Lytix Biopharma

Annual report 2021

Letter from the CEO

Dedicated to being part of tomorrow's cancer treatment

Cancer remains one of the world's most challenging health issues. Affecting people of all ages, cultures and lifestyles, this devastating illness represents the second most common cause of death globally. At Lytix, we have bold ambitions and are dedicated to being part of tomorrow's cancer treatment by overcoming a major challenge in current immunotherapy. We are confident that our innovative platform technology will address tumor heterogeneity, that if not addressed, leads to recurrence of the cancer and often even more therapy-resistant disease. Excitingly, our technology has potentially broad applicability across solid tumors and has the potential to be an integral part of future combination therapies.

Throughout 2021, we have focused on advancing our lead candidate LTX-315 in clinical trials. LTX-315 is delivered straight into the tumor environment. In May, we published our results in Clinical Cancer Research[1], a well-respected and peer-reviewed journal, demonstrating that local treatment with our first-in-class oncolytic molecule LTX-315 stimulates the immune system to kill cancer cells in distant non-treated tumors. We are happy to see that our technology receives increased recognition from the leading scientists globally. Scientific validation continues to be an important enabler for the significant improvement over the past year.

Overall, the year was marked by significant operational and clinical trial activity as a Phase II study was initiated in the US with MD Andersson as the lead site. The U.S. Food and Drug Administration (FDA) accepted our partner Verrica Pharmaceutical Inc's ("Verrica") (NASDAQ: VRCA) Investigational New Drug (IND) application in November. And the company raised significant capital, developed the shareholder base with a specialized corner stone investor and was admitted to trading on Euronext Growth.

New partnership signifying large commercial potential

It has been an exciting and eventful year for the company. Having previously signed an exclusive worldwide license agreement with Verrica, a leading dermatological therapeutics company based in the US, the first milestone was triggered in January 2021 year when the U.S. Food and Drug Administration approved Lytix' Investigational New Drug (IND) application, releasing a payment of USD 2.25 million to Lytix.

At the time of writing this, we are eagerly awaiting the news that Verrica has enrolled the first patient in their Phase II study evaluating LTX-315 for basal cell carcinoma – a skin cancer, which will trigger a second milestone payment. It is estimated that more than four million new patients in the US alone are burdened with this disease each year. As the projects proceed, Lytix is entitled to receive a total of USD 111 million in milestone payments and royalties.

Beyond these milestone payments, there is significant upside in our lead asset being evaluated in a second US-based Phase II study. As Verrica's trial progresses and data becomes available, we will add these data to our growing library of robust clinical data, which will be invaluable further down the line as we progress our pipeline with next-generation *in situ* vaccination technology.

As the potential of our platform is being validated by existing partners globally in several indications, we will continue to seek out additional partnerships that we believe will support the continued development of our unique *in situ* vaccination technology.

1 *Spicer et al, 2021, Clin. Cancer Res.*

SIGNIFICANT CLINICAL ACTIVITY

In June, Lytix was given the green light to initiate our Phase II clinical trial, ATLAS-IT-05, evaluating LTX-315 in combination with the immune checkpoint inhibitor pembrolizumab in patients with advanced solid tumors at the renowned cancer clinic, MD Anderson Cancer Center in Texas, US.

Shortly after that, we opened a second trial site at Mount Sinai Hospital in New York, US. The COVID-19 pandemic has caused disruption to the pace of patient recruitment; however, we are putting all efforts into completing enrolment by the end of 2022. This means we will be one step closer to receiving solid clinical data from patients on our lead asset.

We also completed enrolment of the ATLAS-IT-04 study at Herlev Hospital in Denmark, which is evaluating LTX-315 in combination with adoptive T-cell therapy (patient's own T-cells), in patients with advanced soft tissue sarcoma. The results are currently being analyzed, and we plan to present the data at an international cancer congress by the third quarter of 2022.

INDUSTRY RECOGNITION AND SUPPORT

In 2021, we also had the opportunity to showcase our research through clinical publications in Trends in Cancer[2] and Clinical Cancer Research, as well as present our scientific findings at two leading international scientific conferences, the European Society for Medical Oncology (ESMO) Congress and the prestigious Society for Immunotherapy of Cancer's (SITC) 32nd Annual Meeting. These events signal that we are at the forefront of the immuno oncology industry and have paved the way for additional speaking opportunities and ultimately placed Lytix on stage in front of a global audience. At the start of 2022, Lytix also presented at the 6th Annual Next Gen Immuno-Oncology Congress in London, UK and has been invited to present at the 5th Annual Next Gen Immuno-Oncology Congress in Boston, US.

LOOKING AHEAD TO 2022

We would not be as committed to our work if we did not believe that we were on the path to solving one of the major obstacles in current cancer therapy where tumor heterogeneity often results in drug resistance and recurrence of the disease. It is this belief that drives us to run several Phase II studies with the aim to document how our oncolytic molecules can be an integral part of future cancer combination therapies. We are looking forward to Verrica`s enrolment of the first patient in their Phase II study, which will trigger a second milestone payment.

Having laid the groundwork for what has the potential to become tomorrow's cancer treatment, we are focused on our global expansion strategy to help more cancer patients. We have added expertise to our transatlantic team as part of this strategy and will continue to secure drug supply for our clinical trials. This will also support our active partnerships and enable us to explore potential new partners.

I want to close by thanking the dedicated team at Lytix for their hard work and acknowledge how far we have come. I would also like to extend our gratitude to all our shareholders, other stakeholders and supporters for their continued support that makes it possible for us to bring this promising treatment to patients. I am excited and optimistic for the future and look forward to providing you with further updates as we advance.

Øystein Rekdal – CEO Lytix Biopharma

2 *Vitale et al, 2021, Trends in Cancer*

Highlights 2021

Business and partnership:

- Verrica Pharmaceuticals Inc. received approval from the U.S. Food and Drug Administration to initiate a Phase II study for LTX-315 in basal cell carcinoma (skin cancer). First patient enrolled in the study is expected at the beginning of 2022.
- The first development milestone was triggered in January 2021 when the U.S. Food and Drug Administration approved Lytix' Investigational New Drug (IND) application, releasing USD 2.25 million to Lytix.
- Brynjar Forbergskog, Kjetil Hestdal, Jayson Rieger, Marie-Louise Fjällskog and Evelina Vågesjö were appointed as new board members.
- Gry Stensrud (former VP at Photocure) joined Lytix as Chief Technical Officer (CTO) and Graeme Currie (former Dynavax, Regeneron, Sepracor, PDL Biopharma and BioClin) was hired as a consultant Chief Development Officer (CDO) to lead Lytix' clinical program.

Research and development:

- Following the acceptance of Lytix' IND, Lytix announced in mid-July the opening of the first clinical US site, MD Anderson Cancer Center, Texas, in a Phase II clinical trial (ATLAS-IT-05) investigating the safety and efficacy of intratumoral injection of LTX-315 in combination with pembrolizumab (Keytruda®) in patients with solid tumors.
- The first patient in ATLAS-IT-05 started treatment in December. This event marks an important milestone for Lytix, and we expect the study will deliver key data documenting the potential of Lytix' unique technology in future cancer therapy.
- The LTX-315 study for soft tissue sarcoma at Herlev Hospital in Denmark (ATLAS-IT-04) is fully enrolled with the last patient completing treatment. The study explores the potential for the application of LTX-315 in a personalized adoptive T-cell therapy setting. Data from the study is being prepared for presentation at international cancer conferences.
- Strategic research partnership established with the US-based veterinary medicine company Aurelius Biotherapeutics for a new oncolytic molecule in combination with adoptive T-cell therapy in dogs. This research can generate further insights for oncolytic molecules in combination with T-cell therapy.
- Three new patents for LTX-315 have been granted, two in the US and one in the EU, strengthening the business case, as securing IP rights is critical for the protection of Lytix' technology platform and the long-term value In May 2021, data from the Phase I clinical trial was published in Clinical Cancer Research showing that Lytix' lead candidate, LTX-315, has an acceptable safety profile, is clinically active and enhances the number of T cells in the majority of the treated cancer patients.
- Lytix presented data at Society for Immunotherapy of Cancer (SITC) 2021 in the US showing that LTX-315 provides strong therapeutic effects in a preclinical breast cancer model that is resistant to immune checkpoint inhibitors. The study was published in Oncoimmunology, a leading journal within the cancer immunology field.
- For LTX-401 – a second-generation molecule expanding the market to new cancer indications - the preclinical preparations are progressing as planned to support the submission of a clinical trial application for a Phase I study in 2022.

Financial:

- Lytix successfully completed a private placement following a national placement, raising gross proceeds of approximately NOK 225 million, through the allocation of 12,511,893 new shares at a subscription price of NOK 18 per share.
- After the successful completion of the private placement and national placement, Lytix was admitted to trading on Euronext Growth Oslo. The first day of trading on Euronext Growth was June 14, 2021.
- Total operating expenses for 2021 were related to increased R&D activities in connection to the ongoing ATLAS-IT-05 trial in the US, the ATLAS-IT-04 trial in Denmark as well as the progression of the preclinical development of LTX-401.
- Cash position at the end of the period was NOK 197.3 million compared to NOK 28.5 million at December 31, 2020.

