

Annual Financial statements
2016
Lytix Biopharma Group

Table of contents

| | |
|--|----|
| Table of contents..... | 2 |
| Board of Directors Report 2016 | 5 |
| Main events during 2016 | 5 |
| Background and strategy..... | 5 |
| Market | 6 |
| Financial review..... | 6 |
| Accounting policies..... | 6 |
| Operating revenues..... | 6 |
| Operating expenses..... | 6 |
| Net financial items..... | 6 |
| Net result..... | 7 |
| Financial position and cash flow | 7 |
| Allocation of the 2016 result..... | 7 |
| Financial risks | 7 |
| Non-financial risks | 7 |
| Technology risk..... | 7 |
| Competitive technology | 7 |
| Market risks..... | 8 |
| Personnel and organization..... | 8 |
| Health, safety and environment (HSE) | 8 |
| External environment..... | 8 |
| Statement of corporate social responsibility – Code of Conduct | 8 |
| Board statement on corporate governance..... | 8 |
| Board of Directors of Lytix Biopharma AS..... | 9 |
| Significant events after 31 December 2016 | 9 |
| Strategy and Outlook | 9 |
| Financial Statements Group | 11 |
| Group consolidated statement of comprehensive income | 11 |
| Group consolidated statement of financial position..... | 12 |
| Group consolidated statement of Cash flows..... | 13 |
| Group consolidated statement of changes in equity | 14 |
| Note 1 - Basis for preparation and significant accounting policies | 15 |
| Note 2 – Changes in accounting policies..... | 20 |

| | |
|---|----|
| Note 3 – Critical accounting estimates and judgements..... | 21 |
| Note 4 – Financial instruments – Risk Management..... | 22 |
| Note 5 Revenue | 24 |
| Note 6 Other Operating income..... | 25 |
| Note 7 Government grants..... | 25 |
| Note 8 Other operating expenses | 25 |
| Note 9 Payroll and related expenses..... | 26 |
| Note 10 Financial income and expense..... | 28 |
| Note 11 Tax | 29 |
| Note 12 Property, plant and equipment..... | 30 |
| Note 13 Intangible assets..... | 30 |
| Note 14 List of Subsidiaries | 30 |
| Note 15 Investment in associates | 31 |
| Note 16 Trade and other receivables..... | 32 |
| Note 17 Cash and cash equivalents..... | 32 |
| Note 18 Other current liabilities | 32 |
| Note 19 Share capital and shareholder information..... | 33 |
| Note 20 Leases | 33 |
| Note 21 Share option agreement..... | 34 |
| Note 22 Transactions with related parties..... | 36 |
| Note 23 Contingent liabilities..... | 36 |
| Note 24 Events after the reporting date | 36 |
| Note 25 Discontinued Operations..... | 37 |
| Financial Statements Lytix Biopharma AS..... | 38 |
| Profit and loss statement of Lytix Biopharma AS..... | 38 |
| Balance sheet Lytix Biopharma AS | 39 |
| Statement of cash flow Lytix Biopharma AS | 40 |
| Lytix Biopharma AS – Notes to the annual financial statements..... | 41 |
| Note 1 - Basis for preparation and significant accounting policies..... | 41 |
| Note 2 Revenue | 44 |
| Note 3 Other Operating income..... | 44 |
| Note 4 Government grants..... | 44 |
| Note 5 Specification of auditor's fee..... | 45 |
| Note 6 Payroll and related expenses..... | 45 |
| Note 7 Finance income and expense | 47 |
| Note 8 Tax | 48 |

| | |
|--|----|
| Note 9 Property, plant and equipment | 49 |
| Note 10 Intangible assets | 49 |
| Note 11 Subsidiaries and associates | 50 |
| Note 12 Trade and other receivables | 50 |
| Note 13 Cash and cash equivalents..... | 50 |
| Note 14 Other current liabilities | 51 |
| Note 15 Equity and share capital | 51 |
| Note 16 Leases | 52 |
| Note 17 Share option agreement..... | 52 |
| Note 18 Transactions with related parties..... | 54 |

Board of Directors Report 2016

Main events during 2016

- In January, Lytix Biopharma AS successfully raises NOK 78 million from existing and new shareholders.
- In February, Lytix licenses LTX-109 to Amicoat AS outside of pharmaceutical use, like in medical devices or industrial applications.
- In February, Lytix expands its collaboration with Institut Gustave Roussy and professors Laurence Zitvogel and Guido Kroemer.
- In February, Lytix initiates pre-clinical collaborations with professors Michael Pittet at Harvard and Sandra DeMaria at Weill Cornell University. The purpose of these collaborations is to further investigate LTX-315's ability to "make cold tumors hot" and other potential combinations.
- In March, CEO Unni Hjelmaas leaves the company and Håkan Wickholm takes over as acting CEO.
- In June, Lytix decides to make amendments to optimize the injection schedule. The protocol amendment resulted in a delay of the program, however, the new injection schedule is expected to increase the tumor response, enhance the probability of the clinical benefits and improve the side effect profile of LTX-315.
- In September, Lytix decides to pursue a listing at NASDAQ OMX in Stockholm in 2017.
- In September, Lytix decides to spin-out Amicoat AS with effect from 1 January 2017.
- In November, Lytix launches a pre-IPO directed towards a select group of life science investors in Sweden and the largest Norwegian shareholders. The process was led by Redeye, a Swedish investment bank specialized in life science.
- In November, Norwegian and Belgian authorities approves the amended protocol.
- In November, the clinical investigation sites at Oslo University Hospital and Haukeland University Hospital in Norway and at St. Luc and Jules Bordet in Belgium get approval and are re-activated for patient recruitment.
- In December, the first patient in the triple negative breast-cancer (TNBC) arm is included in the phase I combination study with checkpoint inhibitors (pembrolizumab).

Background and strategy

Lytix Biopharma AS was established in 2003 and has its main activities in Oslo, Norway.

The company's clinical stage product LTX-315, a first in class oncolytic peptide, reshapes tumor microenvironment through an effective release of potent immune stimulants and tumor antigens. Through the 'release and reshape' effect of LTX-315, the tumors are sensitized to other types of therapies opening up for a variety of combination treatments. The technology has potential to address several indications and therapeutic areas. Lytix has a strong patent portfolio with protection lasting up to 2032.

Lytix Biopharma's strategy involves developing projects through Phase II, and subsequently collaborate with partners for late stage development and commercialization. The Company consider to retain commercial rights in selected geographical areas and consider strategic partnerships at any point in time if appropriate and in the best interest of Lytix.

Market

The total immune-oncology market in the US, UK, Spain, Germany, France, Italy and Japan (the 7 major countries) is estimated to reach US\$ 14bn by 2019 and US\$ 34 bn by 2024, and the immune checkpoint inhibitors are expected to dominate the market with an estimated 70% of the turnover in 2024. The growth of this market will be driven by introduction of new immunotherapies, increased use across several indications and of combinations of immunotherapies in order to enhance efficacy.

LTX-315 has a complementary mode of action to ICIs, without adding significant toxicity. ICIs are efficacious hot tumours and LTX-315 can convert cold tumours to hot tumours. Therefore, LTX-315 may have significant commercial potential in combination therapy with ICIs for multiple indications, i.e. malignant melanoma, breast cancer, head & neck cancer and sarcoma. The melanoma market is fast growing and predicted to reach US\$ 4 bn by 2024, compared to USD 1.3 bn in 2015.

Financial review

Accounting policies

The group financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as adopted by the EU. The financial statements for Lytix Biopharma AS have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Lytix Biopharma AS had one subsidiary in 2016 and 2015; Lytix Amicoat AS (Amicoat AS from January 2016). The subsidiary Amicoat AS was demerged to current shareholders as per 1 January 2017. In parallel the ownership of the rights to LTX-109 plus shares in Pharmasum Therapeutics AS were demerged into Pharma Holdings AS in 2017, owned by the shareholders of Lytix Biopharma AS as per 1 January 2017. The decision to carry out these transactions was made in December 2016 and was finalized in January 2017. As a consequence the distribution was highly probable as of 31 December 2016 and the assets and liabilities related to the transactions are classified as held for distribution to owners (see note 3 and 25).

This report is on consolidated, Group level.

Operating revenues

Operating revenue for 2016 for the Group amounted to NOK 0.12 million compared to NOK 0.02 million in 2015. Other income, mainly public grants, amounted to NOK 12.3 million for 2016 compared to NOK 14.9 million for 2015. Lytix Biopharma AS constituted NOK 0.8 (2015: NOK 0.3) million and NOK 12.3 (2015: NOK 14.9) million of revenue and other income respectively for 2016.

Operating expenses

Net operating expenses increased to NOK 76.9 million in 2016 from NOK 70.8 million in 2015 for the Group. Operating loss for the Group amounted to NOK 64.5 million in 2016 compared to NOK 55.8 million in 2015. Lytix Biopharma AS constituted NOK 76.9 (2015: NOK 70.8) million in operating expenses and NOK 63.8 (2015: NOK 55.5) million in operating loss for 2016.

Net financial items

Net financial items for the Group amounted to NOK 0.6 million for 2016 compared to NOK 0.4 million for 2015. Lytix Biopharma AS's net financial items constituted minus NOK 1.0 (2015: positive NOK 0.4 million) million in 2015. The negative net financial items in 2016 is a result of impairment of investment in Pharmasum Therapeutics AS of NOK 1.8 million.

Net result

Net result for the year was negative with NOK 67.8 million for 2016 compared to a deficit of NOK 55.9 million for 2015. Lytix Biopharma AS's net result constituted minus NOK 64.8 (2015: NOK 55.2) million in 2016.

Financial position and cash flow

Cash and cash equivalents were NOK 17.6 million for the Group compared to NOK 9.7 million end of 2015. Cash position for Lytix Biopharma AS was NOK 18.0 (2015: NOK 8.6) million by the end of 2016.

Total liabilities for the Group were NOK 12.4 (2015: 17.8) million, including accrued, non-invoiced cost from ongoing projects and eligible fees related to the before-mentioned share issue. Total liabilities for Lytix Biopharma AS constituted NOK 11.4 (2015: NOK 19.8) million by the end of 2016.

Shareholders' equity for the Group was NOK 23.0 million end of 2016, compared to NOK 8.2 million in 2015. For Lytix Biopharma AS the equity position by year-end was positive with NOK 29.8 (2015: NOK 88.8) million.

Deferred tax asset is not reflected in the statement of financial position as the Group is in a development phase and is currently generating losses.

The Board stated that the annual accounts represent a true and fair view of the Group's financial position at the turn of the year. According to the Norwegian Accounting Act §3-3 (a), the Board of Directors confirmed that the financial statements have been prepared under the assumption of going concern.

Allocation of the 2016 result

The Group's annual result amounted to a loss of NOK 67.8 million. For Lytix Biopharma AS the loss was NOK 64.8 million. The Board of Directors proposed that the loss is transferred from Share Premium Reserve.

Financial risks

The Group has no interest-bearing debt. Bank deposits are exposed to market fluctuations in interest rates, which affects financial income. Currency risk is limited to fluctuations in currencies relating to partners and vendors abroad. Besides internal credit to the subsidiary, the credit risk is limited as revenues are minimal exclusive of public grants.

The Group controls its cash flow from both long- and short-term perspectives through rolling cash forecasts.. The Group has no loan agreements involving covenants or other financial instruments or requirements. There is an inherent risk around future financing of the company, depending upon the company's own performance and on the financial market conditions. The company raised further equity in March/April 2017 and available and committed cash is estimated to last throughout 2017.

Non-financial risks

Technology risk

The Group's lead product candidate LTX-315 is still at a relatively early stage (Phase I/IIa) and the clinical studies may not prove to be successful.

Competitive technology

Immunotherapy and other cancer therapy industries are in general highly competitive and dynamic, and as such a high risk business.

Market risks

The financial success of the Group will require beneficiary partner agreements as well as obtaining market access and reimbursement/pricing at attractive levels. There can be no guarantee that the Group's product(s) will meet these requirements. The Group will need approvals from the European Medicines Agency (EMA) to market products in Europe and from the US Food and Drug Administration (FDA) to market its products in the US, as well as equivalent regulatory authorities in other foreign jurisdictions to commercialize in those regions.

