Lytix Biopharma

ONCOLYTIC MOLECULES

Prime the Immune System

to Fight Cancer

Annual Report 2020

WORDS FROM CEO ØYSTEIN REKDAL

A TRANSFORMATIONAL YEAR

PHOTO: BÅRD GUDIM

The potential of Lytix Biopharma's immunotherapy platform was confirmed through international interest from pharma companies, academia, industry experts and investors during 2020.

In January, only weeks before the world was closed due to the coronavirus pandemic, Lytix Biopharma held various investor meetings at the 38th Annual JP Morgan Healthcare conference in San Francisco. One of the industry colleagues we met during this conference was Ted White, CEO of the US based dermatology company Verrica Pharmaceuticals.

Seven months later, we signed an exclusive worldwide license agreement with Verrica to develop and commercialize our LTX-315, a first-in-class oncolytic peptide, for skin cancer indications. LTX-315 has shown very promising efficacy and safety signals in cancer patients during Phase I/II studies. We strongly believe that the partnership with Verrica, which has significant expertise within the field of dermatology, will expand the applications for our lead cancer drug candidate.

The missing link

Cancer is the second leading cause of death globally and is responsible for about 10 million deaths per year. One of the major challenges is that as cancer develops and mutates, a tumor ends up with several different cancer cells, making it difficult for both current cancer treatment and the body to fight the cancer disease.

Cancer is a heterogeneous disease, which gives rise to resistance to chemotherapy, targeted therapy, and immunotherapy. Furthermore, most cancer patients do not respond to immune checkpoint inhibitors due to low immune cell infiltration.

Lytix proprietary oncolytic molecule platform could represent the missing link in current combination therapy. Oncolytic molecules are able to dissolve and expose all the compartments of the cancer cells resulting in effective activation of T cells. This unique way of priming the immune system makes them ideal for combination with other types of cancer therapy including immune checkpoint inhibitors Lytix technology platform is based on research and development originated at UiT The Arctic University in Tromsø, one of the leading academic clusters on generating bioactive drug candidates from naturally occurring host defense peptides.

As we entered 2021 another important milestone was achieved when FDA approved a Phase II clinical trial in the US with a multicenter study covering several solid tumor types. The next study will be a combination with LTX-315 with approved immunotherapy and a first read-out is expected in first half of 2022.

Partnering strategy

There are also other candidates in the pipeline, including LTX-401, a second-generation molecule developed for treatment of visceral tumors. Our plan is to develop LTX-401 through proof-of-concept studies, both as a monotherapy and as a combination partner towards deep seated lesions, and we are targeting a first-in-man study next year.

Our strategic vision is that Lytix' oncolytic molecules could become the preferred combination partners with immune checkpoint inhibitors within major cancer types, such as head and neck, breast cancer and skin cancer. Over the course of the year, our technology has been recognized internationally, proven by partnerships, IND approval for initiating phase II studies in US with LTX-315, research citations and feedback from industry experts.

As with the Verrica agreement, we seek to enter further strategic partnerships with big pharma and large biotech's to maximize the likelihood of successfully commercializing product candidates to the benefit of patients, shareholders, employees, and the society in general.

MAIN EVENTS DURING 2020

In fiscal year 2O2O, Lytix Biopharma AS ("Lytix" or the "Company") had to deal with some consequences of the COVID-19 virus. Government measures to curb the virus have affected economic activity. The Company has taken several measures to limit the effects of the COVID-19 virus, such as safety and health measures for our people (such as social distancing and working from home), and we have followed government policies and advice while doing our best to continue our operations in the best possible and safest way without compromising the health of our people.

- Øystein Rekdal and Lytix were nominated to the Lyfebulb-Helsinn Innovation Award - in competition with 10 other finalists. Our participation and the award itself were mentioned in media.

- Lytix carried out a private placement and a repair issue in March and April 2020 where the Company in total raised NOK 40 million from existing shareholders.

- In May the Company had an amendment to the Herlev Protocol approved by the ethics committee and the Danish authorities. The supplement was developed to optimize treatment with LTX-315 and to be able to recruit sarcoma patients with stable disease (in addition to patients with progressive disease). The study was closed for a period pending the approval of the amendment, but after it was reopened, summer 2020, two patients have been enrolled in the study. One patient, who received T cells grown from the patient's cancerous tumors after LTX-315 treatment, has so far shown stable disease, i.e. the disease does not develop in a negative direction. Unfortunately, it was not possible to isolate and grow enough T cells from the other patient.

- In August, Lytix entered into a license agreement with the Nasdaq-listed company Verrica Pharmaceuticals. Verrica has received an exclusive global license to use LTX-315 for the treatment of skin cancer. Verrica will primarily test LTX-315 in the skin cancer types basal cell carcinoma and squamous cell carcinoma. The license agreement involves an advance payment and milestone payments from Verrica to Lytix based on the achievement of specific development goals and sales figures. If Verrica succeeds in commercializing LTX-315, milestone payments could reach just over USD 110 million. In addition, Lytix will receive royalty payments from the sale of LTX-315.

- Lytix follows up international pharmaceutical companies that have shown interest in collaboration, and this applies to both LTX-315 and LTX-401.

