Lytix Biopharma

Annual report 2022

Letter from the CEO

Dedicated to be part of tomorrow's cancer treatment

In the course of 2022, our unique position in the immune-oncology field has been confirmed. We bring a novel immunotherapy approach to the table that addresses the most fundamental challenge in current immunotherapy: tumor heterogeneity.

Tumor heterogeneity is represented by the large diversity of cancer cells with different mutations existing in solid cancers. We are proud to be the leading solution for the challenges with tumor heterogeneity. Our oncolytic molecules address this major challenge by activating broad T-cell responses in cancer patients targeting different subset of cancer cells in solid tumors.

The last years, immunoncology has attracted interest from the industry, and we have benefitted abundantly from the early entry we made into the space more than 10 years ago when it was still an unexplored research field. As with every innovative endeavor, the path forms as we go and the knowledge base grows along with it, but our goal is clear; to achieve approval for the use of our molecules as the first drug in this entirely new class of therapeutics in cancer patients. We get more and more encouraged to reach the goal by the robust scientific, financial, and commercial validation provided by our team, shareholders, investors and partners.

The year 2022 was fueled by clinical progress and presentations of clinical data across international conferences, alongside seeing our partner Verrica Pharmaceuticals advance its Phase II study evaluating LTX-315 for basal cell carcinoma.

For Lytix, the most significant clinical trial development was completing the Phase II study evaluating LTX-315 in combination with adoptive T-cell therapy (ACT) in soft tissue sarcoma patients, the ATLAS-IT-04 study. We presented the encouraging results from this study at the American Society of Clinical Oncology (ASCO) in June. We reported that this combination treatment provides meaningful clinical benefit for the patients as it stabilizes the disease in heavily pre-treated patients with progressive metastatic soft tissue sarcoma. The results clearly show the potential of using LTX-315 in combination with ACT to generate a high number of tumor-specific T-cells. Importantly, we also reported data from this study confirming that treatment with LTX-315 evokes tumor-specific T-cell clones, enabling the immune system to eliminate tumor cells.

Based on these positive Phase II results, Lytix will further analyze the clinical and commercial potential of oncolytic molecules in combination with ACTs, a cancer research field showing exponential growth.

In April, we were pleased to announce that our partner, Verrica Pharmaceuticals, had recruited and dosed the first patient in its Phase II study evaluating Lytix' LTX-315 in basal cell carcinoma patients. This type of skin cancer is one of the most common diagnoses, representing a significant market potential for LTX-315. Reaching this milestone also triggered a USD 1 million payment to Lytix

We expect Verrica's commitment to this study to result in continued investments on their behalf and look forward to conveying news from this study to our shareholders as Verrica presents them.

During the year, we also received regulatory approval to expand the reach of our Phase II study in malignant melanoma to Europe to advance patient recruitment. The expansion of the study has paved the way for six new sites across three European countries and a significant uptick in patient recruitment in the ATLAS-IT-05 study.

With increased capacity to enroll patients in Norway, Spain, and France into this study, we aim to complete enrollment by mid-year and to meet the study's primary endpoint by demonstrating LTX-315`s ability to increase the number of patients responding to immunotherapy. Whilst we work towards this milestone, we are confident that we will continue to attract the attention of potential partners interested in exploring the commercial potential of LTX-315 within metastatic cancer.

In 2022, we also completed the pre-clinical program for our second-generation compound, LTX-401, which has demonstrated promising results for deep-seated cancer lesions such as liver or colorectal cancer metastases. These cancer types represent a substantial unmet medical need, with liver cancer being one of the deadliest types of cancer worldwide. Liver cancer is characterized by a high degree of tumor heterogeneity, meaning it does not respond well to immunotherapy and checkpoint inhibitors. As a result, patients face only a few treatment options that demonstrate limited clinical benefit. We are preparing this asset for a Phase I study and plan to submit a clinical trials application (CTA) to regulatory authorities in H2 2023 to gain approval to initiate the study (ATLAS-IT-06). This represents a significant milestone for Lytix, validating the broad applicability of our technology platform and the ability of the team to deliver promising compounds suited for distinct types of cancers.

As an immuno-oncology company, clinical trials are the most critical area for value creation. Therefore, most of our resources are invested directly into the clinical development portfolio. This shapes the attractiveness of our unique technology platform and product candidates.

In November, we were invited to the Society for Immunotherapy of Cancer's (SITC) 2022 Annual Meeting in the US. There, we presented compelling new data describing how treatment with LTX-315 activates specific immune cells that are critical to properly priming tumor-specific T-cells.

We are also excited to have strengthened the team by having Jacqueline Earabino step into the role as Head of Clinical Operations to support our clinical trial activities and to bring our new Chief Business Officer, Stephen Worsley, on board to excel the business development and partnering activities, capturing maximal total value.

Looking back at the past year, it has represented several challenges for the biotech industry, which has been impacted by steep economic downturns and a challenging funding climate. Biotech companies have also experienced the continued impact of COVID-19, which has hampered patient enrollment significantly in clinical trials.

At Lytix, we are pleased to have a sufficient cash runway that will see us into 2024. This is due to our continued efforts to run a lean and effective organization, and we are not planning to significantly increase our organization in 2023.

I also extend my gratitude to the entire team at Lytix, who continues to dedicate their time to ensure that we reach our goal, and to our shareholders and supporters for your continued confidence and trust.

We have an exciting year ahead with a lot of R&D activities, primarily related to the clinical trials. We are pleased with the progress we made in 2022 and look forward to continuing to report on our development programs in the coming months.

Øystein Rekdal
CEO Lytix Biopharma

Highlights 2022

Business and partnership:

- Following the US regulatory IND clearance for Verrica Pharmaceuticals' Phase II study evaluating LTX-315 in basal cell carcinoma (skin cancer) at the end of 2021, the first patient started treatment with LTX-315 in April 2022, triggering a milestone payment to Lytix.
- Verrica Pharmaceuticals completed treatment in the first of three parts of their ongoing Phase II study. Part 1 has enrolled 10 patients and demonstrated a favorable safety and tolerability profile with no reported serious adverse events. Patients receiving the higher range of dosing experienced a consistent response of clinical tumor necrosis.

Research and development:

- Following approval of the clinical trial application (CTA) for ATLAS-IT-05 in Europe in Q3 2022, the Phase II study expanded to three additional European countries, Norway, France, and Spain. All sites are open and recruiting patients with the aim of completing enrollment in mid-2023.
- The preclinical safety testing for LTX-401 has been completed, demonstrating a favorable safety profile. Regulatory submission enabling activities required to start the Phase I study ATLAS-IT-06 with LTX-401 is progressing as planned.
- The Clinical Study Report for ATLAS-IT-04 has been completed. ATLAS-IT-04 demonstrated encouraging data showing that LTX-315 improved the outcome of adoptive cell transfer treatment. The results were presented at ASCO in June and showed that LTX-315 stabilized the disease in patients with progressive metastatic soft tissue sarcoma.
- Compelling data on LTX-315's ability to activate specific immune cells that are critical for a proper priming of tumor-specific T-cells from Lytix' collaboration with research groups at the National Cancer Institute and Weill Cornell Medicine were presented at the Society for Immunotherapy of Cancer (SITC) Annual Meeting.

Organization:

- Lytix Biopharma has strengthened its team by recruiting Jacqueline Earabino as Head of Clinical Operations and Stephen Worsley as Chief Business Officer.

Financial:

- In April, Lytix received a USD 1 million milestone payment from Verrica following the first patient dosed in its Phase II study evaluating LTX-315 in BCC.
- Total operating expenses for 2022 were related to increased R&D activities in connection to the ongoing ATLAS-IT-05 trial in the US, expansion of the ATLAS-IT-05 trial to Europe, and the progression of the preclinical development of LTX-401.
- Cash position at the end of the period was NOK 94.6 million compared to NOK 197.3 million as of December 31, 2021. In addition to the cash position, Lytix has NOK 50.6 million placed in a liquidity fund as of 31 December 2022. In total, Lytix has NOK 145.2 in cash and short-term financial investments at the end of the year.