Personnel and organization

The Group's senior management team at year-end consists of Håkan Wickholm, Chief Executive Officer; Andrew Saunders, Chief Medical Officer; Wenche Marie Olsen, Chief Operating Officer; Øystein Rekdal, Chief Scientific Officer; Kjetil Vangsnes, Chief Financial Officer and Steven Wang, CEO Amicoat AS. Both Lytix Biopharma AS and Amicoat AS have their registered addresses in Tromsø, Norway, however most of the Group's activities are now in Oslo, Norway. Both companies are public limited companies incorporated and domiciled in Norway.

The Group rents premises in Tromsø and Oslo for offices and in the Oslo Cancer Cluster Incubator for laboratory facilities.

Health, safety and environment (HSE)

At the end of 2016, the Group had 11 employees, constituting 10 man-years, which represented an decrease of three since 2015. The working environment is good. No accidents or injuries were reported in 2016. Absence due to illness was all short term and minimal, and in line with 2015.

The Group aims to be a workplace with equal opportunities for women and men in all areas. The Group has traditionally recruited from environments where women and men are relatively equally represented. In terms of gender equality within the Group, women constitute 29 % of the Board members, as well as 17 % of the senior management team. The Group promotes a productive working environment, does not tolerate disrespectful behavior, and the Group is an equal opportunity employer. Discrimination in hiring, compensation, training, promotion, termination or retirement based on ethnic and national origin, religion, sex or other distinguishing characteristics is not acceptable.

External environment

The Group does not pollute the external environment to a greater extent than is normal for this industry. Production and logistics are outsourced to qualified partners who are obliged to follow GMP and all applicable standards.

Statement of corporate social responsibility – Code of Conduct

The Group's business is based on trust. For the confidence of its customers, employees, shareholders and other stakeholders, ethics and values have to play a prominent role in all operations. The Group is committed to operating in accordance with responsible, ethical and sound corporate and business principles and will strive to be in compliance with all applicable laws and public regulations. This requires the collective effort of all employees in the Group.

This Code of conduct applies to all employees and Board members in entities owned by the Group. By agreement it may also apply to others acting on behalf of the Group.

Board statement on corporate governance

The Group considers good corporate governance to be a prerequisite for value creation and trustworthiness and for access to equity. In order to secure strong and sustainable corporate governance, it is important that the Group ensure good business practices, reliable financial reporting and an environment of compliance with legislation and regulations. The Group's Board of Directors actively adheres to good corporate governance standards and will at all times ensure that the Company complies with "The Norwegian Code of Practice for

Corporate Governance” (the “Code”), most recently revised 30 October 2014 issued by the Norwegian Corporate Governance Policy Board (NCGB), or explain possible deviations from the Code.

Board of Directors of Lytix Biopharma AS

The composition of the Board of Directors is as follows:

Gert Wilhelm Munthe (Chair), Knut Eidissen, Kari Grønås, Morten Jurs, Debasish Roychowdhury, Lena Torlegård and John Sigurd Mjøen Svendsen.

All board members are independent of the Company’s executive personnel and material business at year-end. Gert Wilhelm Munthe, Knut Eidissen and John Sigurd Mjøen Svendsen have, directly or indirectly, significant share-holdings in the company, and John Sigurd Mjøen Svendsen is part of the management group of the subsidiary Amicoat AS.

The Board of Directors held 13 Board meetings during the fiscal year 2016. The Board of Amicoat AS is internal and chaired by Gert Wilhelm Munthe.

Significant events after 31 December 2016

In February 2017, Torbjørn Furuseth took over as CFO for Lytix Biopharma AS. Kjetil Vangsnes will continue as a special advisor in Lytix Biopharma and gradually go over to a full time position as CFO for Amicoat AS.

In March 2017, Lytix Biopharma AS raised NOK 59 million in gross proceeds in a share issue targeted towards Swedish investors and the largest current shareholders. A repair share issue amongst the remaining shareholders was carried out in April 2017 and gave gross proceeds of NOK 21 million.

In May 2017, the Lytix Biopharma Group was demerged (with accounting effect from 1 January 2017). As a result of the demerger, Amicoat Holding AS retained 92% of the shares in Amicoat AS (with the remaining 8% being owned by Amicoat’s management). Pharma Holdings AS retained the ownership of the rights to LTX-109 plus shares in Pharmasum Therapeutics AS. As a result of the demerger, the share capital in Lytix was written down and the shareholders in Lytix became shareholders in Amicoat Holding AS and Pharma Holdings AS.

Strategy and Outlook

The Group changed from a broader strategy to a focused strategy on cancer immunotherapy during the second half of 2015. This strategy has been followed through 2016.

In 2017, the main focus is to demonstrate the safety and get efficacy signals of LTX-315 through the current three-arm study, monotherapy as well as two combination arms with ICLs within breast cancer and melanoma, and continue the R&D pipeline.

The Group is also actively pursuing partner opportunities for the combination studies as well as later-stage clinical development and commercialization.

The Group will expand its activities significantly during 2017 in order to deliver according to the overall strategy and leverage on our unique technology and strong patent protection.

Oslo, 18 May 2017

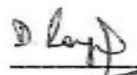
The Board of Directors and the Chief Executive Officer of Lytix Biopharma AS



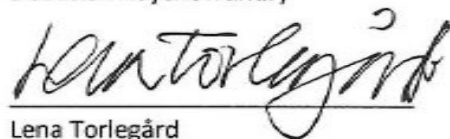
Gert Wilhelm Munthe
Chairman of the Board



Kari Grønås



Debasish Roychowdhury



Lena Torlegård



Knut Eidissen



Morten Jurs



John Sigurd Mjølén Svendsen



Håkan Wickholm
Chief Executive Officer

Financial Statements Group

Group consolidated statement of comprehensive income

| (in NOK 1000) | Note | 2016 | 2015 |
|---|------|-----------------|-----------------|
| Revenue | 5 | 124 | 19 |
| Other operating income | 6,7 | 12 336 | 14 932 |
| Total operating income | | 12 460 | 14 951 |
| Payroll and related expenses | 9 | (22 442) | (20 126) |
| Depreciation and amortisation expenses | 12 | (1 009) | (1 012) |
| Impairment intangible assets | 13 | (2 940) | - |
| Direct R&D expenses | | (33 534) | (35 641) |
| Other expenses | 8,20 | (17 005) | (13 985) |
| Total operating expense | | (76 929) | (70 764) |
| Profit from operations | | (64 470) | (55 812) |
| Finance expense | 10 | (389) | (533) |
| Finance income | 10 | 1 037 | 886 |
| Net financial items | | 648 | 353 |
| Share of post-tax profits of equity accounted investments | 15 | (9) | 192 |
| Profit before tax | | (63 831) | (55 267) |
| Tax expense | 11 | - | - |
| Profit for the year from continuing operations | | (63 831) | (55 267) |
| Loss for the year from discontinued operations | 25 | (3 994) | (614) |
| Profit for the year | | (67 825) | (55 881) |
| Profit (loss) attributable to non-controlling interests | | - | - |
| Profit (loss) attributable to owners of the parent | | (67 825) | (55 881) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | - | - |
| Total other comprehensive income for the period | | - | - |
| Total comprehensive income for the period | | (67 825) | (55 881) |

Group consolidated statement of financial position

| (in NOK 1000) | Note | 31. December 2016 | 31. December 2015 |
|--|----------|----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 20 | 49 |
| Intangible assets | 13 | - | 3 920 |
| Investments in equity-accounted investments | 15 | - | 2 258 |
| Other receivables | 4 | - | 759 |
| Total non-current assets | | 20 | 6 985 |
| Current assets | | | |
| Trade and other receivables | 16 | 9 723 | 9 303 |
| Cash and cash equivalents | 17 | 17 637 | 9 719 |
| Total current assets | | 27 360 | 19 022 |
| Assets in disposal groups classified as held for distribution to owners | 14,15,25 | 8 097 | |
| Total assets | | 35 478 | 26 008 |
| Shareholders Equity and liabilities | | | |
| Issued capital and reserves | | | |
| Share capital | 19 | 1 002 | 776 |
| Share premium reserve | | 22 068 | 7 449 |
| Equity contributed to Lytix Biopharma shareholders | | 23 070 | 8 226 |
| Non - controlling interests | | (41) | |
| Total equity | | 23 029 | 8 226 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 4,22 | 4 789 | 6 386 |
| Other current liabilities | 18,23 | 6 564 | 11 396 |
| Total current liabilities | | 11 353 | 17 782 |
| Liabilities in disposal group classified as held for distribution to owner: | 14,25 | 1 097 | |
| Total liabilities | | 12 449 | 17 782 |
| Total equity and liabilities | | 35 478 | 26 008 |

Group consolidated statement of Cash flows

| (NOK 1000) | Note | 2016 | 2015 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Income (loss) from continuing operations | | (63 831) | (55 267) |
| Income (loss) from discontinuing operations | 25 | (3 994) | (614) |
| <i>Adjustments for:</i> | | | |
| Depreciation of property, plant and equipment | 12 | 1 009 | 1 012 |
| Impairment intangible assets | 13 | 2 940 | - |
| Interest received | | (710) | (553) |
| Share of profit from associates | 15 | 9 | (192) |
| Share-based payment expense | 21 | 5 793 | 3 002 |
| Increase/ Decrease in trade and other receivables | | 338 | 49 |
| Increase / Decrease in trade and other payables | | (6 430) | 5 281 |
| Net change in discontinuing operations | | (2 094) | |
| Cash generated from operations | | (66 969) | (47 282) |
| Income taxes paid | 11 | - | - |
| Net cash flows from operating activities | | (66 969) | (47 282) |
| Investing activities | | | |
| Acquisition of associate | 15 | - | - |
| Interest received | | 710 | 553 |
| Net cash from / (used) in investing activities | | 710 | 553 |
| Financing activities | | | |
| Proceeds from share issue | 19 | 76 427 | 47 263 |
| Capital contributions from minority interests | | 408 | |
| Net cash (used in)/from financing activities | | 76 835 | 47 263 |
| Net increase in cash and cash equivalents | | 10 576 | 534 |
| Cash and cash equivalents at beginning of the period | 17 | 9 719 | 9 185 |
| Cash and cash equivalents at end of the period | | 20 295 | 9 719 |
| Cash from discontinued operations | 25 | -2 658 | |
| Cash from continued operations | | 17 637 | 9 719 |

Group consolidated statement of changes in equity

| (in NOK 1000) | Note | Share Capital | Share Premium | Equity-settled share-based payment | Total | Non-controlling interest | Total equity |
|---|------|---------------|-----------------|------------------------------------|-----------------|--------------------------|-----------------|
| Balance at 1 January 2016 | | 776 | (269) | 7 719 | 8 226 | | 8 226 |
| Comprehensive Income for the period | | | | | | | |
| Loss from continuing operations | | | (63 831) | | (63 831) | | (63 831) |
| Loss from discontinuing operations | 25 | | (3 994) | | (3 994) | | (3 994) |
| Other comprehensive Income | | | | | - | | - |
| Total comprehensive Income for the period | | - | (67 825) | - | (67 825) | - | (67 825) |
| Contributions by owners | 19 | 226 | 78 236 | | 78 462 | | 78 462 |
| Transaction costs | | | (2 035) | | (2 035) | | (2 035) |
| Capital contributions from minorities | 14 | | 449 | | 449 | (41) | 408 |
| Share based payment | 21 | | | 5 793 | 5 793 | | 5 793 |
| Total contributions by and distributions to owners | | 226 | 76 650 | 5 793 | 82 669 | (41) | 82 628 |
| Balance at 31 December 2016 | | 1 002 | 8 556 | 13 512 | 23 070 | (41) | 23 029 |

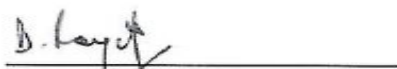
| (in NOK 1000) | | Share Capital | Share Premium | Equity-settled share-based payment | Total | Non-controlling interest | Total equity |
|---|----|---------------|-----------------|------------------------------------|---------------|--------------------------|-----------------|
| Balance at 1 January 2015 | | 698 | 3 527 | 4 717 | 8 942 | | 8 942 |
| Comprehensive Income for the period | | | | | | | |
| Loss from continuing operations | | | (55 267) | | (55 267) | | (55 267) |
| Loss from discontinuing operations | | | (614) | | (614) | | (614) |
| Other comprehensive Income | | | | | - | | - |
| Total comprehensive Income for the period | | - | (55 881) | - | (614) | - | (55 881) |
| Contributions by owners | 19 | 78 | 49 345 | | 49 423 | | 49 423 |
| Transaction costs | | | 2 740 | | 2 740 | | 2 740 |
| Share based payment | 21 | | | 3 002 | 3 002 | | 3 002 |
| Total contributions by and distributions to owners | | 78 | 52 085 | 3 002 | 55 165 | - | 55 165 |
| Balance at 31 December 2015 | | 776 | (269) | 7 719 | 63 493 | - | 8 226 |

Oslo, 18 May 2017

The Board of Directors and the Chief Executive Officer of Lytix Biopharma AS


Gert Wilhelm Munthe
Chairman of the Board


Kari Grønås



Debasish Roychowdhury



Lena Torlegård



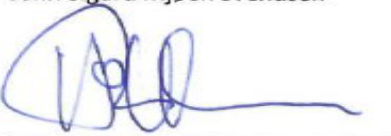
Knut Eidissen



Morten Jurs



John Sigurd Mjølén Svendsen



Håkan Wickholm (CEO)

Lytix Biopharma Group – Notes to the Annual Accounts 2016

Lytix Biopharma AS was established in 2003 and has its main activities in Oslo, Norway. The registered head office is located in Sykehusvegen 23, 9019 Tromsø. Lytix Biopharma's technology is based on nature's own defense mechanisms. The company's unique technology represents a new class of cancer immunotherapy that activates the patient's own immune system.

