Lytix Biopharma

ONCOLYTIC PEPTIDES FIRST

Annual Report 2019

DIRECTORS’ REPORT FOR 2019

2019 was a memorable and very busy year for Lytix Biopharma AS ("Lytix" or the "Company").

Main events during 2019:

- In January Lytix Biopharma announced dosing of the first patient in a Phase II study with its first in class oncolytic peptide, LTX-315, administered in combination with adoptive T-cell therapy in patients with progressive advanced soft tissue sarcoma. The objective of the trial is to assess the safety and efficacy of intratumoral administration of LTX-315 and adoptive T-cell therapy in patients with advanced soft tissue sarcoma. This proof of concept study will evaluate the potential for LTX-315 to induce T-cell infiltration prior to isolation and expansion of tumor infiltrating lymphocytes (TILs) followed by infusion of the cultured TILs to the patient.

  So far, three patients have received LTX-315 treatment. In one patient, the disease was stabilized by the treatment, resulting in progression free survival for 8 months. The two other patients continued to have progressive disease. No severe side effects related to LTX-315 have been reported in the three patients. The study was put on hold in September due to slow recruitment rate. It was also decided to amend the protocol to increase the efficacy of the treatment.

- Lytix Biopharma presented three posters at the American Association for Cancer Research (AACR) Annual Meeting. The three posters covered (1) animal data on liver cancer treated with LTX-401, (2) data on sarcoma patients treated with LTX-315, and (3) data on melanoma patients treated with LTX-315.

- In collaboration with a research team at Harvard, Lytix Biopharma published the effect of LTX-315 in clinically relevant cancer models resistant to several types of chemotherapies and immunotherapies in the high-ranking journal Cell Stress. Lytix has ongoing research projects together with research groups at Cornell Medical University, New York, and at National Cancer Institute, Bethesda, U.S.A.

- In June Lytix Biopharma announced that Nobel Laureate Dr James (Jim) Allison (PhD) and Oncologist Dr Padmanee (Pam) Sharma (MD) from the MD Anderson Cancer Center had joined Lytix` Scientific Advisory Board and that they also will serve as Company Strategic Advisors.

  Dr. Allison is Regental Professor and Chair of Immunology and Executive Director of Immunotherapy at the MD Anderson Cancer Clinic, University of Texas. He is also a director of the Cancer Research Institute scientific advisory council. His research elucidated the mechanism behind T cell activation and pioneered the first immune checkpoint blocker drug for the treatment of cancer. His work has radically transformed the landscape for cancer treatment, shifting it away from targeting a tumor to instead using the immune system to destroy cancer cells.

  Dr. Sharma is a prominent leader in oncology specializing in kidney, bladder and prostate cancer. She is a professor of Genitourinary Medical Oncology and Immunology in the Division of Cancer Medicine, the T.C. and Jeanette Hsu Endowed Chair in Cell Biology, the Scientific Director of the Immunotherapy Platform and the Co-Director of the Parker Institute for Cancer Immunotherapy at The University of Texas MD Anderson Cancer Center.

- In September Øystein Rekdal was promoted to the position as CEO for Lytix, succeeding Edwin Klumper. Rekdal is one of the founders of Lytix Biopharma and its portfolio, including LTX-315 and LTX-401. Rekdal served as a CEO of Lytix Biopharma in the first years after the company was established and has later served as CSO and Head of R&D. Rekdal has world leading expertise on oncolytic peptides and he possesses a broad international network within immuno-oncology. Rekdal knows the company very well, the technological platform, the organization and the future challenges

- A new Board was elected in December 2019; Gert W. Munthe (Chair), Debasish Roychowdhury and Per Erik Sørensen.

- In October Lytix Biopharma signed a clinical collaboration agreement with the US listed company Iovance Biotherapeutics, Inc. (NASDAQ: IOVA), a late-stage biotechnology company developing novel cancer immunotherapies based on tumor infiltrating lymphocyte (TIL) technology. The clinical collaboration will evaluate Lytix` first-in-class oncolytic peptide, LTX-315, in combination with Iovance` autologous ready to infuse T cell therapy. The goal of the collaboration is to document whether the combination of the two technologies represents a new approach to using patients own T cells in the treatment of cancer. For Lytix, this is a major and important milestone and confirms that commercial players in the field are interested in our technology. The collaboration is a non-exclusive collaboration where both parties will maintain ownership of their own assets.