- In October Lytix hired Jørund Sollid as the new CBO (Chief Business Officer). Sollid is an experienced leader in strategic partnerships and negotiations, and he has worked for more than 20 years in the life sciences and pharmaceutical industry.

- In the autumn of 2019, Lytix established a collaboration with Covance, one of the most recognized CROs in the world, to assist Lytix with an IND (application for permission from the FDA to conduct clinical studies in the USA). Lytix and Covance have worked intensively on the submission of IND throughout 2020, and an IND application was submitted to the FDA on December 10th. In the study, LTX-315 will be combined with the immune checkpoint inhibitor pembrolizumab (anti-PD-1) and tested for various cancers (including mole cancer, breast cancer and head and neck cancer). A physician (PI) from the MD Anderson Cancer Center, with solid expertise in local treatment of solid tumors, will lead the clinical study. The study will be conducted at 3-5 different hospitals in the United States, including the MD Anderson Cancer Center which is the world's leading cancer hospital. Our scientific advisors Jim Allison (Nobel laureate in 2018 and discoverer of the first immune checkpoint inhibitor) and Pam Sharma, are both employed at the MD Anderson Cancer Center and have been important advisors in the design of the study.

- Following the Verrica agreement the Company saw a need to also strengthen the CMC (Chemistry, Manufacturing and Control) competence in Lytix. In March 2021 Gry Stensrud was appointed Chief Technology Officer and she will provide strategic, tactical and technical expertise and oversight of all CMC-related activities.

- The company has taken several measures to limit the effects of the COVID-19 virus, such as safety and health measures for our people (such as social distancing and working from home), and we have followed government policies and advice while doing our best to continue our operations in the best possible and safest way without compromising the health of our people.

- Lytix is working with the investment banks Arctic Securities and Sparebank 1 Markets to raise capital and list the Company’s shares on Euronext Growth Oslo.

DIRECTORS' REPORT

Background and strategy

Lytix Biopharma AS is a company whose business consists of research and development work in biotechnology. The company was established in 2003 and is headquartered in Oslo, Norway.

The Company's clinical stage product, LTX-315, is an oncolytic peptide with potent immunomodulatory properties designed for the local treatment of solid tumors. By inducing rapid immunogenic cell death through the release of danger-associated molecular pattern molecules (DAMPs) and tumor-associated antigens, LTX-315 is capable of reshaping the tumor microenvironment, turning "cold" tumors "hot" through a significant increase in tumor-infiltrating lymphocytes (T cells). The Company´s oncolytic pipeline product, LTX-401 is a low-molecular drug that is designed for deep-seated visceral tumors and is in a preclinical phase. The technology has potential to address several indications and therapeutic areas. Lytix has a strong patent portfolio with protection lasting up to 2032.

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

Financial review

Accounting policies

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

Operating income

Revenue for 2020 for the Company amounted to NOK 3 thousand compared to NOK 310 thousand in 2019. Other income, mainly public grants, amounted to NOK 6,675 thousand for 2020 compared to NOK 6,388 thousand for 2019.

Operating expenses

Total operating expenses increased to NOK 49,050 thousand in 2020 from NOK 40,470 thousand in 2019 for the Company. Loss from operations for the Company amounted to NOK 42,372 thousand in 2020 compared to NOK 33,773 thousand in 2019.

Net financial items

Lytix' net financial items constituted NOK 284 thousand in 2020 (2019: NOK 546 thousand).

Net result

The loss for the period was NOK 42,088 thousand for 2020 compared to a loss of NOK 33,227 thousand for 2019.

Financial position and cash flow

Cash and cash equivalents were NOK 28,450 thousand for the Company at the end of 2020 compared to NOK 12,796 thousand end of 2019.

Total liabilities for the Company were NOK 12,728 thousand in 2020, including accrued, non-invoiced cost from ongoing projects (2019: 3,854 thousand).

Shareholders' equity for the Company was NOK 19,889 thousand at the end of 2020, compared to NOK 13,580 thousand at the end of 2019.

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

Allocation of the 2020 result

The Company's annual result amounted to a loss of NOK 40,604 thousand. The Board of Directors proposed that the loss is transferred from Share Premium Reserve.

Financial risks

The Company 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. The credit risk is limited as revenues are minimal exclusive of public grants.

The Company controls its cash flow from both long- and short-term perspectives through rolling cash forecasts. The Company 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.

Non-financial risks

Technology risk

The Company's lead product candidate, LTX-315, is still at a relatively early stage (Phase ll) 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 Company will require beneficiary partner agreements as well as obtaining market access and reimbursement/pricing at attractive levels. There can be no guarantee that the Company's product(s) will meet these requirements. The Company 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.

Going concern

These financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company's ability to continue as a going concern depends on its ability to obtain additional equity financing. The Company has funded its operations primarily by shares issuances. While the Company has been successful in raising sufficient funding in the past, there can be no assurance it will be able to do so in the future.

In 2021, the Company has decided to initiate a process to secure funding of the Company's development program, including phase II clinical trial in the US for the LTX-315. The Board of Directors has mandated the management to subsequently list its shares on Euronext Growth Oslo. Arctic Securities AS and Sparebank 1 Markets AS have been engaged as financial advisors in the process. The capital raise is estimated to be completed in second quarter for 2021. If the share issue is delayed or smaller than expected, the Company has several opportunities to reduce the capital need. Postponing and or terminating projects can significantly reduce the capital need. The Company is of the opinion that the working capital available (including the proceeds from the share issue) will be sufficient for the Company's present requirements, for the period covering at least 12 months.

