future economic benefits of the software.

### **Receivables**

Receivables are recognised at amortised cost. The interest element is ignored if it is insignificant.

### **Borrowing costs**

Borrowing cost will be amortized over the term of the loan.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash, bank deposits and all other monetary items due within three months or less. No overdraft facilities are used by the Company.

### **Impairment of assets**

An assessment of impairment loss on other assets is made when there is an indication of fall in value. Independent on whether there are indications of a fall in value, goodwill shall be tested annually against the recoverable amount. If an asset's carrying amount is greater than the recoverable amount, an impairment loss will be recognised in the income statement. The recoverable amount is the greater of the net sales price and the discounted cash flow from continued use. The net sales price is the amount that can be obtained on sale to an independent third party minus sales costs. The recoverable amount is stipulated separately for all assets, but if this is not possible, together with the unit to which the asset belongs. With the exception of goodwill, impairment loss recognised in the income statement in previous periods will be reversed when information exists to indicate that the write-down is no longer necessary or that the need is no longer as great. Write-downs as a result of falls in value are only reversed insofar as the carrying amount of the asset does not exceed the carrying amount that would have been stipulated net after depreciation or amortisation if no loss as a result of a fall in value had been recognised previously. The reversal of previous impairment loss is recognised when a reduced need for a write-down can be related to an event after the impairment loss has been recognised. An increase in the carrying amount is only recognised insofar as it does not exceed what the amortised cost would have been if the write-down had not been made.

**Foreign exchange risk and currency**

The Company is exposed to financial risks associated with changes in foreign exchange rates. The company uses no financial derivative instruments with the purpose of speculating in currency.

Transactions in foreign currencies are converted to functional currency (NOK) to the exchange rate on the transaction date. Foreign exchange gains / losses arising from changes in exchange rate between the transaction date and payment date is recorded as financial income / expense in the Statement of comprehensive income. On the balance sheet date monetary items in foreign currency are converted to exchange rates at the balance sheet date. Non-monetary items are capitalized at historical exchange rate on the transaction date.

DiaGenic plans to generate revenue and make purchases of goods and services in foreign currency. Fluctuations in the exchange rate against the NOK may have an effect on the company's revenues and expenses. The company has a rule to not use financial instruments, but at a later date, it is possible that the Company enters into foreign exchange forward contracts to ensure greater individual items affecting the cash flow.

**Earnings per share**

Earnings per share are calculated by dividing the profit/loss for the year by the corresponding weighted average of the number of outstanding shares during the reporting period. The key figure 'diluted earnings per share' is based on the same calculation as for earnings per share, but it also takes into account all potential shares that have been outstanding during the period, and which will have a diluting effect. Potential shares relate to agreements that confer the right to issue shares in future. When the company reports a negative result, the effect of potential shares is disregarded so that the calculation is the same as for earnings per share.

**Objectives, policies and processes for managing capital**

DiaGenic's objective is to manage the capital structure to safeguard the company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other shareholders.

DiaGenic sets the size of capital in proportion to business strategy, risk and financial market conditions. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions, perceived risk associated with product development and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, DiaGenic may adjust the amount of new share issue, dividends paid to shareholders, return capital to shareholders, and sell assets to reduce debt or increase the debt by taking up loans

**Provision, conditional obligations and assets**

A provision is recognized when the Company has a present obligation (legal or assumed) as a result of events that have occurred and it is probable, even if it is highly unlikely. Provisions are reviewed at each balance sheet date and the level reflects the best estimate. When the effect is significant provisions are calculated by discounting expected cash flows at a pre-tax rate that reflects current

market time value of money and if appropriate the risks specific to the liability. Increase in provision as a result of the time, is presented as interest expense.

Information is provided about material contingent liabilities with the exception of contingent liabilities for where the probability is highly unlikely. A conditional asset is not recognised in the annual accounts, but information is provided if there is a possibility that an advantage will accrue to the company.

#### **Events after the balance sheet date**

New information about the company's positions on the balance sheet date is taken into account in the annual accounts. Information is provided about events after the balance sheet date that do not affect the company's position on the balance sheet date, but which will affect the company's future position if this is essential information.

#### **Segment reporting**

Since the company was founded it has defined just one operating segment, which is research, development, sales and marketing of blood based gene expression tests. The current segmentation best reflects how the business is managed.

#### **Leasing**

Leasing contracts are classified as financial or operational following a separate review of each individual contract. Operational leasing contracts are expensed using the straight-line method over the contract period. Operating assets financed by financial leasing are capitalised and depreciated using the straight-line method over their expected useful life. The leasing debt is deemed to be a long-term liability and the liability is reduced through repayment of the leasing contract. DiaGenic may use operational leasing when there are financial or operational benefits.

Lease agreements where essentially all the risks and rewards of ownership are transferred to the lessee are classified as a financial lease. Financial leases are presented as long-term debt and fixed assets. Rental costs are expensed as an annuity, whereby the interest element is included in interest expense, while the instalments reduce long-term debt.

#### **Cash flow statement**

The company uses the indirect method for the presentation of the cash flow statement.

#### **Inventory**

Inventory is valued at the lower of cost and net selling price. Inventory is valued on the FIFO principle. Obsolescence is considered for inventory and write down performed on obsolete goods.

## **2.4 New accounting standards**

IFRS is constantly evolving. Below are listed the new standards at 31 December was announced but not yet effective for the financial year 1 January - 31 December 2013, and new and amended standards the IASB's effective date has passed, but where that cannot be used because they still have not been approved by the EU which are considered and relevant to the company.

The following new and revised standards and statements, which apply to the fiscal years beginning 1 January 2013, is implemented in the annual report for 2013:

### **IAS 1 Presentation of items in Other Comprehensive Income – Amendments to IAS 1**

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The amendments affect presentation only and will not have an impact on the company's financial position or performance.

### **IAS 19 Employee Benefits**

IAS 19 has been applied retrospectively in the current period in accordance with the revised standard. The opening statement of financial position of the earliest comparative period presented (1 January 2012) and the comparative figures have been restated accordingly. The impact on equity from the app implementation of IAS 19 was a loss of TNOK 2 006 as at 1 January 2012 and a gain of TNOK 2 966 as at 31 December 2013. The re-measurement of the defined benefit plan in 2012 recognized as other comprehensive income was a gain of TNOK 4 974.

### **IFRS 13 Fair Value Measurement**

The standard sets out principles and guidance for fair value measurement of assets and liabilities other standards require or permit measured at fair value. The implementation of the standard had no significant impact on the company's financial position or performance.

Adopted IFRSs and IFRIC's with future effective date:

The following standards and interpretations are not yet effective and have not been applied in preparing these financial statements.