- Øystein Rekdal gave an oral presentation at the ESMO Immuno-Oncology Congress 2019 (European Society for Medical Oncology), in Geneva for approximately 1,000 attendees. The presentation was very well received. The ESMO Immuno-Oncology Congress is an annual event devoted entirely to the development and use of the immunotherapies against cancer.

- In December Lytix Biopharma signed a contract with Covance, a global leading CRO, that will assist Lytix with the IND (application for approval from FDA to run clinical studies in the US). The IND process has been initiated.

- Throughout 2019, Lytix Biopharma has experienced the challenging climate within the capital market for unlisted biotech companies. The Company has met with many life science specialist investors in both EU and US, but the interest was lower than expected. Several specialist investors provided good feedback on our technology, but they want more solid clinical results before considering investing. In the last quarter of 2019, the Company reached out to existing shareholders to secure a private placement. The private placement was completed in February 2020 and was followed up with a repair issue in March 2020. In total Lytix Biopharma raised NOK 40 million through these two events.

Background and strategy

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

The Company's clinical stage product, LTX-315, turns cold tumors hot providing access to antigens and tumor infiltrating lymphocytes (TILs) using the patient's own tumor as source. The technology has potential to address several indications and therapeutic areas. Lytix has a strong patent portfolio with protection lasting up to 2032.

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

Financial review

Accounting policies

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

Operating income

Revenue for 2019 for the Company amounted to NOK 310 thousand compared to NOK 337 thousand in 2018. Other income, mainly public grants, amounted to NOK 6,388 thousand for 2019 compared to NOK 11,501 thousand for 2018.

Operating expenses

Total operating expenses decreased to NOK 39,658 thousand in 2019 from NOK 74,206 thousand in 2018 for the Company. Loss from operations for the Company amounted to NOK 32,960 thousand in 2019 compared to NOK 62,368 thousand in 2018.

Net financial items

Lytix' net financial items constituted NOK 546 thousand in 2019 (2018: NOK 853 thousand).

Net result

The loss for the period was NOK 32,415 thousand for 2019 compared to a loss of NOK 61,515 thousand for 2018.

Financial position and cash flow

Cash and cash equivalents were NOK 12,796 thousand for the Company at the end of 2019 compared to NOK 49,621 thousand end of 2018.

Total liabilities for the Company were NOK 3,042 thousand in 2019, including accrued, non-invoiced cost from ongoing projects (2018: 17,849 thousand).

Shareholders' equity for the Company was NOK 14,393 thousand at the end of 2019, compared to NOK 41,051 thousand at the end of 2018.

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

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

Allocation of the 2019 result

The Company's annual result amounted to a loss of NOK 32,415 thousand. The Board of Directors proposed that the loss is transferred from Share Premium Reserve.

Financial risks

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

The Company controls its cash flow from both long- and short-term perspectives through rolling cash forecasts. The Company has no loan agreements involving covenants or other financial instruments or requirements. There is an inherent risk around future financing of the Company, depending upon the Company's own performance and on the financial market conditions. In 2019, the Company has initiated a financing round with the intention to raise capital to fund the Company's capital need for further development and documentation of its technologies. The capital raise was planned to be conducted as one or several share issue(s) toward one single investor or a defined club of investors. The share issue was finalized in first quarter of 2020. The Company raised in total NOK 40 million.

Non-financial risks

Technology risk

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

Competitive technology

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

Market risks

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

Personnel and organization

Lytix Biopharma's senior management team at year-end consists of Øystein Rekdal, Chief Executive Officer, Baldur Sveinbjørnsson, Chief Scientific Officer, and Gjest Breistein, Chief Financial Officer. In addition, Kamal Saini works as a Chief Medical Officer consultant hired from Covance.

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

Health, safety and environment (HSE)

During 2019, the Company had 8 employees (constituting 8 man-years). The working environment is good. No accidents or injuries were reported in 2019. Absence due to illness was all short term and minimal, and in line with 2018.