The Board of Directors states that the annual accounts represent a true and fair view of the Company'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 and that the grounds for this assumption exist.

Personnel and organization

Lytix Biopharma's senior management team at year-end consists of Øystein Rekdal, Chief Executive Officer, Baldur Sveinbjørnsson, Chief Scientific Officer, Gjest Breistein, Chief Financial Officer and Jørund Sollid, Chief Business Officer. In addition, Kamal Saini works as a Chief Medical Officer consultant hired from Covance. On March 1, 2021 Gry Stensrud started as Chief Technical Officer.

Lytix has its registered address in Oslo, Norway. The Company is a public limited company incorporated and domiciled in Norway. The Company rents office in Oslo.

Health, safety and environment (HSE)

During 2020, the Company had 7 employees (constituting 7 man-years). The working environment is good. No accidents or injuries were reported in 2020. Absence due to illness was all short term and minimal, and in line with 2019.

The Company aims to be a workplace with equal opportunities for women and men in all areas. The Company has traditionally recruited from environments where women and men are relatively equally represented. In terms of gender equality within the Company, women constitute 0 % of the Board members and 0 % of the senior management team. The Company promotes a productive working environment, does not tolerate disrespectful behavior, and the Company 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 Company 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 Company's business is based on trust. For the confidence of its customers, employees, shareholders and other stakeholders, ethics and values must play a prominent role in all operations. The Company 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 Company.
This Code of conduct applies to all employees and Board members in entities owned by the Company. By agreement it may also apply to others acting on behalf of the Company.

Board statement on corporate governance

The Company considers good corporate governance to be a prerequisite for value creation and trustworthiness and for access to equity. To secure strong and sustainable corporate governance, it is important that the Company ensure good business practices, reliable financial reporting, and an environment of compliance with legislation and regulations. The Company'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.

Deviations from the Code:

- Chief Scientific Officer, Baldur Sveinbjørnsson, is a member of the nomination committee, which is a deviation from the Code which says that the members of the executive management shall not be members of the nomination committee. Mr. Sveinbjørnsson has been involved in Lytix Biopharma since its inception and is an expert on the Company's technology.

Board of Directors of Lytix Biopharma AS

The composition of the Board of Directors is at year-end as follows: Gert Wilhelm Munthe (Chair), Debasish Roychowdhury and Per Erik Sørensen.

All board members are independent of the Company's executive personnel and material business at year-end. Gert W. Munthe controls a significant number of shares in the Company through North Murray AS.

The Board of Directors held 16 Board meetings during the fiscal year 2020.

Significant events after 31 December 2020

January 20, 2021 Lytix announced that the U.S. Food and Drug Administration (FDA) had approved the company's Investigational New Drug (IND) application for LTX-315. The IND approval enables Lytix to conduct a Phase II clinical trial in the US designed to assess the efficacy of LTX-315 in several types of solid tumors including metastatic breast cancer and head and neck squamous cell carcinoma. The trial will be a multicenter study including M.D. Anderson Cancer Center in Texas, which is one of the world leading cancer hospitals.

In the fiscal year 2020, the company is dealing with the consequences of the COVID-19 virus. Government measures to curb the virus have affected economic activity. The company considers this to be an event after the balance sheet date that does not provide any further information about the actual situation on the balance sheet date. We have taken several measures to limit the effects of the COVID-19 virus, such as safety and health measures for our people (such as social distancing and working from home). We will continue to follow government policies and advice while doing our best to continue our operations in the best possible and safest way without compromising the health of our people. These measures, with the continued financial support of the Company, are reason for the Board of Directors to rely on the sustainable continuation of the business activities so that the financial statements are prepared on a going concern basis.

Oslo, April 28, 2021

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

Gert W. Munthe
Chairman of the Board

Debasish F. Roychowdhury
Board Member

Per Erik Sørensen
Board Member

Øystein Rekdal
Chief Executive Officer

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

(in NOK thousands)	Notes	2020	2019
Revenue	*1*	3	310
Other operating income	*2,3*	6,675	6,388
Total operating income		**6,678**	**6,698**
Payroll and related expenses	*5,14*	(23,416)	(20,915)
Direct R&D expenses		(16,008)	(14,021)
Other expenses	*4,13*	(9,626)	(5,535)
Total operating expense		**(49,050)**	**(40,470)**
Loss from operations		**(42,372)**	**(33,773)**
Financial expenses	*6*	(331)	(338)
Financial income	*6*	615	884
Net financial items		**284**	**546**
Loss before tax		**(42,088)**	**(33,227)**
Tax expense	*7*	-	-
Loss for the period		**(42,088)**	**(33,227)**
Transfers:			
Transfers to/from reserves		(42,088)	(33,227)
Total transfers and allocations		**(42,088)**	**(33,227)**