Note 1 - Basis for preparation and significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements are presented in NOK, which is also the parent company's functional currency. Amounts are rounded to the nearest thousand unless otherwise stated.

These financial statements were approved for issue by the Board of Directors on 18 May 2017.

Basis for preparation of financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as adopted by the EU.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis.

Revenue recognition

Revenue comprises the fair value of consideration received or due consideration for the sale of services in regular business activities. Revenue is presented net of value added tax, provided the amount of revenue can be measured reliably and it is probable that the group will receive any considerations.

The Group's products are still in the research and development phase, and the Group has no revenue from sales of products yet. Revenue for 2016 consists of consultancy revenue.

Basis of consolidation

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the company considers all relevant facts and circumstances, including:

- The size of the company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquired entity's identifiable assets, liabilities and

contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Impairment of non-financial assets (excluding deferred tax assets)

Non-financial assets with definite useful life are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the smallest group of assets to which it belongs for which there are separately identifiable cash flows; its cash generating units ('CGUs').

Impairment charges are included in profit or loss, except to the extent they reverse gains previously recognised in other comprehensive income.

Associates

Where the Group has the power to participate in (but does not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated statement of financial position at cost. Subsequently associates are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income. If the Group's share of losses exceeds the interest in the associate, the entity discontinues recognising its share of future losses. When the Group's interest is reduced to zero, additional losses are only recognised to the extent the Group has incurred obligation or made payments on behalf of the associate.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Judgement

If the Group holds less than 20% of voting rights in an investment but has the power to exercise significant influence, the investment is treated as an associate. In the opposite situation where the Group holds over 20% of voting rights (but not over 50%); and the Group does not exercise significant influence, the investment is treated as an available-for-sale investment.

The group holds 24 % (34% in 2015) of the shares in Pharmasum Therapeutics AS. De-facto control exists in situations where the company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. As the group held less than 50 % of the voting rights in 2015, the investment in Pharmasum Therapeutics AS was presented as an associate. In December 2016 the board decided to demerge the ownership of the shares in Pharmasum Therapeutics AS to Pharma Holdings AS. The transaction was finalized 9 January 2017 and as a consequence investment in Pharmasum Therapeutics AS is presented as held for distribution to owners. See note 3 and 25.

Foreign currency

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss (financial items).

Financial assets

The Group's financial assets are classified into the loans and receivables categories. The Group has not classified any of its financial assets as fair value through profit or loss, available-for-sale or held to maturity. The Group's accounting policy for the category is as described under the next chapter:

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated statement of financial position. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities

Trade payables and other short-term liabilities, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. The Group has not classified any of its financial liabilities as fair value through profit or loss.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Group's ordinary shares are classified as equity instruments.

Defined contribution schemes

Contributions to defined contribution pension schemes are charged in the income statement in the year to which they relate.

Other long-term service benefits

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that

eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the consolidated income statement on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

The Group has not attended leasing agreements where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease").

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives (see note 13).

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

| Intangible asset | Useful economic life | Depreciation method |
|-------------------------|-----------------------------|----------------------------|
| Patents and rights | 5 years | Straight-line basis |

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Internal development costs related to the Group's development of products are recognised in the income statement in the year incurred unless it meets the asset recognition criteria of IAS 38 "Intangible Assets". An internally-generated asset arising from the development phase of an R&D project is recognised if, and only if, all of the following has been demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

Uncertainties related to the regulatory approval process and results from ongoing clinical trials generally indicate that the criteria are not met until the time when marketing authorisation is obtained from relevant regulatory authorities. The Company has currently no development expenditure that qualifies for recognition as an asset under IAS 38.

liabilities classified as held for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

or

- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned (See note 25).

Note 2 – Changes in accounting policies

New standards, interpretations and amendments effective from 1 January 2016

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016. None of the amendments to Standards that are effective from that date had a significant effect on the Group's financial statements.

New standards, interpretations and amendments not yet effective

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Group's future financial statements:

IFRS 15 Revenue from Contracts with Customers (effective from January 2018 and approved by EU)

The IASB and FASB has published a new converged standard for revenue recognition; IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets (e.g. sale of property, plant and equipment). IFRS 15 shall be implemented using either the fully retrospective or modified method.

The Group does not expect IFRS 15 to have a significant impact on revenue.

IFRS 9 Financial instruments (effective from 1 January 2018 and approved by EU)

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Group is currently evaluating the effect of implementing the new standard.

IFRS 16 Leases (effective date 1 January 2019 and not approved by EU)

IFRS 16 replaces existing guidance in IAS 17 Leases. IFRS 16 eliminates the current dual accounting model for leases and will establish a single, on-balance sheet accounting model that is similar to the current finance lease accounting under IAS 17. The standard will primarily affect the accounting of the Group's operating leases.

The Group is in the process of further evaluating the potential impact of IFRS 16.

Other amendments which are not yet effective are either not applicable or will not have a material impact on the financial statements.

Note 3 – Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Judgements

- Deferred tax

The Company considers that a deferred tax asset related to accumulated tax losses cannot be recognised in the statement of financial position until the product under development has been approved for marketing by the relevant authorities. However, this assumption is continually reassessed and changes could lead to significant deferred tax asset being recognised in the future. This assumption requires significant management judgement. The Group has a total tax loss carried forward of NOK 437.3 million (NOK 367.8 million in 2015) and a total deferred tax asset not recognised of NOK 105 million (see note 11).

- Intangible assets

Research costs are recognised in the income statement as incurred. Internal development costs related to the Group's development of products are recognised in the income statement in the year which it is incurred unless it meets the recognition criteria of IAS 38 intangible assets. Uncertainties related to the regulatory approval process and other factors generally means that the criteria are not met until the time when the marketing authorisation is obtained with the regulatory authorities.

External acquired intangible assets of NOK 2.94 million is impaired in 2016. Intangible assets consisted of patents to be used in development of LTX-109 and was acquired in 2015. Development of LTX-109 was licensed to Amicoat AS in February 2016. As a part of the demerger in 2017 the recoverable amount of the patents was estimated to be zero (See note 13)

- Discontinued operations/held for distribution

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. The Board considered the subsidiary and the associate to meet the criteria to be classified as held for distribution at that date for the following reasons:

- Amicoat AS and Pharmasum Therapeutics AS is available for immediate distribution and can be distributed to shareholders in its current condition
- The actions to complete the distribution were initiated and expected to be completed within one year from the date
- The board decision of the distribution was made in December 2016
- The shareholders approved the distribution on 31 January 2017

- The secretarial procedures and procedural formalities for the distribution was completed by 5th of February 2017

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

As a result of the demerger of Lytix, the subsidiaries Amicoat Holding AS and Pharma Holdings AS were established with accounting effect from 1 January 2017. The shareholders of Lytix received ownership to the shares of these companies (formally registered 2 May 2017). Pharma Holdings AS retained ownership to the rights to LTX-109 plus the shares in Pharmasum Therapeutics AS. Amicoat Holding AS, which through the demerger retained ownership to 92% of Amicoat AS, was subsequently merged with Amicoat AS (officially registered 9 May 2017). Both the demerger and the merger were formally adopted by the General Meeting of Lytix on 31 January 2017. The Board had formally adopted the proposal in January 2017, after having worked with the demerger since September 2016.

As a consequence of this the distribution was highly probable as of 31 December 2016 and the assets and liabilities related to the transactions are classified as held for distribution to owners.

Amicoat AS consist of net assets of NOK 3.4 million and loss for the year is NOK 4.0 million. Considered the size and complexity of the company compared to the size and complexity of the group, this is considered to be a separate major line of business.

The share of loss in the associate Pharmasum Therapeutics AS is TNOK 9 compared to a profit in 2015 of TNOK 192. Lytix shareholding was reduced from 34 % to 24 %. Considered the size and complexity of this company, the share of profit/loss in equity accounted investments is not presented as discontinued operations.

See also note 25.

Estimates and assumptions

- Share based payments

Equity-settled share based payments are measured at the fair value of the equity instruments at the grant date. The fair value of the options granted is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighed average expected life of the instruments, expected dividends, and the risk-free interest rate. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Changes to the estimates may significantly influence the expense recognised during a period. The assumptions and models used for estimating fair value for share-based payments transactions are disclosed in note 21

Note 4 – Financial instruments – Risk Management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Interest rate risk
- Foreign exchange risk
- Other market price risk, and
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables

Cash and cash equivalents is measured at fair value. Financial instruments not measured at fair value includes trade and other receivables and trade and other payables.

Due to their short-term nature, the carrying value of trade and other receivables, and trade and other payables approximates their fair value.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives reports from the Group Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

The Group only has revenue from services with related parties and other operating income from government grants. The Group has not suffered any loss on receivables in 2016 or 2015 and they consider its credit risk as low.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency), and the Group's foreign currency denominated cash deposits. The exposure arises largely from research expenses. The Group is mainly exposed to fluctuations in euro (EUR), Swiss franc (CHF) and pounds sterling (GBP). The sensitivity and effects in the income statement are listed below.

| (in NOK 1000) | | | |
|---------------|-------------------------|----------------|----------------|
| Currency | Strengthening/weakening | Gain/Loss 2016 | Gain/Loss 2015 |
| EUR | +/- 10 % | -8 | 371 |
| GBP | +/- 10 % | 40 | 298 |
| CHF | +/- 10 % | 241 | 312 |
| SEK | +/- 10 % | 111 | - |
| USD | +/- 10 % | -7 | - |

The Lytix Biopharma Group's cash reserves are deposited in NOK.

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The Group monitor its cash flow from both long- and short-term perspectives through rolling cash forecasts. The Lytix Biopharma Group does not have any loan agreements that involves covenants or other financial requirements. The company raised NOK 50.0 million in a private placement in January 2015 and a further NOK 78.5 million in January 2016. In March 2017 Lytix Biopharma AS raised NOK 59 million in gross proceeds in a share issue targeted towards Swedish investors and the largest current shareholders. A repair issue amongst the remaining shareholders was executed in April 2017 and gave gross proceeds of NOK 21 million. The available cash should support execution of planned R&D and general business activities in 2017. The cash position of the Lytix Biopharma Group at year end 2016 for continuing operations was NOK 17.6 million, compared to NOK 9.7 million in 2015.

Interest rate risk

The Lytix Biopharma Group has no interest-bearing debt. Bank deposits are exposed to market fluctuations in interest rates, which affects the financial income and the return on cash. The Group had NOK 1.0 million in financial income in 2016 and NOK 0.9 million in 2015.

Lytix Biopharma AS has provided a short term loan of NOK 4.0 million to Amicoat to finance the operations.

