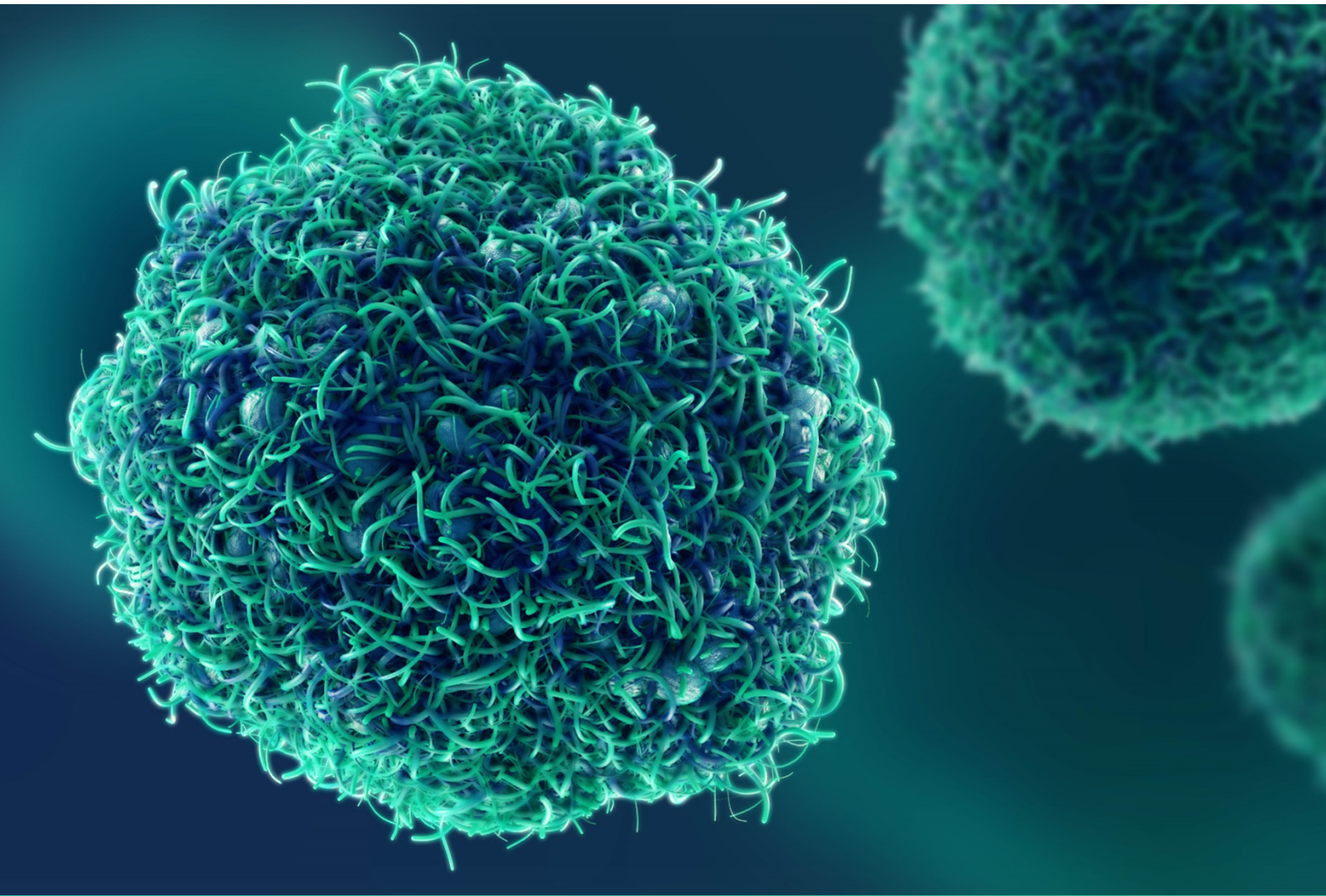
Lytix Biopharma

Turning cold tumors hot



Annual Report 2017

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LYTIX BIOPHARMA IN BRIEF

Lytix Biopharma is a clinical stage pharmaceutical company developing novel cancer immunotherapies, an area within cancer therapy that is aimed at activating the patient's immune system to fight cancer.

Immunotherapy activates the body's own immune system to recognize and kill the cancer cells in the body. Immunotherapy represents a paradigm shift in cancer therapy, and patients with advanced and metastatic disease and no remaining treatment alternatives have been cured. However, despite the clinical success, many patients remain non-responders. The main challenges in cancer immunotherapy are the heterogeneity in the tumor and the cold[1] immune suppressed tumors.

The basic function of the immune system is to protect the body against foreign threats like micro-organisms such as bacteria and viruses, and also cancer cells. There are two main reasons why the immune system does not attack the cancer: either the cancer cells are too similar to normal cells (low mutational load) or the cancer cells develop mechanisms to suppress the immune system.

Lytix' lead product candidate, LTX-315, is a first-in-class oncolytic peptide that induces a rapid release of the patients' unique antigens and creates a broad and personal immune response. This leads to a reshaping of the tumor microenvironment and turning cold tumors hot. As such, LTX-315 triggers the immune system to recognize, infiltrate and attack the cancer cells.

The Company believes that LTX-315 can be the missing link in treatment of solid tumors, addressing the heterogeneity in the tumor and creating a polyclonal T cell response and that LTX-315 could be the backbone in combination treatment of majority of solid tumors.

Lytix' technology platform is based on chemically optimized molecules generated from ''host defense peptides" and consists of peptides and small molecules that are able to kill cancer cells in such a way that the immune system become activated (immunogenic cell death). The technology is developed over 25 years of world class research. LTX-315 is designed for treatment of superficial solid tumors (melanoma, breast cancer, sarcoma, head and neck, etc.). Lytix' pipeline also includes molecules that could be used for treatment of deep-seated tumors with a high unmet need and a high market potential (e.g. liver cancer).

HIGHLIGHTS IN 2017

Clinical

- Completed recruitment in the metastatic triple-negative breast cancer (TNBC) arm where LTX-315 was combined with pembrolizumab (KEYTRUDA®). The combination showed to be safe to administer.
    - Interim analysis in 13 evaluable patients showed an objective partial response in 2 patients and stable disease in 3 patients after eight weeks.
- Recruitment in two of three cohorts in LTX-315 monotherapy (8 patients) and the first cohort of patients with metastatic malignant melanoma treated with LTX-315 and ipilimumab (YERVOY®) were completed.
    - Interim analysis showed stable disease in 2 of 8 patients after eight weeks in monotherapy.
    - Interim analysis in the combination arm with ipilimumab showed stable disease in 2 of 4 patients, on lasting for after 52 weeks. No safety issues has been discovered.
- Nanostring analysis shows that LTX-315 monotherapy upregulates key genes involved in the immune-mediated tumor regression in patients.

- Immune monitoring results indicate that LTX-315 is able to trigger a broad polyclonal de-novo anti-tumor T cell response in patients.

Pipeline

- The second-generation oncolytic molecule, LTX-401, has shown promising preclinical results and will be further investigated to target liver tumors, opening up additional new cancer indications and potential markets.

Financing

- Lytix Biopharma raised a total of NOK 80 million in the Pre-IPO issue and the following repair issue. Among the new investors, was The Norwegian Cancer Society that bought shares for NOK 6 million in Lytix Biopharma.
- The Company was granted NOK 16 million from The Research Council of Norway (BIA, Brukerstyrt Innovasjons-arena) and was awarded a fund of EUR 60 thousand from PERMIDES for a joint project with Oncoimmunity in identification of neoantigens.
- In April 2018, the Company raised a total of NOK 51.8 million in a private placement.

Collaborations

- Established collaboration with Mikael Pittet, Harvard Medical School, US, to explore LTX-315`s ability to enhance T cell infiltration in conditional genetic mouse melanomas and sarcomas that are poorly infiltrated by T cells and typically resist prescribed chemo- and immunotherapeutic treatments.
- Established collaboration with Berta Brodin, Karolinska Institutet, Sweden to explore effects of LTX-315 in combination with chemotherapy in transgenic mouse sarcoma models

Conferences and publications

- Lytix Biopharma has presented posters at several conferences this year, among them AACR in Washington, and at ASCO with a poster presenting clinical monotherapy data from the Phase I/II trial with LTX-315.
- Lytix Biopharma was featured in Mergermarket article, immunotherapeutic effects of LTX-315 was published in Future Medicinal Chemistry and abscopal effect (regression of non-injected lesions) in sarcoma model was published in OncoImmunology.

Management

In February 2017 Torbjørn Furuseth was hired as new CFO in Lytix Biopharma, and in August Gjest Breistein joined as Business Controller. Edwin Klumper joined the Board of Directors in August and was appointed as CEO in September.

DIRECTORS' REPORT FOR 2017

2017 was an important year for Lytix Biopharma AS ("Lytix" or the "Company") The Company ran a large combination trial with LTX-315 and immune checkpoint inhibitors, and had planned to do a listing of the Company at Nasdaq First North Premier in Stockholm during 2017. However, the listing had to be pulled for various reasons including unfavorable equity market conditions. When it was clear that the listing had to be cancelled in Q1 2018, the Company was in an acute need for capital. The Company, has firm backing from several of its largest shareholders, which stepped in with the necessary financing to keep the Company on course.

At the extraordinary general meeting held April 24, 2018, a private placement of NOK 51.8 million was approved. All shareholders who had participated in the IPO guarantee was invited. The investors who participated in the private placement have committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue. This share issue will be conducted at a later stage.

Lytix going forward

The financing in April 2018 secured the operations of the Company throughout 2018. To ensure a continued development of the Company's assets, the Company need more capital. The Company plans a share issue directed towards all existing shareholders, and towards the end of 2018 a private placement directed towards external investors. The Company's objective is to revisit the IPO track, when the short and medium term funding is secured, the Company has implemented necessary progress and when the IPO window is open and attractive.

The IO market is the most attractive market in the pharmaceutical industry and is anticipated to grow to over 50 billion USD in the next 8 - 10 years. With current plans going forward Lytix intends to position LTX-315 as a missing link for leading commercial drugs by turning cold tumors hot and increase the market potential.

Current drugs on the market (the so-called immune checkpoint inhibitors) dominate the IO market generating more than 10 billion USD annual sales in 2017. However, these drugs only work well in the minority of cancer patients who have 'hot' tumors: the immune system is already turned 'on' to fight cancer. In reality, most patients have 'cold' tumors: the immune system is not activated as it fails to recognize the patient specific cancer cells. The undisputed action of LTX-315 is to 'turn cold tumors hot' with a success rate of up to 90% in injected tumors.

Currently the market is moving in Lytix' favor where intratumoral treatment (injection directly into the tumor like our lead drug LTX-315) is being recognized as a critical step to improve cancer patient outcomes. The intratumoral marketspace is anticipated to grow significantly the future immune-oncology (IO) market, and the European Society of Medical Oncology (ESMO), Europe's leading medical oncology society, organized a consensus meeting in March 2018 to write guidelines on intratumoral treatment. Lytix was invited in this closed meeting with leading key opinion leaders and pharmaceutical companies.

The plan going forward is to risk diversify Lytix' strategy by running smarter and smaller clinical trials testing different combinations in different cold tumor types and pick the winning combination(s) with the best patient outcomes. Lytix is well connected to the global leading scientists and clinicians to help design such smart studies. When having such data, Lytix intends to go public and raise large investments for development towards commercialization.

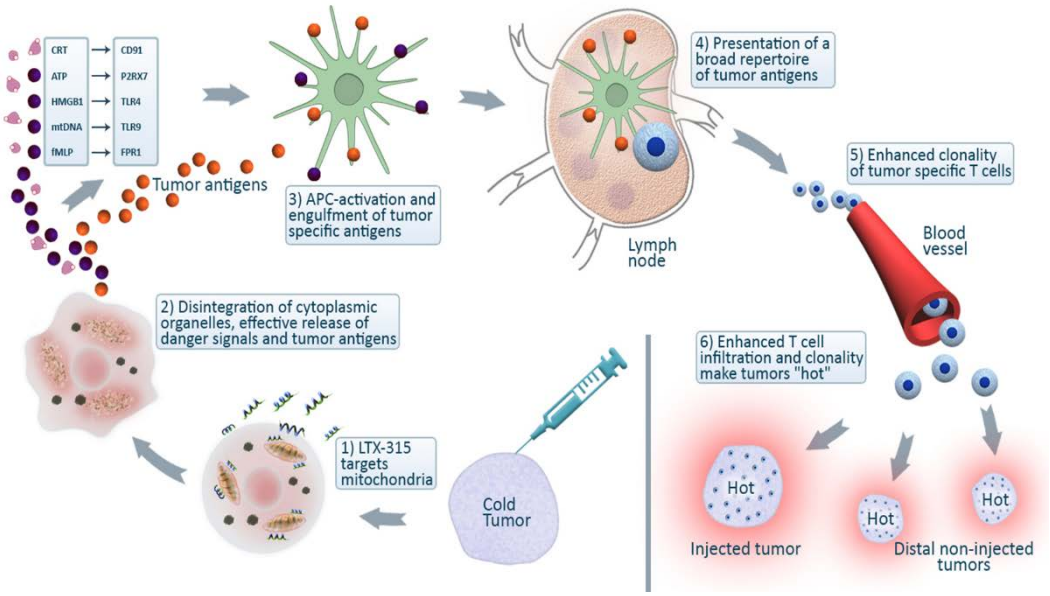
OPERATIONAL REVIEW

The majority of Lytix' operations are focused on the Company's lead clinical candidate LTX-315, which is a first-in-class oncolytic peptide that is developed for intratumoral treatment, meaning that it is administered by injecting it directly into the tumor. LTX-315 lyses cancer cells in a unique way by targeting mitochondria and intracellular organelles and lysing the membranes. This results in a rapid and powerful immunogenic cell death with release of the heterogenic antigen repertoire in the tumor. This induces a cascade in the immune system where specialized antigen presenting cells recognize tumor antigens and prime T cells, resulting in polyclonal T cells that infiltrate the tumor and attack the cancer cells. In this way LTX-315 creates a broad and personal immune response, opening up for a variety of combination treatments including the marketed checkpoint inhibitors.