STATEMENT OF FINANCIAL POSITION

(in NOK thousands)	Notes	31.12.2020	31.12.2019
Assets			
Current assets			
Trade and other receivables	*9*	4,168	4,638
Cash and cash equivalents	*10*	28,450	12,796
Total current assets		**32,617**	**17,434**
Total assets		**32,617**	**17,434**
Shareholders equity and liabilities			
Issued capital and reserves			
Share capital		2,623	2,289
Share premium reserve		17,266	11,291
Total equity	***12***	**19,889**	**13,580**
Liabilities			
Current liabilities			
Trade payables		3,284	-
Other current liabilities	*13*	9,444	3,854
Total current liabilities		**12,728**	**3,854**
Total liabilities		**12,728**	**3,854**
Total equity and liabilities		**32,617**	**17,434**

Oslo, April 28, 2021

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

Gert W. Munthe
Chairman of the Board

Debasish F. Roychowdhury
Board Member

Per Erik Sørensen
Board Member

Øystein Rekdal
Chief Executive Officer

STATEMENT OF CASH FLOWS

(in NOK thousands)	Notes	2020	2019
Cash flows from operating activities			
Loss for the period		(42,088)	(33,227)
Adjustments for:			
Share-based payment expense	*14*	8,397	5,762
Increase/decrease in trade and other receivables		471	4,640
Increase/decrease in trade and other payables		8,874	(13,995)
Cash generated from operations		**(24,347)**	**(36,820)**
Income tax paid	*7*	-	-
Net cash flows from operations		**(24,347)**	**(36,820)**
Financing activities			
Proceeds from share issue	*12*	40,000	(5)
Net cash from/(used in) financing activities		**40,000**	**(5)**
Net increase in cash and cash equivalents		15,653	(36,825)
Cash and cash equivalents at the beginning of the period		12,796	49,621
Cash and cash equivalents at the end of the period		**28,450**	**12, 796**

NOTES TO THE ANNUAL ACCOUNTS 2020

ACCOUNTING POLICIES – LYTIX BIOPHARAMA AS

Basis for preparation and significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out bellow. 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 April 28, 2021.

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.

Use of estimates

The preparation of accounts in accordance with the recognition- and measurement criteria in accordance with the Norwegian Accounting Act requires the use of estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in the following notes.

Revenue recognition

Revenue comprises the fair value of any 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.

Revenues for services are recognized when the services are performed, and the company has a right to payment.

The company's revenue is not significantly affected by seasonality or other variations throughout the reporting period.

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 recognized immediately in profit or loss.

Classification and assessment of balance sheet items

Assets intended for long term ownership or use are classified as fixed assets. Assets relating to the operating cycle have been classified as current assets. Other receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long-term receivables are, however, not classified as short-term liabilities and current assets.

Intangible assets

Expenditure on own Research and Development are expensed as and when they incur. Expenses for other intangible assets are reflected in the balance sheet providing a future financial benefit relating to the development of an identifiable intangible asset can be identified and the cost can be measured reliably. Otherwise, such expenditure is expensed as and when incurred.

Receivables

Accounts receivables and other receivables are recorded in the balance sheet at face value after deduction of provisions for expected loss. Provisions for losses are made on the basis of individual assessments of the individual receivables. Additionally, for accounts receivables, an unspecified provision is made to cover expected losses.

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 recognized 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 recognized 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 the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease").

Research and development

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Internal development costs related to the Company's development of products are recognized 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 recognized if, and only if, all 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 authorization 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 recognized 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 recognized for taxable temporary differences and deferred tax assets arising from deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Currently, no deferred tax asset has been recognized 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 realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Government grants

Government grants are recognized at the value of the contributions at the transaction date. Grants are not recognized until it is probable that the conditions attached to the contribution will be achieved. The grant is recognized 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 recognized 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 recognized 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.

Cash flow statement

The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short-term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

Going concern

These financial statements have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company's ability to continue as a going concern depends on its ability to obtain additional equity financing. The Company has funded its operations primarily by shares issuances. While the Company has been successful in raising sufficient funding in the past, there can be no assurance it will be able to do so in the future.

In 2021, the Company has decided to initiate a process to secure funding of the Company's development program, including phase II clinical trial in the US for the lead candidate LTX-315. The Board of Directors has mandated the management to subsequently list its shares on Euronext Growth Oslo. Arctic Securities AS and Sparebank 1 Markets AS have been engaged as financial advisors in the process. The capital raise is estimated to be completed in second quarter for 2021. If the share issue is delayed or smaller than expected, the Company has several opportunities to reduce the capital need. Postponing and or terminating projects can significantly reduce the capital need. The Company is of the opinion that the working capital available (including the proceeds from the share issue) will be sufficient for the Company's present requirements, for the period covering at least 12 months.

NOTE 1 - REVENUE

(in NOK thousands)	2020	2019
Revenue		
Other	3	310
Total Revenue	**3**	**310**

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

NOTE 2 – OTHER OPERATING INCOME

(in NOK thousands)	2020	2019
Other operating income		
Government grants recognized in profit and loss	4,071	6,029
Other	2,604	359
Other operating income	**6,675**	**6,388**

NOTE 3 – GOVERNMENT GRANTS

Government grants are recognized in profit or loss as "other operating income" with the following amounts:

(in NOK thousands)	2020	2019
Government grants		
Tax refund (across all R&D activities)	3,168	3,631
The Norwegian Research Council (BIA grant)	903	2,398
Other operating income	**4,071**	**6,029**

The SkatteFUNN R&D tax incentive scheme is a government program designed to stimulate research and development (R&D) in Norwegian trade and industry. Approved projects may receive a tax deduction of up to 19 percent of the eligible costs related to R&D activity. All costs must be associated with the approved project.