Key figures

Amounts in NOK thousands	**2022**	2021
Total operating income	**17,273**	25,827
Total operating expense	**(82,968)**	(73,844)
Loss from operations	**(65,695)**	(48,017)
Loss for the period	**(56,006)**	(48,049)
Property, plant and equipment	**124**	-
Trade and other receivables	**6,735**	5,680
Short-term financial investments	**50,606**	-
Cash position at the end of the period	**94,552**	197,282
Total assets	**152,017**	202,962
Total equity	**135,126**	189,624
Total liabilities	**16,891**	13,338
Total equity and liabilities	**152,017**	202,962

Board of directors' report 2022

Operational review

PARTNERSHIPS

LTX-315 development in partnership with Verrica

Verrica continued to progress its Phase II clinical trial of LTX-315 (VP-315), a potentially first-in-class oncolytic peptide immunotherapy, for the treatment of basal cell carcinoma. The Phase II trial is a three-part, open-label, multicenter, dose-escalation, proof-of-concept study with a safety run-in designed to assess the safety, pharmacokinetics and efficacy of LTX-315 when administered intratumorally to adults with biopsy-proven basal cell carcinoma.

The first patient in Verrica Pharmaceuticals' Phase II study investigating LTX-315 in BCC was dosed on April 4, 2022. This achievement triggered a milestone payment of USD 1 million to Lytix. Approximately 66 patients with BCC will be enrolled in the study. Recently, Verrica completed treatment in Part 1 with 10 patients enrolled and a favorable safety and tolerability profile with no reported serious adverse events. The patients receiving the higher range of dosing experienced a consistent response of clinical tumor necrosis. Part 2 of the Phase II trial is expected to begin in the second quarter of 2023 and will further explore dosing regimens to allow Verrica to identify the recommended dose for Part 3 of the study, which is expected to start in the second half of 2023.

ClinicalTrials.gov Identifier: NCT05188729

RESEARCH AND DEVELOPMENT

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

In this ongoing Phase II trial, the combination of LTX-315 and pembrolizumab is being evaluated in patients with advanced melanoma refractory to anti-PD-1/PDL-1 therapy. The study started at the MD Anderson Cancer Centre and Icahn School of Medicine at Mount Sinai in the US. Recently the study was expanded to six sites in Europe. These sites are now all open and recruiting. At the end of 2022, two additional sites in the US are in the process of opening.

The study was expanded to sites in Europe to mitigate recruitment challenges experienced in the US as a consequence of COVID-19. The Clinical Trial Application (CTA) was approved by EU regulators in 2022 Q3, and the study has opened to patients in three European countries, Norway, France, and Spain. In Norway, sites have opened at the Oslo University Hospital, Radiumhospitalet (Dr. Marta Nyakas) and Akershus University Hospital (Dr. Belal Aljabri). Three sites have opened in France at the Hospital Lyon Sud (Dr. Stephane Dalle), Gustave Roussy Cancer Campus (Dr. Caroline Robert) and Centre Hospitalier Regional Universitaire De Lille (Dr. Laurent Mortier). Moreover, one site has opened in Spain, at Clínica Universidad de Navarra (Dr. Miguel Sanmamed).

During 2022, CRO resources have been optimized and the CRO Voisin Consulting Life Sciences (VCLS) was contracted to assist the EU regulatory application process. The clinical team has also been strengthened by hiring Jackie Earabino as Head of Clinical Operations.

The expansion of the site network will drive enrollment towards completion and extend the clinical impact field for LTX-315. The European branch of the study is performed at highly recognized sites with intratumoral immunotherapy expertise, led by melanoma experts at each site. It will follow the same protocol as in the US, and recruitment is expected to be completed by mid-2023.

ClinicalTrials.gov Identifier: NCT04796194

ATLAS-IT-04 trial (LTX-315 in combination with adoptive T-cell therapy in advanced soft tissue sarcoma) Key data presented at ASCO 2022

In 2022, Lytix Biopharma finalized a clinical Phase II trial together with Herlev Hospital in Denmark to assess the safety and efficacy of intratumoral administration of LTX-315 in combination with Adoptive Cell Therapy (ACT). The study showed that a combination of LTX-315 and ACT has the potential to improve clinical outcomes in solid cancers with low numbers of T-cells (cold tumors), where ACT alone may not be effective. The combination of LTX-315 and ACT has significant commercial potential in several cancer indications that are less T-cell infiltrated.

The results were presented at the American Society of Clinical Oncology (ASCO) 2022 Annual Meeting, Chicago, IL, USA, in June and showed that LTX-315 stabilized the disease in heavily pre-treated patients with progressive metastatic soft tissue sarcoma for up to 26 weeks.

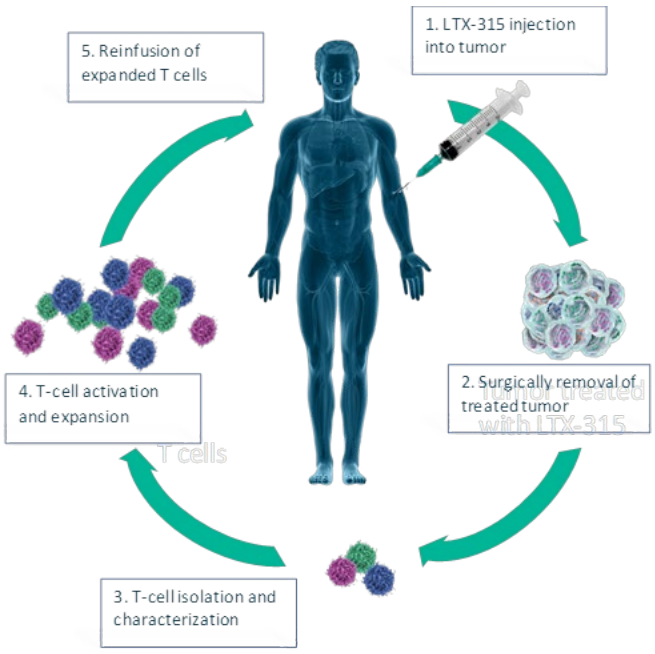
The study was conducted in heavily pre-treated patients with progressive metastatic soft tissue sarcoma (STS). STS is a rare

and heterogenous group of tumors, and current therapy is often ineffective for patients with metastatic disease. Median survival at the time of diagnosis is one year. To improve outcomes, novel therapeutic approaches are needed.

ACT is a process where the patient's T-cells are isolated from the tumor before being grown in large numbers in the laboratory and then returned to the patient. The intention is to generate large numbers of the patient's own cancer-specific T-cells that can attack the cancer cells.

In the ATLAS-IT-04 study, LTX-315, combined with ACT, demonstrated a clinical benefit in patients with progressive disease at the start of treatment. Three out of the four patients that received complete treatment (receiving LTX-315 and ACT) obtained stabilization of the disease, which in one patient persisted for 26 weeks. In addition, it was documented that LTX-315 generates neoantigen specific T-cells, which proves that LTX-315 generates T-cells that can specifically target the cancer cells.

ACT using T-cells from the patient's tumor has been shown to be capable of generating durable clinical responses in patients with melanoma, but has so far not been tested in patients with STS. Patients with STS, in contrast to melanoma patients, are generally more challenging to treat with immune-based therapies as their tumors are less infiltrated with T-cells (cold tumors). LTX-315 was evaluated in the ATLAS-IT-04 trial to increase the possibility of clinical benefit by boosting the number of tumor specific T-cells available for ACT.



The clinical treatment schedule included injection of LTX-315 into a tumor (step 1), followed by excision of the tumor (step 2), isolation and expansion of T-cells (step 3 and 4), subsequently to be returned into the patient (step 5).

The key finding from the study was that LTX-315 was able to generate a diverse pool of T-cells which were able to be expanded with ACT and showed efficacy in delaying the progression of STS. LTX-315 was well tolerated and no safety concerns were raised by combining LTX-315 with ACT. The laboratory analysis documented that LTX-315 generated T-cells that recognized several tumor antigens and induced effects on tumor cells from the same patient. Although few patients were enrolled in the ATLAS-IT-04 trial, the results from the study document LTX-315`s potential to generate multiple novel tumor-specific T-cell clones that can be expanded to billions before being reinfused to the patients. Lytix plans to start discussions with potential partners with a commercial interest in adoptive cell therapy.

In Q4 2022, Lytix finalized the Clinical Study Report (CSR), which compiles all results of the Phase II ATLAS-IT-04 study. The CSR is a central document in the drug development and regulatory submission process. The report includes the scientific rationale for the study design methods and conduct of the study, individual patient data and details of analytical methods.

ClinicalTrials.gov Identifier: NCT03725605

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

In November 2022, Lytix released new data describing how LTX-315 treatment activates specific immune cells that are critical for properly priming tumor-specific T-cells.