Key figures

Amounts in NOK thousands	**2021**	2020
Total operating income	**25,827**	6,678
Total operating expense	**(73,844)**	(49,050)
Loss from operations	**(48,017)**	(42,372)
Loss for the period	**(48,049)**	(42,088)
Cash position at the end of the period	**197,282**	28,450
Trade and other receivables	**5,680**	4,168
Total assets	**202,962**	32,617
Total equity	**189,624**	19,889
Total liabilities	**13,338**	12,728
Total equity and liabilities	**202,962**	32,617

Board of directors' report 2021

Operational review

PARTNERSHIPS

LTX-315 development in partnership with Verrica

In November 2021, the U.S. Food and Drug Administration (FDA) accepted Verrica's Investigational New Drug Application ("IND") for LTX-315 for the treatment of basal cell carcinoma. The collaboration with Verrica constitutes an essential part of Lytix' business strategy for LTX-315, and the FDA approval for the initiation of Verrica's Phase II study in basal cell carcinoma (BCC) adds extensive value to our development program. Verrica opened its Phase II trial of LTX-315 in the first quarter of 2022, and the study is expected to deliver a comprehensive amount of additional data in support for the therapeutic activity of LTX-315. The initiation of the study will trigger a milestone payment to Lytix.

With the Phase II study lined up to recruit patients from Q1 2022, Verrica has shown dedication to bring this novel immunotherapy forward to the clinic as a potential new non-surgical treatment for skin cancer. LTX-315 could be a remarkably innovative approach to treatment of skin cancer and represents a new paradigm beyond invasive surgery as the preferred treatment of BCC. (www.clinicaltrials.gov) NCT05188729

RESEARCH AND DEVELOPMENT

ATLAS-IT-05 trial (LTX-315 in combination with pembrolizumab in patients with advanced solid tumors)

Based on the data from our Phase I/II study that was published in Clinical Cancer Research in May 2021, Lytix opened a Phase II clinical trial in the US in July 2021. In this clinical trial, LTX-315 will be evaluated in combination with the immune checkpoint inhibitor pembrolizumab (Keytruda®). Results from our Phase I/II study indicate that the combination of LTX-315 and pembrolizumab may work better than pembrolizumab alone. The aim of ATLAS-IT-05 is to document LTX-315's ability to enhance the number of cancer patients responding to checkpoint inhibitors.

The first patient started treatment at MD Anderson Cancer Center (MD Anderson), Texas, in December 2021. Treatment of the first patient marked an important milestone for Lytix along the path to demonstrate that Lytix' unique technology offers a solution to today's cancer treatment challenges, through activation of the body's own immune system.

The clinical trial is a multicenter study with MD Anderson as the first site and Mount Sinai Hospital as the second one. Due to the COVID-19 pandemic's effect on number of patients available for clinical trials and the extremely competitive landscape, the company is identifying additional sites in the US and Europe with expertise within the field of intratumoral treatment which will open in 2022.

MD Anderson is one of the world's leading cancer hospitals, and the hospital where Nobel Prize winner Dr. Jim Allison works as a professor and chair of the department of immunology. Dr. Allison holds a position on Lytix' advisory board and regularly advice the company on clinical development strategies.

Enrolled patients will receive intratumoral treatment with LTX-315 in combination with systemic pembrolizumab therapy. More information about the trial is available at www.clinicaltrials.gov. (NCT04796194).

ATLAS-IT-04 trial (LTX-315 in combination with adoptive T-cell therapy in advanced soft tissue sarcoma

Lytix is currently finalizing a clinical trial at Herlev Hospital, Denmark, to assess the safety and efficacy of intratumoral administration of LTX-315 in combination with adoptive T-cell therapy in patients with advanced soft tissue sarcoma. The aim of this study is to reveal whether LTX-315's unique mechanism of action generates T cells that specifically recognize and kill the patient's tumor. Generation of such tumor antigen specific T cells will provide strong evidence of LTX-315's mode of action and strengthen its clinical potential.

Six patients have received LTX-315 treatment. Enrollment has been completed. Results are planned to be presented at an international cancer congress later this year. (www.clinicaltrials.gov) NCT03725605.

Key data presented at the Society for Immunotherapy of Cancer (SITC) 2021

In November 2021, encouraging preclinical data from a study in triple negative breast cancer (TNBC) were presented at the Society for Immunotherapy of Cancer's 36th Annual Meeting (SITC 2021). The study was a collaborative research effort between Lytix and the excellent research groups of Drs. Lorenzo Galluzzi and Sandra Demaria at Weill Cornell Medicine in New York.

Among the different subtypes of breast cancer, TNBC is the most difficult to treat. The TNBC model that was used is resistant to

checkpoint inhibitors and has several characteristics that resemble human TNBC.

An encouraging finding was that LTX-315 provided protection against metastatic lesions in the lungs when injected into breast tumors. Evenly important, this effect of LTX-315 was further improved when combined with checkpoint inhibitors. These results are congruent with and complementary to the findings documented in breast cancer patients, where tumors in the lung were reduced following LTX-315 treatment in breast lesions. The experimental analysis also gave further insight into how LTX-315 stimulates the immune system to control breast cancer progression.

These findings provide scientific rationale for the potential to combine LTX-315 with the different checkpoint inhibitors.

The detailed data presented at SITC can be reviewed in a scientific article in a leading journal within the cancer immunology field.[1]

Intellectual property (IP) rights

Three new patents were granted in 2021, two in the US and one in the EU. These patents are important milestones in the company's Intellectual Property (IP) strategy and further strengthens our business case, as securing IP rights is critical for the protection of Lytix' technology platform and the long-term value generation of the company. The EU patent covers the use of LTX-315 in combination with a chemotherapeutic agent. The two new patents in the US covers the use of LTX-315 in combination with a chemotherapeutic agent and with the checkpoint inhibitor ipilimumab.

LTX-401

LTX-401 is a next-generation oncolytic molecule for targeting deep-seated lesions such as liver cancer. This candidate drug expands the application of our *in situ* vaccination technology to several additional major cancer indications. LTX-401 is currently going through a preclinical program at Aptuit in Italy for assessment of all requirements needed for starting human clinical trials. The program is expected to finish in the first half of 2022. Favorable safety data received so far confirms the suitability of LTX-401 injections in deep-seated lesions. Lytix will in 2022 prepare for a Phase I study.

LTX-122

LTX-122 is in a veterinary development program as part of the strategic partnership with Aurelius Biotherapeutics, an US-based veterinary company. Aurelius aims to use LTX-122 together with their own adoptive T-cell transfer technology to develop a treatment for B-cell lymphoma in dogs.

An overview of Lytix' pipeline is presented on page 10.

BUSINESS

On June 7, 2021, Lytix' annual general meeting approved the new composition of the board of directors. The new members are:

Marie-Louise Fjällskog, MD, PhD

Senior Life Science Executive with a long track-record within Clinical Research and business within Immunology and Oncology. Currently serves as Chief Medical Officer at Faron Pharmaceuticals Ltd, Turku, Finland and as a board Member of Biovica International AB, Sweden. Prior to Faron, she served as Chief Medical Officer at Sensei Biotherapeutics (SNSE), a Nasdaq listed immuno-oncology company. Marie-Louise also holds a position as Associate professor (docent) in Oncology, affiliated to Uppsala University.

Evelina Vågesjö, PhD and MBA

Co-founder and CEO of Ilya Pharma AB, a company developing next-generation immunotherapies based on cutting edge medical research in immunophysiology and applied microbiology. Received numerous awards within Science and Innovation, one of the winners of Innovators under 35 Europe from MIT Technology Review 2019.

Kjetil Hestdal, MD, PhD

More than 20 years of entrepreneurship bringing patented products from early stage to launches and commercialization as well as transforming a company from R&D focused to commercial focused. Has led listed companies with broad international investor relation activities – former CEO of Photocure.

Jayson Rieger, PhD and MBA

Jayson Rieger has about 15 years' experience in cross-functional scientific and business leadership roles spanning business, research operations, drug discovery and product development in the life science. He presently serves as Managing Partner in PBM Capital and supports new investment evaluation, deal sourcing and provides business and technical support for portfolio companies. Rieger obtained his PhD in Chemistry from the University of Virginia, has an MBA from the Darden Business School, and earned his B.A. from Rollins College.

Brynjar Forbergskog

Brynjar Forbergskog is the CEO of his privately owned investment company, in addition to being a board member of several companies. From 1989 to 2019 he was the CFO (1989–2005) and CEO (2005–2019) of Torghatten ASA. During Forbergskog' s tenure as CFO/CEO, Torghatten ASA grew from being a small locally based provider of transport services into being of the Nordics' largest provider of transport services, with more than 7,000 employees and an annual turnover of more than NOK 11 billion. Prior to joining Torghatten ASA, Brynjar Forbergskog was an external auditor.

1 *Yamakazi et al, 2021, OncoImmunology*

Gert W. Munthe leads the board of directors as chair. Per Erik Sørensen and Debashish Roychowdhury did not extend their board assignments. Lytix would like to thank Sørensen and Roychowdhury for their valuable contribution as board members.

Management and External Advisors

On March 1, 2021, Lytix announced that Gry Stensrud will join the management team and commence as the company's CTO. Dr. Stensrud has more than 20 years expertise from research, development, clinical trials, manufacturing and distribution of medicinal products and medical devices as well as extensive management experience and former experience in developing a biotech company. Prior to joining Lytix, Dr. Stensrud was Vice President Technical Development & Operations at Photocure. Dr. Stensrud has as well held different positions within R&D and QA at GE Healthcare.