The Group has provided loan of NOK 0.9 million to Pharmasum Therapeutics AS which could be converted into shares in Pharmasum with a discretionary resolution from the borrower and based on pre-agreed terms.

Trade payables are in general in line with industry standards with payments within 30 days of delivery or alternatively to agreed instalments according to purchasing contract.

Capital management

The group is financed by equity through share issues and public funding from grants and tax incentives. The Group aims to maintain a strong capital base and cash position in order to plan and execute the strategy and preserve the confidence of investors, suppliers and partners.

Note 5 Revenue

| (in NOK 1000) | 2016 | 2015 |
|-----------------------|------------|-----------|
| Provision of services | - | - |
| Other | 124 | 19 |
| Total Revenue | 124 | 19 |

The Group's products are still in the research and development phase, and there is no revenue from sales of products yet.

Note 6 Other Operating income

| (in NOK 1000) | 2016 | 2015 |
|---|---------------|---------------|
| Other operating income: | | |
| Government grants recognised in profit and loss | 12 336 | 14 932 |
| Net gain on disposal of property, plant and equipment | - | - |
| Other | - | - |
| Other operating income | 12 336 | 14 932 |

Note 7 Government grants

Government grants have been recognised in profit or loss as other operating income with the following amounts:

| (in NOK 1000) | 2016 | 2015 |
|--|---------------|---------------|
| Government Grants: | | |
| Tax refund (across all R&D activities) | 7 020 | 5 332 |
| Innovasjon Norge | 250 | 3 400 |
| The Norwegian Research Council | 5 066 | 4 000 |
| Eurostar grant (LTX-109, infection) | | 2 000 |
| Other | | 200 |
| Government grants presented as other operating income | 12 336 | 14 932 |

Note 8 Other operating expenses

| (in NOK 1000) | 2016 | 2015 |
|---|---------------|---------------|
| Other operating expenses comprise: | | |
| Consultancy fees and external personel | 10 398 | 6 146 |
| Other operating cost | 6 607 | 7 839 |
| Total operating expenses | 17 005 | 13 985 |

| (in NOK 1000) | 2016 | 2015 |
|--|------------|------------|
| Spesificaton of the auditor's fee | | |
| Statutory audit | 410 | 211 |
| Other assurance services | 99 | - |
| Other non-assurance services | 180 | 106 |
| Tax consultant services | 137 | - |
| Total auditor's fee | 826 | 317 |

VAT is not included in the fees specified above.

Note 9 Payroll and related expenses

| (in NOK 1000) | 2016 | 2015 |
|---|---------------|---------------|
| Payroll and related expenses (including directors) comprise: | | |
| Wages and salaries | 13 367 | 14 507 |
| Defined contribution pension cost | 599 | 625 |
| Share-based payment expense (note 21) | 5 793 | 3 002 |
| Social security contributions and similar taxes | 1 824 | 1 881 |
| Other personnel cost | 859 | 111 |
| Total payroll and related expenses | 22 442 | 20 126 |

The number of man-years employed during the year:

| | 2016 | 2015 |
|----------------|------|------|
| Average number | 14 | 13 |

The number comprises both regular employees on payroll as well as contracted personnel (4 man-years).

Lytix Biopharma AS is required to have a pension scheme in accordance with the Norwegian law of mandatory occupational pension. The company's pension scheme fulfils the requirements of the law.

Management remuneration

The Group management consists of the Group Directors and had the following remuneration in 2016:

| (in NOK 1000) | Salary | Pension cost | Share based payments | Other remuneration | Total |
|---|--------|--------------|----------------------|--------------------|-------|
| Management team: | | | | | |
| Håkan Wickholm, CEO* / **** | - | - | 262 | 3 426 | 3 688 |
| Øystein Rekdal, CSO** | 1 532 | 77 | 1365 | 24 | 2 998 |
| Wenche Marie Olsen, COO** | 1 749 | 101 | 1012 | 11 | 2 873 |
| Andrew Saunders, CMO* | - | - | 262 | 2 995 | 3 257 |
| Kjetil Vangsnes, CFO* | - | - | - | 2 129 | 2 129 |
| Unni Hjelmås, CEO** / **** | 1975 | 56 | - | 8 | 2 039 |
| Board members (non - executive): | | | | | |
| Gert W. Munthe, Chairman | 300 | - | - | - | 300 |
| Knut Eidissen, member*** | 200 | - | - | - | 200 |
| Kari Grønås, member | 200 | - | - | - | 200 |
| Morten Jurs, member | 200 | - | - | - | 200 |
| John Sigurd Svendsen, member | 200 | - | - | - | 200 |
| Lena Torlegård, member | 200 | - | - | - | 200 |
| Debasish F. Roychowdhury, member*** | 200 | - | - | - | 200 |
| Nomination Committee: | | | | | |
| Per Erik Sørensen | 30 | - | - | - | 30 |
| Claus Flinder | 20 | - | - | - | 20 |
| Øystein Rekdal (incl.in figures above) | 20 | - | - | - | 20 |

For 2015, the remuneration was as follows:

| (in NOK 1000) | Salary | Pension cost | Share based payments | Other remuneration | Total |
|---|--------|--------------|----------------------|--------------------|-------|
| Management team: | | | | | |
| Unni Hjelmås, CEO ** / **** | 2 046 | 66 | 490 | 9 | 2 545 |
| Håkan Wickholm, CBO * | - | - | 195 | 2 122 | 2 317 |
| Øystein Rekdal, CSO ** | 1 478 | 66 | 311 | - | 1 789 |
| Wenche Marie Olsen, COO** | 1 834 | 67 | 311 | - | 2 145 |
| John Sigurd Svendsen, Head of research/board member | 947 | 32 | - | 7 | 984 |
| Andrew Saunders, CMO* | - | - | 195 | 3 199 | 3 394 |
| Kjetil Vangsnes, CFO* | - | - | - | 734 | 734 |
| Gunnar Sælid ** | 846 | 468 | 311 | 9 | 1 634 |
| Board members (non - executive): | | | | | |
| Gert W. Munthe, member/Chairman *** | 200 | - | - | - | 300 |
| Knut Eidissen, member*** | 300 | - | - | - | 200 |
| Kari Grønås, member | 200 | - | - | - | 200 |
| Steinar Høegh, member | 257 | - | - | - | 257 |
| Håvard Selby Ebbestad, member | 200 | - | - | - | 200 |
| Karl Jakola, member | 200 | - | - | - | 200 |

*) These members of the management team are working for the Group on a contracted basis and all additional costs are carried by the director's company (social fees, pension, withholding tax etc). Other remuneration could also include refund of travel and other expenses.

**) These members of the management team are part of the general pension arrangement (OTP) which grants 4 % of the salary from 1 G up to 12 G. The pension system is deposit-based and gives no guaranteed payment.

***) Mr. Eidissen was Chairman of the Board until ordinary general assembly 2015.

****) Effective March 1st 2016 Håkan Wickholm succeeded Unni Hjelmaas as CEO in Lytix Biopharma

No loans or guarantees have been given to any members of the Group Management, the Board of Directors or other corporate bodies.

No member of the Group management has received remuneration or economical benefits from other companies in the Group, other than what is stated above. Besides the stock option programs, no additional remuneration has been given for services outside the normal functions as a manager or non-executive director besides what is stated above.

Benefits upon termination

The previous CEO was eligible to her regular compensation until 30 November 2016. All other contracts adhere to the Norwegian industry standard notice periods.

| | Shares 2016 | Shares 2015 |
|---|----------------|----------------|
| Shares held by Group management and board members | | |
| Management team | | |
| Unni Hjelmås, CEO* | 143 | 143 |
| Øystein Rekdal, CSO | 11 736 | 14 670 |
| Wenche Marie Olsen, COO | 225 | 225 |
| John Sigurd Svendsen, Head of research and board member | 16 964 | 16 964 |
| Kjetil Vangsnes, CFO | - | - |
| Board members (non - executive) | | |
| Gert W. Munthe, Chairman | 160 572 | 97 435 |
| Knut Eidissen, member | 122 189 | 120 638 |
| Total shares owned by Group Management and board members | 311 829 | 250 075 |

| Option Holder | Opening balance | Granted | lapsed | Ending balance |
|--|-----------------|--------------|----------|----------------|
| Options held by management | | | | |
| Unni Hjelmås, CEO* | 5 040 | - | 5 040 | - |
| Håkan Wickholm, CEO* | 2 000 | - | - | 2 000 |
| Øystein Rekdal, CSO | 3 200 | 5 500 | - | 8 700 |
| Wenche Marie Olsen, COO | 3 200 | 3 450 | - | 6 650 |
| Andrew Saunders, CMO | 2 000 | - | - | 2 000 |
| Total options owned by Management | 15 440 | 8 950 | - | 19 350 |

* Effective 1 March 2016 Håkan Wickholm succeeded Unni Hjelmås as CEO in Lytix Biopharma

The company operates two equity-settled share based remuneration scheme for employees.

Options held by management in 2015 was granted in 2014 and relates to program A. Options granted in 2016 relates to program B. See note 21.

Note 10 Financial income and expense

| (in NOK 1000) | 2016 | 2015 |
|---------------------------------|--------------|------------|
| Financial income: | | |
| Interest income | 711 | 553 |
| Foreign exchange gains | 326 | 333 |
| Total financial income | 1 037 | 886 |
| Financial expenses: | | |
| Foreign exchange losses | 388 | 533 |
| Other financial expenses | 1 | - |
| Total financial expenses | 389 | 533 |

Note 11 Tax

| (in NOK 1000) | 2016 | 2015 |
|---|------|------|
| Current tax: | | |
| Tax payable | - | - |
| Correction of previous years current income taxes | - | - |
| Deferred tax | | |
| Changes in deferred tax | - | - |
| Changes in tax rate | - | - |
| Tax expense | - | - |

| (in NOK 1000) | 2016 | 2015 |
|---|-----------------|-----------------|
| Pre-tax profit (including discontinued operations) | (67 825) | (55 881) |
| Income taxes calculated at 25%/27% | (16 956) | (15 088) |
| Changes in unrecognised deferred tax asset | 13 165 | 8 419 |
| Change in tax rate | 4 405 | 7 367 |
| Non deductible expenses | (614) | (698) |
| Tax expense | - | - |

From 1 January 2017 the tax rate in Norway was reduced to 24 %. There is no effect in this year's tax expense because deferred tax from tax losses carried forward is not recognised. Deferred tax relates to the following:

| (in NOK 1000) | Consolidated balance sheet | | Change | |
|---|----------------------------|---------------|-----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Deferred tax assets | | | | |
| Property, plant and equipment | 781 | 93 | (687) | 34 |
| Net tax on losses carried forward | 104 949 | 92 472 | (12 478) | (8 453) |
| Deferred tax assets | 105 730 | 92 565 | (13 165) | (8 419) |
| Net deferred tax assets | 105 730 | 92 565 | (13 165) | (8 419) |
| Net deferred tax assets not recognised | (105 730) | (92 565) | 13 165 | 8 419 |
| Net recognised deferred tax assets | - | - | - | - |

Net deferred tax assets on losses carried forward amount to NOK 104.9 million as at 31 December 2016 (2015: NOK 92.5 million) have not been recognised because it is not probable that taxable profits will be available against which deductible temporary differences can be utilised.

The Group has a total tax loss carried forward of NOK 437.3 million as at 31 December 2016 (2015: NOK 367.8 million) which has no due date. NOK 7.1 million of the total loss carried forward is related to Amicoat AS. Assets and liabilities related to Amicoat AS is presented as held for distribution to owners, see note 25.