The data were presented as a poster at the Society for Immunotherapy of Cancer´s 37th Annual Meeting (SITC 2022) in Boston, USA.

The poster entitled "Molecular mechanisms of DC activation by melanoma cells responding to LTX-315" describes how LTX-315 can activate dendritic cells (DCs) through several distinct pathways. DCs are antigen-presenting cells capable of tumor-antigen uptake, processing, and presentation to T-cells. Once activated, DCs migrate from the tumor to the lymphatic tissue to interact with T-cells and help shape the adaptive anti-tumor immune response.

The study was a collaborative research effort between Lytix and the research groups of Dr. Lorenzo Galluzzi at Weill Cornell Medicine, New York and Dr. Joost Oppenheim at National Cancer Institute, Frederick, both in the USA.

These data are very exciting and establish the mechanisms by which LTX-315 both induces the release of tumor antigens and DC activation, the two critical steps for generating tumor specific T-cells responses. The findings further strengthen the position of LTX-315 as an anticancer immunotherapeutic agent, ideal to be combined with other types of immuno-therapy.

The Society for Immunotherapy of Cancer (SITC) Annual Meeting & Pre-Conference Programs brings together stakeholders across the cancer immunotherapy field to advance the science, discover breakthroughs and educate the world on cancer immunotherapy.

As the largest conference solely focused on cancer immunotherapy, the Annual meeting provides international leaders from academia, regulatory and government agencies, as well as industry representatives with a multidisciplinary educational and interactive environment focused on improving outcomes for all cancer patients.

The poster can be found here https://www.lytixbiopharma.com/research-development/posters.html

LTX-401

In experimental cancer models, Lytix' next-generation oncolytic molecule, LTX-401, has demonstrated a commercial potential for deep-seated tumors such as primary liver cancer and colorectal cancer that has spread to the liver as well as several additional major cancer indications located in other internal organs. In addition to demonstrating promising anticancer efficacy, a preclinical safety program required for entering human clinical trials has been completed concluding that LTX-401 has a favorable safety profile. At present, Lytix is performing activities needed to submit a clinical trial application for the ATLAS-IT-06 Phase I trial. This includes work related to the development and manufacture of the investigational LTX- 401 product, medical writing of the clinical trial protocol, Investigator brochure, IMPD (investigational medicinal product dossier) and other regulatory documents and activities related to the set-up of the clinical trial.

Intellectual property (IP) rights

Granted patent Family in Australia

Lytix has been granted the first patent from its «T-cell clonality» patent family in Australia (AU2017214321B2). The patent covers tumor-infiltrating T-cells isolated from tumors of patients that have been treated with oncolytic molecules such as LTX-315, and the therapeutic use of such T-cells, which recognize different tumor antigens, in tumor treatment, e.g., treatment by autologous T-cell therapy. Lytix has already established an expanding patent portfolio consisting of several patent families in the field of oncolytic molecules and related therapies covering key markets throughout the world.

An overview of Lytix pipeline is presented on page 11.

Financial review

ACCOUNTING POLICIES

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

PROFIT AND LOSS

Total operating income for 2022 amounted to NOK 17.3 million (NOK 25.8 million for 2021). Operating income in the period was mainly related to a milestone payment of NOK 9.6 million following the license agreement with Verrica Pharmaceuticals Inc., entered in August 2020 for skin cancer diseases. The milestone payment in the first half of 2022 was triggered by the first patient being dosed with LTX-315 in Verrica's Phase II study. Other income for 2022 includes governmental grants of NOK 6.2 million (NOK 6.3 million).

Personnel expenses for 2022 came in at NOK 21.1 million (NOK 31.6 million). The decrease in personnel expenses is mainly explained by an extraordinary and non-recurring bonus payment in 2021 following the IND approval.

Direct R&D expenses amounted to NOK 51.0 million for 2022 (NOK 28.8 million). Direct R&D expenses for 2022 were related to increased activities in connection to the ongoing ATLAS-IT-05 trial in the US and EU, preclinical development of LTX-401 as well as the ATLAS-IT-04 trial in Denmark.

Other operating expenses decreased to NOK 10.8 million (NOK 13.4 million). The decrease in other operating expenses is related to extraordinary expenses following the share issue and subsequent listing on Euronext Growth in June 2021.

Loss from operations for 2022 amounted to NOK 65.7 million compared to NOK 48.0 million for 2021.

CASH FLOW

Cash flow from operating activities amounted to negative NOK 52.1 million for 2022 compared to negative NOK 44.9 million for 2021. Cash flow from investing activities was negative with NOK 50.8 million compared to nil for 2021. In Q3 2022, Lytix placed NOK 50 million in a liquidity fund explaining the negative cash flow from investing activities. Cash flow from financing activities was NOK 0.1 million in 2022 compared to NOK 213.7 million for 2021. In March 2022, Lytix announced that 1,329,306 warrants giving rights to 1,329,306 shares had been exercised by PBM LYT Holdings, LLC ("PBM LYT"), an affiliate of PBM Capital Group, LLC ("PBM"). With a subscription price per share of NOK 0.1 the

proceeds from the exercise amounted to NOK 0.1 million. The positive cash flow in 2021 is explained by the proceeds from the private placement and national placement that year. Cash and cash equivalents at the end of the reporting period amounted to NOK 94.6 million compared to NOK 197.3 million as of December 31, 2021. Cash and cash equivalents plus short-term financial assets amounted to NOK 145.2 million at the end of 2022.

STATEMENT OF FINANCIAL POSITION / BALANCE SHEET

As of December 31, 2022, Lytix had total assets of NOK 152.0 million, compared to NOK 203.0 million by the end of 2021. Trade and other receivables by end of 2022 increased to NOK 6.7 million, from NOK 5.7 million by the end of 2021.

Shareholders' equity amounted to NOK 135.1 million, increased from NOK 189.6 million in 2021. The equity ratio amounted to 88.88 percent compared to 93.43 percent in 2021.

Total current liabilities amounted to NOK 16.9 million compared to NOK 13.3 million by end of 2021.