Graeme Currie has been hired as a consultant CDO to lead Lytix' clinical program. Dr. Currie has over 30 years of drug development experience in both pharmaceutical and biotechnology companies, having held senior leadership roles at Dynavax, Regeneron Pharmaceuticals, Sepracor Inc., PDL Biopharma and Gilead Sciences. Most recently, he was Chief Development Officer of Tolerion Inc. Dr. Currie has successfully led drug development programs and has held key roles in the development of 8 approved drugs.

Financial review

In June 2021, Lytix successfully completed a private placement and national placement, raising gross proceeds of approximately NOK 225 million, through the allocation of 12,511,893 new shares at a subscription price of NOK 18 per share. The private placement and national placement attracted strong interest from existing shareholders and new investors, both in Norway, Sweden, and the US.

After the successful completion of the private placement and national placement, Lytix was admitted to trading on Euronext Growth Oslo. The first day of trading on Euronext Growth was June 14, 2021.

ACCOUNTING POLICIES

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

PROFIT AND LOSS

Total operating income for 2021 amounted to NOK 25.8 million (NOK 6.7 million for 2020). Operating income in the period was mainly related to a milestone payment of NOK 19.3 million following the license agreement with Verrica Pharmaceuticals Inc., entered in August 2020 for skin cancer diseases. Going forward, the license agreement includes potential development and sales milestone payments of up to USD 111 million as well as royalty payments once Verrica successfully commercializes LTX-315 in dermatologic oncology indications. The milestone payment in the first half of 2021 was related to Lytix' approved IND application by the U.S. FDA. Other income for 2021 includes governmental grants of NOK 6.3 million (NOK 4.1 million).

Personnel expenses for 2021 came in at NOK 31.6 million (NOK 23.4 million). The increased personnel expenses are explained by increase in FTE's and an extraordinary and non-recurring bonus payment following the IND approval.

Direct R&D expenses amounted to NOK 28.8 million for 2021 (NOK 16.0 million). Direct R&D expenses for 2021 were related to increased activities in connection to the ongoing ATLAS-IT-05 trial in the US, the ATLAS-IT-04 trial in Denmark as well as the progression of the preclinical development of LTX-401.

Other operating expenses increased to NOK 13.4 million (NOK 9.6 million). The increase in other operating expenses is related to the share issue and subsequent admission to trading on Euronext Growth in June 2021.

Loss from operations for 2021 amounted to NOK 48.0 million compared to NOK 42.4 million for 2020.

CASH FLOW

Cash flow from operating activities amounted to negative NOK 44.9 million for 2021 compared to negative NOK 24.3 million for 2020. Cash flow from financing activities amounted to NOK 213.7 million for 2021 compared to NOK 40.0 million for 2020. The positive cash flow is explained by the proceeds from the private placement and national placement in June 2021. Cash and cash equivalents at the end of the reporting period amounted to NOK 197.3 million compared to NOK 28.5 million as of December 31, 2020.

STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

On June 14, 2021, the company was admitted to trading on Euronext Growth in Oslo. The admission followed the successful completion of a private placement and a national placement together raising NOK 225 million in new equity. Cash and cash equivalents on December 31, 2021, were NOK 197.3 million compared to NOK 28.5 million on December 31, 2020.

As of December 31, 2021, Lytix had total assets of NOK 203.0 million, compared to NOK 32.6 million by the end of 2020. Trade and other receivables by end of 2021 increased to NOK 5.7 million, from NOK 4.2 million by the end of 2020.

Shareholders' equity amounted to NOK 189.6 million, , an increase from NOK 19.9 million in 2020. The equity ratio amounted to 93.43 percent compared to 60.98 percent in 2020.

Total current liabilities amounted to NOK 13.3 million compared to NOK 12.7 million by the end of 2020.

ALLOCATION OF THE 2021 RESULT

The company's annual result amounted to a loss of NOK 48.0 million. The board of directors proposed that the loss is transferred from Share Premium Reserve.

IN SITU VACCINATION
– delivering immunotherapy straight into the tumor

In situ vaccination stimulates a patient's immune system by injecting drugs with the ability to kill cancer cells straight into the tumor environment. Lytix Biopharma has applied this approach with its first-in-class oncolytic molecules, representing an alternative and unique approach to cancer vaccination. Importantly, this approach generates an immune response against a broad antigen repertoire without pre-identifying the antigens, which in turn can save considerable costs and valuable time.

Platform technology

Lytix' technology platform is based on solid preclinical and clinical research and originates from UiT, The Arctic University of Norway, Tromsø. The company has successfully generated several highly active oncolytic molecules from naturally occurring host defense peptides. These have the potential to address the main challenge to efficiently deal with cancer; the heterogeneity of the tumor, enabling the cancerous cells to escape various targeting therapies.

When Lytix' improved molecules are injected into solid tumors, they activate the patient's own immune system and enable killer T cells to recognize and eliminate cancer cells. As a part of this process, *in situ* vaccination results in an efficient release of tumor neoantigens (mutated proteins) and immune activating molecules.

The oncolytic molecules are therefore also ideal for combination with other types of immune therapies where the lack of immune cells in the patients' tumors are one of the major hurdles for these therapies to be effective.

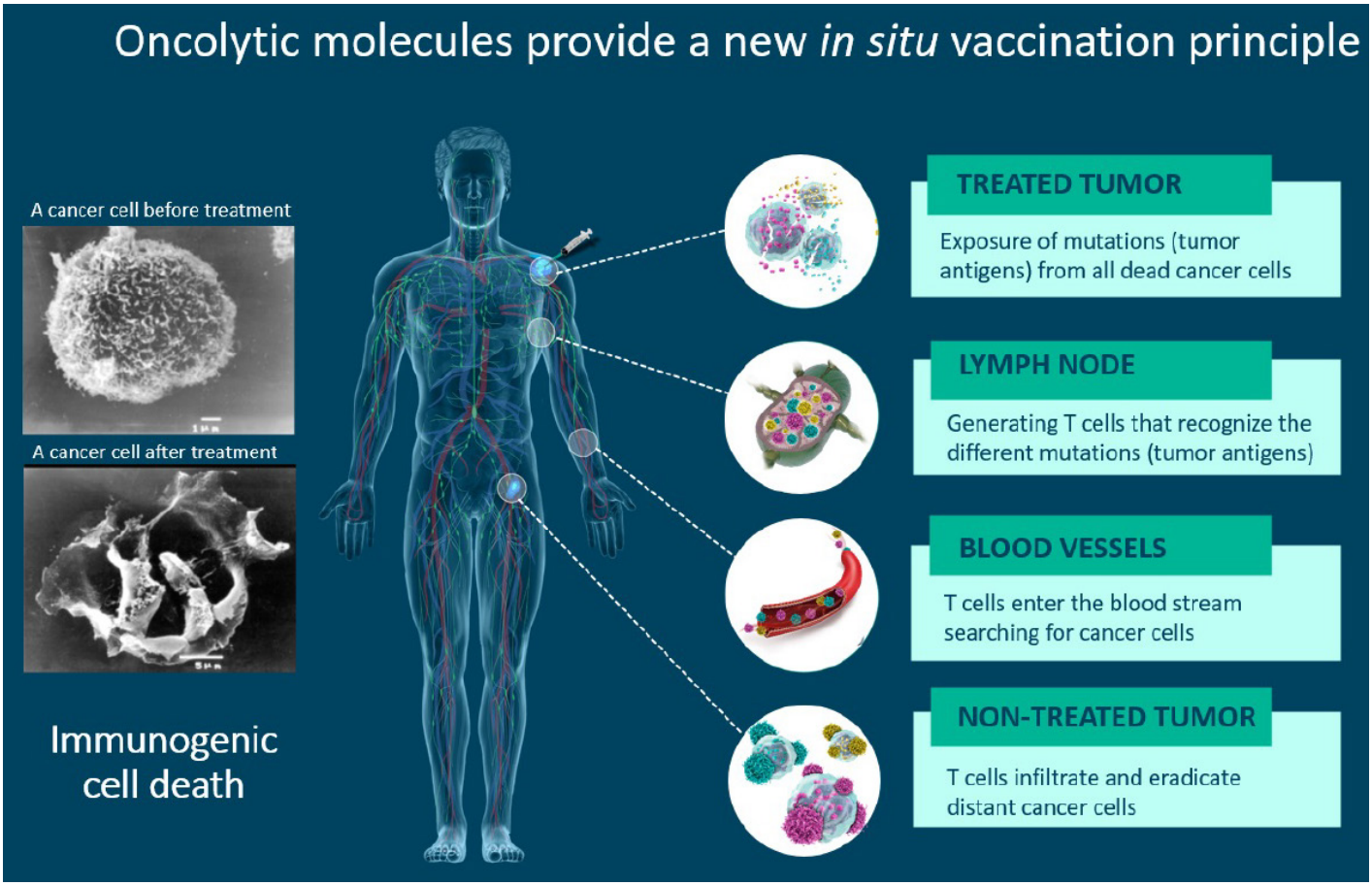
In a GlobalData survey[2], physicians ranked tumor heterogeneity as the most challenging aspect of optimizing IO therapy. Tumor heterogeneity introduces significant challenges in cancer therapy and is the main cause of treatment failure, drug resistance, relapse and recurrence. Lytix' oncolytic molecules uniquely address heterogeneity by being able to recognize and target the different cancer subclones in a heterogeneous tumor, including both drug sensitive and resistant cancer cells.
Oncology is the largest pharmaceutical market by revenue.