- IFRS 9 Financial statements
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IAS 27 Separate financial statements
- IAS 32 Offsetting financial assets and financial liabilities
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets —
- IAS 39 Novation of derivatives and continuation of hedge accounting

The Company plans to adopt these standards, if applicable, when they become effective.

None of these standards and interpretations are expected to have a significant impact on the company's financial statements.

### **Note 3            Segments**

DiaGenic has only defined one operating segment. The current segmentation best reflects how the business is managed.

DiaGenic had operating revenues of TNOK 157 in 2013 (TNOK 126 in 2012).

### **Note 4            Public grants - figures in NOK**

<b>Public grants:</b>	<b>2013</b>	<b>2012</b>
The Research Council of Norway - BIA Parkinson	293 911	1 190 963
The Research Council of Norway - microRNA	178 723	70 000
The Research Council of Norway - PET Alzheimer	199 449	0
SPIDIA - Seventh Framework Programme	5 980	654 644
SkatteFUNN	1 596 196	1 244 630
<b>Total public grants</b>	<b>2 274 259</b>	<b>3 160 237</b>

Public grants are based on reimbursement of actual personnel expenses, laboratory costs and other project-related costs. The company is not aware that there are unfulfilled conditions associated with these public subsidies. The SkatteFUNN grant is conditional upon the tax assessment for 2013. Public grants are recognised in the accounts as a deduction of operating expenses.

### **Note 5            Salaries and personnel expenses, number of employees, remuneration - figures in NOK**

<b>Salaries and personnel expenses:</b>	<b>2013</b>	<b>2012</b>
Salaries	16 836 889	18 732 677
Reimbursement	-60 716	-2 051
Accrued social security tax	2 828 171	3 020 238
Pension expense	1 119 507	2 703 040
Fair value of granted options	-309 883	367 448
Other payroll expenses	429 031	394 653
<b>Total</b>	<b>20 842 998</b>	<b>25 216 004</b>

Average number of employees per year	15,1	19
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On 28 October 2013 DiaGenic initiated a process to give notice of termination to all the staff, a process which was executed during the month of October 2013. As at 31 December 2013 DiaGenic had 11 employees.

Remuneration of leading personnel 2013	Salary	Bonus	Pension expense 1)	Remuneration of the Board	Other remuneration	Total remuneration	Number of options	Value of options
<i>Management team:</i>								
Paul de Potocki, CEO 2)	1 782 766	0	160 178	0	19 791	1 962 735	0	0
Paul de Potocki, CEO, Top-Hat pension 2)	201 996					201 996		
Magnus Sjögren, Chief Medical Officer	1 480 355	0	167 209	0	14 681	1 662 245	0	0
Ruben Ekbråten, Chief Financial Officer	1 109 688	107 640	120 434	0	14 760	1 352 522	0	0
Total management team	4 574 805	107 640	447 821	0	49 232	5 179 498	0	0
<i>The Board:</i>								
Hanne Skaarberg Holen, chairman 3)				125 000	0	125 000	0	0
Henrik Lund, previous chairman 3)	87 863			188 073	0	275 936	0	0
Patrik Dahlen 3)				210 000	0	210 000	0	0
Ingrid Beichmann Wiik 3)				152 202	0	152 202	0	0
Tom Edward Pike 3)				180 000	0	180 000	0	0
Ulrica Slåne 3)				180 000	0	180 000	0	0
Total the Board				1 035 275	0	1 123 138	0	0

- 1) Pension costs are service cost provided by the insurance company.
- 2) The CEO was entitled to a pension compensation that amounted to 20% of fixed salary. This arrangement is not possible through pension and insurance schemes, thus the difference between the pension scheme and the agreed pension compensation is paid as compensation in addition to the regular salary for the CEO.
- 3) On 22 November 2013 the extraordinary general meeting resolved to elect a new Board. The extraordinary general meeting also resolved to compensate the Board of directors for the period from the ordinary general meeting 2013 to the extraordinary general meeting on 22 November 2013 with NOK 125,000 to the chairman and NOK 60,000 to each of the other Board members. As resolved by the ordinary general meeting on 23 May 2013, Patrik Dahlen, Tom Edward Pike and Ulrica Slåne have been remunerated for the period from the ordinary general meeting in 2012 to the ordinary general meeting in 2013 with NOK 150,000 to Patrik Dahlen and NOK 120,000 to Tom Edward Pike and NOK 120,000 to Ulrica Slåne. Remuneration to Henrik Lund refers to compensation for the period when he was Chairman of the Board, and salary to Henrik Lund relates to vacation pay for the period when he was CEO. Remuneration to Ingrid B. Wiik consists of remuneration as a board member and for the period as Chairman of the Board in 2012.

Remuneration of leading personnel 2012	Salary	Bonus	Pension expense 1)	Remuneration of the Board	Other remuneration	Total remuneration	Number of options	Value of options
<i>Management team:</i>								
Paul de Potocki, CEO 2)	542 501	0	39 563	0	4 210	586 274	1 000 000	1 024 900
Paul de Potocki, CEO, Top-Hat pension 2)	59 915					59 915		0
Erik Christensen, previous CEO 3)	1 864 832	250 000	95 120	0	12 950	2 222 902	0	0
Erik Christensen, previous CEO, Top-Hat pension	133 151	0	0	0		133 151	0	0
Magnus Sjögren, Chief Medical Officer	1 441 169	0	148 867	0	15 912	1 595 202	85 000	142 057
Ruben Ekbråten, Chief Financial Director	1 076 881	0	103 692	0	11 188	1 191 761	85 000	142 057
Edith Rian, Operations Director 5)	590 797	0	69 498		6 854	667 149	0	0
Morten Sten Johansen, International Business Dir. 6)	730 230	0	65 481	0	5 701	801 412	0	0
Total management team	6 439 476	250 000	522 220	0	56 815	7 257 765	1 170 000	1 309 013
<i>The Board:</i>								
Henrik Lund, chairman 4)	732 196			445 500	60 000	1 237 696	0	0
Gustav Ingemar Kihlström				110 000	0	110 000	0	0
Ingrid Beichmann Wiik				130 000	0	130 000	0	0
Ulrica Slåne				0	0	0	0	0
Tom Edward Pike				110 000	0	110 000	0	0
Total the Board				795 500	60 000	1 587 696	0	0

- 1) Pension costs represent service cost as provided by the insurance company.
- 2) Employed from 17 September 2012. The CEO has an agreement for a pension compensation that amounts to 20% of fixed salary. This arrangement is not possible through pension and insurance schemes, thus the difference between the pension scheme and the agreement is paid as compensation in addition to the regular salary for the CEO.
- 3) Resigned 17 April 2012. 12 months' salary with deduction upon a new position has been agreed between Erik Christensen and the Board of Directors. The agreement was expensed in total in Q2 2012.
- 4) Other payments to Cornucopia AS, by Henrik Lund, are payments for consultancy services. Salary is for the period from 17 April to 17 September when he was interim CEO. The ordinary remuneration as Chairman of the board was NOK 330,000. If the chairman's work exceeded 200 hours, the excess time was compensated with NOK 1,500 per hour.
- 5) Employed to 31 July 2012.
- 6) Employed to 31 August 2012.