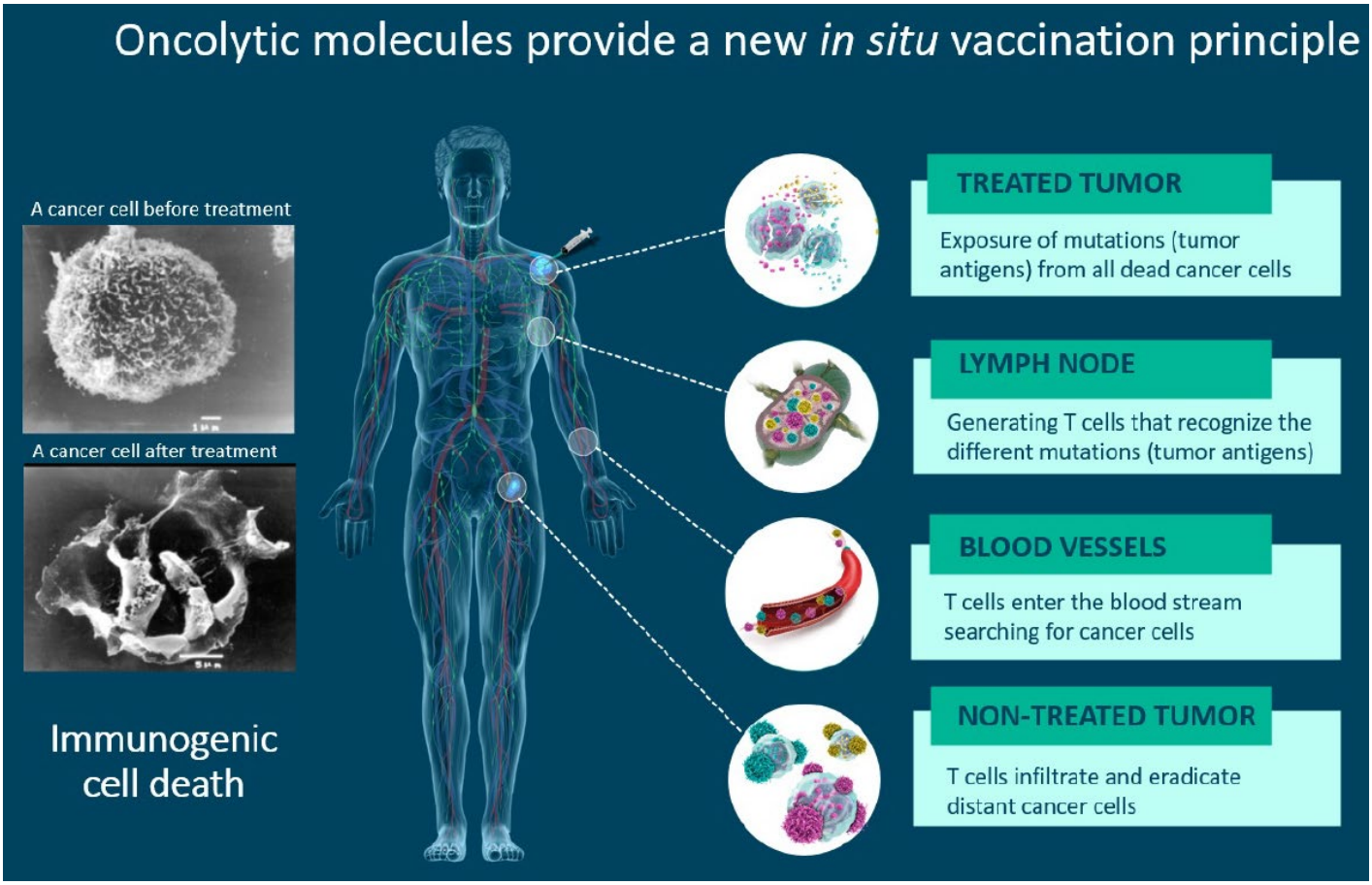
ALLOCATION OF THE 2022 RESULT

The Company's annual result amounted to a loss of NOK 56.0 million. The Board of Directors proposed that the loss is transferred from Share Premium Reserve.

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 deal efficiently with cancer; the heterogeneity of the tumor, enabling the cancerous cells to escape various targeting therapies.

Lytix' oncolytic molecules kill cancer cells in a unique way resulting in an efficient release of tumor neoantigens (mutated proteins) and immune activating molecules. This process results in the activation of the patient's own killer T-cells which will enter into circulation and search for and kill cancer cells.



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

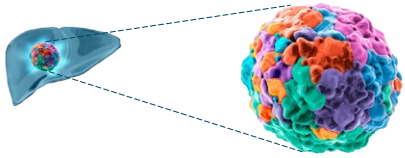
In a GlobalData survey [1], physicians ranked tumor heterogeneity as the most challenging aspect of optimizing IO therapy. Tumor heterogeneity introduces significant challenges in cancer therapy and is the main cause of treatment failure, drug resistance, relapse and recurrence.

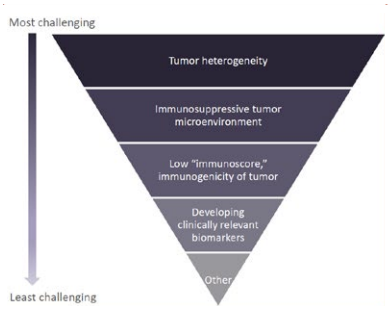
Oncology is the largest pharmaceutical market by revenue. Oncology therapeutics represented USD 184 billion in sales in 2021 (˜20% of global pharmaceutical sales) [2]. To capture a larger market share, parallel development across multiple indications,

GENERATING A SYSTEMIC AND LASTING ANTI-TUMOR IMMUNITY

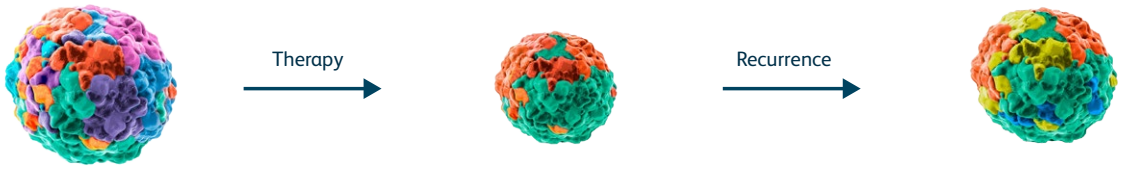
Oncolytic molecules work by inducing immunogenic cell death of cancerous cells and by activating antigen presenting cells to generate tumor specific T cells. When these molecules are injected straight into the tumor environment, they potentiate the patient's immune system. Lytix' approach represents an alternative and unique treatment approach to cancer vaccination. So far, data has demonstrated that Lytix' molecules can generate a systemic and lasting anti-tumor immunity.

The challenge
– the heterogenity of cancer





Failing to kill all cancer cells often leads to recurrence of even "harder to treat" tumors

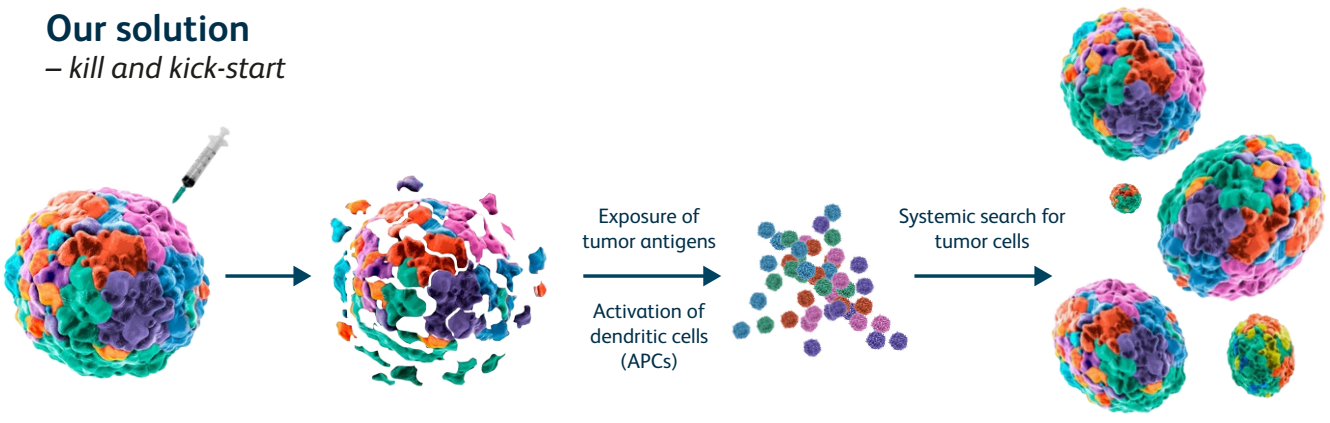


Primary tumor

Therapy resistant cancer cells

Resistant cancer cells and new cancer cells

Our solution
– kill and kick-start



Activation of a broad repertoire of T cells that can recognize the diversity of tumor cells.

Other non-treated tumors

1 *Source: GlobalData High-Prescriber Survey (December 2020)*

2 *Source: IQVIA Research, 2023*

increases the value of an individual asset and makes deal-making more likely. Unmet need remains high, and the market is expected to reach $269 billion by 2025 [3]. 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.

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 as well as value for Lytix.

Product candidates and portfolio

Lytix Biopharma's unique *in situ* vaccination technology platform offers a whole range of product opportunities and has the capacity to improve the lives of patients across many cancer types.

The developmental program is progressing the oncolytic molecules both as monotherapy, as a combination partner with checkpoint inhibitors and as an adjunct to cell therapy.

After the recent completion of the ATLAS-IT-04 study in adoptive T-cell therapy, LTX-315 is now being evaluated in two different Phase II trials, both as monotherapy and as combination therapy with the checkpoint inhibitor pembrolizumab.

Lytix' ATLAS-IT-05 clinical trial with LTX-315 was initiated at the MD Anderson Cancer Centre in the US and recently expanded to six sites in Europe. It is planned to include 20 patients with metastatic melanoma, a patient population with a significant unmet medical need.

LTX-401 is a second-generation candidate drug; it is a small molecule and thus can be administered at higher doses than LTX-315 and used for the treatment of tumors seated deep in the body. The next step is to evaluate LTX-401 in a Phase I human clinical trial.