ONCOLYTIC MOLECULES

- Act as *in situ* vaccine and harness the tumor as source of antigens
  - Induce immunogenic cell death of tumor cells
  - Activate antigen presenting cells to generate tumor specific T cells
- Generate systemic and lasting anti-tumor immunity
- Induce a switch from an immuno-suppressive environment towards an immuno-stimulatory environment enriched for activated cytotoxic cells

Oncology therapeutics represented $143 billion in sales in 2019 (~20% of global pharmaceutical sales)[3]. To capture a larger market share, parallel development across multiple indications, increases the value of an individual asset and makes deal-making more likely. Unmet need remains high, and the market is expected to reach $250 billion by 2024[4]. The key driver behind this future growth is expected to be immuno-oncology combination therapies. Lytix' oncolytic molecules are synergistic and complementary to other immuno-oncology therapies with the potential to create new treatment paradigms.

2 *Source: GlobalData High-Prescriber Survey (December 2020)*
3 *Source: McKinsey analysis of EvaluatePharma (July 2020)*
4 *Source: McKinsey analysis of EvaluatePharma (July 2020)*



By addressing the main challenge across a wide section of cancer indications as well as being able to combine with many other immuno-oncology therapies, Lytix' oncolytic molecules have the potential to claim a unique position within immuno-oncology, creating significant patient impact.

Pipeline

LTX-315 is now being evaluated in three different Phase II trials, both as monotherapy and as combination therapy with checkpoint inhibitors and as adjunct to cell therapy.

LTX-401 is a second-generation candidate drug developed for treatment of tumors seated deep in the body. LTX-401 is in preclinical stage.

LTX-122 is in a veterinary development program as part of the strategic partnership with Aurelius Biotherapeutics.

Product candidate	Combination partner	Population	Preclinical	Phase I	Phase II	Phase III	Collaborations
LTX-315	**Atlas-IT-05** Pembrolizumab (Keytruda®)	Patient progressed on checkpoint inhibitors					THE UNIVERSITY OF TEXAS MD Anderson Cancer Center
	N/A (monotherapy) (Verrica Pharmaceuticals)	Basal cell carcinoma					VERRICA PHARMACEUTICALS Reinventing Skin Science
	Atlas-IT-04 Adoptive T-cell therapy	Advanced soft tissue sacroma					REGION H Herlev Hospital
LTX-401	Monotherapy	Live cancer					aptuit
LTX-122	Adoptive T-cell therapy	Dog lymphoma					Aurelius BIOTHERAPEUTICS
A unique technology platform	**Inspired by nature** Baed on the scientific concepts of naturally occuring host defense proteins, scientifically improved for cancer therapy.			***In situ* vaccination platform** Candidate drugs to be directly injected into solid tumors priming the immune system for potent activation.			

Product candidates

LTX-315

LTX-315, the lead candidate of Lytix, is a 9 amino acid peptide developed from bovine lactoferricin. It is a first-in class oncolytic molecule that is developed for intratumoral injections. Preclinical studies have demonstrated that treatment of solid tumors with LTX-315 results in growth inhibition, complete regression and long-lasting tumor specific immune protection. These studies also demonstrate that the treatment results in a significant increase of the number of tumor-infiltrating T cells in the tumor micro-environment (Sveinbjørnsson, B et al. 2017).

The preclinical findings conveying the rationale for therapeutic use of LTX-315 in humans have been confirmed in clinical trials. LTX-315 has undergone a comprehensive Phase I clinical trial in heavily pretreated patients. In this clinical trial, one of the key features of LTX-315 treatment, to promote T-cell infiltration into tumors, was evident in the cancer patients. LTX-315 was shown to be a potent drug with the ability to also create systemic effects based on local injection of tumors. In this trial, LTX-315 was either given as monotherapy or in combination with a checkpoint inhibitor to patients with transdermally accessible tumors. The trial has shown that LTX-315 has an acceptable safety profile without any added safety concerns when given in combination with a checkpoint inhibitor. The scientific foundation has been laid to claim that LTX-315 is clinically active and contributes to immune-mediated anticancer activity (Spicer et al. 2018/Spicer et al. 2021). Based on the data from the Phase I clinical trial, the dosing regimen of LTX-315 has been assessed and optimized for the ATLAS-IT-05 study.

LTX-315´s ability to induce T-cell infiltration into tumors can be further exploited in adoptive cell therapy. This kind of therapy implies the isolation of T cells from the tumor, expansion in the laboratory and transfer back to the patient to improve the immune response against the tumor. The ATLAS-IT-04 study at Herlev Hospital in Denmark was set up to evaluate the potential of LTX-315 to enhance the number of T cells prior to isolation and expansion of the T cells to billions. The T cells were then given back to the patient. In this study LTX-315 is administered in combination with adoptive T-cell therapy in advanced soft tissue sarcoma patients. During the study an extensive immune profile was measured to characterize the immune status and nature of immune response together with monitoring clinical response. The study is now finalized, and the results are under preparation for a presentation later in 2022.

LTX-401

LTX-401 is a small molecule that has a potential as treatment of deep-seated tumors such as hepatocellular carcinoma (liver

cancer) and liver metastases. In several experimental models, LTX-401 induces complete regression after intratumoral injection with a subsequent development of systemic immune protection. LTX-401 has shown increased efficacy when combined with checkpoint inhibitors and has demonstrated significant effects in experimental liver cancer models. LTX-401 is now progressing through a preclinical program preparing for a first clinical study.

LTX-122

LTX-122 is an oncolytic peptide that consists of 12 naturally occurring amino acids. In preclinical research the peptide proved to have high activity and selectivity against B-cell lymphoma. In a lymphoma mouse model intratumoral administration resulted in full regression and protective immunity. The peptide was developed in a collaboration between Lytix and The Arctic University of Norway. Lytix has entered a license agreement with UiT that grants Lytix rights to further develop and commercialize LTX-122.

NEW OPPORTUNITIES

Lytix is pursuing several new opportunities, all of them based on the *in situ* vaccination technology platform that delivered LTX-315 and LTX-401. Further information on these will be provided as they advance from early stage of development.

Partnerships

VERRICA PHARMACEUTICALS INC

Verrica is a Nasdaq-listed dermatology therapeutics company developing medications for skin diseases requiring medical interventions, and it is headquartered in West Chester, Pennsylvania. In August 2020, Lytix announced that it entered into a license agreement providing Verrica with a world-wide license to develop and commercialize LTX-315 for all malignant and pre-malignant dermatological indications (skin cancer). Lytix maintains all rights to the use of LTX-315 in patients with metastatic melanoma and metastatic Merkel cell carcinoma. Verrica will assume responsibility for manufacturing of the LTX-315 drug product, while Lytix retains responsibility for manufacturing of the active pharmaceutical ingredient (API). Under the license agreement, Lytix may receive aggregate payments of up to USD 111 million upon achievements of certain clinical, regulatory and sales milestones as well as tiered royalty payments in the double-digit teens.

The partnership with Verrica progressed according to plan and resulted in a milestone payment of NOK 19.3 million in first half of 2021, further described under the financial review.

Verrica intends to focus initially on basal cell and squamous cell carcinoma as the lead indications for development for LTX-315, and in November Verrica got an US IND approval to initiate a Phase II clinical trial in basal cell carcinoma. The American Cancer Society has estimated that about 5.4 million basal cell carcinoma (BCC) and squamous cell carcinomas (SCC) are diagnosed in the US annually. With about 80% of these skin cancers being BCC there is a significant potential for new treatment options.

AURELIUS BIOTHERAPEUTICS LLC

In March 2021, Lytix announced it had entered a strategic partnership with Aurelius Biotherapeutics where Aurelius will investigate and develop LTX-122 for the veterinary medicine market. The partnership is arranged with an option period where Aurelius has initiated further feasibility studies on LTX-122 together with their own technology, which is based on adoptive T-cell transfer to treat dog lymphoma.

LTX-122 has been developed in a collaboration with The Arctic University of Norway. Lytix has an exclusive license agreement with UiT to further develop and commercialize LTX-122.

Environment, social and corporate governance (ESG)

SUSTAINABILITY

Environment

Lytix strives to minimize its environmental footprint. The environmental footprint stems mainly from the resources consumed in office spaces as well as indirect business activities such as travel and supply chain operations. As such, Lytix' operations have a limited impact on the external environment with regards to direct pollution and emissions, as production and distribution activities are outsourced. Nonetheless, we acknowledge that our subcontractors – and their emissions – are part of our supply chain and, hence, indirect emissions. We acknowledge to be part of a major industry with a significant footprint in total. Even the most innovative and advanced modern pharmaceuticals often have key ingredients sourced from the natural world. We are highly aware that the massive loss of biodiversity is a threat to

medical innovations and potential treatments that are yet to be discovered. Alongside the climate crisis, we are facing a nature crisis. Many critical ecosystems, such as tropical rainforests, are under threat. As a response, the pharmaceutical industry must engage in the protection of the natural web that provides us with irreplaceable ecosystem services such as key medical ingredients.