#### **Guidelines for remuneration of the Managing Director and the company's management team**

On 28 October 2013 DiaGenic initiated a process to give notice of termination to all the staff. It has been accrued for the severance pay for the CEO and the CFO.

Leading employees is in this regard defined as the DiaGenic Management Team.

The remuneration packages are designed to attract, motivate and retain leading employees of the necessary calibre and to reward them for enhancing value to shareholders. Total remuneration for leading employees consists of a market based fixed salary, a few common fringe benefits and share

options. Bonuses are considered and provided for selected individuals whose extraordinary effort or achievement of performance objectives can be measured through clearly defined results parameters/KPIs. Results parameters/KPIs include both financial performance targets set for DiaGenic as well as individual performance targets tied to the individual's area of responsibility.

At the company's ordinary General Meeting on 23 May 2011 it was resolved to implement an incentive scheme in the form share options. On 28 October 2013 DiaGenic announced that the Board of directors initiated a process to give notice of termination to all the staff, a process which was executed during the month of October 2013. According to the option plan all options will lapse on the termination date. Consequently there are no share options in the Company.

The CEO and the other leading employees are members of the Company's pension and insurance scheme that applies to all employees. In addition the CEO has an agreement for a retirement pension of 20 % of fixed salary. This arrangement is not possible through the company's pension scheme, thus is this supplementary benefit/Top-Hat paid in addition to ordinary salary to the CEO.

Term of notice is 3 months for all employees, including the CEO, except for Magnus Sjögren which had 6 months' notice period and the CFO which had 5 months' notice period. The CEO is entitled to 12 months' severance pay and the CFO is entitled to 7 months' severance pay if dismissed by the Company. No other employees are entitled to severance pay.

#### **Options and Subscription rights programs**

The general meeting on 17 September 2012 resolved to issue share options. See note 7 for more details.

#### **Loans and security furnished to leading personnel, shareholders etc.**

No loans or guarantees have been provided to the CEO, members of the Board or their related parties.

#### **Auditor fees**

<b>Fees to the auditor - Ernst &amp; Young AS</b>	<b>2013</b>	<b>2012</b>
Statutory auditing services	168 129	178 129
Attestation services	45 875	15 000
Non-auditing services	73 675	13 000
<b>Total</b>	<b>287 679</b>	<b>206 129</b>

Amounts are exclusive VAT.

#### **Note 6      Related parties**

All transactions and agreements are made on commercial terms from the market for goods and services. For more details regarding transactions with related parties see note 5.



## **Note 7      Share option programme - figures in NOK**

At the general meeting on 23 May 2011 and on 14 August 2012 it was resolved to implement an incentive scheme in the form of share options. The key principles in the share option programme were as follows; a total of 204,000 options after the reverse share split in August 2013, with grants in 2011, 2012 and 2013 and with 3 years vesting per grant. Strike price equals market price + 10 % at the grant date. The programme encompasses all employees and is structured with a basic level for all employees, and three additional levels to reflect the level of responsibility. Allotments in excess of the basic level were connected with performance criteria.

On 28 October 2013 DiaGenic initiated a process to give notice of termination to all the staff, a process which was executed during the month of October 2013. According to the option plan all options will lapse on the termination date. Consequently, as per 31 December 2013 and per the date of this report there are no share options in the Company.

	<b>Exercise price in NOK</b>	<b>Fair value of options in NOK</b>	<b>Number of options</b>
Number of issued options 1.1.2012	6,00	1 036 109	43 200
Expired options		-479 680	-20 000
Grant of options 17.9.12	3,25	1 257 552	122 700
Number of issued options at 31.12.2012		1 813 981	145 900
Number of options at 1.1.2013		1 813 981	145 900
Expired options	6,00	-556 429	-23 200
Expired options	3,25	-1 257 552	-122 700
Number of options at 31.12.2013		0	0

The key terms of the option programme were as follows:

**Vesting:** Provided that the participant is continuously employed by the Company, all options granted vest three (-3 -) years from the grant date.

**Term:** Subject to earlier termination, all options must be exercised within four (-4 -) years from the grant date.

**Redemption Period:** The options can be exercised in certain redemption periods set by the board. A redemption period will normally extend over 5 working days and start after the company has presented its quarterly report.

**Cap:** The maximum benefit for the participant achieved if the fair market value per share equals or exceeds ten (-10 -) times the exercise price of the redemption date. If the fair market value per share exceeds ten (-10-) times the exercise price, the participant should repay excess profit to the company in the wake of the relevant exercise period.

**Social security tax:** The company is liable for social security tax incurred up to the fair market value per share equal to (-3 -) times strike price. Additional social security tax that accrue where fair market value per share exceeds three (-3 -) times the exercise price must be covered by the option holder.

Exercise of stock options in an exercise period are always conditional on the Board has the necessary authority to carry out the delivery of shares. If the board does not have the necessary proxies, then the exercised options shall be settled with cash payment equivalent to the excess of the fair market value per share over the exercise price, multiplied by the number of options exercised.

In calculation of fair value is the Black & Scholes - Merton pricing model been used. The following parameters are used in the valuation of the options:

#### Share price at grant date

In the calculation and simulation it have been used the market value / closing share price at the grant date of 5.9.11 which was NOK 5,91 and for the 17.9.12 it was NOK 2,92.

#### Vesting period / Option life

It is assumed that the options in an average will be exercised in the middle of the period between vesting date and expiry date - which gives the options a life of 3.5 years.

#### Volatility

The volatility is calculated to be 93.69% for the 5.9.11 and 92.04 % for the one on 17.9.12 based on historical volatility for a period equivalent to the expected lifetime of the option.

#### Risk free interest rate

The term of the rates should be equal to the expected term of the option being valued. For options quoted in NOK, rates from Norges Bank on grant date are used (Bonds and Certificates). Where there is no exact match between the term of the interest rates and the term of the options, interpolation is used to achieve a comparable term. It was used an interest rate of 1.63 % for the grant on 5.9.11 and for the grant on 17.9.12 a rate of 1.47 % was used.