Mode of action

LTX-315 is injected locally into a specific tumor. The local treatment with LTX-315 results in a systemic anticancer response. One of the main advantages of local therapy is that systemic side effects are much less likely to occur compared to systemic treatments, i.e. by intravenous or oral administration.

The unique membranolytic mode of action of LTX-315 (see figure below) leads to the release of potent immune stimulants and the patient's personal tumor antigens. These potent immunostimulants recruit and activate specialized antigen presenting cells that subsequently present the tumor antigens to T cells, and this reaction ensures a personal immune response. The antigen presentation results in activation of T cells that enter into circulation and infiltrate the tumor sites.



Mode of action: (1) Following local administration of the tumor with LTX-315, the oncolytic peptide is internalized and targets the mitochondria. (2) This event is followed by disintegration of other intracellular compartments resulting in release of danger signals and tumor antigens. (3) The danger signals activate different types of immune cells including antigen presenting cells (APC activation). The activated antigen specific cells engulf the released tumor antigens (4) and migrate to the lymph node for antigen presentation for T cells. (5) Since a number of tumor antigens are released, a diversity of T cell clones recognizing different tumor antigens will be generated. (6) The different T cell clones will then migrate into circulation and infiltrate tumors, making the tumor microenvironment T cell inflamed (hot).

Clinical development program

The lead candidate LTX-315 has undergone a comprehensive preclinical development and is in the clinical phase I/II for several indications. The drug candidate has demonstrated a vast potential as a combination product through its unique ability to convert cold tumors hot.

Clinical programs and updates

The clinical development program for LTX-315 is currently near to complete phase I/II. Two clinical trials of LTX-315 have been conducted to date. The first one included 14 patients in a phase I clinical trial with LTX-315 monotherapy. The second phase I/II trial was divided into a Part A and Part B. The Part A included 28 patients with LTX-315 monotherapy and has been completed. These results were presented at ASCO[1] Annual Meeting in June 2017.

Through 2017, patients have been recruited into three clinical arms in Part B of the trial; all solid tumors (monotherapy), malignant melanoma (combination with ipilimumab) and triple negative breast cancer (combination with pembrolizumab). The trial is being conducted in 13 hospitals in five European countries: Norway, U.K., France, Italy and Belgium. Overall, with the ongoing phase I/II trial, 59 patients have been treated with LTX-315; 36 patients in monotherapy and 23 patients treated in combination with checkpoint inhibitors. Enrollment was completed in the second quarter of 2018.

The primary objective for the phase I/II trial is to assess the safety and tolerability of multiple, intratumoral doses of LTX-315 as monotherapy or in combination with checkpoint inhibitors. The secondary objectives are to evaluate the immune effects of LTX-315 and the overall systemic tumor response by CT scan.

LTX-315 Monotherapy

During the period, the arm with multi-lesion injections of LTX-315 monotherapy in various solid tumors has progressed well concerning recruitment. All patients have advanced cancer with tumors located in multiple sites in different organs in the body. A significant increase in the number of immune cells needed to attack the tumor has been confirmed in monotherapy in 88 percent of patients (15 of 17 patients) where the biopsy of an LTX-315 injected tumor was compared with a biopsy of that same tumor before it was injected. As of February 8, 2018, 8 patients were enrolled and 2 out of 6 patients demonstrated stable disease as best response.

The heterogeneity in tumors is one of the major challenges in treatment of solid tumors. LTX-315 addresses this by exposing the tumor antigens and triggering a polyclonal T cell response. T cell clonality in peripheral blood has been analyzed in a subset of the patients and revealed significant clonal expansion of T cells (26-126 T cell clones) in blood in 5 out of 7 patient after LTX-315 monotherapy. About 50 % of the expanding T cell clones found in blood was also detected in the tumor post LTX-315 treatment, demonstrating that LTX-315 triggers a polyclonal de-novo anti-tumor T cell response. Also, expansion of T cell clones in the tumor is promising for LTX-315's role in treatment of solid tumors.

LTX-315 Combined with Checkpoint Inhibitors

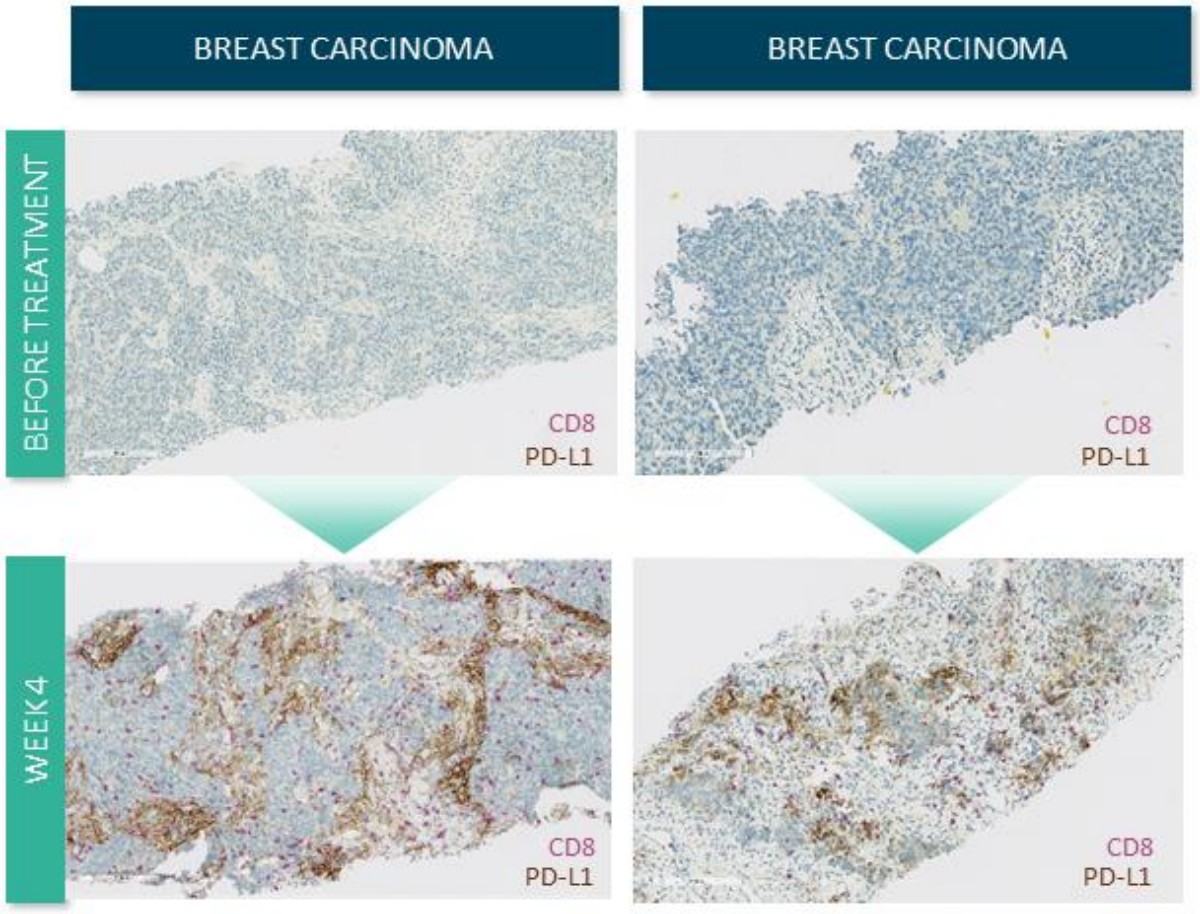
The two arms combining LTX-315 with immune checkpoint inhibitors constitutes of one arm in second to fifth line advanced/metastatic pre-treated triple-negative breast cancer in combination with pembrolizumab (Keytruda®), and one arm in advanced/metastatic malignant melanoma that have progressed on anti-PD1 treatment (Keytruda® or Opdivo®) combined with ipilimumab (Yervoy®).

In the triple-negative breast cancer arm 2 out of 12 evaluable patients (as of February 8, 2018) treated with LTX-315 + pembrolizumab have achieved a partial remission (PR) by CT scan showing reduction in tumor size by 50 percent or more. All patients have received at least one prior treatment

[1] American Society of Clinical Oncology

(most commonly chemotherapy) and progressed. In the Keynote-086 trial with pembrolizumab monotherapy in second line or later (Cohort A) the response rate were reported to be 1 out of 20 patients. The number of patients in the LTX-315 combination trial are small, however, the data demonstrate signs of increased efficacy.

A subset of the patient biopsies were analyzed for immune response. 4 out of 5 evaluable TNBC patients (80 percent) show increased infiltration of CD8+ T cells in treated lesion post treatment. Concomitant induction of PD-L1 expression on tumor cells was observed in 3 of the patients, potentially improving the susceptibility to anti-PD-1 therapy.



Infiltration of CD8+ T cells: These biopsy images of tumors injected with LTX-315 show an increase in T cells in the tumors (increase in number and distribution of dark shaded areas) after three weeks of LTX-315 treatment in week four compared to baseline (LTX-315 naive tumor).

In the malignant melanoma arm 2 out of 4 evaluable patients treated to date has achieved stable disease by CT scan showing the tumor is neither growing nor shrinking significantly. 1 of the stable diseases was durable and lasting for 39 weeks.

The safety profile in the patients treated with LTX-315 in combination with a checkpoint inhibitor is acceptable and similar to treatment with checkpoint inhibitors alone.

In summary, data so far demonstrate that LTX-315 has a large potential to trigger a personal and polyclonal immune response addressing the heterogeneity of the tumor. Due to these effects and its unique ability to ensure infiltration of CD8+ T cells and convert cold tumors hot, LTX-315 may play an important role of combination therapies of solid tumors.

Pre-clinical development program

Lytix is collaborating with Oslo University Hospital and Karolinska Institutet exploring the effect of combining LTX-315 in combination with chemotherapy in clinically relevant cancer models. The Company is also collaborating with Mikael Pittet at Harvard to explore how LTX-315`s is able to convert cold (non-T cell inflamed) to hot (T cell inflamed tumors) with state of the art technologies.

In collaboration with Sandra Demaria at Cornell University we are investigating the effect of combining LTX-315 with local radiotherapy. In collaboration with Guido Kroemer and Laurence Zitvogel we are investigating the mode of action of both LTX-315 and our second generation oncolytic compounds

LTX-315's ability to generate tumor specific T cells and enhance the number of tumor infiltrating T cells both in number and diversity makes LTX-315 ideal as a combination partner with other cancer therapies. Indeed, in preclinical models LTX-315 has shown strong synergy with immune checkpoint inhibitors and chemotherapy. Currently LTX-315 is further explored in combination with new combinations. How the immune system is responding to the different combinations are investigated with novel technologies in collaboration with distinguished institutions in US and Europe.

LTX-315's ability to reprogram the tumor microenvironment and thereby sensitize tumors for other types of therapies are gaining increasingly attention in the immuno-oncology field. A review article on LTX-315 in a special issue on "Small Molecule Immunotherapeutics" was rated among the top 10 articles list published in the journal Future Medicinal Chemistry in 2017.

Second generation oncolytic molecules

As a part of the Company's strategy, second generation molecules are being developed. One of the new molecules, LTX-401, is a small oncolytic molecule with potent antitumor activity. In several experimental animal models, LTX-401 induces complete regression after intratumoral injection with a subsequent development of a systemic immune protection in cured animals. Strong anticancer activity have also been demonstrated in liver cancer models (hepatocellular carcinoma).

The treatment of tumor cells with LTX-401 leads to an immunogenic cell death involving disintegration of intracellular compartments such as mitochondria and the Golgi apparatus with a subsequent release of DAMPs such as ATP, HMGB1 and calreticulin. In particular, due to the ability of a higher dosing and promising preliminary preclinical data, LTX-401 may have a great potential in the treatment of deep- seated tumors such as hepatocellular carcinoma and liver metastases.

The drug candidate has entered the preclinical drug development program, which includes the selection of contract manufacturing organization for upscale of drug substance and planning of the toxicology and safety package in animals.

Collaborations

Lytix has established strong collaborations with several highly reputed institutions in the US and Europe. Together with Institute Gustave Roussy (Profs. L. Zitvogel and G. Kroemer), Karolinska Institutet (Prof. B. Brodin), Harvard University (Dr. M. Pittet) and Weill Cornell Medical College (Prof. S. Demaria), Lytix is further investigating how the immune system is responding to our oncolytic molecules alone and in combinations. These strong collaborations are confirming the potential of LTX-315 to be one of the corners stones in future combinations therapies within immuno-oncology.

Advisory board

Lytix has an advisory board comprised of international recognized key opinion leaders within immuno-oncology, which are giving advice to both pre-clinical and clinical development strategies:

- Robert Schreiber (Washington University School of Medicine in St. Louis),
- Sandra Demaria (Cornell University),
- Robert Andtbacka (University of Utah School of Medicine),
- Sudhir Agrawal (visiting prof. University of Massachutes Medical School
- Laurence Zitvogel (Gustave Roussy),
- Guido Kroemer (Gustave Roussy),
- Aurélien Marabelle, (Gustave Roussy).