SOCIAL

Benefit to society

Social impact and benefits to society is the cornerstone of Lytix' mission, with the aim of improving the lives of patients around the globe through novel cancer treatment. This is in line with the overall goal of the recently implemented UN Mission on Cancer which has been formulated as: "By 2030, more than 3 million lives saved, living longer and better". Our work will contribute to achieving the UN Sustainable Development Goal ("SDG") 3: "Ensure healthy lives and promote well-being for all at all ages" and fits into Target 3.4 by reducing the number of deaths due to cancer by providing products for effective treatment. Our projects are now benefitting patients as they have the possibility to be included in the clinical program and get access to new innovative treatment several years before the treatment becomes available on the market.

Health, safety and wellbeing

The health, safety and wellbeing of our employees is of great importance for Lytix, and we strive to promote a culture that supports a sustainable work-life balance. During 2021, the company had 12 employees (constituting 9.5 man-years) including contracted personnel. The board considers that the working environment in the company is good, and no special measures have been implemented in this regard. The employees have not suffered any accidents or injuries in connection with their work. Despite unprecedented times during the COVID-19 pandemic, absence due to illness was all short term and less than 1%, which is in line with the previous year.

Externally, the biotech industry and regulatory authorities demand high standards for safeguarding patients during clinical trials. We follow all regulatory requirements related to conduct of clinical trials including the Helsinki declaration, ICH guidelines on good clinical practice and all applicable laws, regulations, directives, and guidance documents. These requirements are further addressed in our partner selection processes.

Animal studies are performed with the highest standards of animal welfare and is subject to European Directive No. 2010/63/UE. All studies are conducted in accordance with national legislation, under national approval and by the CRO`s internal Committee on Animal Research and Ethics. General procedures for animal care and housing are in accordance with applicable Laboratory Animal Care recommendations.

Lytix has established a quality management system consisting of a Quality manual, SOPs and forms to be in compliance with Norwegian, European and US health authorities' rules and regulations for drug manufacturing, clinical trials, drug safety and quality and to safeguard the patients. The GLP standard for laboratory practice, GMP standard for drug manufacture, GDP standard for drug distribution and GCP standard for clinical trials are embedded in our quality system.

Diversity, equity, and inclusion (DEI)

Lytix aims to be a workplace providing equal opportunities for all. We consider employee diversity to be a competitive advantage, and in order to attract and retain the best talent, we do our outmost to ensure fair and equal employment practices.
The company has traditionally recruited from environments where women and men are relatively equally represented. In terms of gender balance within the company, women constitute 33% of the Board members and 20% of the senior management team. The company promotes a productive working environment, have zero tolerance for disrespectful behavior, and 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.

Whistleblowing

Employees are encouraged to report any sort of misconduct within the company, which can be violations of statutory provision, internal provision, or ethical norms. Lytix recognizes that whistleblowing is of value to the firm, as it offers an opportunity to remedy misconduct. Lytix ensures that employees reporting misconduct are entitled to protection against reprisals, and matters may be reported anonymously to the organization's whistleblower contact, through the established whistleblowing e-mail, or alternatively to immediate supervisor or a member of the management team.

GOVERNANCE

Corporate governance

Lytix 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 ensures good business practices, reliable financial reporting, and an environment of compliance with legislation and regulations. The "Code of Conduct" sets the frame for business ethics and compliance. The company's board of directors actively adheres to good corporate governance standards as described in the "Rules of Procedures of the Board of Directors" (the "Board policy") within the framework of "Norwegian Code of Practice for Corporate Governance".

Lytix has established an "Insider policy" in light of the laws and regulations surrounding the the admission to trading on Euronext Growth and an "Information Policy" to ensure a continuous,

good quality, internal and external information giving in accordance with the Euronext Growth requirements.

Extending Ethical and responsible business to subcontractors and suppliers

We aim to work with business partners (subcontractors and suppliers) during the development of our products and execution of pre-clinical and clinical trials that demonstrate the same high standards of responsible business conduct and ethical values as our own. We exercize caution in the selection process, always following Lytix' evaluation and sourcing procedures.

As part of the evaluation, Lytix obtain confirmation that the subcontractor or supplier have adequate systems or policies in place ensuring compliance with applicable laws relating to ethical and responsible standards of behavior, including, without limitation, those dealing with human rights, labor, environmental protection, sustainable development and bribery and corruption in accordance with the principles in the United Nations Global Compact.

When establishing new contracts, all subcontractors and suppliers need to confirm their compliance with the principles in the UN Global Compact.

Anti-corruption

We have a zero tolerance for corruption. Corruption in the procurement of drugs and medical equipment drives up costs and can lead to sub-standard or harmful products. In addition to this, corruption have a disproportionate impact on the most vulnerable in society, increasing cost and reducing access to vital health services. As a standard, we conduct all our business activities in a transparent and open matter, and hold all employees, business partners and stakeholders to the same high ethical standard.

Data protection and IT security

The EU personal data protection framework as laid out in Directive (EU) 2016/680 and Regulation (EU) 2016/679 came into force in 2018. As a biotech company within the healthcare space, Lytix and/or our subcontractors and suppliers may need to store personal data as part of the business. Our GDPR compliance policy, was created to ensure that Lytix process and safeguard personal data in line with the Regulation ("the GDPR"). It describes how we plan to stay compliant on an ongoing basis, with policies and procedures for particularly relevant areas of our business. Lytix has appointed a dedicated personal data coordinator. To be transparent on how personal data is processed, the privacy notice appears on Lytix' homepage. Privacy statements are also included in the e-mail signature for all employees. Data Processing Agreements are established between Lytix as data controller and any data processor as required.

Lytix has outsourced the IT infrastructure and support to an external vendor. The IT solution is cloud-based with firewall and virus protection provided by the vendor. A feature in Outlook enables employees to report suspicious e-mails easily. Local secure access to the exchange is via password protected log-on. The information security platform is based on international standards ISAE3402 and ISEA3000 which is audited annually by PwC. All employees are responsible for storing documents securely and locking their computer when unauthorized people have access.

ESG GOING FORWARD

As a small actor in the biotech landscape, we acknowledge that we are still in the starting phase of enhancing and reporting sustainability activities and aim to strengthen our efforts in 2022. As a first step, our ambition is to conduct a materiality assessment based on stakeholder inclusiveness, with the goal of identifying the most prominent environmental, social and governance (ESG) matters for the company.

Lytix further commits to report annually on ESG topics that are identified in the materiality assessment. Goals will be fixed by material topic, achievements and gaps will be tracked and documented, helping us understand our successes as well as areas that require more attention. To ensure that our efforts for a sustainable operation are documented in a reliable and accessible manner, we plan to report by following the Global Reporting Initiative (GRI) Standards Core option as recommended by Oslo Stock Exchange/Euronext. The Euronext guidelines for ESG reporting will be observed. The ESG reporting will be reviewed and approved by the Board of Directors.

Building strong relationships and creating trust amongst our stakeholders is essential for Lytix' success. To do so, creating platforms for dialogue between the parties and including them in the materiality assessment is vital.

LYTIX BIOPHARMA'S STAKEHOLDERS:


Employees


Investors and shareholders


Government authorities


Subcontractors and suppliers


Investigators and patients


Civil society

The type and location of the business

Lytix Biopharma AS is a clinical stage biotech company, located in Oslo, Norway, developing novel cancer immunotherapies, an area within cancer therapy that is aimed at activating the patient's immune system to fight cancer. The company's technology is based on pioneering research in "host defense peptides" – nature's first line of defense towards foreign pathogens. Lytix' strategy involves generating solid Phase II results for this class of cancer drugs and collaborating with partners for further 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.

The Company was admitted to trading on Euronext Growth in Oslo in June 2021, following a private placement covered by investors such as PBM Capital, a US-based, healthcare-focused investment firm.

PERSONNEL AND ORGANIZATION

Lytix' senior management team at year-end consists of Øystein Rekdal as Chief Executive Officer, Baldur Sveinbjørnsson as Chief Scientific Officer, Gjest Breistein as Chief Financial Officer, Graeme Currie as Chief Development Officer, Gry Stensrud as Chief Technical Officer and Jørund Sollid as Chief Business 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.

RESEARCH AND DEVELOPMENT ACTIVITIES

Expenditure on research and development activities is recognized as an expense in the period in which it is incurred. Internal research and development expenses 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 research and 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 authorisation is obtained from relevant regulatory authorities. The company has currently no development expenditure that qualifies for recognition as an intangible asset.

FINANCIAL RISKS

Lytix is a pure research and development company which means that the company is accumulating financial losses. Operating losses are expected to continue during the development phases of the company's products, and other than potential development milestone payments from the licensing agreement with Verrica, potentially cash generating operations are not expected until one or more of the company's products are commercialized.

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.

Funding of ongoing operations is, and will be for some time, depending on external sources, mainly equity contributions. There is an inherent risk around future financing of the company, depending upon the company's own performance and on the financial market conditions. Acceptable sources of funding may not be available when needed or may not be available on acceptable terms. The company's ability to obtain capital or financing will depend in part upon prevailing market conditions as well as conditions of its business and its operating results, and those factors may affect its efforts to arrange additional financing on satisfactory terms.

NON-FINANCIAL RISKS

Lytix' activity is development of pharmaceutical medications. Research and development up to approved registration is subject to considerable risk and is a capital-intensive process. Lytix' candidates for cancer medications and technology platform are dependent on research and development and goes through several stages before commercialisation and risk of failure is generally inherent throughout the process.