#### Expected dividend

In the calculation it is not taken consideration to dividend.

#### Cap

Cap 1: When the share price exceeds 3 times strike, the employees are to cover social taxes.

Cap 2: When the share price exceeds 10 times strike, the employee receives no further option gain. This is incorporated in the calculation of fair value.

#### Attrition

In the calculation we have anticipated that none of the option holders leaves the company. If attrition is expected, the accruing of cost will be different. However, it is the final amount of vested options that shall be expensed, and this attrition will be adjusted at regular intervals so that eventually all vested options will be expensed.

#### Expensing the option value

The total value of the grant is expensed over the corresponding vesting period.

Option expense for the options schemes have been reversed with TNOK 309 with effect from the termination date. The option expense has no net effect on equity as the expense is offset by an

identical effect on the allocation of loss. The calculated expenses have no liquidity effect for the company.

#### **Note 8            Research and development - figures in NOK**

<b>Expensed research costs:</b>	<b>2013</b>	<b>2012</b>
Research (gross before deduction of public grants)	22 315 862	19 848 941
Public grants - note 4	2 274 259	3 160 237
Net expensed research cost	20 041 603	16 688 704

Of the above amount for 2013, NOK 15,071,673 concerns payroll expenses and NOK 7,244,189 relates to operation of the company's laboratory, fees to external research institutions and patent costs. In the income statement these expenses are presented as payroll expenses and other operating expenses.

It has not been capitalized development costs in 2013, as the requirements for recognition under IAS 38.57 have not been met.

#### **Note 9            Specification of accounting items - figures in NOK**

<b>Specification of other operating expenses:</b>	<b>2013</b>	<b>2012</b>
Office premises etc.	2 797 172	2 762 460
Administrative costs	2 430 788	3 155 748
Professional fees	3 106 111	6 047 167
Patent costs	1 136 549	1 480 412
Travel expenses	715 199	1 067 414
Research grants - note 4,8	-2 274 259	-3 160 237
Laboratory costs	6 107 640	3 373 878
<b>Total other operating expenses</b>	<b>14 019 200</b>	<b>14 726 843</b>
<b>Agio:</b>		
Agio gain	-179 085	-52 211
Disagio	138 898	125 411
<b>Net agio:</b>	<b>-40 187</b>	<b>73 200</b>

**Note 10      Tax expense - figures in NOK**

<b>The year's taxable income:</b>	<b>2013</b>	<b>2012</b>
Pre-tax profit	-36 632 601	-40 900 661
Permanent differences		
Remeasurements pension	-1 029 648	0
Representation, contingents, interest tax, etc.	56 079	195 765
Option expenses	-309 883	367 448
Share issue expenses	-2 547 267	-959 367
Tax grant(SkatteFunn)	-1 795 645	-1 244 630
Change in temporary differences	-1 377 960	1 052 614
<b>The year's taxable income</b>	<b>-43 636 925</b>	<b>-41 488 831</b>
Nominal tax rate	27 %	28 %
<b>Non-booked increase in deferred tax benefit</b>	<b>-11 781 970</b>	<b>-11 911 605</b>
<b>The year's tax expense is calculated as follows:</b>		
28% of loss before tax	-10 257 128	-11 452 185
28% of permanent differences	-1 575 382	-459 419
Non-booked increase in deferred tax benefit	8 109 387	11 911 605
Effect of the change from 28% tax to 27% tax.	3 723 123	0
<b>Tax expense</b>	<b>0</b>	<b>0</b>
<b>The year's tax payable:</b>		
Tax payable on the year's profit/loss	0	0
<b>Tax payable</b>	<b>0</b>	<b>0</b>
<b>Specification of temporary differences:</b>		
Tangible fixed assets, incl. goodwill	-2 041 334	-758 351
Inventory	0	-1 366 923
Net pension obligation	0	-1 294 020
Loss carry forward	-370 270 978	-326 634 053
<b>Basis for deferred tax asset</b>	<b>-372 312 311</b>	<b>-333 053 347</b>
	<b>-100 524 324</b>	<b>-92 414 937</b>

The deferred tax asset is for the most part related to the tax loss carry forward. As of 31.12.2013 it is deemed not probable that it can be utilized because there is uncertainty with respect to whether the company will generate an adequate tax profit in the future which would allow the deferred tax asset to be utilized. Thus the deferred tax asset has not been capitalized.

## Note 11 Earnings per share - figures in NOK

Earnings per share:	2013	2012
Profit/loss for the year	-37 662 249	-4 090 066
Average number of shares	6 656 966	2 702 365
<b>Earnings per share</b>	<b>-5,66</b>	<b>-15,14</b>

Number of shares as of 1st of January 2012	27 023 652
Number of shares as of 31st of December 2012	27 023 652
Share issue 8th of April 2013	50 000 000
Share issue 8th of May 2013	4 575 078
Number of shares as of 15th of August 2013	81 598 730
Reverse share split 16th of August ratio 10:1	8 159 873
Number of shares as of 31st of December 2013	8 159 873

The key figure diluted earnings per share is based on the same calculation as for earnings per share, but it also takes account of all potential shares that have been outstanding in the period, and which will have a diluting effect. Potential shares are related to agreements that confer entitlements to issue shares in future. When the company reports negative earnings, the effect of potential shares is disregarded so that the calculation is the same as for earnings per share. Possible outstanding options could affect the earnings per share since this would increase number of shares and then the earnings per share would be reduced due to higher number of shares. There were no outstanding options per 31st of December. See note 7.

## Note 12 Intangible assets - figures in NOK

	Software	Goodwill	TOTAL
Acquisition cost at 1.1.2012	1 676 544	572 437	2 248 981
Additions	0	0	0
Disposals	0	0	0
<b>Acquisition cost 31.12.2012</b>	<b>1 676 544</b>	<b>572 437</b>	<b>2 248 981</b>
Additions	0	0	0
Disposals	0	0	0
<b>Acquisition cost 31.12.2013</b>	<b>1 676 544</b>	<b>572 437</b>	<b>2 248 981</b>
Accumulated depreciation at 1.1.2012	788 637	0	788 637
The year's depreciation	335 308	0	335 308
The year's impairment	0	572 437	572 437
<b>Accumulated depreciation and impairment at 31.12.2012</b>	<b>1 123 945</b>	<b>572 437</b>	<b>1 696 382</b>
<b>Carrying amount at 31.12.2012</b>	<b>552 599</b>	<b>0</b>	<b>552 599</b>
The year's depreciation	251 482	0	251 482
The year's impairment	301 117	0	301 117
<b>Accumulated depreciation and impairment at 31.12.2013</b>	<b>1 676 544</b>	<b>0</b>	<b>2 248 981</b>
<b>Carrying amount at 31.12.2013</b>	<b>0</b>	<b>0</b>	<b>0</b>

Useful life  
Depreciation plan

5 years  
Straight-line

After impairment testing of software in 2013 it was concluded to write down the remaining balance of software in Q3 2013. The software was developed specifically to fit DiaGenic's products, and as all commercial activities related to the CE marked ADtect was terminated, the software was considered to be impaired.