The Company aims to be a workplace with equal opportunities for women and men in all areas. The Company has traditionally recruited from environments where women and men are relatively equally represented. In terms of gender equality within the Company, women constitute 0 % of the Board members and 0 % of the senior management team. The Company promotes a productive working environment, does not tolerate disrespectful behavior, and the Company is an equal opportunity employer. Discrimination in hiring, compensation, training, promotion, termination or retirement based on ethnic and national origin, religion, sex or other distinguishing characteristics is not acceptable.

External environment

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

Statement of corporate social responsibility – Code of Conduct

The Company's business is based on trust. For the confidence of its customers, employees, shareholders and other stakeholders, ethics and values have to play a prominent role in all operations. The Company is committed to operating in accordance with responsible, ethical and sound corporate and business principles and will strive to be in compliance with all applicable laws and public regulations. This requires the collective effort of all employees in the Company.
This Code of conduct applies to all employees and Board members in entities owned by the Company. By agreement it may also apply to others acting on behalf of the Company.

Board statement on corporate governance

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

Deviations from the Code:

- As Chief Scientific Officer, Øystein Rekdal, was a member of the nomination committee, which is a deviation from the Code, which says that the members of the executive management shall not be members of the nomination committee. As one of the founders of the Company, Mr. Rekdal has been a valuable member of the nomination committee, but he was replaced by Baldur Sveinbjørnsson in December 2019.

- Chief Scientific Officer, Baldur Sveinbjørnsson, is a member of the nomination committee, which is a deviation from the Code which says that the members of the executive management shall not be members of the nomination committee.

Mr. Sveinbjørnsson has been involved in Lytix Biopharma since its inception and is an expert on the Company's technology.

Board of Directors of Lytix Biopharma AS

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

Espen Johnsen (as Chair) and Bernt Endrerud served on the Board until December 3, 2019 when Gert W. Munthe was elected as Chair and Per Erik Sørensen was elected in as a new member.

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

The Board of Directors held 12 Board meetings during the fiscal year 2019.

Significant events after 31 December 2019

Lytix has completed two share issues in 2020. In February 2020, Lytix raised NOK 35 million through a private placement. In March 2020 the Company raised NOK 5 million in a repair issue. 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 28, 2020

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

Gert W. Munthe Chairman of the Board	Debasish F. Roychowdhury Board Member
Per Erik Sørensen Board Member	
Øystein Rekdal Chief Executive Officer	

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

(in NOK thousands)	Notes	2019	2018
Revenue	*1*	310	337
Other operating income	*2,3*	6,388	11,501
Total operating income		**6,698**	**11,838**
Payroll and related expenses	*5,15*	(20,103)	(19,496)
Depreciation and amortization expenses	*8,9*	-	(6)
Direct R&D expenses		(14,021)	(39,898)
Other expenses	*4,14*	(5,535)	(14,806)
Total operating expense		**(39,658)**	**(74,206)**
Loss from operations		**(32,960)**	**(62,368)**
Financial expenses	*6*	(338)	(511)
Financial income	*6*	884	1,364
Net financial items		**546**	853
Loss before tax		**(32,415)**	**(61,515)**
Tax expense	*7*	-	-
Loss for the period		**(32,415)**	**(61,515)**
Transfers:			
Transfers to/from reserves		(32,415)	(61,515)
Transfers to/from other equity		-	-
Total transfers and allocations		**(32,415)**	**(61,515)**

STATEMENT OF FINANCIAL POSITION

(in NOK thousands)	Notes	31.12.2019	31.12.2018
Assets			
Non-current assets			
Property, plant and equipment	*8*	-	-
Total non-current assets		**-**	**-**
Current assets			
Trade and other receivables	*10*	4,638	9,278
Cash and cash equivalents	*11*	12,796	49,621
Total current assets		**17,434**	**58,900**
Total assets		**17,434**	**58,900**
Shareholders equity and liabilities			
Issued capital and reserves			
Share capital		2,289	2,249
Paid-in share capital, unregistered	*13*	-	4,000
Share premium reserve		12,103	34,801
Total equity	***13***	**14,393**	**41,051**
Liabilities			
Current liabilities			
Trade payables		-	13,184
Other current liabilities	*12*	3,042	4,665
Total current liabilities		**3,042**	**17,849**
Total liabilities		**3,042**	**17,849**
Total equity and liabilities		**17,434**	**58,900**