Technology risk

The company's product candidates are still at an early stage and the preclinical and clinical studies may not prove to be successful. Furthermore, the product candidates are dependent on con-

tinued research and development which may be delayed and/or incur higher costs than currently expected.

Competitive technology

Immunotherapy and other cancer therapeutics industries are in general highly competitive and dynamic, and as such a high-risk business. Lytix operates in this global and highly competitive industry sector and is subject to the rapid and substantial technological change. Competitive cancer treatments, either within immunotherapy or within the broader space of oncology, may affect Lytix' ability to commence and complete clinical trials, as well as the opportunity to apply for marketing authorisation, and may influence future sales if marketing authorisation is obtained.

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 U.S. 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.

D&O INSURANCE

Lytix has entered a Directors' and Officers' Liability Insurance which covers past, present or future individual member of the board of directors and/or executive board or similar executive body of the group as well as any past, present or future officer, de facto director, shadow director or employee of the group who is capable of incurring personal managerial liability. The insurance covers NOK 20 million per claim and in the aggregate for the policy, world-wide including USA and Canada.

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.

The private placement and national placement completed in June 2021 with net proceeds of NOK 213 million ensures that Lytix has available financial resources sufficient for all planned activities, in the next twelve months as of December 31, 2021.

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

POST-BALANCE SHEET EVENTS

In fiscal year 2021, the company has been 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. Several measures have been taken to limit the effects of the COVID-19 virus, such as safety and health measures for all employees (such as social distancing and working from home). Lytix will continue to follow government policies and advice while doing its best to continue operations in the best possible and safest way without compromising the health of company staff members. These measures 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.

Post period at the start of April 2022, Lytix Biopharma announced that Verrica Pharmaceuticals has dosed the first patient as part of its Phase II study evaluating LTX-315 for the treatment of basal cell carcinoma (skin cancer). This triggered a UDS 1 million milestone payment to Lytix in accordance with the licensing agreement.

SHARE INFORMATION

As of December 31, 2021, there were 38,739,013 ordinary shares outstanding, up from 26,227,120 shares at year end 2020, following the private placement and national placement completed in June 2021.

The company has one class of shares, and all shares carry equal voting rights.

The company had more than 750 shareholders on December 31, 2021.

BOARD OF DIRECTORS OF LYTIX BIOPHARMA AS

The composition of the board of directors is at year-end as follows: Gert Wilhelm Munthe (Chair), Brynjar Forbergskog, Evelina Vågesjö, Jayson Rieger, Kjetil Hestdal and Marie-Louise Fjällskog.

All directors 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. Brynjar Forbergskog controls a significant number of shares in the company through Hifo Invest AS and Saturn Invest AS. Jayson Rieger serves as Managing Partner in PBM Capital, an US healthcare-focused investment firm. PBM Capital has invested in Lytix through the affiliate company PBM LYT Holdings, LLC.

The board of directors held 12 board meetings during the fiscal year 2021.

OUTLOOK

Lytix' lead product, LTX-315, is a first-in-class oncolytic molecule representing a new and superior *in situ* therapeutic vaccination principle to boost anti-cancer immunity. LTX-315 has the potential to be the ideal combination partner with other types of immunotherapies. In 2022, the clinical efficacy of LTX-315 will be studied in two different Phase II clinical development programs, one sponsored by Lytix and the other sponsored by Verrica. These programs have the potential to form a strong foundation to create and deliver significant value for shareholders.

In parallel, Lytix is expanding its pipeline by continuing the development of the follow-up drug candidate, LTX-401, for deeper seated lesions. The focus is to complete the preclinical phase and prepare for a Phase I/II clinical trial. Further expansion of the pipeline is ongoing by undisclosed investigation of oncolytic molecules. If the ongoing preclinical and clinical development of Lytix' drug candidates demonstrate clinical benefit to cancer patients, the commercial potential and clinical use could be very high.

Oslo April 6, 2022
The board of directors and the chief executive officer of Lytix Biopharma AS

Gert W. Munthe
Chair of the board

Brynjar Forbergskog
Director

Evelina Vågesjö
Director

Jayson Rieger
Director

Kjetil Hestdal
Director

Marie-Louise Fjällskog
Director

Øystein Rekdal
Chief executive officer

Financial statements

Statement of profit or loss

Amounts in NOK thousands	*Notes*	**2021**	2020
Revenue	*1*	**17**	3
Other operating income	*2, 3*	**25,810**	6,675
Total operating income		**25,827**	6,678
Payroll and related expenses	*5, 14*	**(31,605)**	(23,416)
Direct R&D expenses		**(28,817)**	(16,008)
Other expenses	*4, 13*	**(13,421)**	(9,626)
Total operating expenses		**(73,844)**	(49,050)
Loss from operations		**(48,017)**	(42,372)
Financial expenses	*6*	**(424)**	(331)
Financial income	*6*	**392**	615
Net financial items		**(32)**	284
Loss before tax		**(48,049)**	(42,088)
Tax expense	*7*	**-**	-
Loss for the period		**(48,049)**	(42,088)

Statement of financial position

Amounts in NOK thousands	*Notes*	**31.12.2021**	31.12.2020
ASSETS			
Current Assets			
Trade and other receivables	*9*	**5,680**	4,168
Cash and cash equivalents	*10*	**197,282**	28,450
Total current assets		**202,962**	32,617
Total assets		**202,962**	32,617
SHAREHOLDER'S EQUITY AND LIABILITIES			
Issued capital and reserves			
Share capital	*12*	**3,874**	2,623
Share premium reserve	*12*	**185,750**	17,266
Total equity		**189,624**	19,889
LIABILITIES			
Current liabilities			
Trade payables	*11*	**1,476**	3,284
Other current liabilities	*11*	**11,862**	9,444
Total current liabilities		**13,338**	12,728
Total liabilities		**13,338**	12,728
Total equity and liabilities		**202,962**	32,617

Oslo April 6, 2022 – The board of directors and the chief executive officer of Lytix Biopharma AS

Gert W. Munthe
Chair of the board

Brynjar Forbergskog
Director

Evelina Vågesjö
Director

Jayson Rieger
Director

Kjetil Hestdal
Director

Marie-Louise Fjällskog
Director

Øystein Rekdal
Chief executive officer

Interim statement of cash flows

Amounts in NOK thousands	*Notes*	**FY 2021**	FY 2020
Cash flows from operating activities			
Loss for the period		**(48,049)**	(42,088)
Adjustments for:			
Share-based payment expense	*14*	**4,055**	8,397
Increased/decreased in trade and other receivables	*9*	**(1,513)**	471
Increased/decreased in trade and other payables	*11*	**610**	8,874
Cash generated from operations		**(44,896)**	(24,347)
Income tax paid		**-**	-
Net cash flows from operations		**(44,896)**	(24,347)
Financing activities			
Proceeds from share issue	*12*	**213,728**	40,000
Net cash from/(used in) financing activities		**213,728**	40,000
Net increase in cash and cash equivalents		**168,832**	15,653
Cash and cash equivalents at the beginning of the period		**28,450**	12,796
Cash and cash equivalents at the end of the period	*10*	**197,282**	28,450

Notes to the financial statements

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 6 April 2022.

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
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 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 from 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. Capitalized development costs are amortized linearly over the asset's expected useful life.

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 based on 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 plan
With a defined contribution plan, the company pays contributions to an insurance company. After the contribution has been made, the company has no further commitment to pay. The contribution is recognized as payroll expenses. Prepaid contributions are reflected as an asset (pension fund) to the degree the contribution can be refunded or will reduce future payments.

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 considered 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. If 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 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 have 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.

Tax
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 the 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.

The private placement and national placement completed in June 2021 ensures that Lytix has available financial resources sufficient for all planned activities, in the next twelve months as of December 31, 2021. The board of directors therefore continues to adopt the going concern basis in preparing the company's financial statements.

NOTE 1 REVENUE

Amounts in NOK thousands	**2021**	2020
Revenue		
Other income	**17**	3
Total revenue	**17**	**3**

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

Amounts in NOK thousands	**2021**	2020
Other operating income		
Government grants recognized in profit and loss	**6,332**	4,071
Other	**19,478**	2,604
Other operating income	**25,810**	6,675

The first development milestone related to the licensing agreement with Verrica Pharmaceuticals was triggered in January 2021 when the U.S. Food and Drug Administration approved Lytix' Investigational New Drug (IND) application. This achievement released a milestone payment of USD 2.25 million to Lytix.

NOTE 3 GOVERNMENT GRANTS

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

Amounts in NOK thousands	**2021**	2020
Government grants		
Tax refund (across all R&D activities)	**4,069**	3,168
The Norwegian Research Council (BIA grant)	**2,263**	903
Other operating income	**6,332**	4,071

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

Amounts in NOK thousands	**2021**	2020
Specification of the auditor's fee		
Statutory audit	**328**	145
Other non-assurance services	**35**	18
Tax consultant services	**55**	76
Total auditor's fee	**418**	239

VAT is not included in the fees specified above.

NOTE 5 PAYROLL AND RELATED EXPENSES

Amounts in NOK thousands	**2021**	2020
Payroll and related expenses, including directors, comprise		
Salaries and bonus	24,381	10,952
Defined contribution pension const	789	463
Share-based payment expense	4,055	8,397
Social security contributions	1,864	2,874
Other personnel costs	517	730
Total payroll and related expenses	31,605	23,416

The number of man-years employed during the year:

	2021	2020
Number of man-years employed	**8.3**	7

The number comprises only regular employees on payroll.