The goodwill recognised in the balance sheet relates to the merger between DiaGenic ASA and Mefjorden ASA in 2004. On the merger date, goodwill after the valuation of intangible assets amounted to NOK 572,437. After impairment testing of goodwill in 2012, it was concluded to perform impairment of goodwill.

The impairment test of goodwill was based on utility value, and was made of discounted cash flows based on budget and future expectations over a period of 4 years based on existing business model. The expected cash flow is based on company estimates for the period 2013 to 2016, reviewed by the Board and management in DiaGenic.

Estimates and pertaining assumptions are made to the best of the management's knowledge of historical and current events, experience and other factors that are deemed reasonable in the circumstances.

**Important assumptions in calculating the value are:**

- Revenue
- Operating margin
- Discount rate

Revenues are based on anticipated developments within the markets DiaGenic is in, and expected market share. Operating revenues are subject to the underlying assumptions, and changes to the assumptions will affect the future value of the unit.

The discount rate reflects management's estimate of the risk associated with the cash-generating unit. This is the reference point the management use to evaluate operational results and to evaluate future investment proposals. The discount rate used was 13.5 %.

## Note 13 Tangible fixed assets - figures in NOK

	Other equipment	Lab equipment	Office machines	Fixtures & fittings	Computers	Lab equipment	TOTAL
Acquisition cost at 1.1.2012	465 203	3 973 914	103 308	1 252 074	1 097 954	1 733 880	8 626 332
Additions	0	28 000	0	0	114 949	0	142 949
Disposals	0	0	0	0	0	0	0
<b>Acquisition cost at 31.12.2012</b>	<b>465 203</b>	<b>4 001 914</b>	<b>103 308</b>	<b>1 252 074</b>	<b>1 212 903</b>	<b>1 733 880</b>	<b>8 769 281</b>
Additions	0	0	0	0	0	0	0
Disposals	0	-48 904	0	0	0	0	-48 904
<b>Acquisition cost at 31.12.2013</b>	<b>465 203</b>	<b>3 953 010</b>	<b>103 308</b>	<b>1 252 074</b>	<b>1 212 903</b>	<b>1 733 880</b>	<b>8 720 377</b>
Accumulated depreciation at 1.1.2012	-465 203	-2 584 869	-98 213	-626 690	-984 131	-1 733 880	-6 492 986
Depreciation for the year	0	-351 403	-3 237	-121 744	-83 436	0	-559 820
Loss due to fall in value	0	0	0	0	0	0	0
Reversal of loss due to fall in value	0	0	0	0	0	0	0
<b>Accumulated depreciation at 31.12.2012</b>	<b>-465 203</b>	<b>-2 936 272</b>	<b>-101 450</b>	<b>-748 434</b>	<b>-1 067 567</b>	<b>-1 733 880</b>	<b>-7 052 807</b>
<b>Carrying amount at 31.12.2012</b>	<b>0</b>	<b>1 016 738</b>	<b>1 859</b>	<b>503 640</b>	<b>145 336</b>	<b>0</b>	<b>1 716 477</b>
Depreciation for the year	0	-311 000	-1 859	-103 305	-63 437	0	-479 601
Impairment *)	0	-539 572	0	-288 215	-65 899	0	-893 686
Reversed depreciation disposals	0	40 655	0	0	0	0	40 655
Reversal of loss due to fall in value	0	0	0	0	0	0	0
<b>Accumulated depreciation at 31.12.2013</b>	<b>-465 203</b>	<b>-3 746 189</b>	<b>-103 309</b>	<b>-1 139 954</b>	<b>-1 196 903</b>	<b>-1 733 880</b>	<b>-8 385 439</b>
<b>Carrying amount at 31.12.2013</b>	<b>0</b>	<b>206 821</b>	<b>0</b>	<b>112 120</b>	<b>16 000</b>	<b>0</b>	<b>334 940</b>
Useful life	3 years	3-8 years	5 years	10 years	3 years	4-5 years	
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line	Straight-line	Straight-line	

\*) Assets have been written down to the estimated realizable values based on sales carried out after the end of the period and estimated realizable values based on bids received.

## Note 14 Inventory - figures in NOK

	2013	2012
Finished goods	0	923 896

Inventory is valued at the lowest of cost and net selling price. The whole inventory is valued to cost price. As per 31.12.13 there is no inventory.

**Note 15      Cash and cash equivalents - figures in NOK**

Of the company's cash and cash equivalents MNOK 0.85 is restricted in the form of tax withholdings and deposit. The deposit is a bank guarantee against BD Norge AS of TNOK 70.

**Note 16      Share capital and shareholders - figures in NOK**

At 31.12.2013 the company's share capital was NOK 1,631,975 divided between 8,159,873 shares each with a nominal value of NOK 0.20. The company has only one share class and no special regulations relating to the shares. One share thus confers one vote.

<b>Ownership structure at 31.12.2013:</b>	<b>Number of shares</b>	<b>Holding</b>
Verdipapirfondet Alfred Berg Gambak	646 295	7,92 %
Tredje AP-fonden	616 679	7,56 %
Storebrand Vekst	556 187	6,82 %
Corona Maritime AS	400 000	4,90 %
MP Pensjons PK	289 266	3,54 %
Arne Gliddi	279 302	3,42 %
Spar Kapital investor AS	241 082	2,95 %
Aroma Holding AS	150 000	1,84 %
AB Investment AS	133 000	1,63 %
Hans Stigersand	120 567	1,48 %
Tycoon Industrier AS	120 000	1,47 %
Antibes Invest AS	110 000	1,35 %
Heden Holding AS	92 030	1,13 %
AS Gamo	81 487	1,00 %
Stall Grini Trading AS	80 000	0,98 %
Raymond Harland	80 000	0,98 %
Bente Cecilie Ranhoff	72 880	0,89 %
Arve Romuld	68 204	0,84 %
Erling Hauge Hansen	62 525	0,77 %
Forenede Forvaltning AS	57 379	0,70 %
<b>Total, 20 largest shareholders</b>	<b>4 256 883</b>	<b>52,17 %</b>
Total others	3 902 990	47,83 %
<b>Total number of shares</b>	<b>8 159 873</b>	<b>100,00 %</b>

<b>Shares and options owned by board members</b>	<b>Assignment</b>	<b>Options</b>	<b>Number of shares</b>	<b>Total of shares</b>
Hanne K. S. Holen	Chair of Board	0	0	0
Øystein S. Spetalen *)	Board member	0	120 000	120 000
Martin Nes	Board member	0	0	0

\*) Represents Tycoon Industrier AS



<b>Shares and share options owned by the management</b>	<b>Position</b>	<b>Options</b>	<b>Number of shares</b>	<b>Total of shares</b>
Paul de Potocki	CEO	0	10 000	10 000
Ruben Ekbråten	CFO	0	10 120	10 120
Magnus Sjögren	CMO	0	6 667	6 667

The company's option scheme is described in more detail in note 7.