Product candidate	Description	Indication	Discovery	Preclinical	Phase I	Phase II	Phase III
LTX-315	**Atlas-IT-05** Pembrolizumab (Keytruda®)	Melanoma patients progressed on checkpoint inhibitors					
	Phase II by Verrica Pharmaceuticals (monotherapy)	Basal cell carcinoma					
	Atlas-IT-04 Adoptive Cell Therapy	Advanced soft tissue sacroma			COMPLETED		
LTX-401	Monotherapy	Liver cancer					
Undisclosed	Undisclosed	Not applicable					

A unique technology platform	Inspired by nature	*In situ* vaccination platform
	Based on the scientific concepts of naturally occuring host defense peptides, scientifically improved for cancer therapy.	Candidate drugs to be directly injected into solid tumors priming the immune system for potent activation.

3 *Source: IQVIA Research, 2023*

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).

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. LTX-315 was either given as monotherapy or in combination with a checkpoint inhibitor to patients with transdermal 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 anti-cancer 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 results were presented at ASCO in June 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. The non-clinical development is completed and the asset is currently being prepared for a Phase I clinical trial.

UNDISCLOSED

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 111m upon achievements of certain clinical, regulatory and sales milestones as well as tiered royalty payments in the double-digit teens.

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 first patient was recruited to the study and treated with LTX-315 in April 2022.

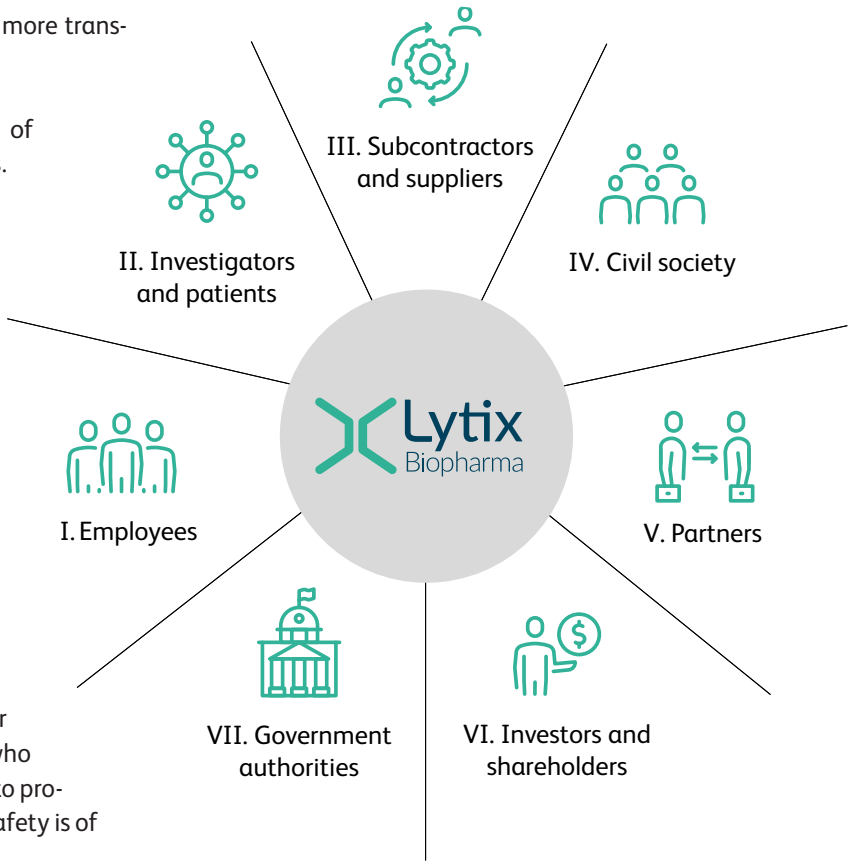
The American Cancer Society has estimated that about 5.4 million basal cell carcinoma (BCC) and squamous cell carcinomas (SCC) are diagnosed in the US annually. With about 80% of these skin cancers being BCC there is a significant potential for new treatment options.

Environment, social and corporate governance (ESG)

ESG reporting is the disclosure of environmental, social and corporate governance impacts. It enables Lytix to be more transparent about the risks and opportunities it faces.

This report covers sustainability topics that are of importance to Lytix and the company's stakeholders. The report includes stakeholder dialogues and materiality assessment undertaken in Q4 2022.

Lytix is in regular contact with stakeholder groups and strives for an active stakeholder dialogue. Consequently, the company will update the stakeholder dialogue and materiality assessment as applicable in future ESG reports.



LYTIX' STAKEHOLDERS

I. Employees: Lytix' employees are directly affected by the company's internal policies and activities, and directly affect the company through their performance and actions. We are proud of our employees who are at the core of our services and who shape our values-based culture. We are committed to providing a workplace where our people's health and safety is of paramount importance.

II. Investigators/Patients: Lytix' customers consist of oncologists, hospitals, clinics and the cancer patients they treat. Customers are directly affected by the quality and safety of Lytix' products, and we are committed to conducting our business in a way that best protects them. We aim to be a trusted partner through providing tailored information to all healthcare professionals and their patients, with compassion for each and every one of them.

III. Subcontractors/Suppliers: Managing supply chain risks, impacts, and capturing opportunities for sustainable value creation is complex. However, the fundamental steps are common across all companies and organizations: understanding, planning and implementing. Learning from outcomes is essential in order to deepen and broaden the value of a Supply Chain strategy. Suppliers directly affect the company through the quality and pricing of their products and services, and Lytix carefully considers whether or not to enter into contracts with every new supplier.

IV. Civil society: Local communities are indirectly socially, environmentally and economically affected by Lytix' activities in terms of job creation, contribution to local value creation and environmental impact. We want to have a positive impact on the communities in which we operate.

V. Partners: Lytix' partners are directly affected by Lytix' activities and the quality and safety of Lytix' products. Lytix is in return directly affected by the partners performance and actions.

VI. Investors/Shareholders: Lytix' investors and owners are primary stakeholders and directly affect the company's priorities and strategic direction. Lytix' economic and business performance may affect the priorities of investors and shareholders.

VII. Government authorities: Government and regulatory authorities affect the company's operating conditions directly and indirectly through laws and regulations.

While we continue to grow, adapt and improve to meet the challenges and embrace the opportunities that our stakeholders face, our values remain at the core of how we do business.

As our ESG program develops so too does our focus, away from a mostly compliance driven approach to one that is led by organizational strategy and stakeholder views.

LYTIX' MATERIALITY ASSESSMENT

The ESG materiality assessment is a tool used to identify and prioritize ESG issues that are the most critical to a company. The materiality assessment presented below is designed to identify and understand the relative importance of specific ESG topics to Lytix. This involves looking at a variety of factors from two different vantage points: importance to business success and importance to stakeholders.

Based on stakeholder input and priorities, as well as an assessment of the company's business impact, the materiality of each suggested ESG topic was considered.

The results are presented in the materiality matrix below, with topics considered material for Lytix in the upper right section.

Through the materiality assessment Lytix has identified ESG topics that are important to follow up on, based on business relevance and stakeholder interest. These ESG topics are presented in the list below:

Environment

1. **Environment and climate impact**
   - Climate change – Greenhouse gas emissions (GHG)
   - Natural capital – deforestation, biodiversity, water
   - Pollution and waste