The BIA grant is user-driven research-based innovation (Norwegian: Brukerstyrt innovasjonsarena, BIA). BIA funds industry-oriented research and has no thematic restrictions. This broad-based program supports high-quality R&D projects with good business and socio-economic potential.

NOTE 4 – SPECIFICATION OF AUDITOR'S FEE

(in NOK thousands)	2020	2019
Specification of the auditor's fee		
Statutory audit	145	251
Other non-assurance services	18	56
Tax consultant services	76	7
Total auditor's fee	**239**	**314**

VAT is not included in the fees specified above.

NOTE 5 – PAYROLL AND RELATED EXPENSES

(in NOK thousands)	2020	2019
Payroll and related expenses, including directors, comprise:		
Wages and salaries	10,952	11,564
Defined contribution pension cost	463	877
Share-based payment expense (note 14)	8,397	5,762
Social security contributions and similar taxes	2,874	2,568
Other personnel costs	730	144
Total payroll and related expenses	**23,416**	**20,915**

The number of man-years employed during the year:

	2019	2019
Number of man-years employed	7	8

The number comprises both regular employees on payroll as well as contracted personnel.

DEFINED CONTRIBUTION PENSION SCHEME

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 2020

(in NOK thousands)	Salary	Board remuneration	Pension cost	Share-based payments	Other remuneration	Total
Management team:						
Øystein Rekdal, CEO (CSO)[1]	3,884	-	97	3,315	35	**7,331**
Board members (non-executive):						
Gert W. Munthe, Chairman	-	100	-	-	600[2]	**700**
Debasish F. Roychowdhury, member	-	200	-	-	-	**200**
Per Erik Sørensen, member	-	100	-	-	25	**125**

[1)] Øystein Rekdal's fixed salary is NOK 3,1 million. In 2020 he received a bonus linked to the upfront payment for the licensing agreement with Verrica Pharmaceuticals. He also got paid the deferred compensation for the period he served as CEO in 2019. Management and employees of the Company are entitled to an annual bonus based on the achievement of important milestones for the Company and for the individual employee. The maximum of such bonus is for the CEO up to 50% of annual base salary. There have been no such bonus payments for 2020.

[2)] At the end of 2019 the Company faced several simultaneous processes that could not be solved by the administration and the Board within the framework of what the administration and the Board normally handles. To resolve this extraordinary need, the Company entered into a consultancy agreement with North Murray AS ("NM") for the period until August 2020 where Gert W. Munthe will assist the Company. NM is controlled by Gert W. Munthe. In consideration for the consulting assignment, NM will invoice the Company a total of NOK 750,000.

Management remuneration 2019

(in NOK thousands)	Salary	Board remuneration	Pension cost	Share-based payments	Other remuneration	Total
Management team:						
Øystein Rekdal, CEO (CSO)[1]	1,627	-	72	84	13	**1,796**
Edwin Klumper, CEO[1]	2,355	-	47	81	6	**2,489**
Board members (non-executive):						
Gert W. Munthe, Chairman[2]	-	200	-	1,873	-	**2,073**
Debasish F. Roychowdhury, member	-	200	-	-	-	**200**
Per Erik Sørensen, member[3]	-	30	-	-	-	**30**
Espen Johnsen[2]	-	-	-	1,873	-	**1,873**
Bernt Endrerud[3]	-	200	-	-	-	**200**

[1] Edwin Klumper resigned from his position in August 2019. He was associated with the company until September but was no longer employed by the company from October. Øystein Rekdal took over as CEO from September 2019.

[2] Gert W. Munthe was elected as Chairman of the Board in December 2019. Espen Johnsen served as Chairman of the Board until December 2019.

[3] Per Erik Sørensen was elected as member of the Board in December 2019. Bernt Endrerud served as member of the Board until December 2019.

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

Besides the stock option programs and the fee paid to North Murray AS described above, 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 CEO has a notice period of 6 months. If the employment is terminated by the Company, the CEO shall receive a severance pay equivalent to 100% of his ordinary fixed salary for 6 months after the expiry of the notice period.

	2020	2019
Shares controlled by the management team and board members		
Management team:		
Øystein Rekdal, CEO	118,630	118,630
Board members (non-executive):		
Espen Johnsen, former Chairman	n/a	1,211,592
Gert W. Munthe, Chairman (as of December 2019)	2,523,582	2,154,527
Bernt Endrerud, former Board member	n/a	1,608,080
No. of shares controlled by the management team and board members	**2,642,212**	5,092,829

2020	Opening balance	Granted	Lapsed/ Forfeited	Ending balance
Options held by the management team				
Gert W. Munthe, Chairman (as of December 2019)	300,000	-	-	300,000
Øystein Rekdal, CEO (as of September 2019)	228,715	983,516	228,715	983,516
Baldur Sveinbjørnsson, CSO	126,101	393,407	126,101	393,407
Gjest Breistein, CFO	103,555	262,271	103,555	262,271
Jørund Sollid, CBO	-	196,703	-	196,703
No. of options owned by the management team	**758,371**	**1,835,897**	**458,371**	**1,835,897**