Intellectual property rights

Lytix entertains an active and highly advanced intellectual property rights ("IPR") strategy, and strives to secure and expand the protection for the Company`s oncolytic peptides and related therapies with patents in all key markets worldwide, including United States, Europe, Japan, China and Australia. At present, the patent portfolio consists of several patent families. LTX-315, as the most developed product, is protected by several layers of patent families.

FINANCIAL REVIEW

Accounting policies

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

Lytix Biopharma AS had one subsidiary, Amicoat AS, in 2016, which was demerged in 2017. Amicoat AS was demerged to current shareholders as per January 1, 2017. In parallel the ownership of the rights to LTX-109 plus shares in Pharmasum Therapeutics AS were demerged into Pharma Holdings AS in 2017, owned by the shareholders of Lytix Biopharma AS as per January 1, 2017. The decision to carry out these transactions was made in December 2016 and was finalized in January 2017.

This report is on consolidated, Group level.

Operating income

Revenue for 2017 for the Group amounted to NOK 1,059 thousand compared to NOK 124 thousand in 2016. Other operating income, including public grants and gain on demerger of LTX-109, amounted to NOK 38,694 thousand for 2017 compared to NOK 12,336 thousand for 2016. Other operating income include the gain on the demerger of LTX-109 of NOK 26,000 thousand. Lytix Biopharma AS constituted NOK 1,453 thousand (2016: NOK 833 thousand) and NOK 12,694 thousand (2016: NOK 12,339 thousand) of revenue and other operating income respectively for 2017.

Operating expenses

Total operating expenses increased to NOK 92,010 thousand in 2017 from NOK 76,929 thousand in 2016 for the Group. Operating loss for the Group amounted to NOK 52,256 thousand in 2017 compared to NOK 64,470 thousand in 2016. Lytix Biopharma AS constituted NOK 92,010 thousand in operating expenses in 2017 (2016: NOK 76,929 thousand) and NOK 77,862 thousand in operating loss for 2017 (2016: NOK 63,757 thousand).

Net financial items

Net financial items for the Group amounted to NOK (18,601) thousand for 2017 compared to NOK 648 thousand for 2016. Lytix Biopharma AS's net financial items constituted NOK (18,501) thousand in 2017 (2016: positive NOK (1,038) thousand). The negative net financial items in 2017 is a result of the exchange of warrants and the restructuring of the guarantee setup.

Loss for the period

Loss for the period was negative with NOK 63,355 thousand for 2017 compared to a deficit of NOK 67,825 thousand for 2016. Lytix Biopharma AS's net result constituted minus NOK 96,363 thousand in 2017 (2016: NOK 64,795 thousand).

Financial position and cash flow

Cash and cash equivalents were NOK 34,957 thousand for the Group at the end of 2017 compared to NOK 17,637 thousand end of 2016. The cash position for Lytix Biopharma AS was NOK 34,957 thousand by the end of 2017 (2016: NOK 18,045 thousand).

Total liabilities for the Group were NOK 35,301 thousand, including accrued, non-invoiced cost from ongoing projects and eligible guarantee fees (2016: NOK 12,449 thousand). Total liabilities for Lytix Biopharma AS constituted NOK 35,301 thousand by the end of 2017 (2016: NOK 11,353 thousand).

Shareholders' equity for the Group was NOK 11,791 thousand at the end of 2017, compared to NOK 23,029 thousand at the end of 2016. For Lytix Biopharma AS the equity position by year-end was positive with NOK 11,791 thousand (2016: NOK 29,794 thousand).

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

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

ALLOCATION OF THE 2017 RESULT

The Group's annual result amounted to a loss of NOK 63,355 thousand. For Lytix Biopharma AS the loss was NOK 96,363 thousand. The Board of Directors proposed that the loss is transferred from share premium reserve.

FINANCIAL RISKS

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

The Group controls its cash flow from both long- and short-term perspectives through rolling cash forecasts. The Group has no loan agreements involving covenants or other financial instruments or requirements. There is an inherent risk around future financing of the Company, depending upon the Company's own performance and on the financial market conditions. The Company raised further equity in April 2018 and available and committed cash is estimated to last throughout 2018.

NON-FINANCIAL RISKS

Technology risk

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

Competitive technology

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

Market risks

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

PERSONNEL AND ORGANIZATION

The Group's senior management team at year-end consists of Edwin Klumper, Chief Executive Officer and interim Chief Medical Officer; Torbjørn Furuseth, Chief Financial Officer; Øystein Rekdal, Chief Scientific Officer; Wenche Marie Olsen, Chief Operating Officer and Håkan Wickholm, Chief Business Officer. From May 1, 2018 the management team consists of Edwin Klumper, Torbjørn Furuseth and Øystein Rekdal.

Lytix Biopharma AS has its registered address in Tromsø, Norway, however most of the Group's activities are now in Oslo, Norway. The Company is public limited companies incorporated and domiciled in Norway.

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

HEALT, SAFETY AND ENVIRONMENT (HSE)

At the end of 2017, the Group had 11 employees, which is the same as per the end of 2016. The average number of man-years employed during the year was 13 (2016: 14), including both regular employees on payroll as well as contracted personnel, 3 man-years (2016: 4).The working environment is good. No accidents or injuries were reported in 2017. Absence due to illness was all short term and minimal, and in line with 2016.

The Group aims to be a workplace with equal opportunities for women and men in all areas. The Group has traditionally recruited from environments where women and men are relatively equally represented. In terms of gender equality within the Group, women constitute 40 % of the Board members, as well as 20 % of the senior management team. The Group promotes a productive working environment, does not tolerate disrespectful behavior, and the Group is an equal opportunity employer. Discrimination in hiring, compensation, training, promotion, termination or retirement based on ethnic and national origin, religion, sex or other distinguishing characteristics is not acceptable.

External environment

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

STATEMENT OF CORPORATE SOCIAL RESPONSIBILITY – CODE OF CONDUCT

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

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

BOARD STATEMENT ON CORPORATE GOVERNANCE

The Group considers good corporate governance to be a prerequisite for value creation and trustworthiness and for access to equity. In order to secure strong and sustainable corporate governance, it is important that the Group ensure good business practices, reliable financial reporting and an environment of compliance with legislation and regulations. The Group's Board of Directors actively adheres to good corporate governance standards and will at all times ensure that the Company complies with "The Norwegian Code of Practice for Corporate Governance" (the "Code"), most recently revised October 30, 2014 issued by the Norwegian Corporate Governance Policy Board (NCGB), or explain possible deviations from the Code.

Deviations from the Code:

- The Chief Scientific Officer, Øystein Rekdal, is member of the nomination committee, which is a deviation from the Code which says that the members of the executive management shall not be members of the nomination committee. As one of the founders of the Company, Mr. Rekdal is a valuable member of the nomination committee.
- Debasish F. Roychowdhury, board member, has been engaged by the Company, which is a deviation from the Code which says that members of the board should not be engaged in specific assignments for the Company addition to their appointment as members of the Board. The Company chose to engage Mr. Roychowdhury for short period to provide additional support to the management team.

BOARD OF DIRECTORS OF LYTIX BIOPHARMA AS

The composition of the Board of Directors is as follows:

Espen Johnsen (Chair), Debasish F. Roychowdhury, Bernt Endrerud and Gert W. Munthe. This board was elected by the Extraordinary General Meeting held April 24, 2018. The previous board, which was constant throughout 2017, consisted of the following members: Gert. W Munthe (chair), Morten Jurs, Lena Torlegård, Kari Grønås and Debasish F. Roychowdhury. Until October 2017 the Board of Directors included Knut Eidissen and John Sigurd Svendsen as well.

All board members are independent of the Company's executive personnel and material business at year-end. Espen Johnsen, Bernt Endrerud and Gert W. Munthe has, directly or indirectly, significant share-holdings in the Company.

The Board of Directors held 16 board meetings during the fiscal year 2017.

SIGNIFICANT EVENTS AFTER DECEMBER 31, 2017

The Company planned an IPO in first quarter of 2018 with substantial equity financing. However, the listing had to be pulled for various reasons including unfavorable equity market conditions.

At the extraordinary general meeting held April 24, 2018, a private placement of NOK 51.8 million was approved. The investors who participated in this private placement have committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue, which is planned to be finalized within second quarter of 2018.

No other 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.

Oslo, May 30, 2018

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

Espen Johnsen
Chairman of the Board

Debasish F. Roychowdhury
Board Member

Bernt Endrerud
Board Member

Gert. W. Munthe
Board Member

Edwin Klumper
Chief Executive Officer

GROUP FINANCIAL STATEMENTS

GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in NOK thousands)	Notes	2017	2016
Revenue	*2*	1,059	124
Other operating income	*3,4,20*	38,694	12,336
Total operating income		**39,754**	**12,460**
Payroll and related expenses	*6,18*	(21,427)	(22,442)
Depreciation and amortization expenses	*9*	(14)	(1,009)
Impairment of intangible assets	*10*	-	(2,940)
Direct R&D expenses		(46,793)	(33,534)
Other expenses	*5,17,19*	(23,775)	(17,005)
Total operating expense		**(92,010)**	**(76,929)**
Loss from operations		**(52,256)**	**(64,470)**
Financial expenses	*7*	(21,157)	(389)
Financial income	*7*	2,556	1,037
Net financial items		**(18,601)**	**648**
Share of post-tax profits of equity accounted investments	*20*	-	(9)
Gain from distribution of associate	*20*	1,428	-
Loss before tax		**(69,429)**	**(63,831)**
Tax expense	*8*	-	-
Loss for the period from continuing operations		**(69,429)**	**(63,831)**
Profit/(Loss) for the period from discontinued operations	*20*	6,073	(3,994)
Loss for the period		**(63,355)**	**(67,825)**
Attributable to:			
Non-controlling interests		-	-
Equity holders of the parent		(63,355)	(67,825)
Other comprehensive income			
Items that may be reclassified to profit or loss		-	-
Total other comprehensive income for the period		**-**	**-**
Total comprehensive income for the period		**(63,355)**	**(67,825)**
Earnings/(loss) per share:			
Basic and dilutive earnings/(loss) per share		(5.7)	(6.9)

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in NOK thousands)	Notes	31.12.2017	31.12.2016
Assets			
Non-current assets			
Property, plant and equipment	*9*	6	20
Intangible assets	*10*	-	-
Total non-current assets		**6**	**20**
Current assets			
Trade and other receivables	*1,13*	12,129	9,723
Cash and cash equivalents	*1,14*	34,957	17,637
Total current assets		**47,086**	**27,360**
Assets in disposal groups classified as held for distribution to owners	*11,12,20*	-	8,097
Total assets		**47,092**	**35,478**
Shareholders equity and liabilities			
Issued capital and reserves			
Share capital	*16*	1,234	1,002
Share premium reserve		10,557	22,068
Equity contributed by Lytix Biopharma shareholders		**11,791**	**23,070**
Non-controlling interests		-	(41)
Total equity		**11,791**	**23,029**
Liabilities			
Current liabilities			
Trade payables	*1*	11,652	4,789
Other current liabilities	*1,15*	16,173	6,564
Other current financial liabilities	*1,21*	7,456	-
Total current liabilities		**35,301**	**11,353**
Liabilities in disposal group classified as held for distribution to owners	*11,20*	-	1,097
Total liabilities		**35,301**	**12,449**
Total equity and liabilities		**47,092**	**35,478**

Oslo, May 30, 2018

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

Espen Johnsen
Chairman of the Board

Debasish F. Roychowdhury
Board Member

Bernt Endrerud
Board Member

Gert. W. Munthe
Board Member

Edwin Klumper
Chief Executive Officer

GROUP CONSOLIDATED STATEMENT OF CASH FLOWS

(in NOK thousands)	Notes	2017	2016
Cash flows from operating activities			
Loss for the period from continuing operations		(69,429)	(63,831)
Profit/(Loss) for the period from discontinued operations	*20*	6,073	(3,994)
Adjustments for:			
Depreciation and amortization expenses	*9,10*	14	1,009
Impairment of intangible assets	*10*	-	2,940
Interest received		(304)	(710)
Share of profit and gain from associate	*20*	(1,428)	9
Share-based payment expense	*18*	1,030	5,793
Increase/decrease in trade and other receivables		(3,560)	(1,756)
Increase/decrease in trade and other payables		23,931	(6,430)
Distribution of LTX-109	*20*	(26,000)	-
Cash generated from operations		**(69,671)**	**(66,969)**
Income tax paid	*8*	-	-
Net cash flows from operations		**(69,671)**	**(66,969)**
Investing activities			
Demerger of subsidiary	*20*	(408)	-
Interest received		304	710
Net cash from /(used) in investing activities		**(104)**	**710**
Financing activities			
Proceeds from share issue	*16*	87,095	76,427
Capital contributions from minority interests		-	408
Net cash from/(used in) financing activities		**87,095**	**76,835**
Net increase in cash and cash equivalents		17,320	10,576
Cash and cash equivalents at the beginning of the period	*14*	17,637	9,719
Cash and cash equivalents at the end of the period		**34,957**	**20,295**
Cash from discontinued operations		-	(2,658)
Cash at the end of the period		**34,957**	**17,637**

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in NOK thousands)	Share capital	Share premium reserve	Equity contributed by Lytix Biopharma shareholders	Non-controlling interest	Total equity
Balance at January 1, 2017	**1,002**	**22,068**	**23,070**	**(41)**	**23,029**
Comprehensive income for the period					
Loss for the period from continuing operations		(69,429)	**(69,429)**		**(69,429)**
Profit/(Loss) for the period from discontinued operations		6,073	**6,073**		**6,073**
Other comprehensive income		-	**-**		**-**
Total comprehensive income for the period	**-**	**(63,355)**	**(63,355)**	**-**	**(63,355)**
Contributions by owners	334	90,405	**90,738**		**90,738**
Demerger	(102)	(35,947)	**(36,049)**	41	**(36,008)**
Transaction costs		(3,644)	**(3,644)**		**(3,644)**
Share based payment		1,030	**1,030**		**1,030**
Total contributions by and distributions to owners	**232**	**51,845**	**52,076**	**41**	**52,117**
Balance at December 31, 2017	**1,234**	**10,557**	**11,791**	**-**	**11,791**

(in NOK thousands)	Share capital	Share premium reserve	Equity contributed by Lytix Biopharma shareholders	Non-controlling interest	Total equity
Balance at January 1, 2016	**776**	**7,450**	**8,226**	**-**	**8,226**
Comprehensive income for the period					
Loss for the period from continuing operations		(63,831)	**(63,831)**		**(63,831)**
Profit/(Loss) for the period from discontinued operations		(3,994)	**(3,994)**		**(3,994)**
Other comprehensive income for the period		-	**-**		**-**
Total comprehensive income for the period	**-**	**(67,825)**	**(67,825)**	**-**	**(67,825)**
Contributions by owners	226	78,236	**78,462**		**78,462**
Transaction costs		(2,035)	**(2,035)**		**(2,035)**
Capital contributions from minorities		449	**449**	(41)	**408**
Share based payment		5,793	**5,793**		**5,793**
Total contributions by and distributions to owners	**226**	**82,443**	**82,669**	**(41)**	**82,628**
Balance at December 31, 2016	**1,002**	**22,068**	**23,070**	**(41)**	**23,029**

NOTES TO THE ANNUAL ACCOUNTS 2017

ACCOUNTING POLICIES – LYTIX BIOPHARAMA AS GROUP

General information

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

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 consolidated financial statements are presented in NOK, which is also the parent company's functional currency. Amounts are rounded to the nearest thousand unless otherwise stated.