There were no dividends paid out in 2012 or 2013.

## **Note 17 Pension costs, assets and obligations - figures in NOK**

The company is obliged to have a pension by the law. The company's pension plan meets the requirements in this Act.

All employees of the Company were given notice of termination in October 2013. Consequently the pension plan is assumed to cease per 31 December 2013. The estimated surplus funds in the pension plan less remaining pension premium for 2014 are not recognized in the balance sheet as the funds are distributable to members of the pension plan.

### **The capitalised net pension obligation has been calculated as follows:**

	<b>2013</b>	<b>2012</b>
Defined benefit obligation at the end of year (ex security tax)	0	7 954 110
Fair value of assets at end of year	0	-6 820 000
Net pension obligations at 31.12.	0	1 134 110
Accrued social security tax	0	159 910
<b>Net amount recognised in the Balance Sheet end of year</b>	<b>0</b>	<b>1 294 020</b>

### **Service cost (income)**

	<b>2013</b>	<b>2012</b>
Current service cost at boy	1 503 326	2 929 650
Interest cost	109 097	355 086
Interest income	0	-359 553
Administration costs	28 883	184 681
Payroll tax	220 236	43 591
Impact of PSC/settlement incl. payroll tax	-2 541 129	0
<b>Net periodic pension cost (income)</b>	<b>-679 587</b>	<b>3 153 455</b>

### **Reconciliation of net amount recognised in Balance Sheet, incl. payroll tax**

	<b>2013</b>	<b>2012</b>
Net liability (assets) recognised in the Balance Sheet at boy	1 294 020	3 867 486
Net Periodic Pension Cost	-679 587	3 153 455
Employer contributions	-2 586 027	-2 759 926
Remeasurements loss (gain)	1 029 648	-2 966 996
Other movements in the balance sheet(Premium fund)	941 946	0
<b>Net liability (assets) recognised in the Balance Sheet at</b>	<b>0</b>	<b>1 294 019</b>

<b>end of year</b>					
<b>Change in Defined Benefit Obligation</b>	<b>2013</b>		<b>2012</b>		
Defined Benefit Obligation at the beginning of year	8 114 020		13 526 487		
Current service cost, CSC	1 782 191		2 929 650		
Interest cost	320 016		355 086		
Past service cost - curtailment/plan amendment	-2 541 129		0		
Settlement	-4 938 054		0		
Payroll tax of employer contribution, assets	-319 570		-341 060		
Remeasurements loss (gain)	-2 417 475		-8 356 143		
<b>Defined Benefit Obligation at end of year</b>	<b>0</b>		<b>8 114 020</b>		
<b>Change in plan assets</b>	<b>2013</b>		<b>2012</b>		
Fair value of assets at beginning of year	6 820 000		7 652 486		
Interest income	240 666		174 872		
Settlement	-4 938 054		0		
Surplus pension fund distributable to the members of the pension fund	(941 946)		0		
Employer contribution incl. payroll tax	2 586 027		2 418 866		
Payroll tax of employer contribution, assets	-319 570		0		
Remeasurements (loss) gain	-3 447 123		-3 426 226		
<b>Fair value of assets at end of year</b>	<b>0</b>		<b>6 820 000</b>		
<b>Economic assumptions:</b>	<b>2013</b>		<b>2012</b>		
Discount rate	4,00 %		3,90 %		
Rate of compensation increase	3,75 %		3,50 %		
Rate of pension increase	0,60 %		0,50 %		
Increase of social security base amount (G)	3,50 %		3,25 %		
Average past service period	5,94 %		5,61 %		
<b>Composition of pension funds Asset Mix (Storebrand)</b>	<b>2013</b>		<b>2012</b>		
Stocks	9,00 %		11,20 %		
Real estates	11,00 %		16,20 %		
Bonds at amortized cost	41,00 %		36,20 %		
Short-term bonds	20,00 %		20,20 %		
Cash market	15,00 %		12,20 %		
Other	4,00 %		4,00 %		
<b>Total</b>	<b>100,00 %</b>		<b>100,00 %</b>		
<b>The capitalised net pension obligation:</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Estimated present value of accrued pension obligations at 31.12.	0	7 954 110	12 800 603	10 518 190	8 486 676
Estimated pension assets at 31.12.	0	-6 820 000	-7 652 488	-6 511 966	-5 381 885
Net pension obligations at 31.12.	0	1 134 110	5 148 115	4 006 224	3 104 791
Accrued social security tax	0	159 910	725 884	564 878	437 776
Actuarial gains and losses not accounted for	0	0	-2 006 513	-1 486 735	-971 934
<b>Capitalized net pension obligation at 31.12.</b>	<b>0</b>	<b>1 294 019</b>	<b>3 867 486</b>	<b>3 084 367</b>	<b>2 570 632</b>

Commonly used assumptions in the insurance industry have been used as actuarial assumptions for demographic factors and retirement rates. The table used in the actuarial assumptions for death and disablement pension are K2013BE.

The discount rate for 2013 is determined under the guidance of NRS and based on market interest rates for preference bonds (OMF). For 2013, the discount rate was estimated based on the interest rate on Norwegian government bonds adjusted to long-term interest rates with reference to long-term European interest rates.

See Note 5 for supplementary benefit/Top-Hat regarding the CEO.

#### **Note 18      Lease commitments - figures in NOK**

The company has entered into the following lease agreements of significance:

The facility lease for 2013 amounted to MNOK 2.46. The company has come to an agreement with the landlord to pay NOK 1.5 million in compensation to the landlord to be released from the long term lease agreement effective from 1st February 2014. The company moved out of the premises by 31 January 2014.

#### **Note 19      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 amounts and classification of liabilities, or any other adjustments that might arise, 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 continued business operation, based on current cost levels, over the next twelve month period. Assuming a basic administrative operation and maintenance of the patent portfolio, the Company estimates that it will run out of working capital in the third quarter 2014.