2019	Opening balance	Granted	Lapsed/ Forfeited	Ending balance
Options held by the management team				
Espen Johnsen, Chairman	600,000	300,000	(600,000)	300,000
Gert W. Munthe, Chairman (as of December 2019)	-	300,000	-	300,000
Edwin Klumper, CEO	188,135	-	(188,135)	-
Øystein Rekdal, CEO (as of September 2019)	228,715	-	-	228,715
Baldur Sveinbjørnsson, CSO	126 101	-	-	126, 101
Gjest Breistein, CFO	103,555	-	-	103,555
No. of options owned by the management team	**1,246,551**	**600,000**	**(788,135)**	**1,058,371**

As of December 31, 2020, the Company operates one equity-settled share-based remuneration scheme for employees. See note 15.

NOTE 6 – FINANCE INCOME AND EXPENSES

(in NOK thousands)	2020	2019
Financial income		
Interest income	347	461
Foreign exchange gains	260	79
Other financial income	8	344
Total financial income	**615**	**884**

(in NOK thousands)	2020	2019
Financial expenses		
Foreign exchange losses	331	338
Total financial expenses	**331**	**338**

NOTE 7 – TAX

(in NOK thousands)	2020	2019
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 thousands)	2020	2019
Pre-tax profit	(42,088)	(33,227)
Income taxes at 22 %	**(9,259)**	**(7,310)**
Changes in unrecognized deferred tax asset	7,854	6,669
Change in tax rate	-	-
Non-deductible expenses	1,406	641
Tax expense	**-**	**-**

From January 1, 2020 the tax rate in Norway is 22 %. There is no effect in this year's tax expense because deferred tax from tax losses carried forward is not recognized. Deferred tax relates to the following:

(in NOK thousands)	Balance sheet		Change	
	2020	2019	2020	2019
Deferred tax assets				
Property, plant and equipment	27	36	(9)	-225
Net tax on losses carried forward	147,818	139,955	7,863	6,894
Deferred tax assets	**147,845**	**139,991**	**7,854**	**6,669**
Net deferred tax assets	147,845	139,991	7,854	6,669
Net deferred tax assets not recognized	(147,845)	(139,991)	(7,854)	(6,669)
Net recognized deferred tax assets	**-**	**-**	**-**	**-**

Deferred tax assets on losses carried forward, in total NOK 148 million as at December 31, 2020 (2019: NOK 140 million), have not been recognized because it is not probable that taxable profits will be available against which deductible temporary differences can be utilized.

The Company has a total tax loss carried forward of NOK 672 million as at December 31, 2020 (2019: NOK 636 million) which has no due date.

NOTE 8 – INTANGIBLE ASSETS

The Company has no intangible assets as all ongoing projects have been classified as research.

NOTE 9 – TRADE AND OTHER RECEIVABLES

(in NOK thousands)	2020	2019
Trade receivables	-	48
Trade receivables, net	**-**	**48**
Government grants	3,168	3,631
VAT	463	245
Prepayments	536	445
Other receivables	-	269
Total trade and other receivables	**4,168**	**4,638**

NOTE 10 – CASH AND CASH EQUIVALENTS

(in NOK thousands)	2020	2019
Cash and cash equivalents		
Employee withholding tax	1,299	750
Variable rate bank accounts	27,150	12,046
Total cash and cash equivalents	**28,450**	**12,796**

NOTE 11 – OTHER CURRENT LIABILITIES

(in NOK thousands)	2020	2019
Other current liabilities		
Accounts payable	3,284	-
Accrual for annual leave	1,063	754
Other accruals	3,570	1,383
Tax and social security payments	2,845	1,685
Other payables	1,966	32
Total other current liabilities	**12,728**	**3,854**

NOTE 12 – EQUITY AND SHARE CAPITAL

(in NOK thousands)	Share capital	Share premium	Paid-in share capital – Unreg.	Total equity
Balance at January 1, 2020	**2,289**	**11,291**	**-**	**13,580**
Capital increase 16.03.2020	292	34,708	-	35,000
Capital increase 16.04.2020	42	4,958	-	5,000
Loss for the period		(42,088)	-	(42,088)
Share based payments		8,397	-	8,397
Balance at December 31, 2020	**2,623**	**17,266**	**-**	**19,889**

For 2019, the share premium has been adjusted to reflect the correction of an error in payroll and related expenses. In 2019 social security tax expense was miscalculated on the share option expense. The social security tax expense and liability are increased by NOK 812 thousand resulting in a decrease of the share premium per December 31, 2019.

Share capital at December 31, 2020 is NOK 2,622,712 (December 31, 2019: NOK 2,289,378), being 26,227,120 ordinary shares at a nominal value of NOK 0.1. All shares carry equal voting rights.

	2020	2019
Change in the number of shares during the period was as follows		
Ordinary shares at January 1	**22,893,784**	**22,893,784**
Issue of ordinary shares by Share Issue registered 16.03.2020 [1)]	2,916,667	n/a
Issue of ordinary shares by Share Issue registered 16.04.2020[2)]	416,669	n/a
Ordinary shares per December 31	**26,227,120**	**22,893,784**

[1)] Lytix Biopharma AS increased its share capital on 16.03.2020 with NOK 291 667, by issuing 2 916 667 shares at par value 0.1 per share for a private placement towards certain existing shareholders.