In 2021 Lytix paid an extraordinary and non-recurring bonus payment which was linked to the IND approval in January 2021 and the following milestone payment from Verrica Pharmaceuticals due to this approval.

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 fulfills the requirements of the law.

Bonus scheme
Lytix has implemented a bonus system covering all employees. The company recognizes a liability and an expense for bonuses based on a short-term incentive plan for employees linked to the achievement of corporate objectives determined by the board.

Management remuneration 2021

Amounts in NOK thousands	Salary	Board remuneration	Pension cost	Share-based payments	Other remuneration	Total
Management team:						
Øystein Rekdal, CEO [1]	7,429	-	124	653	10	8,216
Directors (non-executive):						
Gert W. Munthe, chairperson [2]	-	-	-	-	150	150
Marie-Louise Fjällskog, director	-	-	-	-	-	-
Brynjar Forbergskog, director	-	-	-	-	-	-
Kjetil Hestdal, director	-	-	-	-	-	-
Jayson Rieger, director	-	-	-	-	-	-
Evalina Vågesjö, director	-	-	-	-	-	-
Debasish F. Roychowdhury, former director	-	200	-	-	-	200
Per Erik Sørensen, former director	-	200	-	-	-	200

1) Øystein Rekdal's fixed salary is NOK 3.1 million. In 2021 he received a extraordinary and non-recurring bonus linked to the milestone payment from Verrica Pharmaceutical which was a result of the approval of Lytix' IND in January 2021. 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 percent of annual base salary. There have been no such bonus payments for 2021.

2) Reference is made to the comment regarding remuneration to Mr. Munthe for 2020. The remaining NOK 150 thousand of related to the consultancy assignment was invoiced in 2021.

Management remuneration 2020

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

1) Øystein Rekdal's fixed salary is NOK 3.1 million. In 2021 he received an extraordinary and non-recurring bonus linked to the milestone payment from Verrica Pharmaceutical which was a result of the approval of Lytix' IND in January 2021. 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 2021.

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 has invoiced the company a total of NOK 750,000.

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 percent of his ordinary fixed salary for six months after the expiry of the notice period.

Amounts in NOK thousands	2021	2020
Shares controlled by the management team and board of directors		
Management team:		
Øystein Rekdal, CEO	126,963	118,630
Gjest Breistein, CFO	11,112	-
Baldur Sveinbjørnsson, CSO	4,280	1,280
Jørund Sollid, CBO (through Partner & Sollid AS)	2,000	-
Gry Stensrud, CTO	5,000	-
Directors (non-executive):		
Gert W. Munthe, chairperson (through North Murray AS)	2,810,359	2,523,582
Brynjar Forbergskog (through Hifo Invest AS and Saturn Invest AS)	1,111,110	-
No. of shares controlled by the management team and directors	4,070,824	2,642,212

Options held by the management team 2021	Opening balance	Granted	Lapsed/ forfeited	Ending balance
Gert W. Munthe, chair of the board	300,000	-	-	300,000
Øystein Rekdal, CEO	983,516	-	-	983,516
Baldur Sveinbjørnsson, CSO	393,407	-	-	393,407
Gjest Breistein, CFO	262,271	-	-	262,271
Jørund Sollid, CBO	196,703	-	-	196,703
Gry Stensrud, CTO		196,703	-	196,703
Number of options owned by the management team	1,835,897	196,703	-	2,032,600

Options held by the management team 2020	Opening balance	Granted	Lapsed/ forfeited	Ending balance
Gert W. Munthe, chair of the board	300,000	-	-	300,000
Øystein Rekdal, CEO	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

As of December 31, 2021, the company operates one equity-settled share-based remuneration scheme for employees. See note 15.

NOTE 6 FINANCE INCOME AND EXPENSES

Amounts in NOK thousands	**2021**	2020
Financial income		
Interest income	**138**	347
Foreign exchange gains	**248**	260
Other financial income	**6**	8
Total financial income	**392**	615

Amounts in NOK thousands	**2021**	2020
Financial expenses		
Interest expenses	**3**	-
Foreign exchange losses	**420**	331
Other financial expenses	**-**	-
Total financial income	**424**	331

NOTE 7 TAX

Amounts in NOK thousands	**2021**	2020
Current tax		
Tax payable	**-**	-
Correction of previous years current income taxes	**-**	-
Deferred tax		
Changes in deferred tax	**-**	-
Changes in tax rate	**-**	-
Tax expense	**-**	-

Amounts in NOK thousands	**2021**	2020
Pre-tax profit	**(48,049)**	(42,088)
Income taxes at 22%	**(10,571)**	(9,259)
Changes in unrecognized deferred tax asset	**13,360**	7,845
Change in tax rate	**-**	-
Non-deductible expenses	**(2,789)**	1,406
Tax expense	-	-

From January 1, 2020 the tax rate in Norway is 22 percent. 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:

	Balance sheet		Change	
Amounts in NOK thousands	**2021**	2020	**2021**	2020
Deferred tax assets				
Property, plant and equipment	**21**	27	**(5)**	(9)
Net tax on losses carried forward	**161,184**	147,818	**13,365**	7,863
Deferred tax assets	**161,205**	147,845	**13,360**	7,854
Net deferred tax assets	**161,205**	147,845	**13,360**	7,854
Net deferred tax assets not recognized	**(161,205)**	(147,845)	**(13,360)**	(7,854)
Net recognized deferred tax assets	**-**	-	**-**	-

Deferred tax assets on losses carried forward, in total NOK 161 million as of December 31, 2021 (2020: NOK 148 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 733 million as of December 31, 2021 (2020: NOK 672 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

Amounts in NOK thousands	**31.12.2021**	31.12.2020
Trade and other receivables		
Trade receivables	**-**	-
Governmental grants	**4,824**	3,168
VAT	**309**	463
Prepayments	**548**	536
Other receivables	**-**	-
Total trade and other receivables	**5,680**	4,168

NOTE 10 CASH AND CASH EQUIVALENTS

Amounts in NOK thousands	**31.12.2021**	31.12.2020
Cash and cash equivalents		
Employee withholding tax	**1,411**	1,299
Variable rate bank accounts	**195,871**	27,150
Total cash and cash equivalents	**197,282**	28,450

NOTE 11 CURRENT LIABILITIES

Amounts in NOK thousands	**31.12.2021**	31.12.2020
Current liabilities		
Accounts payable	1,476	3,284
Accrual for annual leave	1,421	1,063
Other accruals	2,351	3,570
Tax and social security payments	2,026	2,845
Other payables	6,064	1,966
Total current liabilities	13,338	12,728

NOTE 12 EQUITY AND SHARE CAPITAL

Amounts in NOK thousands	Share capital	Share premium reserve	**Total equity**
Balance on January 1, 2021	2,623	17,266	**19,889**
Income for the period			
Loss for the period	-	(48,049)	**(48,049)**
Total income for the period	-	(48,049)	**(48,049)**
Registration of share issue 10 June 2021	323	57,891	**58,214**
Registration of share issue 11 June 2021	928	166,072	**167,000**
Transaction cost	-	(11,486)	**(11,486)**
Share based payment	-	4,055	**4,055**
Total contributions by and distributions to owners	1,251	216,532	**217,783**
Balance on December 31, 2021	3,874	185,750	**189,624**

Amounts in NOK thousands	Share capital	Share premium reserve	**Total equity**
Balance on January 1, 2020	2,289	11,291	**13,580**
Income for the period			
Loss for the period	-	(42,088)	**(42,088)**
Total income for the period	-	(42,088)	**(42,088)**
Registration of share issue March 16, 2020	292	34,708	**35,000**
Registration of share issue April 16, 2020	42	4,958	**5,000**
Share based payment	-	8,397	**8,397**
Total contributions by and distributions to owners	333	48,064	**48,397**
Balance on December 31, 2020	2,623	17,266	**19,889**

Share capital on December 31, 2021 is NOK 3,873,901.3 (December 31, 2020: NOK 2,622,712), being 38,739,013 ordinary shares at a nominal value of NOK 0.1. All shares carry equal voting rights.