Note 12 Property, plant and equipment

| (in NOK 1000) | Machinery and equipment | Total 2016 | Machinery and equipment | Total 2015 |
|--|-------------------------|------------|-------------------------|------------|
| Carrying amount 1 January | 49 | 49 | 62 | 62 |
| Additions | - | - | 20 | 20 |
| Depreciation | (29) | (29) | (32) | (32) |
| Carrying value 31 January | 20 | 20 | 49 | 49 |
| As at 1. January | | | | |
| Acquisition cost | 2 479 | 2 479 | 2 459 | 2 459 |
| Accumulated depreciation and write downs | (2 430) | (2 430) | (2 398) | (2 398) |
| Carrying amount | 49 | 49 | 62 | 62 |
| As at December 31 | | | | |
| Acquisition cost | 2 479 | 2 479 | 2 479 | 2 479 |
| Accumulated depreciation and write downs | (2 459) | (2 459) | (2 430) | (2 430) |
| Carrying amount | 20 | 20 | 49 | 49 |

Note 13 Intangible assets

| (in NOK 1000) | Patents and rights | Total 2016 | Patents and rights | Total 2015 |
|--|--------------------|--------------|--------------------|--------------|
| Carrying amount, 1 January | 3 920 | 3 920 | - | - |
| Additions | - | - | 4 900 | 4 900 |
| Amortisation | (980) | (980) | (980) | (980) |
| Impairment | (2 940) | (2 940) | - | - |
| Carrying amount, 31 December | - | - | 3 920 | 3 920 |
| As at 1 January | | | | |
| Cost | 4 900 | 4 900 | - | - |
| Accumulated amortisation and write downs | (980) | (980) | - | - |
| Carrying amount | 3 920 | 3 920 | - | - |
| As at 31 December | | | | |
| Cost | 4 900 | 4 900 | 4 900 | 4 900 |
| Accumulated amortisation and write downs | (1 960) | (1 960) | (980) | (980) |
| Impairment | (2 940) | (2 940) | - | - |
| Carrying amount | - | - | 3 920 | 3 920 |

External acquired intangible assets of NOK 2.94 million is impaired in 2016. Intangible assets consisted of patents to be used in development of LTX-109 and was acquired in 2015. Development of LTX-109 was licensed to Amicoat AS in February 2016. As a part of the demerger in 2017 the recoverable amount of the patents was estimated to be zero.

Note 14 List of Subsidiaries

The following subsidiaries are included in the consolidated financial statements:

| Company | Country of incorporation | Main operations | Ownership interest 2016 | Voting power 2016 | Ownership interest 2015 | Voting power 2015 |
|------------|--------------------------|--------------------------|-------------------------|-------------------|-------------------------|-------------------|
| Amicoat AS | Norway | Antimicrobial Technology | 92 % | 92 % | 100 % | 100 % |

In 2016 a capital contribution NOK 408' from minority interests was made which resulted in a minority interest of 8 % in the shares of Amicoat AS.

The subsidiary Amicoat AS was demerged to current shareholders as per 1 January 2017. As the decision was made in 2016 and it was highly probable that the transaction would be finalized in 2017, the assets and liabilities in Amicoat AS is presented as held for distribution (see note 25).

Note 15 Investment in associates

The following entities have been included in the consolidated financial statements using the equity method:

| Name | Proportion of ownership held | |
|---------------------------|------------------------------|------|
| | 2016 | 2015 |
| Pharmasum Therapeutics AS | 24 % | 34 % |

The primary business of Pharmasum Therapeutics AS is pharmaceutical development for the treatment of dementia.

Summarised financial information:

| | As at 31. December 2016 | As at 31. December 2015 |
|-------------------------|-------------------------------|-------------------------------|
| (in NOK 1000) | | |
| Non-current assets | 3 300 | 4 400 |
| Current assets | 10 919 | 5 295 |
| Non-current liabilities | 1 583 | 1 803 |
| Current liabilities | 3 266 | 1 057 |

| | 2016 | 2015 |
|---|---------|---------|
| (in NOK 1000) | | |
| Total operating income | 3 997 | 741 |
| Profit before tax | (5 253) | (1 990) |
| Total other comprehensive income for the year | - | - |
| Total comprehensive income for the year | (5 253) | (1 990) |

| | 2016 | 2015 |
|--|------------|------------|
| (in NOK 1000) | | |
| Share of net result | (1 792) | (754) |
| Gain on partial disposal | 1 783 | 946 |
| Share of post-tax profits of equity accounted investments | (9) | 192 |

A dilution gain of NOK 1.8 million (NOK 0.9 million in 2015) is recognised in profit and loss as an effect of share issues in Pharmasum Therapeutics AS where Lytix Biopharma AS did not participate with their share.

The ownership of the shares in Pharmasum Therapeutics were demerged into Pharma Holdings AS in 2017. As the decision was made in 2016 and it was highly probable that the transaction would be finalized in 2017, the investment in Pharmasum Therapeutics and the convertible loan is presented as assets held for distribution (see note 3 and 25).

Note 16 Trade and other receivables

| (in NOK 1000) | 2016 | 2015 |
|--|--------------|--------------|
| Trade receivables | | |
| Less: provision for impairment of trade receivables | | |
| Trade receivables - net | | |
| Receivables from related parties | - | 197 |
| Loans to related parties | - | - |
| Total financial assets other than cash and cash equivalents classified as loans and receivables | - | 197 |
| Share issue not registered | | |
| Government grants | 7 021 | 7 771 |
| VAT | 358 | 1 132 |
| Prepayments | 343 | 157 |
| Other receivables | 2 002 | 45 |
| Total trade and other receivables | 9 723 | 9 302 |

The Group has not made any impairment provisions for bad debt in 2016 or 2015.

Aging of accounts receivable as of 31 December was as follows:

| (NOK 1000) | Total | Not due | Less than 30 days | 30-60 days | 60-90 days | More than 90 days |
|-------------|-------|---------|-------------------|------------|------------|-------------------|
| 2016 | - | - | - | - | - | - |
| 2015 | 197 | - | 197 | - | - | - |

Credit risk and foreign exchange risk regarding accounts receivables are discussed in note 4.

Note 17 Cash and cash equivalents

| (in NOK 1000) | 2016 | 2015 |
|--|---------------|--------------|
| Cash and cash equivalents | | |
| Employee withholding tax | 551 | 750 |
| Fixed rate bank deposit account | - | - |
| Variable rate bank accounts | 17 086 | 8 969 |
| Total cash and cash equivalents | 17 637 | 9 719 |

Note 18 Other current liabilities

| (in NOK 1000) | 2016 | 2015 |
|--|--------------|---------------|
| Other current liabilities: | | |
| Accrual for annual leave | 1 080 | 1 327 |
| Accruals for bonus | 514 | |
| Accruals for restructuring expenses | 350 | |
| Other accruals | 269 | 269 |
| Tax and social security payments | 898 | 1 295 |
| Payables share issue transaction costs | | 2 035 |
| Payables consultancy services management | 413 | |
| Other payables | 3 041 | 6 470 |
| Total other current liabilities | 6 564 | 11 396 |

Note 19 Share capital and shareholder information

Share capital at 31 December 2016 is NOK 1,001,806 (31 December 2015: NOK 776,202), constituting 1,001,806 ordinary shares at a nominal value of NOK 1. All shares carry equal voting rights.

| The change in the number of shares during the period was as follows | 2016 | 2015 |
|---|------------------|----------------|
| Ordinary shares at 1 January | 776 202 | 697 773 |
| Issue of ordinary shares ¹⁾²⁾³⁾ | 225 604 | 78 429 |
| Ordinary shares | 1 001 806 | 776 202 |

- 1) Registration of the share issue for 225 604 shares at a subscription price of NOK 350, bringing in gross proceeds of NOK 78.5 million. The share issue was approved by the extraordinary General Meeting 14 December 2015. The contribution was confirmed and registered in The register of Business Enterprises in January 2016.
- 2) In January 2015 71,429 shares were subscribed for in a private placement among existing shareholders and new institutional investors at a share price of NOK 700 for total gross proceeds of NOK 50 million.
- 3) North Murray IPR AS subscribed in February 2015 for 7,000 shares at a share price of NOK 700 in a non-cash share issue against acquired IPR.

| Shareholders | Number of shares | Percentage share of total shares |
|--|------------------|----------------------------------|
| 1 NORTH MURRAY AS | 160 572 | 16,03 % |
| 2 PICASSO CAPITAL AS | 122 189 | 12,20 % |
| 3 TAJ HOLDING AS | 78 519 | 7,84 % |
| 4 CARE HOLDING AS | 75 230 | 7,51 % |
| 5 NORINNOVA INVEST AS | 48 766 | 4,87 % |
| 6 LYSNES INVEST AS | 43 245 | 4,32 % |
| 7 HOPEN INVEST AS | 29 487 | 2,94 % |
| 8 NORD I AS | 27 329 | 2,73 % |
| 9 3 T PRODUKTER AS | 25 730 | 2,57 % |
| 10 PER STRAND EIENDOM AS | 19 627 | 1,96 % |
| 11 4 LB INVEST AS | 17 812 | 1,78 % |
| 12 NORINNOVA TECHNOLOGY TRANSFER AS | 17 339 | 1,73 % |
| 13 SVENDSEN | 16 964 | 1,69 % |
| 14 INNOVASJON NORGE | 14 890 | 1,49 % |
| 15 REKDAL | 11 736 | 1,17 % |
| 16 TAVE INVEST AS | 11 722 | 1,17 % |
| 17 KRÆMER A/S | 10 598 | 1,06 % |
| 18 HARILA INVEST AS | 10 315 | 1,03 % |
| 19 ØKSNES INVEST AS | 9 035 | 0,90 % |
| 20 JESEM AS | 9 000 | 0,90 % |
| Total shares for top 20 shareholders | 760 105 | 75,87 % |
| Total shares for other 248 shareholders | 241 701 | 24,13 % |
| Total shares (268 shareholders) | 1 001 806 | 100,00 % |

Note 20 Leases

The Group has entered into operating leases for offices and other facilities. Most of the leases contain an option for extension. The leases do not contain any restrictions on the Company's dividend policy or financing.

The lease costs were as follows:

| (in NOK 1000) | 2016 | 2015 |
|--------------------------------|--------------|--------------|
| Operating leases: | | |
| Ordinary lease payments | 1 790 | 1 471 |
| Contingent payments | - | - |
| Payments received on subleases | - | - |
| Total operating leases | 1 790 | 1 471 |

| (in NOK 1000) | 2016 | 2015 |
|---------------|--------------|--------------|
| Within 1 year | 1 800 | 1 800 |
| 1 to 5 years | 4 967 | 4 967 |
| After 5 years | - | 825 |
| Sum | 6 767 | 7 592 |

The lease agreements have a variable, minimum duration and is running 6 months for Tromsø and to 2017/2021 in Oslo.

The company has not made any changes to its office premises leases during 2016. Lease cost is related to premises in Tromsø, Oslo Research Park and Oslo Cancer Cluster.

Note 21 Share option agreement

The company operates two equity-settled share based remuneration schemes for employees.

In program A there are issued 23 814 options where 23 600 was granted 20 March 2014 and 214 was granted 1 May 2015. The volume of option rights for the Employee is calculated based on the time the Employee has been / will be employed in the Position during the 30 months period from the date of grant. For this period the employee vest an option to buy shares in the Company for each month of the actual employment. If the employment is part time, the volume of options shall be adjusted to the employment percentage and number of months.

In program B there are issued 15 550 options which was granted 10 March 2016. Total options available in program B is 30 000. There is no vesting period related to program B.

In both programs, the Employee has to comply with the following terms during the vesting period and up to the date for the actual and complete execution of the option rights:

- i. The Employee shall not directly or indirectly by any means be involved in a business which might be in competition with the Company's business at any time unless prior, written acceptance is obtained from the Company.
- ii. The Employee shall not directly or indirectly be involved in any activities related to or targeted towards the Company's customers, business partners or employees unless prior, written acceptance is obtained from the Company or is ordinary conduct of the Employee's defined Position.

| 2016 | Program A | | Program B | |
|------------------------------------|---|---------------|---|---------------|
| | Weighed average exercise price (NOK 1000) | Number | Weighed average exercise price (NOK 1000) | Number |
| Outstanding at 1. January | 0,7 | 30 854 | - | - |
| Granted during the period | - | - | 0,35 | 15 550 |
| Forfeited during the period | - | - | - | - |
| Exercises during the period | - | - | - | - |
| Lapsed during the period | 0,7 | -7 040 | - | - |
| Outstanding at 31. December | 0,7 | 23 814 | 0,35 | 15 550 |

| 2015 | Program A | |
|------------------------------------|--------------------------------|---------------|
| | Weighed average exercise price | Number |
| Outstanding at 1. January | 0,7 | 30 640 |
| Granted during the period | 0,7 | 214 |
| Forfeited during the period | - | - |
| Exercises during the period | - | - |
| Lapsed during the period | - | - |
| Outstanding at 31. December | 0,7 | 30 854 |

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based option agreement operated by the Group:

| 2016 | Program A | Program B |
|---|---------------|---------------|
| Equity Settled | | |
| Option pricing model used | Black-Scholes | Black-Scholes |
| Weighed average share price at grant date (NOK) | 700 | 350 |
| Exercise price (NOK) | 700 | 350 |
| Weighed average contractual life (in days) | - | - |
| Expected volatility | 60,00 % | 60,00 % |
| Expected dividend growth rate | - | - |
| Risk-free interest rate | 0,52 % | 0,79 % |

| 2015 | Program A |
|------|-----------|
|------|-----------|

Equity Settled

| | |
|---|---------------|
| Option pricing model used | Black-Scholes |
| Weighed average share price at grant date (NOK) | 700 |
| Exercise price (NOK) | 700 |
| Weighed average contractual life (in days) | 182 |
| Expected volatility | 60,41 % |
| Expected dividend growth rate | - |
| Risk-free interest rate | 1,71 % |

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of comparable companies.