These financial statements were approved for issue by the Board of Directors on May 30, 2018.

Basis for preparation of financial statements

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

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

Standards, interpretations and amendments

There were no new standards or interpretations effective for the first time for periods beginning on or after January 1, 2017. None of the amendments to Standards that are effective from that date had a significant effect on the Group's financial statements.

There is no significant change in principles in 2017 as a result of changes in standards.

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The standard is effective as of January 1, 2018. IFRS 9 will replace IAS 39 Financial Instrument: recognition and Measurement. The parts of IAS 39 that have not been amended has been transferred and included in IFRS 9. The standard shall be implemented retrospectively, but it is not a requirement to prepare comparative figures. Based on the financial assets and liabilities held by the Group, IFRS 9 would not have any significant impact to the financial statements.

IFRS 15 Revenue from contracts with customers. The standard is effective as of January 1, 2018. The standard replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. With some few exceptions, the standard is applicable for all remunerative contracts and includes a model for recognition and measurement of sale of individual non-financial assets. The Group has assessed the potential impact of IFRS 15 on the Group's revenue streams. Summarized, the Group is not expecting any material changes to the current recognition of revenue arising from the implementation of IFRS 15.

IFRS 16 Leases regulates matters relating to leased assets. It requires all leases to be recognized in the statement of financial position is a right to use asset with subsequent depreciation. This standard was endorsed by the EU on October 31, 2017 and will be effective as of January 1, 2019. The Group has not yet completed the analysis of the impact of the new standard.

Basis of measurement

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

Revenue recognition

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

The Group's products are still in the research and development phase, and the Group has no revenue from sales of products yet. Revenue for 2017 consists of consultancy fees.

Basis of consolidation

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

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

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

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquired entity's identifiable assets, liabilities and contingent liabilities are initially recognized at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

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

Non-financial assets with definite useful life are subject to impairment tests whenever events or changes in circumstances

indicate that their carrying amounts may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

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

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

Associates

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

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

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

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

Foreign currency

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

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

Financial assets

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

Loans and receivables

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

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

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

Financial liabilities

Trade payables and other short-term liabilities, are initially recognized at fair value and subsequently carried at amortized cost using the effective interest method. The Group has issued warrants which are classified as financial liabilities at fair value through profit or loss.

Share capital

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

Defined contribution schemes

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

Other long-term service benefits

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

Share-based payments

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

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

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

Leased assets

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

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

Externally acquired intangible assets

Externally acquired intangible assets are initially recognized at cost and subsequently amortized on a straight-line basis over their useful economic lives (see note 1).

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

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

Research and development

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

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

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

Deferred taxation

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

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

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.

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
- Laboratory equipment 3-5 years

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

Government grants

Government grants are 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 Group 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 consolidated income statement.

Discontinued operations

The Group classifies non-current assets and disposal groups as held for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for distribution are measured at the lower of their carrying amount and fair value less costs to distribute. Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for distribution. Assets and liabilities classified as held for distribution are presented separately as current items in the statement of financial position.

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

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

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

Critical accounting estimates and judgements

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

Judgements

Deferred tax

The Company considers that a deferred tax asset related to accumulated tax losses cannot be recognized in the statement of financial position until the product under development has been approved for marketing by the relevant authorities. However, this assumption is continually reassessed and changes could lead to significant deferred tax asset being recognized in the future. This assumption requires significant management judgement. The Group has a total tax loss carried forward of NOK 538 million (NOK 437 million in 2016) and a total deferred tax asset not recognized of NOK 124 million (see note 8).

Intangible assets

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

External acquired intangible assets of NOK 2.94 million is impaired in 2016. Intangible assets consisted of patents to be used in development of LTX-109 and was acquired in 2015. Development of LTX-109 was licensed to Amicoat AS in February 2016. As a part of the demerger in 2017 the recoverable amount of the patents was estimated to be zero (See note 10). All patents related to LTX-109 were demerged to the acquiring company Pharma Holdings AS. The demerger was completed in May 2017.

Discontinued operations/held for distribution

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

- Amicoat AS and Pharmasum Therapeutics AS is available for immediate distribution and can be distributed to shareholders in its current condition
- The actions to complete the distribution were initiated and expected to be completed within one year from the date
- The board decision of the distribution was made in December 2016
- The shareholders approved the distribution on January 31, 2017
- The secretarial procedures and procedural formalities for the distribution was completed by February 5, 2017

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

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

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

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

As of the approval of the demerger, Amicoat AS consist of net assets of NOK 3.4 million and loss for the year is NOK 4.0 million. Considered the size and complexity of Amicoat AS compared to the size and complexity of the Group, Amicoat AS is considered to be a separate major line of business and is therefore presented as discontinued operations.

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

After the demerger, the Group consist of Lytix Biopharma AS only.

See also note 20.

Estimates and assumptions

Share based payments

Equity-settled share based payments are measured at the fair value of the equity instruments at the grant date. The fair value of the options granted is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighed average expected life of the instruments, expected dividends, and the risk-free interest rate. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Changes to the estimates may significantly influence the expense recognized during a period. The assumptions and models used for estimating fair value for share-based payments transactions are disclosed in note 18.

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 Company planned an IPO in first quarter of 2018 with substantial equity financing. The fundament was unfortunately not strong enough for a successful IPO at a satisfactory valuation and the IPO was therefore cancelled. In the wake of the cancelled IPO, the Company has been able to obtain additional equity financing from many of its largest shareholders. At the extraordinary general meeting held April 24, 2018, a private placement of NOK 51.8 million was approved. The investors who participated in this private placement have committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue. The next share issue is planned to be finalized within second quarter of 2018. After the Company raised additional equity in April 2018, available and committed cash is estimated to last throughout 2018.

NOTE 1 – FINANCIAL INSTRUMENTS – RISK MANAGEMENT

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

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

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

Principal financial instruments

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

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

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

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

General objectives, policies and processes

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

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

Credit risk

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

The Group only has revenue from services with related parties and other operating income from government grants. The Group has not suffered any loss on receivables in 2017 or 2016 and they consider its credit risk as low.

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency rates. The Groups exposure to the risk of changes in foreign exchange rates relates

primarily the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency), and the Group's foreign currency denominated cash deposits. The exposure arises largely from research expenses. The Group is mainly exposed to fluctuations in euro (EUR), Swiss franc (CHF) and pounds sterling (GBP). The sensitivity and effects in the income statement are listed below.

(in NOK thousands)			
Currency	Strengthening/weakening	Gain/Loss 2017	Gain/Loss 2016
EUR	+/- 10 %	(839)	-8
GBP	+/- 10 %	(279)	40
CHF	+/- 10 %	(117)	241
SEK	+/- 10 %	(251)	111
USD	+/- 10 %	(109)	-7

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

Liquidity risk

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

The Group monitor its cash flow from both long- and short-term perspectives through rolling cash forecasts. The Group does not have any loan agreements that involves covenants or other financial requirements. The Company raised NOK 79 million in a private placement in January 2016. In March 2017 Lytix Biopharma AS raised NOK 59 million in gross proceeds in a share issue targeted towards Swedish investors and the largest current shareholders. A repair issue amongst the remaining shareholders was executed in April 2017 and gave gross proceeds of NOK 21 million. The Company raised further equity in April 2018 and available and committed cash is estimated to support the execution of planned R&D and general business activities throughout 2018. The cash position of the Lytix Biopharma Group at year end 2017 for continuing operations was NOK 35 million, compared to NOK 18 million in 2016.

Interest rate risk

The Lytix Biopharma Group has no interest-bearing debt. Bank deposits are exposed to market fluctuations in interest rates, which affects the financial income and the return on cash. The Group had NOK 2.6 million in financial income in 2017 and NOK 1.0 million in 2016.

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

Capital management

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

NOTE 2 - REVENUE

(in NOK thousands)	2017	2016
Revenue		
Provision of services	-	-
Other	1,059	124
Total Revenue	**1,059**	**124**

The Group's products are still in the research and development phase, and there is no revenue from sales of products yet. Other revenue consists of consultancy revenue and rental revenue for office space rented to Amicoat AS.

NOTE 3 – OTHER OPERATING INCOME

(in NOK thousands)	2017	2016
Other operating income		
Government grants recognized in profit and loss	12,694	12,336
Net gain on disposal of intangibles assets	26,000	-
Other	-	-
Other operating income	**38,694**	**12,336**

NOTE 4 – GOVERNMENT GRANTS

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

(in NOK thousands)	2017	2016
Government grants		
Tax refund SkatteFUNN (across all R&D activities)	7,040	7,020
Innovation Norway	684	250
The Norwegian Research Council (BIA grant)	4,970	5,066
Government grants	**12,694**	**12,336**

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 20 per cent of the eligible costs related to R&D activity. All costs must be associated with the approved project.

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

NOTE 5 – OTHER OPERATING EXPENSES

(in NOK thousands)	2017	2016
Other operating expenses comprise:		
Consultancy fees and external personnel	13,691	10,398
Ordinary lease payments (note 17)	2,111	1,790
Expenses related to intellectual property rights	2,598	2,528
Other operating expenses	5,375	2,289
Other operating expenses	**23,775**	**17,005**

(in NOK thousands)	2017	2016
Specification of the auditor's fee		
Statutory audit	976	410
Other assurance services	-	99
Other non-assurance services	518	180
Tax consultant services	97	137
Total auditor's fee	**1,591**	**826**

VAT is not included in the fees specified above.

NOTE 6 – PAYROLL AND RELATED EXPENSES

(in NOK thousands)	2017	2016
Payroll and related expenses, including directors, comprise:		
Wages and salaries	16,804	13,367
Defined contribution pension cost	619	599
Share-based payment expense (note 18)	1,030	5,793
Social security contributions and similar taxes	2,123	1,824
Other personnel costs	850	859
Total payroll and related expenses	**21,427**	**22,442**

The number of man-years employed during the year:

	2017	2016
Average number	13	14

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

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

Management remuneration

The Group management consists of the Group Directors and had the following remuneration in 2017:

(in NOK thousands)	Salary	Pension expense	Share-based payments	Other remuneration	Total
Management team:					
Edwin Klumper, CEO and interim CMO [1,2]	875	-	106	2	983
Torbjørn Furuseth, CFO	1,324	57	610	43	2,033
Håkan Wickholm, CBO [1,3]	-	-	4	3,755	3,759
Øystein Rekdal, CSO	2,099	82	64	37	2,283
Wenche Marie Olsen, COO	2,059	180	42	10	2,291
Board members (non-executive):					
Gert W. Munthe, Chairman	300	-	-	-	300
Kari Grønås, member	200	-	-	-	200
Morten Jurs, member	200	-	-	-	200
Lena Torlegård, member	200	-	-	-	200
Debasish F. Roychowdhury, member	200	-	-	411	611
Nomination Committee:					
Per Erik Sørensen	30	-	-	-	30
Claus Flinder	20	-	-	-	20
Øystein Rekdal (incl.in figures above)	20	-	-	-	20

[1)] Effective October 1, 2017 Edwin Klumper succeeded Håkan Wickholm as CEO in Lytix Biopharma. Håkan Wickholm continues in the Company as CBO.

[2)] Edwin Klumper will act as interim CMO until a new CMO is hired.