	31.12.2021	31.12.2020
Ordinary shares at January 1	**26,227,120**	22,893,784
Capital increase March 16, 2020 [1)]	**-**	2,916,667
Capital increase April 16, 2020 [2)]	**-**	416,669
Capital increase June 10, 2021 [3)]	**3,234,116**	-
Capital increase June 11, 2021 [4)]	**9,277,777**	-
Ordinary shares per December 31, 2020	**38,739,013**	26,227,120

2020:

1) *In February 2020, 2,916,667 shares were subscribed for in a private placement among existing shareholders at a share price of NOK 12 for total gross proceeds of NOK 35 million. The share issue was approved by the board of directors in the meeting held on February 18, 2020 under the existing authorisation from the General Meeting dated June 12, 2019. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises on March 16, 2020.*
2) *In March 2020, 416,669 shares were subscribed for in a private placement among existing shareholders at a share price of NOK 12 for total gross proceeds of NOK 5 million. The share issue was approved by the board of directors in the meeting held on March 17, 2020 under the existing authorisation from the General Meeting dated June 12, 2019. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises on April 16, 2020.*

2021:

3) *In May 2021, 3,234,116 shares were subscribed for in a national placement among existing shareholders and selected potential investors at a share price of NOK 18 for total gross proceeds of NOK 58 million. The share issue was approved by the Annual General Meeting held on 7 June 2021. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises on June 10, 2021.*
4) *In June 2021, 9,277,777 shares were subscribed for in a private placement among existing shareholders and selected potential investors at a share price of NOK 18 for total gross proceeds of NOK 167 million. The issuance of 9,277,777 new shares in the private placement was completed by the General Meeting issuing 9,000,000 new shares at the Annual General Meeting held June 7, 2021, and by the board of directors issuing 277,777 new shares at the meeting held on June 8, 2021 under the authorisation from the General Meeting dated June 7, 2021. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises on June 11, 2021.*

PBM LYT Holdings, LLC ("PBM LYT"), an affiliate of PBM Capital Group, LLC ("PBM"), pre-committed for NOK 42.5 million in the private placement conditional upon the company issuing to PBM LYT a number of warrants equal to 56.3 percent of the number of shares subscribed for by PBM LYT in the private placement. Lytix issued 1,329,306 warrants to PBM. Each warrant has a duration of 12 months and shall give the right upon exercise to subscribe for one share in the company at a subscription price of NOK 0.10 any time after the date falling 90 days after the company's first trading day on Euronext Growth. The decision to offer PBM LYT to subscribe for warrants was based on the belief that the precommitment by PBM LYT in the private placement, was very important for the successful completion of the private placement, and thus the financing of the company's activities. Further, the company held the opinion that PBM LYT, as a shareholder in the company, would provide additional value to the company given their broad contact network in the United States. On March 15, 2022, Lytix announced that 1,329,306 warrants giving rights to 1,329,306 shares have been exercised by PBM.

Top 20 shareholders as of December 31, 2021:

No.	Shareholder	No. of shares	Percentage share of total no. of shares
1	Taj Holding AS	5,440,850	14.0%
2	Jakob Hatteland Holding AS	3,000,000	7.7%
3	North Murray AS	2,810,359	7.3%
4	PBM Lyt Holdings, LLC	2,361,111	6.1%
5	3T Produkter Holding AS	1,808,764	4.7%
6	Brødrene Karlsen Holding AS	1,709,274	4.4%
7	Care Holding AS	1,608,080	4.2%
8	Picasso Kapital AS	1,122,860	2.9%
9	Per Strand Eiendom AS	1,024,128	1.9%
10	Mikael Lønn	741,967	1.9%
11	Danske Bank A/S	685,184	1.8%
12	Lysnes Invest AS	615,654	1.6%
13	Kvasshøgdi As	604,727	1.6%
14	Norinnova Invest AS	557,510	1.4%
15	Hifo Invest AS	555,555	1.4%
16	Saturn Invest AS	555,555	1.4%
17	Jahatt AS	500,000	1.3%
18	Hopen Invest AS	481,117	1.2%
19	Svenska Handelsbanken AB	420,423	1.1%
20	Belvedere AS	281,856	0.7%
	Total number of shares for top 20 shareholders	26,884,974	69.4%
	Total number of shares for the other shareholders	11,854,039	30.6%
	Totalnumber of shares	38,739,013	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 Sandakerveien 138, Oslo, expires at the end of June 2024.

The lease costs were as follows:

Amounts in NOK thousands	**2021**	2020
Operating leases		
Ordinary lease payments	**1,209**	1,395
Total operating leases	**1,209**	1,395

NOTE 14 SHARE OPTION PROGRAMS

Since 2013 Lytix has established several share-based incentive programs 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 2021 Lytix has the following active share-based incentive programs: E, F, Chairman, Strategic advisors (1) and Strategic Advisors (2). In 2020, all options granted under program B and D were replaced by new options in program E. Program B and D are therefore cancelled.

	Program E	Program E (new options)	Chair-person	Strategic advisors (1)	Strategic advisors (2)	**Sum**
Exercise price	12.00	n/a	12.00	12.00	18.00	-
Expiration	01.05.2025	01.05.2025	01.05.2025	12.06.2024	06.06.2025	-
No of options in program	2,622,712	1,251,189	600,000	467,220	125,119	**5,066,240**
No of options allocated to employees, management, chairpersons, and advisors	2,229,304	-	600,000	467,220	125,119	**3,421,643**
Remaining options (can be allocated to individuals)	393,408	1,251,189	-	-	-	**1,644,597**

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. Therefore, 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.

In consequence of the completion of the private placement and national placement, the annual general meeting 2021 resolved to increase the size of the program such that the total number of share options which can be granted corresponds to 10% of the total number of issued shares in the company. The exercise price, terms and allocation shall be decided by the board of directors.

As of December 31, 2021, a total of 2,229,304 share options were allotted to certain specific individuals through share option agreements. A total of 465,531 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 of December 31, 2021, are subject to vesting.

Incentive Program Strategic advisors (1) 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 12 June 2024. The options are subject to quarterly vesting over two years. A total of 58,403 options in program Strategic advisors (1) vested during 2021.

Incentive Program Strategic advisors (2) 2021/2025
At the annual general meeting 2021 it was resolved to issue 125,119 new options to certain strategic advisors. The expiry date for the new options is June 6, 2025. The exercise price is NOK 18 which is the same as the share price used in the private placement and national placement approved at the same annual general meeting. The new options are subject to quarterly vesting over two years.

In all programs, the Employee must 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		Chairpersion		Strategic advisors (1)	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding on 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 on December 31, 2020	12.0	2,032,601	12.0	600,000	12.0	467,220
Outstanding options vested by December 31, 2020	-	1,416,264	-	600,000	-	408,818
Outstanding on January 1, 2021	12.0	2,032,601	12.0	600,000	12.0	467,220
Granted during the period	12.0	196,703	-	-	-	-
Forfeited during the period	-	-	-	-	-	-
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	-	-	-	-	-	-
Outstanding on December 31, 2021	12.0	2,229,304	12.0	600,000	12.0	467,220
Outstanding options vested by December 31, 2021		1,763,773	-	600,000	-	467,220

	Strategic advisors (2)	
	Weighted average exercise price	Number of options
Outstanding at January 1, 2020	-	-
Granted during the period	-	-
Forfeited during the period	-	-
Exercised during the period	-	-
Lapsed during the period	-	-
Outstanding at December 31, 2020	-	-
Outstanding options vested by December 31, 2020		
Outstanding at January 1, 2021	-	-
Granted during the period	18.0	125,119
Forfeited during the period	-	-
Exercised during the period	-	-
Lapsed during the period	-	-
Outstanding at December 31, 2021	18.0	125,119
Outstanding options vested by December 31, 2021		46,920

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 (1)	Strategic advisors (2)
Option pricing model used	Black & Scholes	Black & Scholes	Black & Scholes	Black & Scholes
Weighted average share price at grant date (NOK)	12.0	12.0	12.0	18.0
Exercise price (NOK)	12.0	12.0	12.0	18.0
Expected volatility	57.4%	58.4%	58.4%	57.4%
Expected dividend growth rate	-	-	-	-
Risk-free interest rate	0.31%	1.3%	1.2%	1.18%

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:

Amounts in NOK thousands	**2021**	2020
Equity settled schemes	**4,055**	8,397
Total remuneration expense	**4,055**	8,397

NOTE 15 EVENTS AFTER THE REPORT DATE

In fiscal year 2021, 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.

On March 15, 2022, Lytix announced that PBM LYT, an affiliate of PBM Capital Group, LLC, exercised 1,329,306 warrants giving rights to 1,329,306 shares. Following the registration of the new shares pursuant to the exercise, the number of outstanding shares in Lytix will be 40,068,319 shares. Reference is made to the warrants issued by the Company's General Meeting on June 7, 2021, with a subscription price per share of NOK 0.1 and with an expiry date of June 6, 2022.

Post period at the start of April 2022, Lytix Biopharma announced that Verrica Pharmaceuticals has dosed the first patient as part of its Phase II study evaluating LTX-315 for the treatment of basal cell carcinoma (skin cancer). This triggered a UDS 1 million milestone payment to Lytix in accordance with the licensing agreement.

The news of the Russian invasion of Ukraine was received by Lytix with shock and sadness. The Russian invasion is deeply concerning with severe humanitarian consequences, and significant impact to the world's political environment and security situation. Furthermore, the invasion has caused major disruptions in trade flows and financial markets as, amongst others, European Union, United States and the United Kingdom have imposed strict sanctions on the Russian Federation economy. Example of sanctions imposed are excluding several banks from the SWIFT payment system and imposing an embargo on import of oil and gas (US and UK). Lytix has no outstanding balances nor contracts with companies in Ukraine, Belarus or Russia and is as such not directly impacted by the war in Ukraine.

Your notes

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Lytix Biopharma AS

Opinion

We have audited the financial statements of Lytix Biopharma AS (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and statement 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 comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2021 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 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 requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities 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 annual report other than the financial statements and our auditor's report thereon. Management (the board of directors and chief executive officer) is 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 board of directors' report contains the information required by legal requirements and 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 or that the information required by legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contains the information required by applicable legal requirements.

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

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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 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 the board of directors 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.

Tromsø, 6 April 2022
ERNST & YOUNG AS

The auditor's report is signed electronically

Kai Astor Frøseth
State Authorised Public Accountant (Norway)