[2)] Lytix Biopharma AS increased its share capital on 16.03.2020 with NOK 41 667, by issuing 416 669 shares at par value 0,1 per share for a repair issue towards all existing shareholders.

Top 20 shareholders as of December 31, 2020:

No.	Shareholders	No. of shares	Percentage share of total no. of shares
1	Taj Holding AS	4,440,850	16.9%
2	North Murray AS	2,532,582	9.7%
3	Jakob Hatteland Holding AS	2,068,392	7.9%
4	3 T produkter AS	1,808,764	6.9%
5	Care Holding AS	1,608,080	6.1%
6	Picasso Kapital AS	1,122,860	4.3%
7	Brødrene Karlsen Holding AS	1,042,607	4.0%
8	Mikael Lönn	741,967	2.8%
9	Dansk Bank International S.A.	685,184	2.6%
10	Lysnes Invest AS	615,654	2.3%
11	Per Strand Eiendom AS	5,79,683	2.2%
12	Norinnova Invest AS	557,510	2.1%
13	Kvasshøgdi AS	493,616	1.9%
14	Hopen Invest AS	481,117	1.8%
15	LMK Forward AB	420,363	1.6%
16	Jahatt AS	250,000	1.0%
17	Kreftforeningen	218,000	0.8%
18	Frewi AS	200,010	0.8%
19	JPB AS	200,000	0.8%
20	Harila Invest AS	192,680	0.7%
	Total no. of shares for top 20 shareholders	**20,259,919**	**77.2%**
	Total no. of shares for the other shareholders	5,967,201	22.8%
	Total no. of shares	**26,227,120**	**100.0%**

NOTE 13 – LEASES

The Company has operating leases for offices. The leases do not contain any restrictions on the Company's dividend policy or financing. The current office lease at Hoffsveien 4, Oslo expires at the end of august 2021. Lytix is currently reviewing different office alternatives.

The lease costs were as follows:

(in NOK thousands)	2020	2019
Operating leases		
Ordinary lease payments	1,395	1,918
Total operating leases	**1,395**	**1,918**

(in NOK thousands)	2020	2019
Within 1 year	850	1,200
1 to 5 years	-	800
After 5 years	-	-
Sum	**850**	**2,000**

NOTE 14 – SHARE OPTION PROGRAMS

Since 2013 Lytix has established seven share-based incentive programs (A, B, C, D, E, Chairman and Strategic advisors) for the Company's management, employees and consultants to the Company, under which the entity receives services from employees as consideration for equity instruments in Lytix Biopharma AS. The incentive programs consist of share options. In September 2020, all employees were awarded share options in the new option program E replacing all existing option programs for the employees. By year-end 2020 Lytix has the following active share-based incentive programs: E, Chairman and Strategic advisors. A description of the incentive programs is given below.

Incentive Program B 2016/2021

On March 10, 2016, the Board of Directors of the Company decided to implement a share option program with a maximum of 330,440 share options ("Incentive Program B"). As of December 31, 2019, a total of 255,340 share options were reserved for certain specific individuals. A total of 168,320 share options are forfeited because the individual is no longer employed by the Company. The expiry date for program B is December 31, 2021. A total of 25,000 options in program B vested during 2019. None of the outstanding options as at December 31, 2019 are subject to vesting.

Incentive Program C 2016/2021

On December 7, 2016, the Board of Directors of the Company decided to implement a share option program with a maximum of 300,000 share options ("Incentive Program C"). As of December 31, 2018, a total of 80,000 share options were reserved for certain specific individuals. All 80,000 share options are forfeited because the individual is no longer employed by the Company, thus there are no outstanding options as at December 31, 2019.

Incentive Program D 2018/2023

On September 11, 2018, the Board of Directors of the Company decided to implement a share option program with a maximum of 1,500,000 share options ("Incentive Program D"). As of December 31, 2019, a total of 1,011,857 share options were reserved for certain specific individuals, whereof 761,860 were allotted to these individuals through share option agreements. The remaining 249,997 options are subject to successful share issue. A total of 88,135 share options are forfeited because the individual is no longer employed by the Company. The expiry date for program D is May 1, 2023. For program D, a total of 432,200 of the options granted is subject to a vesting period. The options are subject to quarterly vesting up until the expiry date. A total of 93,720 options in program D vested during 2019.

Incentive Program E 2019/2025

At the annual general meeting 2019 it was resolved to issue 2,289,378 options to establish a share option program for all employees of the Company which would replace all existing option programs for employees ("Incentive Program E"). The number of options corresponded to 10% of the outstanding shares as of the date of the general meeting. It is the Company's overall ambition that the number of options in the program should be up to 10% of the total number of shares issued in the Company, also after future issues. In the beginning of 2020 two share issues were completed increasing the number of outstanding shares to 26,227,120. At the annual general meeting 2020 it was resolved to issue 333,334 new options in the share option program, increasing the size of the program to 2,622,712 share options. As of December 31, 2020, a total of 2,032,601 share options were allotted to certain specific individuals through share option agreements. A total of 616,335 of the options granted is subject to a vesting period. The expiry date for program E is May 1, 2025.