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

For 2016, the remuneration was as follows:

(in NOK thousands)	Salary	Pension expense	Share-based payments	Other remuneration	Total
Management team:					
Håkan Wickholm, CEO [1,2]	-	-	262	3,426	3,688
Øystein Rekdal, CSO	1,532	77	1,365	24	2,988
Wenche Marie Olsen, COO	1,749	101	1,012	11	2,873
Andrew Saunders, CMO [1]	-	-	262	2,995	3,257
Kjetil Vangsnes, CFO [1]	-	-	-	2,129	2,129
Unni Hjelmås, CEO [2]	1,975	56	-	8	2,039
Board members (non-executive):					
Gert W. Munthe, Chairman	300	-	-	-	300
Knut Eidissen, member [3]	200	-	-	-	200
Kari Grønås, member	200	-	-	-	200
Morten Jurs, member	200	-	-	-	200
John Sigurd Svendsen, member	200	-	-	-	200
Lena Torlegård, member	200	-	-	-	200
Debasish F. Roychowdhury, member	200	-	-	-	200
Nomination Committee:					
Per Erik Sørensen	30	-	-	-	30
Claus Flinder	20	-	-	-	20
Øystein Rekdal (incl.in figures above)	20	-	-	-	20

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

[2)] Effective March 1, 2016 Håkan Wickholm succeeded Unni Hjelmaas as CEO in Lytix Biopharma

[3)] Knut Eidissen was Chairman of the Board until ordinary general assembly 2015.

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

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

Benefits upon termination

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

	2017	2016
Shares held by the management team and board members		
Management team:		
Torbjørn Furuseth, CFO (through Furuseth Pharma Invest AS)	26,330	-
Håkan Wickholm, CBO	7,000	-
Øystein Rekdal, CSO	118,630	11,736
Wenche Marie Olsen, COO	2,020	225
Board members (non-executive):		
Gert W. Munthe, Chairman (through North Murray AS)	2,007,540	160,572
No. of shares owned by the management team and board members	**2,161,520**	**172,553**

The shares owned by Furuseth Pharma Invest AS is partly financed by a loan at market terms from North Murray AS.

	Opening balance[1]	Granted	Lapsed	Ending balance
Options held by the management team				
Edwin Klumper, CEO	-	100,000	-	100,000
Torbjørn Furuseth, CFO	-	51,480	-	51,480
Håkan Wickholm, CBO	20,000	2,030	-	22,030
Øystein Rekdal, CSO	87,000	8,830	-	95,830
Wenche Marie Olsen, COO	66,500	6,750	-	73,250
No. of options owned by the management team	**173,500**	**169,090**	**-**	**342,590**

[1] The opening balance is adjusted for the share split with following option split which occurred during the year.

The Company operates three equity-settled share based remuneration scheme for employees. See note 18.

NOTE 7 – FINANCIAL INCOME AND EXPENSES

(in NOK thousands)	2017	2016
Financial income		
Interest income	304	711
Foreign exchange gains	187	326
Fair value gain on warrants	2,065	-
Total financial income	**2,556**	**1,037**

(in NOK thousands)	2017	2016
Financial expenses		
Foreign exchange losses	847	388
Other financial expenses	101	1
Restructuring expenses	13,002	-
Guarantee fee	7,207	-
Total financial expenses	**21,157**	**389**

In November 2017, Lytix entered into agreements with 43 of 47 shareholders holding warrants issued by Lytix. The conversion was completed on November 24, 2017, when the Board of Directors decided to exchange 98 % of the warrants for shares. This transaction reduced the number of outstanding warrants to 9,774. In this same process, the Company also wanted to optimize the guarantee undertaking, with a conversion to a firm subscription commitment. The majority of guarantors converted to a firm subscription commitment, and the Company has a subscription commitment for the public listing of NOK 43,616 thousand. The accounting effects are a result of this being conducted in Q4. The restructuring of the guarantee undertaking resulted in a loss of NOK 13,002 thousand, see note 21 as well. The main part of the restructuring expense is the loss on previously capitalized prepayment, which initially was paid with issued warrants.

NOTE 8 - TAX

(in NOK thousands)	2017	2016
Current tax		
Tax payable	-	-
Correction of previous years current income taxes	-	-
Deferred tax		
Changes in deferred tax	-	-
Changes in tax rate	-	-
Tax expense	**-**	**-**

(in NOK thousands)	2017	2016
Pre-tax profit (including discontinued operations)	(63,355)	(67,825)
Income taxes at 24 % / 25 %	**(15,205)**	**(16,956)**
Changes in unrecognized deferred tax asset	18,503	13 165
Change in tax rate	5,401	4,405
Demerger of Amicoat AS	1,714	-
Non-deductible expenses	(10,414)	(614)
Tax expense	**-**	**-**

From January 1, 2017 the tax rate in Norway was to 24 %, and from January 1, 2018 the tax rate in Norway was reduced to 23 %. There is no effect in this year's tax expense because deferred tax from tax losses carried forward is not recognized. Deferred tax relates to the following:

(in NOK thousands)	Consolidated balance sheet 2017	Consolidated balance sheet 2016	Change 2017	Change 2016
Deferred tax assets				
Property, plant and equipment	510	781	271	(687)
Net tax on losses carried forward	123,723	104,949	(18,774)	(12,478)
Deferred tax assets	**124,233**	**105,730**	**(18,503)**	**(13,165)**
Net deferred tax assets	124,233	105,730	(18,503)	(13,165)
Net deferred tax assets not recognized	(124,233)	(105,730)	18,503	13,165
Net recognized deferred tax assets	**-**	**-**	**-**	**-**

Net deferred tax assets on losses carried forward amount to NOK 124 million as at December 31, 2017 (2016: NOK 105 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 Group has a total tax loss carried forward of NOK 538 million as at December 31, 2017 (2016: NOK 437 million) which has no due date.

NOTE 9 – PROPERTY PLANT AND EQUIPMENT

(in NOK thousands)	Machinery and equipment	Total 2017	Machinery and equipment	Total 2016
Carrying amount 1 January	20	20	49	49
Additions	-	-	-	-
Depreciation	(14)	(14)	(29)	(29)
Carrying value 31 December	**6**	**6**	**20**	**20**
As at 1 January				
Acquisition cost	2,479	2,479	2,479	2,479
Accumulated depreciation and write-downs	(2,459)	(2,459)	(2,430)	(2,430)
Carrying amount 1 January	**20**	**20**	**49**	**49**
As at 31 December				
Acquisition cost	**2,479**	2,479	2,479	2,479
Accumulated depreciation and write-downs	(2,473)	(2,473)	(2,459)	(2,459)
Carrying amount 31 December	**6**	**6**	**20**	**20**

NOTE 10 – INTANGIBLE ASSETS

(in NOK thousands)	Patents and rights	Total 2017	Patents and rights	Total 2016
Carrying amount 1 January	-	-	3,920	3,920
Additions	-	-	-	-
Amortization	-	-	(980)	(980)
Impairment	-	-	(2,940)	(2,940)
Carrying value 31 December	**-**	**-**	**-**	**-**
As at 1 January				
Acquisition cost	-	-	4,900	4,900
Accumulated amortization	-	-	(980)	(980)
Carrying amount 1 January	**-**	**-**	**3,920**	**3,920**
As at 31 December				
Acquisition cost	-	-	4,900	4,900
Accumulated amortization	-	-	(1,960)	(1,960)
Impairment	-	-	(2,940)	(2,940)
Carrying amount 31 December	**-**	**-**	**-**	**-**

External acquired intangible assets of NOK 2,940 thousand is impaired in 2016. Intangible assets consisted of patents to be used in development of LTX-109 and was acquired in 2015. Development of LTX-109 was licensed to Amicoat AS in February 2016. As a part of the demerger in 2017 the recoverable amount of the patents was estimated to be zero. All patents related to LTX-109 were demerged to the acquiring company Pharma Holdings AS. The demerger was completed in May 2017.

NOTE 11 – LIST OF SUBSIDIARIES

The following subsidiaries are included in the consolidated financial statements:

Company	Country of incorporation	Main operations	Ownership interest 2017	Voting power 2017	Ownership interest 2016	Voting power 2016
Amicoat AS	Norway	Antimicrobial Technology	-	-	92 %	92 %

The subsidiary Amicoat AS was demerged to current shareholders in 2017. As the decision was made in 2016 and it was highly probable that the transaction would be finalized in 2017, the assets and liabilities in Amicoat AS were presented as held for distribution (see note 20) as at December 21, 2016.

NOTE 12 – INVESTMENTS IN ASSOCIATES

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

Name	Proportion of ownership held 2017	2016
Pharmasum Therapeutics AS	-	24 %

The Group holds 0 % (24 % in 2016) of the shares in Pharmasum Therapeutics AS. De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. As the group held less than 50 % of the voting rights in 2016, the investment in Pharmasum Therapeutics AS was presented as an associate. In December 2016 the board decided to demerge the ownership of the shares in Pharmasum Therapeutics AS to Pharma Holdings AS. The transaction was finalized January 9, 2017 and as a consequence investment in Pharmasum Therapeutics AS is presented as held for distribution to owners. See note 20 as well.

The primary business of Pharmasum Therapeutics AS is pharmaceutical development for the treatment of dementia. Pharmasum Therapeutics AS was demerged to current shareholders in 2017 (see note 20).

NOTE 13 – TRADE AND OTHER RECEIVABLES

(in NOK thousands)	2017	2016
Trade receivables	765	-
Less: provisions for impairment of trade receivables	-	-
Trade receivables, net	**765**	**-**
Loans to related parties	-	-
Total financial assets other than cash and cash equivalents classified as loans and receivables	**-**	**-**
Government grants	7,040	7,021
VAT	1,013	358
Prepayments	162	343
Other receivables	3,149	2,002
Total trade and other receivables	**12,129**	**9,723**

The Group has not made any impairment provisions for bad debt in 2017 or 2016.

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

(in NOK thousands)	Total	Not due	Less than 30 days	30 – 60 days	60 – 90 days	More than 90 days
2017	765	569	195	-	-	-
2016	-	-	-	-	-	-

Credit risk and foreign exchange risk regarding accounts receivables are discussed in note 1.

NOTE 14 – CASH AND CASH EQUIVALENTS

(in NOK thousands)	2017	2016
Cash and cash equivalents		
Employee withholding tax	1,071	551
Fixed rate bank deposit account	-	-
Variable rate bank accounts	33,886	17,086
Total cash and cash equivalents	**34,957**	**17,637**

NOTE 15 – OTHER CURRENT LIABILITIES

(in NOK thousands)	2017	2016
Other current liabilities		
Accrual for annual leave	1,267	1,080
Accrual for bonus	2,180	514
Accrual for restructuring expenses	-	350
Other accruals	269	269
Tax and social security payments	1,582	898
Payables share issue transaction costs	-	-
Payables consultancy services management	978	413
Other payables	9,899	3,041
Total other current liabilities	**16,173**	**6,564**

The increase in other payables is mainly due to increased activities in clinical and preclinical trials at the end of the year and liabilities related to the ongoing IPO process.

NOTE 16 – SHARE CAPITAL AND SHAREHOLDER INFORMATION

Share capital at December 31, 2017 is NOK 1,233,539 (December 31, 2016: NOK 1,001,806), constituting 12,335,388 ordinary shares at a nominal value of NOK 0.1 (December 31, 2016: NOK 1,001,806, constituting 1,001,806 ordinary shares at a nominal value of NOK 1). All shares carry equal voting rights.

	2017	2016
The change in the number of shares during the period was as follows		
Ordinary shares at 1 January	1,001,806	776,202
Issue of ordinary shares before share split [1) 2) 3)]	193,944	225,604
Sum	**1,195,750**	**1,001,806**
Share split [4)]	11,957,500	n/a
Issue of ordinary shares after share split [5)]	377,888	n/a
Ordinary shares	**12,335,388**	**1,001,806**

[1)] On January 16, 2017, the Board of Directors approved the demerger plan with Amicoat Holding AS and Pharma Holdings AS. The demerger is a part of a reorganization of the Group. Non-cancer-related assets were demerged from the Group. The share capital of the Group was reduced through the demerger by redemption of shares, in accordance with the division of market values upon the demerger, cf. the Tax Act section 11-8. The demerger was finalized and registered with the Norwegian Register of Business Enterprises on May 2, 2017.

[2)] In January 2017, 217,993 shares were subscribed for in a private placement among existing shareholders and new institutional investors at a share price of NOK 272 for total gross proceeds of NOK 59.2 million. The share issue was approved by Board of Directors February 16, 2017. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in May 19, 2017.

[3)] In April 2017, 76,736 shares were subscribed for in a repair issue among existing shareholders at a share price of NOK 272 for total gross proceeds of NOK 20.8 million. The share issue was approved by the extraordinary General Meeting April 27, 2017. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in May 19, 2017.

[4)] As of October 16, 2017, the General Meeting decided to make a share split. The shares were split in the ratio 1:10, so that 1 share, with a nominal value of NOK 1, becomes 10 new shares, each with a nominal value of NOK 0.10.

[5)] Through a decision at an extraordinary general meeting held on November 16, 2017, the Board of Directors was authorized to enter agreements with investors in an effort to exchange warrants for shares. In November 2017, Lytix entered into agreements with 43 of 47 shareholders holding warrants issued by Lytix. The transaction was completed on November 24, 2017, when the Board of Lytix decided to issue 377,888 Shares against a redemption of 392,556 warrants. After conversion, Lytix' share capital was NOK 1,233,539, and the number of outstanding warrants was 9,774. The capital increase was registered at The Register of Business Enterprises in Norway December 5, 2017.