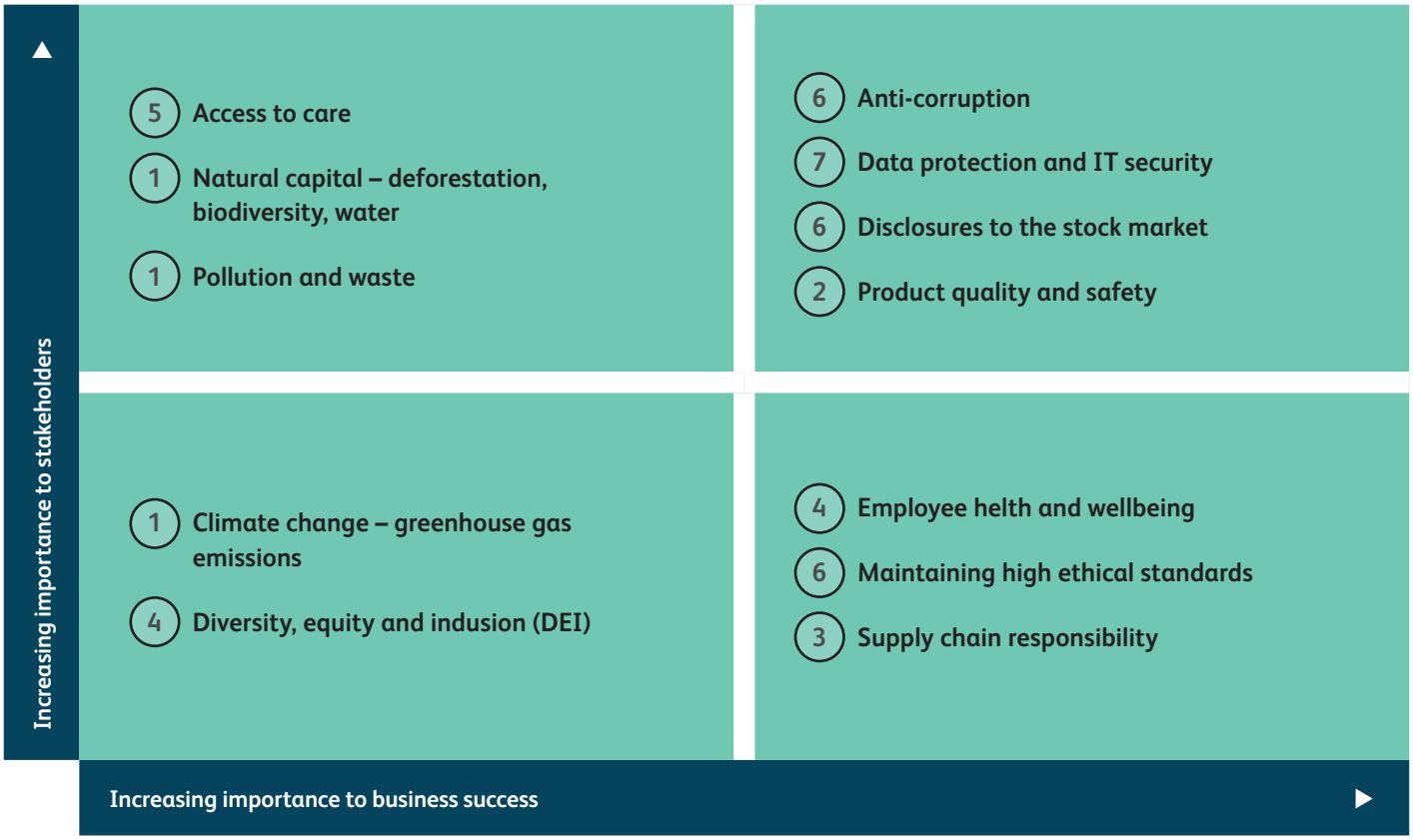
Social

2. **Product quality and safety**
3. **Supply chain responsibility**
4. **Human rights and human capital**
   - Employee health and wellbeing
   - Diversity and inclusion
5. **Access to care**

Governance

6. **Business ethics and transparency**
   - Anti-corruption
   - Maintaining high ethical standards
   - Disclosures to the stock market
7. **Data protection and IT security**

Materiality matrix:



ENVIRONMENT

Environment and climate impact

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

Product quality and safety

To guarantee the highest possible levels of health and safety for patients, Lytix is committed to guarantee product quality and safety throughout its supply chain.

During the research phase, specific clinical studies are carried out to ensure the efficacy and safety of the products and confirm the absence of any possible dangerous side effects. Furthermore, the results of these studies are assessed by regulatory bodies in Europe and in the US.

Within the supply chain, Lytix' suppliers are selected according to stringent criteria and are periodically audited to confirm compliance with the applicable quality and regulatory standards required.

All medicinal products are produced in accordance with Good Manufacturing Practices (GMPs). Lytix does not have its own production facilities, and therefore use third parties for production. All third-party production facilities used by Lytix are subject to periodic audits, verifying the existence of the necessary regulatory authorizations required and ascertaining that all manufacturing and control activities are conducted in compliance with the highest quality standards.

All personnel engaged in GxP, product quality and safety monitoring procedures receive training at least once a year on topics related to GxP. All personnel receive periodic updates on the various procedures, with particular reference to procedures regarding deviations, complaints and safety reporting.

Benefit to society – access to care

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 2022, the company had 13 employees (constituting 10.8 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 ensure 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 trading of shares listed 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.

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.

Supply chain responsibility

We see it as our ethical responsibility to ensure that the entire value chain relating to our products satisfies our requirements for sustainability and corporate social responsibility.

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 exercise 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, we encourage subcontractors and suppliers to confirm their compliance with the principles in the UN Global Compact.

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 contracted a Data Protective Officer (DPO) as set out in Articles 37 to 39 of the EU Data Protection Regulation (GDPR) to oversee 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 stan-

dards 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 the future. In 2022 we have as a first step, completed a materiality assessment based on stakeholder inclusiveness, with the goal of identifying the most prominent environmental, social and governance (ESG) matters for the company.

Going forward, Lytix further has the ambition to annually report and assess 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. 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.

The types 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 Biopharma's 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, with the potential to be the ideal combination partner with other types of immunotherapies. LTX-315 target cancer cells and disintegrate their cell membranes, causing immunogenic cell death and release of a patient's tumor specific antigens. This mode of action allows cytotoxic T-cells to recognize, infiltrate, and attack cancer cells.

The Company was listed on Euronext Growth in Oslo in June 2021, following a private placement covered by investors such as PBM Capital, an 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 Stephen Worsley as Chief Business Officer.

Lytix has its registered address in Oslo, Norway. The Company is a limited liability 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 authorization 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 commercialization 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 continued 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 authorization, and may influence future sales if marketing authorization 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 planned activities, in the next twelve months as of December 31, 2022. 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

No material events occurred between the balance sheet date and the date when the accounts were presented providing new information about conditions prevailing on the balance sheet date.

SHARE INFORMATION

As of December 31, 2022, there were 40,068,319 ordinary shares outstanding, up from 38,739,013 shares at year end 2021, following exercise of warrants.

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

The company had more than 750 shareholders on December 31, 2022.

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 board members are independent of the Company's executive personnel and material business at year-end. Gert W. Munthe controls a significant number of shares in the company through North Murray AS. 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 10 board meetings during the fiscal year 2022.

OUTLOOK

Lytix remains well positioned to advance and develop its clinical trial assets and technology platform. In the period, Lytix received regulatory approval to set up additional test sites in Europe to support its ongoing Phase II trial evaluating LTX-315 in patients with advanced solid tumors. Six sites have opened across Norway, France and Spain and recruitment is expected to be completed by by mid-2023. Lytix is also working to initiate a Phase I trial with its second-generation molecule for deep-seated cancer lesions, LTX-401. The company looks forward to the progression of Verrica's Phase II study in basal cell carcinoma. It is anticipated that Verrica will begin Part 2 of the study in the second quarter of 2023. This part will further explore dosing regimens to allow Verrica to identify the recommended dose for Part 3 of the study, which is expected to start in the second half of 2023. Financially, the company has a sufficient cash runway that will see it through 2023 and into 2024 as it continues to regularly assess the financial position to ensure that it has the necessary funds to support new and future activities.

Oslo, March 29, 2023
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*	**2022**	2021
Revenue	*1, 3*	**1,409**	17
Other operating income	*2, 3, 4*	**15,864**	25,810
Total operating income		**17,273**	25,827
Payroll and related expenses	*5, 6*	**(21,133)**	(31,605)
Depreciation and amortization expenses	*7*	**(30)**	-
Direct R&D expenses		**(50,974)**	(28,817)
Other expenses	*8, 9, 10*	**(10,832)**	(13,421)
Total operating expenses		**(82,968)**	(73,844)
Loss from operations		**(65,695)**	(48,017)
Financial expenses	*11*	**(11,213)**	(424)
Financial income	*11*	**20,902**	392
Net financial items		**9,689**	(32)
Loss before tax		**(56,006)**	(48,049)
Tax expense	*12*	**-**	-
Loss for the period		**(56,006)**	(48,049)

Statement of financial position

Amounts in NOK thousands	*Notes*	**31.12.2022**	31.12.2021
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**124**	-
Total non-current assets		**124**	-
Current Assets			
Trade and other receivables	*13*	**6,735**	5,680
Short-term financial investments	*14*	**50,606**	-
Cash and cash equivalents	*15*	**94,552**	197,282
Total current assets		**151,893**	202,962
Total assets		**152,017**	202,962
Shareholder's equity and liabilities			
Issued capital and reserves			
Share capital	*16*	**4,007**	3,874
Share premium reserve	*16*	**131,119**	185,750
Total equity		**135,126**	189,624
Liabilities			
Current liabilities			
Trade payables	*17*	**6,997**	1,476
Other current liabilities	*17*	**9,894**	11,862
Total current liabilities		**16,891**	13,338
Total liabilities		**16,891**	13,338
Total equity and liabilities		**152,017**	202,962