The share-based remuneration expense comprises:

| (in NOK 1000) | 2016 | 2015 |
|-----------------------------------|--------------|--------------|
| Equity-Settled schemes | 5 793 | 3 002 |
| Total remuneration expense | 5 793 | 3 002 |

Note 22 Transactions with related parties

During the period, the Group entered into the following trading transactions with related parties:

| (in NOK 1000) | Sales (included in revenue) | | Purchases (included in other operating expense) | |
|---------------------------------------|-----------------------------|------|---|-------|
| | 2016 | 2015 | 2016 | 2015 |
| GHW Consult AB (Håkan Wickholm) | - | - | 3 897 | 2 397 |
| Tilma AS (Kjetil Vangsnes) | - | - | 2 129 | 764 |
| Linden Oncology (Andrew Saunders) | - | - | 2 995 | 3 199 |
| Pharmasum Therapeutics AS (Associate) | - | 33 | - | - |

Invoiced fee for management services (see note 9) is included in purchases from related parties.

At 31 December, the Group had the following balances with related parties

| (in NOK 1000) | Amounts owed by related parties | | Amounts owed to related | |
|-----------------------------------|---------------------------------|------|-------------------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| GHW Consult AB (Håkan Wickholm) | - | - | 1 209 | 835 |
| Tilma AS (Kjetil Vangsnes) | - | - | 147 | 235 |
| Linden Oncology (Andrew Saunders) | - | - | 546 | 349 |

Note 23 Contingent liabilities

The company has no contingent liabilities beside normal business obligations toward partners, suppliers, employees, Board members and other stakeholders.

Note 24 Events after the reporting date

In March 2017 Lytix Biopharma AS raised NOK 59 million in gross proceeds in a share issue targeted towards Swedish investors and the largest current shareholders. A repair issue amongst the remaining shareholders was executed in April 2017 and gave gross proceeds of NOK 21 million.

The subsidiary Amicoat AS was demerged to current shareholders as per 1 January 2017. In parallel the ownership of the rights to LTX-109 plus shares in Pharmasum Therapeutics AS were demerged into Pharma Holdings AS in 2017, owned by the shareholders of Lytix Biopharma AS as per 1 January 2017. As a result of the demerger of Amicoat AS and Pharmasum Therapeutics the equity was reduced with NOK 9.6 million.

From February 2017, Torbjørn Furusetth was appointed CFO for Lytix Biopharma AS and Kjetil Vangsnes will continue as a special advisor in Lytix Biopharma and gradually go over to a full time position as CFO for Amicoat AS.

Note 25 Discontinued Operations

As a result of the demerger of Amicoat AS as per 1 January 2017 (see note 24), the result from the operations of Amicoat AS is presented as loss from the year from discontinued operations. The 2015 statement of comprehensive income has been reclassified accordingly.

| (in NOK 1000) | 2016 | 2015 |
|---|----------------|--------------|
| Revenue | 125 | |
| Other operating income | 3 366 | 198 |
| Total operating revenue | 3 491 | 198 |
| Administrative expenses | (1 245) | - |
| Depreciation and amortisation expenses | | - |
| Other expenses | (6 238) | (812) |
| Total operating expense | (7 483) | (812) |
| Profit from operations | (3 992) | (614) |
| Finance expense | (16) | - |
| Finance income | 13 | - |
| Net financial items | (3) | - |
| Loss for the year from discontinued operations | (3 994) | (614) |

The assets and liabilities related to the demerger of Amicoat AS and Pharmasum Therapeutics AS is presented as disposal group classified as held for distribution to owners as of December 2016 (See note 3). No reclassification is made in the statement of financial position as of December 2015.

| (in NOK 1000) | Amicoat Holding AS | Pharma Holdings AS | Total 2016 |
|--|--------------------|--------------------|--------------|
| Assets | | | |
| Non-current assets | | | |
| <i>Investments in equity-accounted investments</i> | - | 2 249 | 2 249 |
| Other receivables | - | 923 | 923 |
| Total non-current assets | - | 3 172 | 3 172 |
| Current assets | | | |
| Trade and other receivables | 2 266 | - | 2 266 |
| Cash and cash equivalents | 2 659 | - | 2 659 |
| Total current assets | 4 925 | - | 4 925 |
| Assets in disposal groups classified as held for distribution to owners | 4 925 | 3 172 | 8 097 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 137 | - | 137 |
| Other current payables | 959 | - | 959 |
| Liabilities in disposal group classified as held for distribution to owners | 1 097 | - | 1 096 |

Financial Statements Lytix Biopharma AS

Profit and loss statement of Lytix Biopharma AS

| (in NOK 1000) | Note | 2016 | 2015 |
|--|------|-----------------|-----------------|
| Revenue | 2 | 833 | 292 |
| Other operating income | 3,4 | 12 339 | 14 932 |
| Total operating income | | 13 172 | 15 224 |
| Payroll and related expenses | 6,17 | (22 442) | (20 126) |
| Depreciation and amortisation expenses | 9,10 | (1 009) | (1 012) |
| Impairment intangible assets | 10 | (2 940) | - |
| Direct R&D expenses | | (33 534) | (35 641) |
| Other expenses | 5,16 | (17 005) | (13 985) |
| Total operating expense | | (76 929) | (70 764) |
| Profit from operations | | (63 757) | (55 539) |
| Finance expense | 7 | (389) | (532) |
| Impairment investment in associate | 11 | (1 759) | - |
| Finance income | 7 | 1 110 | 886 |
| Net financial items | | (1 038) | 353 |
| Profit before tax | | (64 795) | (55 186) |
| Tax expense | 8 | - | - |
| Profit after tax for the period | | (64 795) | (55 186) |
| Transfers | | | |
| Transfers to/from reserves | | (64 795) | (55 186) |
| Transfers to/from other equity | | - | - |
| Total Transfers and allocations | | (64 795) | (55 186) |

Balance sheet Lytix Biopharma AS

| (in NOK 1000) | Note | 31. December 2016 | 31. December 2015 |
|--|-------|----------------------|----------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 20 | 49 |
| Intangible assets | 10 | - | 3 920 |
| Investment in subsidiary | 11 | 4 692 | 100 |
| Investments in associate | 11 | 3 741 | 5 500 |
| Other receivables | 18 | 923 | 759 |
| Total non-current assets | | 9 377 | 10 328 |
| Current assets | | | |
| Trade and other receivables | 12,18 | 13 724 | 89 623 |
| Cash and cash equivalents | 13 | 18 045 | 8 638 |
| Total current assets | | 31 769 | 98 261 |
| Total assets | | 41 146 | 108 589 |
| Shareholders Equity and liabilities | | | |
| Issued capital and reserves | | | |
| Share capital | 15 | 1 002 | 776 |
| Share premium reserve | 15 | 28 792 | 88 020 |
| Total equity | | 29 794 | 88 796 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | | 4 789 | 6 376 |
| Other current liabilities | 14 | 6 564 | 13 417 |
| Total current liabilities | | 11 353 | 19 794 |
| Total liabilities | | 11 353 | 19 794 |
| Total equity and liabilities | | 41 146 | 108 589 |

Statement of cash flow Lytix Biopharma AS

| (NOK 1000) | Note | 2016 | 2015 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Profit for the period | | (64 795) | (55 186) |
| <i>Adjustments for:</i> | | | |
| Depreciation of property, plant and equipment | 9,10 | 1 009 | 1 012 |
| Impairment of intangible assets | 10 | 2 940 | - |
| Impairment of investment in associate | 11 | 1 759 | - |
| Interest received | 7 | (783) | (553) |
| Share-based payment expense | 17 | 5 793 | 3 002 |
| Net Cash effect Share issue adjusted | 15 | - | 29 144 |
| Increase/ Decrease in trade and other receivables | | (2 728) | (32 995) |
| Increase / Decrease in trade and other payables | | (6 406) | 7 314 |
| Cash generated from operations | | (63 211) | (48 263) |
| Income taxes paid | 8 | - | - |
| Net cash flows from operating activities | | (63 211) | (48 263) |
| Investing activities | | | |
| Investment in subsidiary | 11 | (4 592) | - |
| Investment in associate | 11 | - | - |
| Interest received | 7 | 783 | 553 |
| Net cash from / (used) in investing activities | | (3 809) | 553 |
| Financing activities | | | |
| Proceeds from share issue | 15 | 76 428 | 47 263 |
| Net cash (used in)/from financing activities | | 76 428 | 47 263 |
| Net increase in cash and cash equivalents | | 9 407 | (447) |
| Cash and cash equivalents at beginning of the period | 17 | 8 638 | 9 085 |
| Cash and cash equivalents at end of the period | | 18 045 | 8 638 |

Lytix Biopharma AS – Notes to the annual financial statements

Note 1 - Basis for preparation and significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are presented in NOK, which is also the Company's functional currency. Amounts are rounded to the nearest thousand unless otherwise stated.

These financial statements were approved for issue by the Board of Directors on 18 May 2017.

Basis for preparation of financial statements

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Revenue recognition

Revenue comprises the fair value of consideration received or due consideration for the sale of services in regular business activities. Revenue is presented net of value added tax. Provided the amount of revenue can be measured reliably and it is probable that the company will receive any considerations

The company's products are still in the research and development phase, and it has no revenue from sales of products yet. Revenue for 2016 consists of consultancy revenue.

Investments in Subsidiaries and Associates

The cost method is applied to investments in subsidiaries and associates. The cost price is increased when funds are added through capital increases or when a company's contribution are made to subsidiaries. Dividends received are initially taken to income. Dividends exceeding the portion of retained equity after the purchase are reflected as a reduction in purchase cost. Dividend/Group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount. Dividends from other companies are reflected as financial income when it has been approved.

Associates are all entities over which the Company has significant influence but not control or joint control. This is generally the case where the company holds between 20% and 50% of the voting rights.

Foreign currency

Transactions entered into by the company in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

Financial assets

The Company's financial assets are classified into the loans and receivables categories.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference

between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the profit and loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired, trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the profit and loss in the year to which they relate.

Other long-term service benefits

Other employee benefits that are expected to be settled wholly within 12 months after the end of the reporting period are presented as current liabilities.

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the profit and loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss is charged with the fair value of goods and services received.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the company (an "operating lease"), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

The company has not attended leasing agreements where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease").

Intangible assets

Intangible assets acquired separately that have a finite useful life are carried at cost less accumulated amortization and any impairment charges. Amortization is calculated on a straight-line basis over the asset's expected useful life and adjusted for any impairment charges. The estimated useful life of the asset are as follows:

- Patents and rights 5 years

See also note 10.

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Internal development costs related to the company's development of products are recognised in the income statement in the year incurred unless it meets the asset recognition criteria Intangible Assets. An internally-generated asset arising from the development phase of an R&D project is recognised if, and only if, all of the following has been demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale
- The intention to complete the intangible asset and use or sell it
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits
- The availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset
- The ability to measure reliably the expenditure attributable to the intangible asset during its development

Uncertainties related to the regulatory approval process and results from ongoing clinical trials generally indicate that the criteria are not met until the time when marketing authorisation is obtained from relevant regulatory authorities. The Company has currently no development expenditure that qualifies for recognition as an intangible asset.