No.	Shareholders	No. of shares	Percentage share of total no. of shares
1	North Murray AS	2,007,540	16.3 %
2	Picasso Kapital AS	1,097,860	8.9 %
3	TAJ Holding AS	1,027,210	8.3 %
4	Care Holding AS	773,430	6.3 %
5	Norinova Invest AS	455,060	3.7 %
6	Lysnes Invest AS	412,210	3.3 %
7	3 T Produkter AS	389,130	3.2 %
8	LMK Venture AB	346,000	2.8 %
9	Hopen Invest AS	288,600	2.3 %
10	Mikael Lönn	224,900	1.8 %
11	Kreftforeningen	218,000	1.8 %
12	Per Strand Eiendom AS	196,350	1.6 %
13	Rothesay Limited	173,000	1.4 %
14	LB Invest AS	160,040	1.3 %
15	Norinnova Technology Transfer AS	155,790	1.3 %

16	John Sigurd Mjøen Svendsen	152,420	1.2 %
17	Sparebank 1 Nord-Norge Portefølje AS	151,820	1.2 %
18	Jahatt AS	143,640	1.2 %
19	Innovasjon Norge	133,790	1.1 %
20	Øystein Rekdal	118,630	1.0 %
	Total no. of shares for top 20 shareholders	**8,625,420**	**69.9 %**
	Total no. of shares for the other 289 shareholders	3,709,968	30.1 %
	Total no. of shares (309 shareholders)	**12,335,388**	**100.0 %**

NOTE 17 – LEASES

(in NOK thousands)	2017	2016
Operating leases		
Ordinary lease payments	2,111	1,790
Total operating leases	**2,111**	**1,790**

(in NOK thousands)	2017	2016
Within 1 year	2,079	1,800
1 to 5 years	3,106	4,967
After 5 years	-	-
Sum	**5,185**	**6,767**

The lease agreements have a variable, minimum duration and is running 6 months for Tromsø and to 2019/2021 in Oslo.

NOTE 18 – SHARE OPTION AGREEMENT

Since 2013 Lytix has established three share-based incentive programs (A, B and C) 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. A description of the three incentive programs is given below.

Incentive Program A 2013/2018

On December 12, 2012, the board of directors of the Company decided to authorize the CEO and the chairman of the board of directors to implement a share option program ("Incentive Program A"). Incentive Program A comprises a maximum of 40,000 share options and was established at the beginning of 2013. The expiry date for program A is December 31, 2018.

As of December 31, 2017, a total of 17,860 of 26,231 share options were reserved off for certain specific individuals, and 16,098 of these share option were also allotted to these individuals through share option agreements. The Board has decided that no more share options will be divested in Incentive Program A. The maximum number of share options in the program therefore amounts to 17,860.

Incentive Program B 2016/2021

On March 10, 2016, the board of directors of the Company decided to implement a share option program ("Incentive Program B"). As of December 31, 2017, a total of 30,444 of the 33,044 share options were reserved for certain specific individuals, and 22,734 of these share options were also allotted to these individuals through share option agreements. The expiry date for program B is December 31, 2021.

Incentive Program C 2016/2021

On December 7, 2016, the board of directors of the Company decided to implement a share option program with a maximum of 30,000 share options ("Incentive Program C"). In total, 8,000 share options were reserved for certain specific individuals, whereof 8,000 also were allotted to these individuals through share option agreements. The expiry date for program A is December 31, 2021.

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

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

Share split

As mentioned above, there has been a share split in the ratio 1:10. Following the share split, the Company has decided to make similar split for the options. Each option is split in the ratio 1:10 and the exercise price is reduced in the same manner. The option split had the following effect on the outstanding options as of January 1, 2017.

	Before split	After split
Program A		
Number of outstanding options	23,814	238,140
Exercise price	700	70.0
Program B		
Number of outstanding options	15,550	155,500
Exercise price	350	35.0
Program C		
Number of outstanding options	-	-
Exercise price	-	-

2017	Program A		Program B		Program C	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2017	**70.0**	**238,140**	**35.0**	**155,500**	**-**	**-**
Granted during the period	70.0	16,870	35.0	99,840	27.2	80,000
Forfeited during the period						
Exercised during the period						
Lapsed during the period	70.0	(94,030)	35.0	(28,000)		
Outstanding at December 31, 2017	**70.0**	**160,980**	**35.0**	**227,340**	**27.2**	**80,000**

All of the options granted during the period for program C, and 50,000 of the options granted during the period for program B is subject to a vesting period. In program B, 25,000 of the options will vest on July 1, 2019 and 25,000 on July 1, 2020. In program C, 25,000 of the options will vest on July 1, 2020 and 25,000 on July 1, 2021.

2016	Program A		Program B	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2016	**700**	**30,854**	**-**	**-**
Granted during the period	**-**	**-**	**350**	**15,550**
Forfeited during the period	**-**	**-**	**-**	**-**
Exercised during the period	**-**	**-**	**-**	**-**
Lapsed during the period	**700**	**(7,040)**	**-**	**-**
Outstanding at December 31, 2016	**700**	**23,814**	**350**	**15,550**

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

2017 Equity settled	Program A	Program B	Program C
Option pricing model used		Black & Scholes	
Weighted average share price at grant date (NOK)	27.2	27.2	27.2
Exercise price (NOK)	70.0	35.0	27.2
Expected volatility	60.0 %	60.0 %	60.0 %
Expected dividend growth rate	-	-	-
Risk-free interest rate	0.4 %	0.8 %	1.1 %

2016 Equity settled	Program A	Program B
Option pricing model used	Black & Scholes	
Weighted average share price at grant date (NOK)	700	350
Exercise price (NOK)	700	350
Weighted average contractual life (in days)	-	-
Expected volatility	60.00 %	60.00 %
Expected dividend growth rate	-	-
Risk-free interest rate	0.52 %	0.79 %

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 comprise:

(in NOK thousands)	2017	2016
Equity settled schemes	1,030	5,793
Total remuneration expense	**1,030**	**5,793**

NOTE 19 – TRANSACTIONS WITH RELATED PARTIES

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

(in NOK thousands)	2017	2016
GWH Consult AB (Håkan Wickholm)	4,108	3,897
Nirvan Consultants LLC (D. F. Roychowdhury)	411	430

The transactions with related parties consist of invoiced fee for management and consultancy services including related expenses. Invoiced fee for management services (see note 6) is included in purchases from related parties.

As of December 31, the Group has the following balances with related parties

(in NOK thousands)	2017	2016
GWH Consult AB (Håkan Wickholm)	534	1,209
Nirvan Consultants LLC (D. F. Roychowdhury)	-	-

NOTE 20 – DISCONTINUED OPERATIONS

On December 7, 2016, the Group decided to demerge all assets in the Group not related to cancer, i.e. Amicoat AS, Pharmasum Therapeutics AS, all intellectual properties related to LTX-109, a receivable of NOK 923 thousand on Pharmasum Therapeutic AS and cash of NOK 408 thousand to the shareholders of the parent company. The demerger was part of a reorganization of the

Group, where non-cancer-related assets were demerged from the Group prior to the completion of a private placement directed towards investors, with the purpose of securing financing of the Group's cancer research business. As of December 31, 2016 Amicoat AS was a wholly owned subsidiary while Pharmasum Therapeutics AS was an associate where the Group owned 24 % of the shares. On January 31, 2017, the shareholders of the Company approved the demerger. At December 31, 2016, the demerged assets and operations were classified as held for distribution to equity holders of the parent and as a discontinued operation. The demerger was completed on May 2, 2017. The demerger is presented as distribution to shareholders in the equity statement, and measured at fair value at the date of the distribution. Any difference between the carrying amount of the distributed assets and the fair value is presented as a gain or loss in the income statement.

After the demerger, the Group consist of Lytix Biopharma AS only.

Distribution of Amicoat AS

The distribution of Amicoat AS is presented in the line Gain or loss for discontinued operations.

Reconciliation of Statement of profit or loss and other comprehensive income.

(in NOK thousands)	2017	2016
Revenue	93	125
Other operating income	399	3,366
Total operating income	**491**	**3,491**
Payroll and related expenses	(499)	(1,245)
Other expenses	(2,806)	(6,238)
Total operating expenses	**(3,305)**	**(7,483)**
Profit/(Loss) from operations	**(2,814)**	**(3,992)**
Net financial items	(33)	(3)
Gain from distribution of associate	8,920	-
Profit before tax	**6,073**	**(3,994)**
Tax expense	-	-
Loss for the period from discontinued operations	**6,073**	**(3,994)**
Earnings per share		
Basic, profit/(loss) for the year from discontinued operations (NOK)	0.5	(0.4)
Diluted, profit/(loss) for the year from discontinued operations (NOK)	0.5	(0.4)

As the demerger was completed prior to December 31, 2017, the assets and liabilities classified as held for distribution as at December 31, 2016 are no longer included in the statement of financial position. The gain from distribution of Amicoat AS of NOK 8.9 million is included in the financial statement line loss for the period from discontinued operations. The carrying value of the Amicoat AS was NOK (3.8) million, while the fair value of these assets was NOK 5.1 million.

(in NOK thousands)	2017	2016
The net cash flows incurred by Amicoat AS are, as follows:		
Operating	(2,134)	(2,758)
Investing	-	
Financing	-	3,928
Net cash (outflow)/inflow	**(2,134)**	**1,169**

Distribution of LTX -109

The distribution of LTX - 109 IP is included in the line item other operation revenues, with an amount of NOK 26 million. The carrying value of the IP was nil, so the gain is identical to the fair value of the IP.

Distribution of Pharmasum Therapeutics AS

The distribution of Pharmasum Therapeutics AS is included in the line item gain from distribution of associate. Pharmasum is included in the Income statement with the following amount.

As the demerger was completed prior to December 31, 2017, the assets and liabilities classified as held for distribution as at December 31, 2016 are no longer included in the statement of financial position.

The gain from distribution of Pharmasum is included in the line item gain from distribution of associate, with an amount of NOK 1.7 million, together with Lytix' share of Pharmasum's post-tax profits of NOK (0.3) million, in total NOK 1.4 million. The carrying value of the Pharmasum was NOK 2.9 million, while the fair value of these assets was NOK 4.6 million.

(in NOK thousands)	2017	2016
Share of post-tax profits of equity accounted investments	-	(9)
Gain from distribution of associate	1,428	-

The assets and liabilities related to the demerger of Amicoat AS and Pharmasum Therapeutics AS is presented as disposal group classified as held for distribution to owners as of December 2016.

(in NOK thousands)	Amicoat AS	Pharmasum Therapeutics AS	Total 2016
Assets			
Non-current assets			
Investments in equity-accounted investments	-	2,249	2,249
Other receivables	-	923	923
Total non-current assets	**-**	**3,172**	**3,172**
Current assets			
Trade and other receivables	2,266	-	2,266
Cash and cash equivalents	2,659	-	2,659
Total current assets	**4,925**	**-**	**4,925**
Assets in disposal groups classified as held for distribution to owners	**4,925**	**3,172**	**8,097**
Liabilities			
Current liabilities			
Trade payables	137	-	137
Other current payables	959	-	959
Liabilities in disposal group classified as held for distribution to owners	**1,097**	**-**	**1,097**

NOTE 21 – GUARANTEE COMMITMENT

The two financing rounds conducted in the Q1 and Q2 included warrants and a guarantee setup in connection with the potential public listing. The investors who undertook the underwriting guarantee received two warrants per share subscribed and with a potential guarantee commission. A total of 402,330 warrants have been resolved issued to the investors by the Company's General Meetings held on February 16, 2017 and April 27, 2017.

To optimize the financial structure prior to the listing, the Board of Directors decided to reduce the number of warrants.

In an extraordinary general meeting held on November 16, 2017, the Board of Directors was authorized to enter agreements with investors in an effort to exchange warrants with shares. In November 2017, Lytix entered into agreements with 43 of 47 shareholders holding warrants issued by Lytix. The conversion was completed on November 24, 2017, when the Board of Directors decided to exchange 98 % of the warrants for shares. This transaction reduced the number of outstanding warrants to 9,774. In this same process, the Company also wanted to optimize the guarantee undertaking, with a conversion to a firm subscription commitment. The majority of guarantors converted to a firm subscription commitment, and the Company has a subscription commitment for the public listing of NOK 43,616 thousand. The accounting effects are a result of this being conducted in Q4.

The warrants are classified as a financial liability at fair value in accordance with IAS 32. As of December 31, 2017 the fair value of the remaining warrants is estimated to be NOK 248 thousand.

(in NOK thousands)	2017	2016
Other current financial liabilities		
Guarantee fee (note 7)	7,207	-
Outstanding warrants	248	-
Other current financial liabilities	**7,456**	**-**

NOTE 22 – CONTINGENT LIABILITIES

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

NOTE 23 – EVENTS AFTER THE REPORT DATE

The Company planned an IPO in first quarter of 2018 with substantial equity financing. However, the listing had to be pulled for various reasons including unfavorable equity market conditions.

At the extraordinary general meeting held April 24, 2018, a private placement of NOK 51.8 million was approved. The investors who participated in this private placement have committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue, which is planned to be finalized within second quarter of 2018.

No other 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.