Incentive Program Chairman 2018/2023 & 2019/2025

On April 24, 2018, the Board of Directors of the Company decided to allot 600,000 share options to the new chairman of the board, Espen Johnsen ("Incentive Program Chairman"). The expiry date for program Chairman was May 1, 2023. On December 2, 2019, Espen Johnsen resigned as chairman. At the same time, the number of options was reduced to 300,000 and the terms of the options were revised. The new expiry date for program Chairman is May 1, 2025. New Chairman Gert W. Munthe was granted 300,000 options on similar terms. None of the outstanding options as at December 31, 2019 are subject to vesting.

Incentive Program Strategic advisors 2019/2024

On June 12, 2019, the Board of Directors of the Company decided to implement a share option program of 467,220 share options ("Incentive Program Strategic advisors") to certain strategic advisors. The expiry date for program Strategic advisors is

June 12, 2024. The options are subject to quarterly vesting over two years. A total of 233,610 options in program Strategic advisors vested during 2020.

In all 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.

	Program E		Chairman		Strategic advisors	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2019	**-**	**-**	**25.0**	**600,000**	**-**	**-**
Granted during the period			12.0	600,000	12.0	467,220
Forfeited during the period			25.0	(600,000)	-	-
Exercised during the period			-	-	-	-
Lapsed during the period			-	-	-	-
Outstanding at December 31, 2019	**-**	**-**	**12.0**	**600,000**	**12.0**	**467,220**
Outstanding at January 1, 2020	**-**	**-**	**12.0**	**600,000**	**12.0**	**467,220**
Granted during the period	12.0	2,032,601				
Forfeited during the period						
Exercised during the period						
Lapsed during the period						
Outstanding at December 31, 2020	**12.0**	**2,032,601**	**12.0**	**600,000**	**12.0**	**467,220**

	Program B		Program C		Program D	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2019	**35.0**	**137,020**	**27.2**	**50,000**	**20.0**	**761,860**
Granted during the period	-	-	-	-	-	-
Forfeited during the period	35.0	(50,000)	27.2	(50,000)	20.0	(88,135)
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	-	-	-	-	-	-
Outstanding at December 31, 2019	**35.0**	**87,020**	**-**	**-**	**20.0**	**673,725**
Outstanding at January 1, 2020	**35.0**	**87,020**	**-**	**-**	**20.0**	**673,725**
Granted during the period						
Forfeited during the period*	35.0	87,020	-	-	20.0	673,725
Exercised during the period						
Lapsed during the period						
Outstanding at December 31, 2020	**-**	**-**	**-**	**-**	**-**	**-**

* Options in program B and D were replaced by new options in program E

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

Equity settled	Program E	Chairman	Strategic advisors
Option pricing model used		Black & Scholes	
Weighted average share price at grant date (NOK)	12.0	12.0	12.0
Exercise price (NOK)	12.0	12.0	12.0
Expected volatility	57.4%	58.4 %	58.4 %
Expected dividend growth rate	0	0	0
Risk-free interest rate	0.31%	1.3%	1.2 %

Equity settled	Program B	Program C	Program D
Option pricing model used		Black & Scholes	
Weighted average share price at grant date (NOK)	27.2	27.2	10.0
Exercise price (NOK)	35.0	27.2	20.0
Expected volatility	60.0 %	60.0 %	58.4 %
Expected dividend growth rate	0	0	0
Risk-free interest rate	0.8 %	1.1 %	1.5 %

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 thousands)	2020	2019
Equity settled schemes	8,397	5,762
Total remuneration expense	**8,397**	**5,762**

NOTE 15 – EVENTS AFTER THE REPORT DATE

January 20, 2021 Lytix announced that the U.S. Food and Drug Administration (FDA) had approved the company's Investigational New Drug (IND) application for LTX-315. The IND approval enables Lytix to conduct a Phase II clinical trial in the US designed to assess the efficacy of LTX-315 in several types of solid tumors including metastatic breast cancer and head and neck squamous cell carcinoma. The trial will be a multicenter study including M.D. Anderson Cancer Center in Texas, which is one of the world leading cancer hospitals.

In the fiscal year 2O2O, the company is dealing with the consequences of the COVID-19 virus. Government measures to curb the virus have affected economic activity. The company considers this to be an event after the balance sheet date that does not provide any further information about the actual situation on the balance sheet date. We have taken several measures to limit the effects of the COVID-19 virus, such as safety and health measures for our people (such as social distancing and working from home). We will continue to follow government policies and advice while doing our best to continue our operations in the best possible and safest way without compromising the health of our people. These measures, with the continued financial support of the Company, are reason for the Board of Directors to rely on the sustainable continuation of the business activities so that the financial statements are prepared on a going concern basis.

Statsautoriserte revisorer
Ernst & Young AS

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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, which comprise the balance sheet as at 31 December 2020, statement of comprehensive income, and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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 audit of 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 on the other information obtained prior to the date of the auditor's report, 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 the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, 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.

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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 laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (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.

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 is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is

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properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Tromsø, 29 April 2021
ERNST & YOUNG AS

The auditor's report is signed electronically

Kai Astor Frøseth
State Authorised Public Accountant (Norway)