On 25 February the extraordinary general meeting of DiaGenic resolved a new share issue of NOK 50 million by way of a rights issue with preferential rights for the shareholders of DiaGenic. The Company has secured full underwriting of the rights issue through an underwriting syndicate consisting of certain large shareholders of DiaGenic.

Based on the fully underwritten rights issue, the Board deems that a solution for the Company's working capital requirement may be secured. 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 20 Financial instruments - figures in NOK

Interest-bearing loans have the following contract conditions (information on fixed income and foreign exchange and liquidity risk is given in note 21):

The loan was borrowed in 2009 and was a serial loan over four years and the loan was redeemed in 2013.

Specification of lending and receivables:	Carrying amount 31.12.		Fair value 31.12.	
	2013	2012	2013	2012
SkatteFUNN scheme	1 795 645	1 244 630	1 795 645	1 244 630
Account receivables	56 407	71 816	56 407	71 816
Miscellaneous receivables	1 545 114	1 995 204	1 545 114	1 995 204
<b>Total lending and receivables</b>	<b>3 397 166</b>	<b>3 311 649</b>	<b>3 397 166</b>	<b>3 311 649</b>
Specification of other current liabilities:	2013	2012	2013	2012
Accounts payable	276 731	1 811 676	276 731	1 811 676
Public duties payable	1 672 772	1 831 914	1 672 772	1 831 914
Other current liabilities	3 082 263	871 060	3 082 263	871 060
Innovasjon Norge	0	1 666 667	0	1 666 667
Vacation acc. and Board of Directors remuneration accrual	1 517 413	2 621 626	1 517 413	2 621 626
<b>Total other current liabilities</b>	<b>6 549 179</b>	<b>8 802 943</b>	<b>6 549 179</b>	<b>8 802 943</b>

The Company does not have financial assets or liabilities measured to fair value.

Liabilities that are due within one year are defined as current, and liabilities which are longer than one year is defined as long-term.

## Note 21 Risk - figures in NOK

### Risk factors related to Market

#### Unproven market

Products which potentially can be developed may be launched in markets where the current diagnostic methods are based on fundamentally different concepts, technologies and procedures. There is no assurance that potential products developed will be accepted and used by the customers.

#### Regulatory approval

Approval by regulatory authorities is required in all relevant markets where DiaGenic may offer its potential products. Market access is controlled by the relevant authority in each market by setting requirement on how to obtain and maintain regulatory approval for a product. Thus regulatory requirements are of particular importance.

The manufacture and sale of diagnostic products are governed by a variety of regulations. These require to varying degrees control of manufacturing facilities, research and testing of products and government review and clearance of a submission containing manufacturing, pre-clinical and clinical data in order to obtain approvals to market the product.

The processes of obtaining approvals for new products require substantial resources and expenditures. Any failure to obtain, or delay in obtaining such approvals could adversely affect the Company's ability to utilise its technology. There can be no assurance that DiaGenic will receive the necessary regulatory approvals for potential products derived from its technology.

There can be no assurance that released assays are not recalled from the market and/or that significant development work may be required after the tests are released, and/or for other reasons the assays fail to meet predefined criteria which consequently may substantially delay, or halt entirely the commercialisation of the assays.

Changes in governmental regulations in DiaGenic's main markets could have a material effect on the Company's business, results of operations and financial condition.

### **Competition**

The in vitro diagnostic industry is highly competitive and DiaGenic will be competing with many established technologies. Furthermore, extensive research to develop new products or methods which compete with the Company's technology is ongoing. DiaGenic has no guarantee that this competition will not have an adverse effect on the Company's ability to launch the proprietary products successfully. Competitors include, amongst others, major in vitro diagnostic and biotechnology companies with substantially greater resources than DiaGenic. There can be no assurance that one or several of the Company's competitors will not succeed in developing technologies and products that are more efficient or more economic than any of those developed by DiaGenic or which would render DiaGenic's products obsolete and/or otherwise non-competitive.

In addition to rapid technological changes, altered customer needs may reduce the Company's competitiveness.

### **Operational risk factors**

#### **Business strategy going forward**

DiaGenic has since its inception been focused on the development of diagnostic tests based on peripheral gene expression for early detection of diseases. However, the development has so far been unsuccessful and on 28 October 2013 DiaGenic announced that its board and management will seek to restructure the Company, and the Board of directors initiated a process to give notice of termination to all the staff, a process which was executed during the month of October 2013. On 25th February the extraordinary general meeting resolved the rights issue for which the use of proceeds is to consider and pursue growth and/or development within its existing business or through new opportunities within biotech/pharmaceuticals or other areas. There is no assurance

that the Company in the future will be able to develop diagnostic tests based on peripheral gene expression for early detection of diseases or new opportunities within biotech/pharmaceuticals or other areas.

### **Technology and development stage**

DiaGenic's product portfolio is at the research and development stage. The Company may not be able to demonstrate sufficient robustness of its diagnostic tests and may not be able to reach the level of sensitivity and specificity that is required to attract industry, finance, and other relevant resources interest to transform its product candidates into commercial products. DiaGenic has used human blood samples for its development. It may not be possible to access sufficient quantities of samples and clinical data or samples and clinical data of sufficient quality, in which case the development or validation may be slowed or even interrupted. The robustness of the identified signatures performed on a limited number of samples may not be sufficient in the validation studies performed on the target populations, including levels of specificity and sensitivity to be competitive on the market and adopted by the medical and scientific community. There can be no assurance that the Company's product candidates will be successfully developed or become revenue generating commercial products, whether through a failure to secure and if secured retain suitable development partners, or clinical effectiveness of the Company's products or for other reasons. Adverse or inconclusive results from the development and clinical trials processes have substantially delayed and can halt entirely any further development of the products and/or subsequent out-licensing of the products.

### **Intellectual property rights**

The commercial success of DiaGenic depends in part on its ability to obtain patent protection for the technology and the products in the principle markets for the Company. Currently DiaGenic's intellectual property consists of granted patents and patent applications.

There is no assurance that patent applications will be granted or that future granted patents will be sufficiently broad in their scope to provide protection for intellectual property rights and exclude competitors with similar technology.

There is a risk that DiaGenic was not the first to file patent applications for its inventions. Granted patents may also be deemed invalid.

The commercial success of DiaGenic will also depend in part on non-infringement of patents granted. Competitors may have filed applications, or patents may have been granted, or may obtain patents that may relate to products competitive with those of DiaGenic's. Resolving a patent infringement claim can be costly and time consuming and may require DiaGenic to enter into royalty or license agreements. Alternatively, the Company may need to cease or alter certain activities or processes or develop or obtain alternative technology. This may have a material adverse effect on DiaGenic.