Oslo, March 29, 2023
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*	**2022**	2021
Cash flows from operating activities			
Loss for the period		**(56,006)**	(48,049)
Adjustments for:			
Depreciation and amortization expenses	*8*	**30**	
Share-based payment expense	*17*	**1,376**	4,055
Increased/decreased in trade and other receivables	*12*	**(1,055)**	(1,513)
Increased/decreased in trade and other payables	*14*	**3,553**	610
Cash generated from operations		**(52,102)**	(44,896)
Income tax paid		**-**	-
Net cash flows from operations		**(52,102)**	(44,896)
Investing activities			
Investments in tangible assets	*8*	**(154)**	-
Interest received		**-**	-
Increase/decrease in other investments		**(50,606)**	-
Net cash from/(used) in investing activities		**(50,761)**	-
Financing activities			
Proceeds from share issue	*15*	**133**	213,728
Net cash from/(used in) financing activities		**133**	213,728
Net increase in cash and cash equivalents		**(102,730)**	168,832
Cash and cash equivalents at the beginning of the period		**197,282**	28,450
Cash and cash equivalents at the end of the period	*13*	**94,552**	197,282

Notes to the financial statements

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

These financial statements were approved for issue by the Board of Directors on March 29, 2023.

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 on the retranslation of unsettled monetary assets and liabilities are recognized immediately in profit or loss.

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

Property, plant and equipment
Items of property, plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs. The corresponding liability is recognized within provisions. Property, plant and equipment are depreciated on a straight-line basis over the expected useful life of the asset. If significant individual parts of the assets have different useful lives, they are recognized and depreciated separately. Depreciation commences when the assets are ready for their intended use. The estimated useful lives of the assets are as follows:

- Office equipment 3 years
- Furniture and fittings 3 years

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 has been demonstrated:

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

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

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 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 planned activities, in the next twelve months as of December 31, 2022. 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	**2022**	2021
Revenue	**1,409**	-
Other income	**-**	17
Total revenue	**1,409**	**17**

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	**2022**	2021
Other operating Income		
Government grants recognized in profit and loss	**6,242**	6,332
Other	**9,622**	19,478
Other operating Income	**15,864**	25,810

The second development milestone related to the licensing agreement with Verrica Pharmaceuticals was triggered in April 2022 when the first patient was dosed in Verrica's phase II study. This achievement released a milestone payment of USD 1.0 million to Lytix.

NOTE 3 GEOGRAPHICAL DISTRIBUTION INCOME

Amounts in NOK thousands	**2022**	2021
Geographical distribution		
Norway	**6,242**	6,537
US	**11,031**	19,290
Total operating income	**17,273**	25,827

NOTE 4 GOVERNMENT GRANTS

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

Amounts in NOK thousands	**2022**	2021
Government grants		
Tax refund (across all R&D activities)	**4,742**	4,069
The Norwegian Research Council (BIA grant)	**-**	2,263
Oslo Regional Research Fund (RFF grant)	**1,500**	-
Other operating Income	**6,242**	6,332

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.

In February 2022 Lytix announced that it has been awarded a NOK 3 million grant from Oslo Regional Research Fund (Regionalt Forskningsfond Oslo) for 2022 and 2023 supporting the development of the oncolytic molecule LTX-401.

NOTE 5 PAYROLL AND RELATED EXPENSES

Amounts in NOK thousands	**2022**	2021
Payroll and related expenses, including directors, comprise		
Salaries and bonus	15,814	24,381
Defined contribution pension const	820	789
Share-based payment expense	1,376	4,055
Social security contributions	1,597	1,864
Other personnel costs	1,526	517
Total payroll and related expenses	21,133	31,605

The number of man-years employed during the year:

	2022	2021
Number of man-years employed	**8.5**	8.3

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 fulfils 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 achievement of corporate objectives determined by the Board.

Management remuneration 2022

Amounts in NOK thousands	Salary	Board remuneration	Pension cost	Share-based payments	Other remuneration	**Total**
Management team:						
Øystein Rekdal, CEO[1]	3,970	-	130	250	9	**4,359**
Directors (non-executive):						
Gert W. Munthe, Chairperson	-	360	-	-	-	**360**
Marie-Louise Fjällskog, member	-	240	-	-	-	**240**
Brynjar Forbergskog, member	-	240	-	-	-	**240**
Kjetil Hestdal, member	-	240	-	-	-	**240**
Jayson Rieger, member	-	240	-	-	-	**240**
Evelina Vågesjö, member	-	240	-	-	-	**240**

1) Salary in this table include both fixed salary and bonus. Øystein Rekdal's fixed salary is NOK 3,1 million. 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.

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, member	-	-	-	-	-	**-**
Brynjar Forbergskog, member	-	-	-	-	-	**-**
Kjetil Hestdal, member	-	-	-	-	-	**-**
Jayson Rieger, member	-	-	-	-	-	**-**
Evalina Vågesjö, member	-	-	-	-	-	**-**
Debasish F. Roychowdhury, former member	-	200	-	-	-	**200**
Per Erik Sørensen, former member	-	200	-	-	-	**200**

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) 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.

No loans or guarantees have been given to any members of the management, the Board of Directors, or other corporate bodies. Besides the stock option programs and the fee paid to North Murray AS described above, no additional remuneration has been given for services outside the normal functions as a manager or non-executive director besides what is stated above.

Benefits upon termination
The CEO has a notice period of 6 months. If the employment is terminated by the Company, the CEO shall receive a severance pay equivalent to 100% of his ordinary fixed salary for 6 months after the expiry of the notice period.

Amounts in NOK thousands	**2022**	2021
Shares controlled by the management team and board of directors		
Management team:		
Øystein Rekdal, CEO	**139,963**	126,963
Gjest Breistein, CFO	**11,112**	11,112
Baldur Sveinbjørnsson, CSO	**4,280**	4,280
Gry Stensrud, CTO	**5,000**	5,000
Former member of management team:		
Jørund Sollid, ex CBO (through Partner & Sollid AS)	**-**	2,000
Board members (non-executive):		
Gert W. Munthe, Chairperson (through North Murray AS)	**2,968,878**	2,810,359
Brynjar Forbergskog (through Hifo Invest AS and Saturn Invest AS)	**1,111,110**	1,111,110
No. of shares controlled by the management team and board members	**4,240,343**	4,070,824

Options held by the management team 2022

	Opening balance	Granted	Lapsed/ forfeited	**Ending balance**
Gert W. Munthe, Chairperson	300,000	-	-	**300,000**
Øystein Rekdal, CEO	983,516	420,000	-	**1,403,516**
Baldur Sveinbjørnsson, CSO	393,407	100,000	-	**493,407**
Gjest Breistein, CFO	262,271	67,000	-	**329,271**
Jørund Sollid, CBO	196,703	-	(196,703)	**-**
Gry Stensrud, CTO	196,703	67,000	-	**263,703**
Stephen Worsley, CBO	0	300,000	-	**300,000**
Graeme Currie, CDO	-	50,000	-	**50,000**
Total	2,332,600	1,004,000	(196,703)	**3,139,897**

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**
Total	2,135,897	196,703	-	**2,332,600**

As of December 31, 2022, the company operates one equity-settled share-based remuneration scheme for employees. See note 15.

NOTE 6 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	Chair-person	Strategic advisors (1)	Strategic advisors (2)	**Sum**
Expiration	01.05.2025	01.05.2025	12.06.2024	06.06.2025	
No of options in program	4,006,832	600,000	467,220	125,119	**5,199,171**
No of options allocated to employees, management, chairpersons, and advisors	3,226,621	600,000	467,220	125,119	**4,418,940**
Remaining options (can be allocated to individuals)	780,231	0	0	0	**780,231**

Incentive Program E: Option program for employees, management, the Board and other key personnel
In 2019 the annual general meeting established the incentive program E. The purpose of establishing this option program was to provide the employees, management, the board and other key persons with a better incentive than through the existing incentive programs, and which is better adapted to the company's financial position and the commercial considerations more broadly. This program replaced the existing programs at the time.

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.