Deferred taxation

Income tax expense represents the sum of taxes currently payable and deferred tax.

Deferred taxes are recognised based on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for taxable temporary differences and deferred tax assets arising from deductible temporary differences are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Currently, no deferred tax asset has been recognised in the financial statements of the Company.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Freehold land is not depreciated.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful life of the asset. If significant individual parts of the assets have different useful lives, they are recognised and

depreciated separately. Depreciation commences when the assets are ready for their intended use. The estimated useful lives of the assets are as follows:

- Office equipment 3 years
- Furniture and fittings 3 years
- Laboratory equipment 3-5 years

The estimated useful life of fixed assets related to the laboratory equipment, is based on the Company's assessment of operational risk. Due to scientific and regulatory reasons there is a risk of termination of the project. This has been taken into account when determining the estimated useful life of the individual assets.

Government grants

Government grants are recognised at the value of the contributions at the transaction date. Grants are not recognised until it is probable that the conditions attached to the contribution will be achieved. The grant is recognised in the income statement in the same period as the related costs, and is presented separately as other operating income.

Where retention of a government grant is dependent on the company satisfying certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the Profit and loss statement for Lytix Biopharma AS.

Provisions

The company has recognised provisions for liabilities of uncertain timing or amount. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability.

Note 2 Revenue

| (in NOK 1000) | 2016 | 2015 |
|-----------------------|------------|------------|
| Provision of services | - | - |
| Other | 833 | 292 |
| Total Revenue | 833 | 292 |

The company's products are still in the research and development phase, and there is no revenue from sales of products yet.

Note 3 Other Operating income

| (in NOK 1000) | 2016 | 2015 |
|---|---------------|---------------|
| Other operating income: | | |
| Government grants recognised in profit and loss | 12 339 | 14 932 |
| Net gain on disposal of property, plant and equipment | - | - |
| Other | | |
| Other operating income | 12 339 | 14 932 |

Note 4 Government grants

Government grants have been recognised in profit or loss as other operating income with the following amounts:

| (in NOK 1000) | 2016 | 2015 |
|--|---------------|---------------|
| Government Grants: | | |
| Tax refund | 7 024 | 5 530 |
| Innovasjon Norge | - | 3 400 |
| The Norwegian Research Council | 5 315 | 4 000 |
| Eurostar grant (LTX-109, infection) | - | 2 000 |
| Other | - | 2 |
| Government grants presented as other operating income | 12 339 | 14 932 |

For 2016 and 2015 the grant from the Norwegian Research Council is through the BIA programme; supporting the R&D activities for LTX-315 (cancer) with NOK 5.3 million (NOK 4.0 million in 2015).

Note 5 Specification of auditor's fee

| (in NOK 1000) | 2016 | 2015 |
|--|------------|------------|
| Spesificaton of the auditor's fee | | |
| Statutory audit | 410 | 211 |
| Other assurance services | 99 | - |
| Other non-assurance services | 180 | 106 |
| Tax consultant services | 137 | - |
| Total auditor's fee | 826 | 317 |

VAT is not included in the fees specified above.

Note 6 Payroll and related expenses

| (in NOK 1000) | 2016 | 2015 |
|---|---------------|---------------|
| Payroll and related expenses (including directors) comprise: | | |
| Wages and salaries | 13 367 | 14 507 |
| Defined contribution pension cost | 599 | 625 |
| Share-based payments expense | 5 793 | 3 002 |
| Social security contributions and similar taxes | 1 824 | 1 881 |
| Other personnel cost | 859 | 111 |
| Total Payroll and related expenses | 22 442 | 20 126 |

Lytix Biopharma AS is required to have a pension scheme in accordance with the Norwegian law of mandatory occupational pension. The company's pension scheme fulfils the requirements of the law.

The number of man-years employed during the year:

| | 2016 | 2015 |
|----------------|------|------|
| Average number | 13 | 13 |

The number comprises both regular employees on payroll as well as contracted personnel (3 man-years).

Management remuneration

The group management consists of the Group Directors.

| (in NOK 1000) | Salary | Pension cost | Share based payments | Other remuneration | Total |
|---|--------|--------------|----------------------|--------------------|-------|
| Management team: | | | | | |
| Håkan Wickholm, CEO* / **** | - | - | 262 | 3 426 | 3 688 |
| Øystein Rekdal, CSO** | 1 532 | 77 | 1 365 | 24 | 2 998 |
| Wenche Marie Olsen, COO** | 1 749 | 101 | 1 012 | 11 | 2 873 |
| Andrew Saunders, CMO* | - | - | 262 | 2 995 | 3 257 |
| Kjetil Vangsnes, CFO* | - | - | - | 2 129 | 2 129 |
| Unni Hjelmås, CEO** / **** | 1975 | 56 | - | 8 | 2 039 |
| Board members (non - executive): | | | | | |
| Gert W. Munthe, Chairman | 300 | - | - | - | 300 |
| Knut Eidissen, member | 200 | - | - | - | 200 |
| Kari Grønås, member | 200 | - | - | - | 200 |
| Morten Jurs, member | 200 | - | - | - | 200 |
| Lena Torlegård, member | 200 | - | - | - | 200 |
| Debasish F. Roychowdhury, member*** | 200 | - | - | - | 200 |
| Nomination Committee: | | | | | |
| Per Erik Sørensen | 30 | - | - | - | 30 |
| Claus Flinder | 20 | - | - | - | 20 |
| Øystein Rekdal (incl.in figures above) | 20 | - | - | - | 20 |

*) These members of the management team are working full-time for the group but on a contracted basis were all additional cost are carried by the director or the director's company (social fees, pension, withholding tax etc). Other remuneration could also include refund of travel and other expenses.

**) These members of the management team are part of the general pension arrangement (OTP) which grants 4 % of the salary from 1 G up to 12 G. The pension system is deposit-based and gives no guaranteed payment.

***) Mr Roychowdhury is assigned as a strategic advisor for the company and is compensated in 2016 separate from the eligible board remuneration.

****) Effective 1 March 2016 Håkan Wickholm succeeded Unni Hjelmås as CEO in Lytix Biopharma

No loans or guarantees have been given to any members of the Group Management, the Board of Directors or other corporate bodies.

No member of the Company's management has received remuneration or economical benefits from other companies in the Group, other than what is stated beyond. Besides the stock option programs, no additional remuneration has been given for services outside the normal functions as a manager or non-executive director besides what is stated above.

Benefits upon termination

The previous CEO was eligible to her regular compensation until 30 November 2016. All other contracts adhere to the Norwegian industry standard notice periods.

| | Shares 2016 | Shares 2015 |
|---|----------------|----------------|
| Shares held by Group management and board members | | |
| Management team | | |
| Unni Hjelmås, CEO* | 143 | 143 |
| Øystein Rekdal, CSO | 11 736 | 14 670 |
| Wenche Marie Olsen, COO | 225 | 225 |
| John Sigurd Svendsen, Head of research and board member | 16 964 | 16 964 |
| Kjetil Vangsnes, CFO | - | - |
| Board members (non - executive) | | |
| Gert W. Munthe, Chairman | 160 572 | 97 435 |
| Knut Eidissen, member | 122 189 | 120 638 |
| Total shares owned by Group Management and board members | 311 829 | 250 075 |

| Option Holder | Opening balance | Granted | lapsed | Ending balance |
|--|-----------------|--------------|----------|----------------|
| Options held by management | | | | |
| Unni Hjelmås, CEO* | 5 040 | - | 5 040 | - |
| Håkan Wickholm, CEO* | 2 000 | - | - | 2 000 |
| Øystein Rekdal, CSO | 3 200 | 5 500 | - | 8 700 |
| Wenche Marie Olsen, COO | 3 200 | 3 450 | - | 6 650 |
| Andrew Saunders, CMO | 2 000 | - | - | 2 000 |
| Total options owned by Management | 15 440 | 8 950 | - | 19 350 |

* Effective 1 March 2016 Håkan Wickholm succeeded Unni Hjelmås as CEO in Lytix Biopharma

The company operates two equity-settled share based remuneration scheme for employees.

Options held by management in 2015 was granted in 2014 and relates to program A. Options granted in 2016 relates to program B. See note 21.

Note 7 Finance income and expense

| (in NOK 1000) | 2016 | 2015 |
|-------------------------------|--------------|------------|
| Financial income: | | |
| Interest income | 783 | 553 |
| Foreign exchange gains | 326 | 333 |
| Total financial income | 1 109 | 886 |

| (in NOK 1000) | 2016 | 2015 |
|---------------------------------|------------|------------|
| Financial expenses: | | |
| Foreign exchange losses | 388 | 533 |
| Other financial expenses | 1 | - |
| Total financial expenses | 389 | 533 |

Note 8 Tax

| (in NOK 1000) | 2016 | 2015 |
|---|------|------|
| Current tax: | | |
| Tax payable | - | - |
| Correction of previous years current income taxes | - | - |
| Deferred tax | | |
| Changes in deferred tax | - | - |
| Changes in tax rate | - | - |
| Tax expense | - | - |

| (in NOK 1000) | 2016 | 2015 |
|--|-----------------|-----------------|
| Pre-tax profit | (64 795) | (55 186) |
| Income taxes calculated at 25% (27 %) | (16 199) | (14 900) |
| Changes in unrecognised deferred tax asset | 11 725 | 8 201 |
| Change in tax rate | 4 334 | 7 345 |
| Non deductible expenses | 140 | (646) |
| Tax expense | - | - |

From 1 January 2017 the tax rate in Norway was reduced to 24 %. There is no effect in this year's tax expense because deferred tax from tax losses carried forward is not recognised. Deferred tax relates to the following:

| (in NOK 1000) | Balance sheet | | Change | |
|---|----------------|---------------|-----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Deferred tax assets | | | | |
| Property, plant and equipment | 781 | 93 | (687) | 34 |
| Net tax on losses carried forward | 103 235 | 92 197 | (11 038) | (8 235) |
| Deferred tax assets | 104 016 | 92 290 | (11 725) | (8 201) |
| Net deferred tax assets | 104 016 | 92 290 | (11 725) | (8 201) |
| Net deferred tax assets not recognised | (104 016) | (92 290) | 11 725 | 8 201 |
| Net recognised deferred tax assets | - | - | - | - |

Deferred tax assets on losses carried forward in total NOK 103.2 million as at 31 December 2016 (2015: NOK 92.2 million) have not been recognised because it is not probable that taxable profits will be available against which deductible temporary differences can be utilised.

The company has a total tax loss carried forward of NOK 430.1 million as at 31 December 2016 (2015: NOK 368.8 million) which has no due date.

Note 9 Property, plant and equipment

| (in NOK 1000) | Machinery and equipment | Total 2016 | Machinery and equipment | Total 2015 |
|--|-------------------------|------------|-------------------------|------------|
| Carrying amount 1 January | 49 | 49 | 62 | 62 |
| Additions | | - | 20 | 20 |
| Depreciation | (29) | (29) | (32) | (32) |
| Carrying value 31 January | 20 | 20 | 49 | 49 |
| As at 1. January | | | | |
| Acquisition cost | 2 479 | 2 479 | 2 459 | 2 459 |
| Accumulated depreciation and write downs | (2 430) | (2 430) | (2 398) | (2 398) |
| Carrying amount | 49 | 49 | 62 | 62 |
| As at December 31 | | | | |
| Acquisition cost | 2 479 | 2 479 | 2 479 | 2 479 |
| Accumulated depreciation and write downs | (2 459) | (2 459) | (2 430) | (2 430) |
| Carrying amount | 20 | 20 | 49 | 49 |

Note 10 Intangible assets

| (in NOK 1000) | Patents and rights | Total 2016 | Patents and rights | Total 2015 |
|---|--------------------|--------------|--------------------|--------------|
| Carrying amount, 1 January | 3 920 | 3 920 | - | - |
| Additions | | - | 4 900 | 4 900 |
| Amortisation | (980) | (980) | (980) | (980) |
| Impairment | (2 940) | (2 940) | | |
| Carrying amount, 31 December | - | - | 3 920 | 3 920 |
| As at 1 January | | | | |
| Cost | 4 900 | 4 900 | - | - |
| Accumulated amortisation and impairment | (980) | (980) | - | - |
| Carrying amount | 3 920 | 3 920 | - | - |
| As at 31 December | | | | |
| Cost | 4 900 | 4 900 | 4 900 | 4 900 |
| Accumulated amortisation and impairment | (4 900) | (4 900) | (980) | (980) |
| Carrying amount | - | - | 3 920 | 3 920 |

External acquired intangible assets of NOK 2.94 million is impaired in 2016. Intangible assets consisted of patents to be used in development of LTX-109 and was acquired in 2015. Development of LTX-109 was licensed to Amicoat AS in February 2016. As a part of the demerger in 2017, the recoverable amount of the patents was estimated to be zero.