PARENT FINANCIAL STATEMENTS

PARENT STATEMENT OF COMPREHENSIVE INCOME

(in NOK thousands)	Notes	2017	2016
Revenue	*1*	1,453	833
Other operating income	*2,3*	12,694	12,339
Total operating income		**14,147**	**13,172**
Payroll and related expenses	*5,16*	(21,427)	(22,442)
Depreciation and amortization expenses	*8,9*	(14)	(1,009)
Impairment of intangible assets	*9*	-	(2,940)
Direct R&D expenses		(46,793)	(33,534)
Other expenses	*4,15,17*	(23,775)	(17,005)
Total operating expense		**(92,010)**	**(76,929)**
Loss from operations		**(77,862)**	**(63,757)**
Financial expenses	*6*	(21,057)	(389)
Impairment of investment in associate	*10*	-	(1,759)
Financial income	*6*	2,556	1,110
Net financial items		**(18,501)**	**(1,038)**
Loss before tax		**(96,363)**	**(64,795)**
Tax expense	*7*	-	-
Loss for the period		**(96,363)**	**(64,795)**
Transfers:			
Transfers to/from reserves		(96,363)	(64,795)
Transfers to/from other equity		-	-
Total transfers and allocations		**(96,363)**	**(64,795)**

PARENT STATEMENT OF FINANCIAL POSITION

(in NOK thousands)	Notes	31.12.2017	31.12.2016
Assets			
Non-current assets			
Property, plant and equipment	*8*	6	20
Intangible assets	*9*	-	-
Investment in subsidiary	*10,18*	-	4,692
Investment in associate	*10,18*	-	3,741
Other receivables	*18*	-	923
Total non-current assets		**6**	**9,377**
Current assets			
Trade and other receivables	*11*	12,129	13,724
Cash and cash equivalents	*12*	34,957	18,045
Total current assets		**47,086**	**31,769**
Total assets		**47,092**	**41,146**
Shareholders equity and liabilities			
Issued capital and reserves			
Share capital	*14*	1,234	1,002
Share premium reserve	*14*	10,557	28,792
Total equity		**11,791**	**29,794**
Liabilities			
Current liabilities			
Trade payables		11,672	4,789
Other current liabilities	*13*	16,173	6,564
Other current financial liabilities	*19*	7,456	-
Total current liabilities		**35,301**	**11,353**
Total liabilities		**35,301**	**11,353**
Total equity and liabilities		**47,092**	**41,146**

Oslo, May 30, 2018

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

Espen Johnsen
Chairman of the Board

Debasish F. Roychowdhury
Board Member

Bernt Endrerud
Board Member

Gert. W. Munthe
Board Member

Edwin Klumper
Chief Executive Officer

PARENT STATEMENT OF CASH FLOWS

(in NOK thousands)	Notes	2017	2016
Cash flows from operating activities			
Loss for the period		(96,363)	(64,795)
Adjustments for:			
Depreciation and amortization expenses	*8,9*	14	1,009
Impairment of intangible assets	*9*	-	2,940
Impairment of investment in associate	*10*	-	1,759
Interest received	*6*	(304)	(783)
Share-based payment expense	*16*	1,030	5,793
Increase/decrease in trade and other receivables		1,595	(2,728)
Increase/decrease in trade and other payables		23,949	(6,406)
Cash generated from operations		**(70,079)**	**(63,211)**
Income tax paid	*7*	-	-
Net cash flows from operations		**(70,079)**	**(63,211)**
Investing activities			
Investment in subsidiary		-	(4,592)
Demerger of subsidiary	*18*	(408)	-
Interest received	*6*	304	783
Net cash from /(used) in investing activities		**(104)**	**(3,809)**
Financing activities			
Proceeds from share issue	*14*	87,095	76,428
Net cash from/(used in) financing activities		**87,095**	**76,428**
Net increase in cash and cash equivalents		16,912	9,407
Cash and cash equivalents at the beginning of the period		18,045	8,638
Cash and cash equivalents at the end of the period		**34,957**	**18,045**

NOTES TO THE ANNUAL ACCOUNTS 2017

ACCOUNTING POLICIES – LYTIX BIOPHARAMA AS

Basis for preparation and significant accounting policies

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

These financial statements were approved for issue by the Board of Directors on May 30, 2018.

Basis for preparation of financial statements

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

Revenue recognition

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

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

Investments in Subsidiaries and Associates

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

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

Foreign currency

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

Financial assets

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

Loans and receivables

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

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

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

Financial liabilities

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

Share capital

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

Defined contribution schemes

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

Other long-term service benefits

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

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied,

a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

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

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

Leased assets

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

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

Intangible assets

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

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

See also note 9.

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 of the following has been demonstrated:

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

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

Deferred taxation

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

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

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

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 and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Freehold land is not depreciated.

Property, plant and equipment are depreciated on a straight-line basis over the expected useful life of the asset. If significant individual parts of the assets have different useful lives, they are 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
- Laboratory equipment 3-5 years

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

Government grants

Government grants are 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.

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 Company planned an IPO in first quarter of 2018 with substantial equity financing. The fundament was unfortunately not strong enough for a successful IPO at a satisfactory valuation and the IPO was therefore cancelled. In the wake of the cancelled IPO, the Company has been able to obtain additional equity financing from many of its largest shareholders. At the extraordinary general meeting held April 24, 2018, a private placement of NOK 51.8 million was approved. The investors who participated in this private placement have committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue. The next share issue is planned to be finalized within second quarter of 2018. After the Company raised additional equity in April 2018, available and committed cash is estimated to last throughout 2018.

NOTE 1 - REVENUE

(in NOK thousands)	2017	2016
Revenue		
Provision of services	-	-
Other	1,453	833
Total Revenue	**1,453**	**833**

The Company's products are still in the research and development phase, and there is no revenue from sales of products yet. Other revenue consists of consultancy revenue and rental revenue for office space rented to Amicoat AS.

NOTE 2 – OTHER OPERATING INCOME

(in NOK thousands)	2017	2016
Other operating income		
Government grants recognized in profit and loss	12,694	12,339
Other	-	-
Other operating income	**12,694**	**12,339**

NOTE 3 – GOVERNMENT GRANTS

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

(in NOK thousands)	2017	2016
Government grants		
Tax refund (across all R&D activities)	7,040	7,024
Innovation Norway	684	-
The Norwegian Research Council (BIA grant)	4,970	5,315
Other operating income	**12,694**	**12,339**

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

NOTE 4 – SPECIFICATION OF AUDITOR'S FEE

(in NOK thousands)	2017	2016
Specification of the auditor's fee		
Statutory audit	976	410
Other assurance services	-	99
Other non-assurance services	518	180
Tax consultant services	97	137
Total auditor's fee	**1,591**	**826**

VAT is not included in the fees specified above.

NOTE 5 – PAYROLL AND RELATED EXPENSES

(in NOK thousands)	2017	2016
Payroll and related expenses, including directors, comprise:		
Wages and salaries	16,804	13,367
Defined contribution pension cost	619	599
Share-based payment expense (note 16)	1,030	5,793
Social security contributions and similar taxes	2,123	1,824
Other personnel costs	850	859
Total payroll and related expenses	**21,427**	**22,422**

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

The number of man-years employed during the year:

	2017	2016
Average number	13	13

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

Management remuneration

The management consists of the Group Directors and had the following remuneration in 2017:

(in NOK thousands)	Salary	Pension cost	Share-based payments	Other remuneration	Total
Management team:					
Edwin Klumper, CEO and interim CMO [1,2]	875	-	106	2	**983**
Torbjørn Furuseth, CFO	1,324	87	610	43	**2,033**
Håkan Wickholm, CBO [1,3]	-	-	4	3,755	**3,759**
Øystein Rekdal, CSO	2,099	82	64	37	**2,283**
Wenche Marie Olsen, COO	2,059	180	42	10	**2,291**
Board members (non-executive):					
Gert W. Munthe, Chairman	300	-	-	-	**300**
Kari Grønås, member	200	-	-	-	**200**
Morten Jurs, member	200	-	-	-	**200**
Lena Torlegård, member	200	-	-	-	**200**
Debasish F. Roychowdhury, member***	200	-	-	411	**611**
Nomination Committee:					
Per Erik Sørensen	30	-	-	-	**30**
Claus Flinder	20	-	-	-	**20**
Øystein Rekdal (incl.in figures above)	20	-	-	-	**20**

[1)] Effective October 1, 2017 Edwin Klumper succeeded Håkan Wickholm as CEO in Lytix Biopharma. Håkan Wickholm continues in the Company as CBO.

[2)] Edwin Klumper will act as interim CMO until a new CMO is hired.

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

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

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

Benefits upon termination

All other contracts adhere to the Norwegian industry standard notice periods.

	2017	2016
Shares held by the management team and board members		
Management team:		
Torbjørn Furuseth, CFO	26,330	-
Håkan Wickholm, CBO	7,000	-
Øystein Rekdal, CSO	118,630	11,736
Wenche Marie Olsen, COO	2,020	225
Board members (non-executive):		
Gert W. Munthe, Chairman	2,007,540	160,572
No. of shares owned by the management team and board members	2,161,520	**172,533**

	Opening balance [1]	Granted	Lapsed	Ending balance
Options held by the management team				
Edwin Klumper, CEO	-	100,000	-	100,000
Torbjørn Furuseth, CFO	-	51,480	-	51,480
Håkan Wickholm, CBO	20,000	2,030	-	22,030
Øystein Rekdal, CSO	87,000	8,830	-	95,830
Wenche Marie Olsen, COO	66,500	6,750	-	73,250
No. of options owned by the management team	**173,500**	**169,090**	**-**	**342,590**

[1] The opening balance is adjusted for the share split with following option split which occurred during the year.

The Company operates two equity-settled share based remuneration scheme for employees. See note 16.

NOTE 6 – FINANCE INCOME AND EXPENSE

(in NOK thousands)	2017	2016
Financial income		
Interest income	304	783
Foreign exchange gains	187	-
Fair value gain on warrants	2,065	326
Total financial income	**2,556**	**1,109**

(in NOK thousands)	2017	2016
Financial expenses		
Foreign exchange losses	847	388
Other financial expenses	1	-
Restructuring expenses	13,002	-
Guarantee fee	7,207	1
Total financial expenses	**21,057**	**389**

In November 2017, Lytix entered into agreements with 43 of 47 shareholders holding warrants issued by Lytix. The conversion was completed on November 24, 2017, when the Board of Directors decided to exchange 98 % of the warrants for shares. This transaction reduced the number of outstanding warrants to 9,774. In this same process, the Company also wanted to optimize the guarantee undertaking, with a conversion to a firm subscription commitment. The majority of guarantors converted to a firm subscription commitment, and the Company has a subscription commitment for the public listing of NOK 43,616 thousand. The accounting effects are a result of this being conducted in Q4. The restructuring of the guarantee undertaking resulted in a loss of NOK 13,002 thousand.

NOTE 7 – TAX

(in NOK thousands)	2017	2016
Current tax		
Tax payable	-	-
Correction of previous years current income taxes	-	-
Deferred tax		
Changes in deferred tax	-	-
Changes in tax rate	-	-
Tax expense	**-**	**-**

(in NOK thousands)	2017	2016
Pre-tax profit (including discontinued operations)	(96,363)	(64,795)
Income taxes at 24 % / 25 %	**(23,127)**	**(16,199)**
Changes in unrecognized deferred tax asset	20,218	11,725
Change in tax rate	5,401	4,334
Non-deductible expenses	(2,492)	140
Tax expense	**-**	**-**

From January 1, 2017 the tax rate in Norway was to 24 %, and from January 1, 2018 the tax rate in Norway was reduced to 23 %. There is no effect in this year's tax expense because deferred tax from tax losses carried forward is not recognized. Deferred tax relates to the following:

(in NOK thousands)	Consolidated balance sheet		Change	
	2017	2016	2017	2016
Deferred tax assets				
Property, plant and equipment	510	781	271	(687)
Net tax on losses carried forward	123,723	103,235	(20,489)	(11,038)
Deferred tax assets	**124,233**	**104,016**	**(20,218)**	**(11,725)**
Net deferred tax assets	124,233	104,016	(20,218)	(11,725)
Net deferred tax assets not recognized	(124,233)	(104,016)	20,218	11,725
Net recognized deferred tax assets	**-**	**-**	**-**	**-**

Deferred tax assets on losses carried forward in total NOK 124 million as at December 31, 2017 (2016: NOK 103 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 538 million as at December 31, 2017 (2016: NOK 430 million) which has no due date.

NOTE 8 – PROPERTY PLANT AND EQUIPMENT

(in NOK thousands)	Machinery and equipment	Total 2017	Machinery and equipment	Total 2016
Carrying amount January 1	20	20	49	49
Additions	-	-	-	-
Depreciation	(14)	(14)	(29)	(29)
Carrying value December 31	**6**	**6**	**20**	**20**
As at 1 January				
Acquisition cost	2,479	2,479	2,479	2,479
Accumulated depreciation and write-downs	(2,459)	(2,459)	(2,430)	(2,430)
Carrying amount January 1	**20**	**20**	**49**	**49**
As at December 31				
Acquisition cost	2,479	2,479	2,479	2,479
Accumulated depreciation and write-downs	(2,473)	2,473	(2,459)	(2,459)
Carrying amount December 31	**6**	**6**	**20**	**20**

NOTE 9 – INTANGIBLE ASSETS

(in NOK thousands)	Patents and rights	Total 2017	Patents and rights	Total 2016
Carrying amount January 1	-	-	3,920	3,920
Additions	-	-	-	-
Amortization	-	-	(980)	(980)
Impairment	-	-	(2,940)	(2,940)
Carrying value December 31	**-**	**-**	**-**	**-**
As at January 1				
Acquisition cost	-	-	4,900	4,900
Accumulated amortization	-	-	(980)	(980)
Carrying amount January 1	**-**	**-**	**3,920**	**3,920**
As at December 31				
Acquisition cost	-	-	4,900	4,900
Accumulated amortization	-	-	(1,960)	(1,960)
Impairment	-	-	(2,940)	(2,940)
Carrying amount December 31	**-**	**-**	**-**	**-**

External acquired intangible assets of NOK 2,940 thousand is impaired in 2016. Intangible assets consisted of patents to be used in development of LTX-109 and was acquired in 2015. Development of LTX-109 was licensed to Amicoat AS in February 2016. As a part of the demerger in 2017, the recoverable amount of the patents was estimated to be zero. All patents related to LTX-109 were demerged to the acquiring company Pharma Holdings AS. The demerger was completed in May 2017.