**Key personnel**

As announced in October 2013 all employees and management have been made redundant. Qualified personnel will be required should the product candidates be further developed. An inability to attract a sufficient number of qualified employees for DiaGenic or its partners could adversely affect the development of product development and other business operations.

**Product liability and insurance**

DiaGenic is exposed to potential liability risks that are inherent in the research and development, pre-clinical and clinical testing, marketing and the use of human diagnostic products. However, such potential liability risks are significantly lower for in vitro diagnostic products compared with therapeutic products.

**Dependence of third parties in manufacturing**

The Company's or its partners ability to commercialise their potential products successfully could depend in part on the extent to which reimbursement for the cost of such products will be available from government health administration authorities, private health insurers and other organisations. Such third party players are increasingly challenging the coverage, health economics impact and the price of medical and diagnostic products. Significant uncertainty exist as to the reimbursement status of newly approved medical diagnostic products, and there can be no assurance that adequate third party coverage will be available to DiaGenic's potential products or at price levels sufficient to realise an appropriate return on investment in product development. Reimbursement schemes may well be altered which can lead to adverse effects on DiaGenic's potential product revenues

**Immature Company**

DiaGenic is a relatively young and small company, with new products in development, to be launched in an immature market. Therefore, investing in DiaGenic involves inherent risks.

**Liquidity risk:**

Liquidity risk is the potential loss that occurs when a company fails to fulfil its contractual obligations when they fall due. The Company strengthened its financial position in 2013 through two share issues and reducing the company's liquidity risk. The Company monitors its risks associated for lack of capital up against the company's planned activities. The Company will if necessary attempt to raise capital through private placements, debt financing, partnerships, and strategic alliances or from

other sources. The company may fail to raise capital on acceptable terms, or not do it at all, and can result in liquidation.

**Financial risk:**

The company does not use financial instruments in connection with the management of financial risk. The Company uses financial instruments such as bank loans.

The purpose of this financial instrument is to provide capital for investments that are necessary for its operations. In addition, financial instruments such as accounts receivable, accounts payable, etc. that are directly related to the company's' daily operations.

The key financial risks the company is exposed to are related to interest rate risk, liquidity risk, currency risk and credit risk.

**Currency risk:**

The company's functional currency is NOK. The company's transactions mainly take place in NOK, and a modest number of transactions take place in SEK, EUR, GBP, and USD. The company's revenues will be influenced by variations in the exchange rate against NOK, the same will apply to expenses in other currencies.

The Company is currently not using financial hedging instruments, but may consider such instruments for larger contracts. The risk is considered to be low due to few and small transactions.

**Interest rate risk:**

The company's risk exposure in relation to changes in market interest rates are the company's pension, leases and bank deposits, and a change in interest rates may therefore affect the capital return. The risk is considered to be low since the company's defined benefit scheme has been terminated since all employees of the Company were given notice of termination in October 2013.

**Credit risk:**

Credit risk is the potential loss that may arise if a counterparty's ability or willingness to meet its obligations to fail, when it is due for payment. New customers are credit checked prior to contract conclusion. DiaGenic credit risk is considered to be relatively low, as claims are mainly against the various research institutions and large international organisations. Other receivables are mainly prepaid expenses. In addition, balance on accounts receivables is constantly monitored, with the result that the company's risk of loss is not significant. Maximum risk exposure is outstanding receivables of TNOK 3,397.



## **Note 22      Events after the balance sheet date**

In January 2014, DiaGenic entered into an agreement with its largest creditor that significantly reduced DiaGenic's financial liabilities going forward. The agreement included a final payment of NOK 1.5 million to DiaGenic's landlord in exchange for the termination of a long-term facility lease contract. To enable an earlier termination of the facility lease, Tycoon Industrier AS, one of DiaGenic's larger shareholders, has entered an on demand guarantee for invalidation of NOK 1.5 million with DiaGenic's landlord. DiaGenic has agreed to compensate Tycoon Industries AS with NOK 100,000 for putting up the guarantee.

The Extraordinary General Meeting of DiaGenic has resolved that the Company carries out a new share issue of NOK 50 million, by way of a rights issue with preferential rights for shareholders of DiaGenic. The Company has secured a full underwriting of the Rights Issue through an underwriting syndicate. The underwriting has been made at NOK 0.50 per share, which is also the subscription price in the Rights Issue. Transferable subscription rights will be issued and listed on Oslo Børs. The purpose of the proposed Rights Issue is to strengthen the Company's balance sheet, and thereby enable the Company to consider and pursue further growth and development, whether within its existing business or through new opportunities within biotech/pharmaceuticals or other areas.

New information about the company's position on the balance sheet date is taken into account. Subsequent events that do not affect the company's position on the balance sheet date, but that will affect the company's future financial position, are informed about if essential. Other new essential information will be notified in accordance with the rules of listed companies on the Oslo Stock Exchange and also be posted on the Company's web site.

## Declaration by the Board of Directors and the CEO

"We confirm that the financial statements for the period from 1 January up to and including 31 December 2013, to the best of our knowledge, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and that the directors report includes a fair review of the development and performance of the business and the position of the company taken as a whole, together with a description of the principal risks and uncertainties that they face."

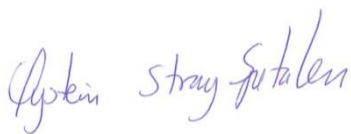
The Board of Directors and the Acting CEO of DiaGenic ASA

Oslo, 20th March 2014



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Hanne Skaarberg Holen  
Chairman of the Board



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Øystein Stray Spetalen  
Board member



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Martin Nes  
Board member



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Ruben Ekbråten, Acting CEO

# Auditor's report



Statsautoriserte revisorer  
Ernst & Young AS

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Medlemmer av den norske revisorforening

To the Annual Shareholders' Meeting of  
DiaGenic ASA

## AUDITOR'S REPORT

### Report on the financial statements

We have audited the accompanying financial statements of DiaGenic ASA, which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, cash flows and changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements of DiaGenic ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

### **Report on other legal and regulatory requirements**

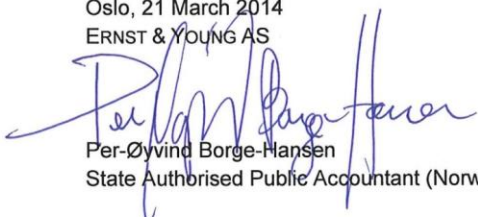
#### *Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and in the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

#### *Opinion on registration and documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 21 March 2014  
ERNST & YOUNG AS



Per-Oyvind Borge-Hansen  
State Authorised Public Accountant (Norway)

# D*i*A*G*EN*i*C

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