Note 11 Subsidiaries and associates

The following subsidiaries and associates are included in the consolidated financial statements:

| Company | Country of incorporation | Ownership | | Ownership | | Equity 31.12.2016 | Profit and loss 2016 | Book value |
|---------------------------|--------------------------|---------------|-------------------|---------------|-------------------|-------------------|----------------------|------------|
| | | interest 2016 | Voting power 2016 | interest 2015 | Voting power 2015 | | | |
| Amicoat AS | Norway | 92 % | 92 % | 100 % | 100 % | (580) | (4 779) | 4 692 |
| Pharmasum Therapeutics AS | Norway | 24 % | 24 % | 34 % | 34 % | 9 370 | (5 253) | 3 741 |

Investment in Pharmasum Therapeutics AS is impaired with NOK 1.759 million in 2016.

Note 12 Trade and other receivables

| (in NOK 1000) | 2016 | 2015 |
|--|---------------|---------------|
| Trade receivables | | |
| Less: provision for impairment of trade receivables | | |
| Trade receivables - net | | |
| Receivables from related parties | - | 439 |
| Loans to related parties | 4 001 | 1 815 |
| Total financial assets other than cash and cash equivalents classified as loans and receivables | 4 001 | 2 253 |
| Share issue not registered | - | 78 463 |
| Government grants | 7 021 | 7 573 |
| VAT | 358 | 1 132 |
| Prepayments | 343 | 157 |
| Other receivables | 2 002 | 45 |
| Total trade and other receivables | 13 724 | 89 623 |

Note 13 Cash and cash equivalents

| (in NOK 1000) | 2016 | 2015 |
|--|---------------|--------------|
| Cash and cash equivalents | | |
| Employee withholding tax | 551 | 750 |
| Fixed rate bank deposit account | - | - |
| Variable rate bank accounts | 17 494 | 7 888 |
| Total cash and cash equivalents | 18 045 | 8 638 |

Note 14 Other current liabilities

| (in NOK 1000) | 2016 | 2015 |
|--|--------------|---------------|
| Other current payables: | | |
| Accrual for annual leave | 1 080 | 1 327 |
| Other accruals | 269 | 269 |
| Tax and social security payments | 898 | 1 295 |
| Other payables | 4 318 | 10 526 |
| Total other current liabilities | 6 564 | 13 417 |

Note 15 Equity and share capital

| (in NOK 1000) | Share Capital | Share Premium | Retained earnings | Total equity |
|------------------------------------|---------------|---------------|-------------------|---------------|
| Balance at 31 December 2015 | 776 | 88 020 | - | 88 796 |
| Registration of Share issue | 226 | (226) | | - |
| Profit | | (64 795) | | (64 795) |
| Share based payments | | 5 793 | | 5 793 |
| Balance at 31 December 2016 | 1 002 | 28 791 | - | 29 793 |

Share capital at 31 December 2016 is NOK 1,001,806 (31 December 2015: NOK 776,202), being 1,001,806 ordinary shares at a nominal value of NOK 1. All shares carry equal voting rights.

| The change in the number of shares during the period was as follows | 2016 | 2015 |
|---|------------------|----------------|
| Ordinary shares at 1 January | 776 202 | 697 773 |
| Issue of ordinary shares ¹⁾²⁾³⁾ | 225 604 | 78 429 |
| Ordinary shares | 1 001 806 | 776 202 |

- 1) Registration of the share issue for 225 604 shares at a subscription price of NOK 350, bringing in gross proceeds of NOK 78.5 million. The share issue was approved by the extraordinary General Meeting 14 December 2015. The contribution was confirmed and registered in The register of Business Enterprises in January 2016.
- 2) In January 2015 71,429 shares were subscribed for in a private placement among existing shareholders and new institutional investors at a share price of NOK 700 for total gross proceeds of NOK 50 million.
- 3) North Murray IPR AS subscribed in February 2015 for 7,000 shares at a share price of NOK 700 in a non-cash share issue against acquired IPR.

Lytix Biopharma has 268 shareholders at 31 December 2016:

| Shareholders | Number of shares | Percentage share of total shares |
|--|------------------|----------------------------------|
| 1 NORTH MURRAY AS | 160 572 | 16,03 % |
| 2 PICASSO KAPITAL AS | 122 189 | 12,20 % |
| 3 TAJ HOLDING AS | 78 519 | 7,84 % |
| 4 CARE HOLDING AS | 75 230 | 7,51 % |
| 5 NORINNOVA INVEST AS | 48 766 | 4,87 % |
| 6 LYSNES INVEST AS | 43 245 | 4,32 % |
| 7 HOPEN INVEST AS | 29 487 | 2,94 % |
| 8 NORD I AS | 27 329 | 2,73 % |
| 9 3 T PRODUKTER AS | 25 730 | 2,57 % |
| 10 PER STRAND EIENDOM AS | 19 627 | 1,96 % |
| 11 4 LB INVEST AS | 17 812 | 1,78 % |
| 12 NORINNOVA TECHNOLOGY TRANSFER AS | 17 339 | 1,73 % |
| 13 SVENDSEN | 16 964 | 1,69 % |
| 14 INNOVASJON NORGE | 14 890 | 1,49 % |
| 15 REKDAL | 11 736 | 1,17 % |
| 16 TAVE INVEST AS | 11 722 | 1,17 % |
| 17 KRÆMER A/S | 10 598 | 1,06 % |
| 18 HARILA INVEST AS | 10 315 | 1,03 % |
| 19 ØKSNES INVEST AS | 9 035 | 0,90 % |
| 20 JESEM AS | 9 000 | 0,90 % |
| Total shares for top 20 shareholders | 760 105 | 75,87 % |
| Total shares for other 248 shareholders | 241 701 | 24,13 % |
| Total shares (268 shareholders) | 1 001 806 | 100,00 % |

Note 16 Leases

The Group has entered into operating leases for offices and other facilities. Most of the leases contain an option for extension. The leases do not contain any restrictions on the company's dividend policy or financing.

The lease costs were as follows:

| (in NOK 1000) | 2016 | 2015 |
|--------------------------------|--------------|--------------|
| Operating leases: | | |
| Ordinary lease payments | 1 790 | 1 471 |
| Contingent payments | - | - |
| Payments received on subleases | - | - |
| Total operating leases | 1 790 | 1 471 |

Note 17 Share option agreement

The company operates two equity-settled share based remuneration scheme for employees.

In program A there are issued 23 814 options where 23 600 was granted 20 March 2014 and 214 was granted 1 May 2015. The volume of option rights for the Employee is calculated based on the time the Employee has been / will be employed in the Position during the 30 months period from the date of grant. For this period the employee vest an option to buy shares in the Company for each month of the actual employment. If the employment is part time, the volume of options shall be adjusted to the employment percentage and number of months.

In program B there are issued 15 550 options which was granted 10 March 2016. Total options available in program B is 30 000. There is no vesting period related to program B.

In both programs, the Employee has to comply with the following terms during the vesting period and up to the date for the actual and complete execution of the option rights:

- iii. The Employee shall not directly or indirectly by any means be involved in a business which might be in competition with the Company's business at any time unless prior, written acceptance is obtained from the Company.
- iv. The Employee shall not directly or indirectly be involved in any activities related to or targeted towards the Company's customers, business partners or employees unless prior, written acceptance is obtained from the Company or is ordinary conduct of the Employee's defined Position.

| 2016 | Program A | | Program B | |
|------------------------------------|---|---------------|---|---------------|
| | Weighed average exercise price (NOK 1000) | Number | Weighed average exercise price (NOK 1000) | Number |
| Outstanding at 1. january | 0,7 | 30 854 | - | - |
| Granted during the period | - | - | 0,35 | 15 550 |
| Forfeited during the period | - | - | - | - |
| Exercises during the period | - | - | - | - |
| Lapsed during the period | 0,7 | -7 040 | - | - |
| Outstanding at 31. December | 0,7 | 23 814 | 0,35 | 15 550 |

| 2015 | Program A | |
|------------------------------------|--------------------------------|---------------|
| | Weighed average exercise price | Number |
| Outstanding at 1. january | 0,7 | 30 640 |
| Granted during the period | 0,7 | 214 |
| Forfeited during the period | - | - |
| Exercises during the period | - | - |
| Lapsed during the period | - | - |
| Outstanding at 31. December | 0,7 | 30 854 |

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based option agreement operated by the Group:

| 2016 | Program A | Program B |
|---|---------------|---------------|
| Equity Settled | | |
| Option pricing model used | Black-Scholes | Black-Scholes |
| Weighed average share price at grant date (NOK) | 700 | 350 |
| Exercise price (NOK) | 700 | 350 |
| Weighed average contractual life (in days) | - | - |
| Expected volatility | 60,00 % | 60,00 % |
| Expected dividend growth rate | - | - |
| Risk-free interest rate | 0,52 % | 0,79 % |

2015

Program A

Equity Settled

| | |
|--|---------------|
| Option pricing model used | Black-Scholes |
| Weighted average share price at grant date (NOK) | 700 |
| Exercise price (NOK) | 700 |
| Weighted average contractual life (in days) | 182 |
| Expected volatility | 60,41 % |
| Expected dividend growth rate | - |
| Risk-free interest rate | 1,71 % |

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of comparable companies.

The share-based remuneration expense comprises:

| (in NOK 1000) | 2016 | 2015 |
|-----------------------------------|--------------|--------------|
| Equity-Settled schemes | 5 793 | 3 002 |
| Total remuneration expense | 5 793 | 3 002 |

Note 18 Transactions with related parties

During the period, the Company entered into the following trading transactions with related parties:

| (in NOK 1000) | Sales (included in revenue) | | Purchases (included in other operating expense) | |
|---------------------------------------|-----------------------------|------|---|-------|
| | 2016 | 2015 | 2016 | 2015 |
| GHW Consult AB (Håkan Wickholm) | - | - | 3 897 | 2 397 |
| Tilma AS (Kjetil Vangsnes) | - | - | 2 129 | 764 |
| Linden Oncology (Andrew Saunders) | - | - | 2 995 | 3 199 |
| Pharmasum Therapeutics AS (Associate) | - | 33 | - | - |
| Amicoat AS | 712 | 241 | - | - |

At 31 December, the company had the following balances with related parties

| (in NOK 1000) | Amounts owed by related parties | | Amounts owed to related parties | |
|---------------------------------------|---------------------------------|-------|---------------------------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| GHW Consult AB (Håkan Wickholm) | - | - | 1 209 | 835 |
| Tilma AS (Kjetil Vangsnes) | - | - | 147 | 235 |
| Linden Oncology (Andrew Saunders) | - | - | 546 | 349 |
| Pharmasum Therapeutics AS (Associate) | 923 | 759 | - | - |
| Amicoat AS | 4 000 | 2 056 | - | - |

In February 2015 North Murray IPR AS, a company controlled by the chairman of the board made a non-cash contribution with global and exclusive patents and rights. Lytix Biopharma AS issued 7,000 shares of common stock of NOK 1 par value. The total fair market value of the shares was NOK 4.9 million at the time of issuance of the shares.

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Lytix Biopharma AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Lytix Biopharma AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2016, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2016, the statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- ▶ the financial statements are prepared in accordance with the law and regulations;
- ▶ the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2016, and of its financial performance and its cash flows for the year ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit 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 Company's internal control
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result are 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Tromsø, 18 May 2017
ERNST & YOUNG AS



Kai Astor Frøseth
State Authorised Public Accountant (Norway)