NOTE 10 – SUBSIDIARIES AND ASSOCIATES

Company	Country of incorporation	Ownership interest 2017	Voting power 2017	Ownership interest 2016	Voting power 2016
Amicoat AS	Norway	-	-	92 %	92 %
Pharmasum therapeutics AS	Norway	-	-	24 %	24 %

The investment in Pharmasum Therapeutics AS was impaired with NOK 1,759 thousand in 2016. See note 18 for more information about the demerger.

NOTE 11 – TRADE AND OTHER RECEIVABLES

(in NOK thousands)	2017	2016
Trade and other receivables		
Trade receivables	765	-
Less: provisions for impairment of trade receivables	-	-
Trade receivables, net	**765**	**-**
Loans to related parties	-	4,001
Total financial assets other than cash and cash equivalents classified as loans and receivables	**-**	**4,001**
Government grants	7,040	7,021
VAT	1,013	358
Prepayments	162	343
Other receivables	3,149	2,002
Total trade and other receivables	**12,129**	**13,724**

NOTE 12 – CASH AND CASH EQUIVALENTS

(in NOK thousands)	2017	2016
Cash and cash equivalents		
Employee withholding tax	1,071	551
Fixed rate bank deposit account	-	-
Variable rate bank accounts	33,886	17,494
Total cash and cash equivalents	**34,957**	**18,045**

NOTE 13 OTHER CURRENT LIABILITIES

(in NOK thousands)	2017	2016
Other current liabilities		
Accrual for annual leave	1,269	1,080
Other accruals	269	269
Tax and social security payments	1,582	898
Other payables	13,056	4,318
Total other current liabilities	**16,173**	**6,564**

NOTE 14 – EQUITY AND SHARE CAPITAL

(in NOK thousands)	Share capital	Share premium	Retained earnings	Total equity
Balance at January 1, 2017	**1,002**	**28,791**	**-**	**29,794**
Registration of share issue	334	86,761	-	87,095
Demerger	(102)	(9,663)	-	(9,765)
Loss for the period	-	(96,363)	-	(96,363)
Share based payments	-	1,030	-	1,030
Balance at December 31, 2017	**1,234**	**10,557**	**-**	**11,791**

Share capital at December 31, 2017 is NOK 1,233,539 (December 31, 2016: NOK 1,001,806), being 12,335,388 ordinary shares at a nominal value of NOK 0.1. All shares carry equal voting rights.

	2017	2016
Change in the number of shares during the period was as follows		
Ordinary shares at January 1	1,001,806	776,202
Issue of ordinary shares before share split [1) 2) 3)]	193,944	225,604
Sum	**1,195,750**	**1,001,806**
Share split [4)]	11,957,500	n/a
Issue of ordinary shares after share split [5)]	377,888	n/a
Ordinary shares	**12,335,388**	**1,001,806**

[1)] On January 16, 2017, the Board of Directors approved the demerger plan with Amicoat Holding AS and Pharma Holdings AS. The demerger is a part of a reorganization of the Group. Non-cancer-related assets were demerged from the Group. The share capital of the Group was reduced through the demerger by redemption of shares, in accordance with the division of market values upon the demerger, cf. the Tax Act section 11-8. The demerger was finalized and registered with the Norwegian Register of Business Enterprises on May 2, 2017.

[2)] In January 2017, 217,993 shares were subscribed for in a private placement among existing shareholders and new institutional investors at a share price of NOK 272 for total gross proceeds of NOK 59.2 million. The share issue was approved by Board of Directors February 16, 2017. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in May 19, 2017.

[3)] In April 2017, 76,736 shares were subscribed for in a repair issue among existing shareholders at a share price of NOK 272 for total gross proceeds of NOK 20.8 million. The share issue was approved by the extraordinary General Meeting April 27, 2017. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in May 19, 2017.

[4)] As of October 16, 2017, the General Meeting decided to make a share split. The shares were split in the ratio 1:10, so that 1 share, with a nominal value of NOK 1, becomes 10 new shares, each with a nominal value of NOK 0.10.

[5)] Through a decision at an extraordinary general meeting held on November 16, 2017, the Board of Directors was authorized to enter agreements with investors in an effort to exchange warrants for shares. In November 2017, Lytix entered into agreements with 43 of 47 shareholders holding warrants issued by Lytix. The transaction was completed on November 24, 2017, when the Board of Lytix decided to issue 377,888 Shares against a redemption of 392,556 warrants. After conversion, Lytix' share capital was NOK 1,233,539, and the number of outstanding warrants was 9,774. The capital increase was registered at The Register of Business Enterprises in Norway December 5, 2017.

No.	Shareholders	No. of shares	Percentage share of total no. of shares
1	North Murray AS	2,007,540	16.3 %
2	Picasso Kapital AS	1,097,860	8.9 %
3	TAJ Holding AS	1,027,210	8.3 %
4	Care Holding AS	773,430	6.3 %
5	Norinova Invest AS	455,060	3.7 %
6	Lysnes Invest AS	412,210	3.3 %
7	3 T Produkter AS	389,130	3.2 %
8	LMK Venture AB	346,000	2.8 %

9	Hopen Invest AS	288,600	2.3 %
10	Mikael Lönn	224,900	1.8 %
11	Kreftforeningen	218,000	1.8 %
12	Per Strand Eiendom AS	196,350	1.6 %
13	Rothesay Limited	173,000	1.4 %
14	LB Invest AS	160,040	1.3 %
15	Norinnova Technology Transfer AS	155,790	1.3 %
16	John Sigurd Mjøen Svendsen	152,420	1.2 %
17	Sparebank 1 Nord-Norge Portefølje AS	151,820	1.2 %
18	Jahatt AS	143,640	1.2 %
19	Innovasjon Norge	133,790	1.1 %
20	Øystein Rekdal	118,630	1.0 %
	Total no. of shares for top 20 shareholders	**8,625,420**	**69.9 %**
	Total no. of shares for the other 289 shareholders	3,709,968	30.1 %
	Total no. of shares (309 shareholders)	**12,335,388**	**100.0 %**

NOTE 15 – LEASES

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

The lease costs were as follows:

(in NOK thousands)	2017	2016
Operating leases		
Ordinary lease payments	2,111	1,790
Total operating leases	**2,111**	**1,790**

NOTE 16 – SHARE OPTION AGREEMENT

Since 2013 Lytix has established three share-based incentive programs (A, B and C) 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. A description of the three incentive programs is given below.

Incentive Program A 2013/2018

On December 12, 2012, the board of directors of the Company decided to authorize the CEO and the chairman of the board of directors to implement a share option program ("Incentive Program A"). Incentive Program A comprises a maximum of 40,000 share options and was established at the beginning of 2013. The expiry date for program A is December 31, 2018.

As of December 31, 2017, a total of 17,860 of 26,231 share options were reserved off for certain specific individuals, and 16,098 of these share option were also allotted to these individuals through share option agreements. The Board has decided that no more share options will be divested in Incentive Program A. The maximum number of share options in the program therefore amounts to 17,860.

Incentive Program B 2016/2021

On March 10, 2016, the board of directors of the Company decided to implement a share option program ("Incentive Program B"). As of December 31, 2017, a total of 30,444 of the 33,044 share options were reserved for certain specific individuals, and 22,734 of these share options were also allotted to these individuals through share option agreements. The expiry date for program B is December 31, 2021.

Incentive Program C 2016/2021

On December 7, 2016, the board of directors of the Company decided to implement a share option program with a maximum of 30,000 share options ("Incentive Program C"). In total, 8,000 share options were reserved for certain specific individuals, whereof 8,000 also were allotted to these individuals through share option agreements. The expiry date for program A is December 31, 2021.

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

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

Share split

As mentioned above, there has been a share split in the ratio 1:10. Following the share split, the Company has decided to make similar split for the options. Each option is split in the ratio 1:10 and the exercise price is reduced in the same manner. The option split had the following effect on the outstanding options as of January 1, 2017.

	Before split	After split
Program A		
Number of outstanding options	23,814	238,140
Exercise price	700	70.0
Program B		
Number of outstanding options	15,550	155,500
Exercise price	350	35.0
Program C		
Number of outstanding options	-	-
Exercise price	-	-

2017	Program A		Program B		Program C	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2017	**70.0**	**238,140**	**35.0**	**155,500**	**-**	**-**
Granted during the period	70.0	16,870	35.0	99,840	27.2	80,000
Forfeited during the period	-	-	-	-	-	-
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	70.0	(94,030)	35.0	(28,000)	-	-
Outstanding at December 31, 2017	**70.0**	**160,980**	**35.0**	**227,340**	**27.2**	**80,000**

All of the options granted during the period for program C, and 50,000 of the options granted during the period for program B is subject to a vesting period. In program B, 25,000 of the options will vest on July 1, 2019 and 25,000 on July 1, 2020. In program C, 25,000 of the options will vest on July 1, 2020 and 25,000 on July 1, 2021.

2016	Program A		Program B	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2016	**700**	**30,854**	**-**	**-**
Granted during the period	**-**	**-**	**350**	**15,550**
Forfeited during the period	**-**	**-**	**-**	**-**
Exercised during the period	**-**	**-**	**-**	**-**
Lapsed during the period	**700**	**(7,040)**	**-**	**-**
Outstanding at December 31, 2016	**700**	**23,814**	**350**	**15,550**

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

2017 Equity settled	Program A	Program B	Program C
Option pricing model used		Black & Scholes	
Weighted average share price at grant date (NOK)	27.2	27.2	27.2
Exercise price (NOK)	70.0	35.0	27.2
Expected volatility	60.0 %	60.0 %	60.0 %
Expected dividend growth rate	0	0	0
Risk-free interest rate	0.4 %	0.8 %	1.1 %

2016 Equity settled	Program A	Program B
Option pricing model used	Black & Scholes	
Weighted average share price at grant date (NOK)	700	350
Exercise price (NOK)	700	350
Weighted average contractual life (in days)	-	-
Expected volatility	60.00 %	60.00 %
Expected dividend growth rate	-	-
Risk-free interest rate	0.52 %	0.79 %

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 comprise:

(in NOK thousands)	2017	2016
Equity settled schemes	1,030	5,793
Total remuneration expense	**1,030**	**5,793**

NOTE 17 – TRANSACTIONS WITH RELATED PARTIES

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

(in NOK thousands)	2017	2016
GWH Consult AB (Håkan Wickholm)	4,108	3,897
Nirvan Consultants LLC (D. F. Roychowdhury)	411	430

The transactions with related parties consist of invoiced fee for management and consultancy services including related expenses. Invoiced fee for management services (see note 5) is included in purchases from related parties.

As of December 31, the Group has the following balances with related parties

(in NOK thousands)	2017	2016
GWH Consult AB (Håkan Wickholm)	534	1,209
Nirvan Consultants LLC (D. F. Roychowdhury)	-	-

NOTE 18 – DEMERGER

On December 7, 2016, the Company decided to demerge all assets not related to cancer, i.e. Amicoat AS, Pharmasum Therapeutics AS, all intellectual properties related to LTX-109, a receivable of NOK 923 thousand on Pharmasum Therapeutic AS and cash of NOK 408 thousand to the shareholders of the Company. The demerger was part of a reorganization of the Company,

where non-cancer-related assets were demerged prior to the completion of a private placement directed towards investors, with the purpose of securing financing of the Company's cancer research business. As of December 31, 2016 Amicoat AS was a wholly owned subsidiary while Pharmasum Therapeutics AS was an associate where the Company owned 24 % of the shares. On January 31, 2017, the shareholders of the Company approved the demerger. The demerger was completed on May 2, 2017.

After the demerger, the Group consist of Lytix Biopharma AS only.

NOTE 19 – GUARANTEE COMMITMENT

The two financing rounds conducted in the Q1 and Q2 included warrants and a guarantee setup in connection with the potential public listing. The investors who undertook the underwriting guarantee received two warrants per share subscribed and with a potential guarantee commission. A total of 402,330 warrants have been resolved issued to the investors by the Company's General Meetings held on February 16, 2017 and April 27, 2017.

To optimize the financial structure prior to the listing, the Board of Directors decided to reduce the number of warrants.

In an extraordinary general meeting held on November 16, 2017, the Board of Directors was authorized to enter agreements with investors in an effort to exchange warrants with shares. In November 2017, Lytix entered into agreements with 43 of 47 shareholders holding warrants issued by Lytix. The conversion was completed on November 24, 2017, when the Board of Directors decided to exchange 98 % of the warrants for shares. This transaction reduced the number of outstanding warrants to 9,774. In this same process, the Company also wanted to optimize the guarantee undertaking, with a conversion to a firm subscription commitment. The majority of guarantors converted to a firm subscription commitment, and the Company has a subscription commitment for the public listing of NOK 43,616 thousand. The accounting effects are a result of this being conducted in Q4.

The warrants are classified as a financial liability in accordance with generally accepted accounting principles in Norway. As of December 31, 2017 the value of the remaining warrants is estimated to be NOK 248 thousand.

(in NOK thousands)	2017	2016
Other current financial liabilities		
Guarantee fee (note 6)	7,207	-
Outstanding warrants	248	-
Other current financial liabilities	**7,456**	**-**

NOTE 20 – EVENTS AFTER THE REPORT DATE

The Company planned an IPO in first quarter of 2018 with substantial equity financing. However, the listing had to be pulled for various reasons including unfavorable equity market conditions.

At the extraordinary general meeting held April 24, 2018, a private placement of NOK 51.8 million was approved. The investors who participated in this private placement have committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue, which is planned to be finalized within second quarter of 2018.

No other 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.

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Lytix Biopharma AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Lytix Biopharma AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the statements of comprehensive income], cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Tromsø, 31 May 2018
ERNST & YOUNG AS

Kai Astor Frøseth
State Authorised Public Accountant (Norway)