On December 14, 2022, the Board resolved to grant 1,194,000 share options under incentive program E. The options are granted without

consideration and each option will upon exercise give the right to acquire one share in the company. The exercise price of each option is NOK 8.50, which equals to the closing share price of the company on Euronext Growth Oslo, the day prior to grant of the options. Vesting of options is subject to the option holder being qualified to be part of the Company's long term incentive program at each vesting date. All options will expire and lapse if not exercised within five years from the date of grant.

The options will vest gradually pursuant to specific vesting schedules:

- 13,000 options will vest on the date of grant and 37,000 Options will vest with 1/36 on the last day of the 36 following months.
- 40,000 options will vest on 31 January 2023 and 120,000 Options will vest with 1/36 on the last day of the 36 following months.
- 246,500 options will vest 12 months after the date of grant, while the remaining 737,500 Options will vest with 1/36 on the last day of the 36 following months.

As of December 31, 2022, a total of 3,226,621 share options were allotted to certain specific individuals through share option agreements. A total of 1,259,681 of the options granted is subject to a vesting period. The expiry date for program E is May 1, 2025.
Incentive Program Chairman

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)
On June 12, 2019, the Board of Directors of the Company decided to implement a share option program of 467,220 share options ("Incentive Program Strategic advisors") to certain strategic advisors. The expiry date for program Strategic advisors is June 12, 2024. The options are subject to quarterly vesting over two years. A total of 58,403 options in program Strategic advisors (1) vested during 2021.

Incentive Program Strategic advisors (2)
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		Chairperson		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 as of 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 as of 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
Outstanding as of January 1, 2022	12.0	2,229,304	12.0	600,000	12.0	467,220
Granted during the period	8.50	1,194,000				
Forfeited during the period	12.0	(196,703)				
Exercised during the period						
Lapsed during the period						
Outstanding as of December 31, 2022	10.70	3,226,601	12.0	600,000	12.0	467,220
Outstanding options vested by December 31, 2022		1,966,920		600,000		467,220

	Strategic advisors (2)	
	Weighted average exercise price	Number of options
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
Outstanding on January 1, 2022	18.0	125,119
Granted during the period		
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, 2022		109,479

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	Program E	Chairperson	Strategic advisors (1)	Strategic advisors (2)
Option pricing model used	Black & Scholes	Black & Scholes	Black & Scholes	Black & Scholes	Black & Scholes
Weighted average share price at grant date (NOK)	12.0	8.50	12.0	12.0	18.0
Exercise price (NOK)	12.0	8.50	12.0	12.0	18.0
Expected volatility	57.4%	66.3%	58.4%	58.4%	57.4%
Expected dividend growth rate	0	0	0	0	0
Risk-free interest rate	0.31%	2.73%	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	**2022**	2021
Equity settled schemes	**1,376**	4,055
Total remuneration expense	**1,376**	4,055

NOTE 7 PROPERTY, PLANT, AND EQUIPMENT

Amounts in NOK thousands	Machinery and equipment	**Total 2022**	Machinery and equipment	Total 2021
Carrying amount January 1	-	**-**	-	-
Additions	154	**154**	-	-
Depreciation	(30)	**(30)**	-	-
Carrying value December 31	124	**124**	-	**-**
As of January 1				
Acquisition cost	-	**-**	-	**-**
Accumulated depreciation and write-downs	-	**-**	-	**-**
Carrying amount January 1	-	**-**	-	**-**
As of December 31				
Acquisition cost	154	**154**	-	-
Accumulated depreciation and write-downs	(30)	**(30)**	-	-
Carrying amount December 31	124	**124**	-	-
Economic life (years)	3			
Depreciation plan	Straight-line method			

NOTE 8 TRANSACTIONS WITH RELATED PARTIES

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

Amounts in NOK thousands	**2022**	2021
North Murray AS (Gert W. Munthe)	**-**	150

Transactions with related parties consist of invoiced fee for consultancy services.

NOTE 9 SPECIFICATION OF AUDITOR'S FEE

Amounts in NOK thousands	**2022**	2021
Specification of the auditor's fee		
Statutory audit	**279**	328
Other non-assurance services	**-**	35
Tax consultant services	**36**	55
Total auditor's fee	**315**	418

VAT is not included in the fees specified above.

NOTE 10 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	**2022**	2021
Operating leases		
Ordinary lease payments	**1,006**	1,209
Total operating leases	**1,006**	1,209

NOTE 11 FINANCE INCOME AND EXPENSES

Amounts in NOK thousands	**2022**	2021
Financial income		
Interest income	**1,406**	138
Foreign exchange gains	**18,790**	248
Other financial income	**706**	6
Total financial income	**20,902**	392

Amounts in NOK thousands	**2022**	2021
Financial expenses		
Interest expenses	**55**	3
Foreign exchange losses	**11,067**	420
Other financial expenses	**91**	0
Total financial expenses	**11,213**	424

NOTE 12 TAX

Amounts in NOK thousands	**2022**	2021
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	**2022**	2021
Pre-tax profit	**(56,006)**	(48,049)
Income taxes at 22%	**(12,321)**	(10,571)
Changes in unrecognized deferred tax asset	**13,198**	13,360
Change in tax rate	**-**	-
Non-deductible expenses	**(877)**	(2,789)
Tax expense	-	-

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

	Balance sheet		Change	
Amounts in NOK thousands	**2022**	2021	**2022**	2021
Deferred tax assets				
Property, plant and equipment	**17**	21	**(4)**	(5)
Net tax on losses carried forward	**174,386**	161,184	**13,202**	13,365
Deferred tax assets	**174,403**	161,205	**13,198**	13,360
Net deferred tax assets	**174,403**	161,205	**13,198**	13,360
Net deferred tax assets not recognized	**(174,403)**	(161,205)	**(13,198)**	(13,360)
Net recognized deferred tax assets	**-**	-	**-**	-

Deferred tax assets on losses carried forward, in total NOK 174 million as of December 31, 2022 (2021: NOK 161 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 793 million as of December 31, 2022 (2021: NOK 733 million) which has no due date.

NOTE 13 TRADE AND OTHER RECEIVABLES

Amounts in NOK thousands	**31.12.2022**	31.12.2021
Trade and other receivables		
Trade receivables	**-**	-
Governmental grants	**5,500**	4,824
VAT	**498**	309
Prepayments	**737**	548
Other receivables		-
Total trade and other receivables	**6,735**	5,680

NOTE 14 SHORT TERM FINANCIAL INVESTMENT

Amounts in NOK thousands	**31.12.2022**	31.12.2021
Short-term financial investments		
Arctic Return	**50,606**	-
Total Short-term financial investments	**50,606**	-

In accordance with our internal policies, NOK 50 million in excess liquidity was placed in a liquidity fund managed by Arctic Asset Management AS.

NOTE 15 CASH AND CASH EQUIVALENTS

Amounts in NOK thousands	**31.12.2022**	31.12.2021
Cash and cash equivalents		
Employee withholding tax	**1,373**	1,411
Variable rate bank accounts	**93,179**	195,871
Total cash and cash equivalents	**94,552**	197,282

NOTE 16 EQUITY AND SHARE CAPITAL

Amounts in NOK thousands	Share capital	Share premium reserve	**Total equity**
Balance on January 1, 2022	3,874	185,750	**189,624**
Income for the period			
Loss for the period	-	(56,006)	**(56,006)**
Total income for the period	-	(56,006)	**(56,006)**
Registration of share issue April 20, 2022	133	-	**133**
Share based payment	-	1,376	**1,376**
Total contributions by and distributions to owners	133	1,376	**1,509**
Balance on December 31, 2022	4,007	131,119	**135,126**

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 June 10, 2021	323	57,891	**58,214**
Registration of share issue June 11, 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**

NOTE 17 CURRENT LIABILITIES

Amounts in NOK thousands	**31.12.2022**	31.12.2021
Current liabilities		
Accounts payable	**6,997**	1,476
Accrual for annual leave	**1,723**	1,421
Other accruals	**389**	2,351
Tax and social security payments	**950**	2,026
Other payables	**6,832**	6,064
Total current liabilities	**16,891**	13,338

NOTE 18 EVENTS AFTER THE REPORT DATE

No material events occurred between the balance sheet date and the date when the accounts were presented providing new information about conditions prevailing on the balance sheet date.

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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 2022, 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 2022 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 the general manager) 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, 29 March 2023
ERNST & YOUNG AS

The auditor's report is signed electronically

Kai Astor Frøseth
State Authorised Public Accountant (Norway)

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Kai Astor Frøseth
Oppdragsansvarlig partner
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