Oslo, May 28, 2020

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

Gert W. Munthe
Chairman of the Board

Debasish F. Roychowdhury
Board Member

Per Erik Sørensen
Board Member

Øystein Rekdal
Chief Executive Officer

STATEMENT OF CASH FLOWS

(in NOK thousands)	Notes	2019	2018
Cash flows from operating activities			
Loss for the period		(32,415)	(61,515)
Adjustments for:			
Depreciation and amortization expenses	*8,9*	-	6
Interest received	*6*	-	-
Share-based payment expense	*15*	5,762	3,495
Increase/decrease in trade and other receivables		4,640	2,850
Increase/decrease in trade and other payables		(14,807)	(17,452)
Cash generated from operations		**(36,820)**	(72,616)
Income tax paid	*7*	-	-
Net cash flows from operations		**(36,820)**	(72,616)
Investing activities			
Demerger of subsidiary		-	-
Interest received	*6*	-	-
Net cash from /(used) in investing activities		**-**	**-**
Financing activities			
Proceeds from share issue	*13*	(5)	87,280
Net cash from/(used in) financing activities		**(5)**	87,280
Net increase in cash and cash equivalents		(36,825)	14,664
Cash and cash equivalents at the beginning of the period		49,621	34,957
Cash and cash equivalents at the end of the period		**12, 796**	**49,621**

NOTES TO THE ANNUAL ACCOUNTS 2019

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 28, 2020.

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

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. In 2019, the Company has initiated a financing round with the intention to raise capital from a group of specialist investors to fund the Company's capital need for further development and documentation of its technologies. The capital raise was completed in 2020 when Lytix raised NOK 40 million in one private placement and a subsequent repair issue.

NOTE 1 - REVENUE

(in NOK thousands)	2019	2018
Revenue		
Provision of services	-	-
Other	310	337
Total Revenue	**310**	**337**

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

NOTE 2 – OTHER OPERATING INCOME

(in NOK thousands)	2019	2018
Other operating income		
Government grants recognized in profit and loss	6,029	11,486
Other	359	15
Other operating income	**6,388**	**11,501**

NOTE 3 – GOVERNMENT GRANTS

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

(in NOK thousands)	2019	2018
Government grants		
Tax refund (across all R&D activities)	3,631	6,819
The Norwegian Research Council (BIA grant)	2,398	4,667
Other operating income	**6,029**	**11,486**

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

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

NOTE 4 – SPECIFICATION OF AUDITOR'S FEE

(in NOK thousands)	2019	2018
Specification of the auditor's fee		
Statutory audit	251	375
Other non-assurance services	56	9
Tax consultant services	7	126
Total auditor's fee	**314**	**510**

VAT is not included in the fees specified above.

NOTE 5 – PAYROLL AND RELATED EXPENSES

(in NOK thousands)	2019	2018
Payroll and related expenses, including directors, comprise:		
Wages and salaries	11,564	13,021
Defined contribution pension cost	877	641
Share-based payment expense (note 15)	5,762	3,495
Social security contributions and similar taxes	1,756	2,221
Other personnel costs	144	118
Total payroll and related expenses	**20,103**	**19,496**

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:

	2019	2018
Number of man-years employed	8	11

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

Management remuneration 2019

(in NOK thousands)	Salary	Pension cost	Share-based payments	Other remuneration	Total
Management team:					
Øystein Rekdal, CEO (CSO)[1]	1,627	72	84	13	**1,796**
Baldur Sveinbjørnsson, CSO[2]	976	43	63	7	**1,089**
Gjest A. Breistein, CFO	1,582	70	84	11	**1,747**
Edwin Klumper, CEO[1]	2,355	47	81	6	**2,489**
Hamina Patel, CMO[4]	1,567	63	-	5	**1,635**
Board members (non-executive):					
Gert W. Munthe, Chairman[3]	200	-	1,873	-	**2,073**
Debasish F. Roychowdhury, member	200	-	-	-	**200**
Per Erik Sørensen, member[5]	30	-	-	-	**30**
Espen Johnsen[3]	-	-	1,873	-	**1,873**
Bernt Endrerud[5]	200	-	-	-	**200**
Nomination Committee[6]:					
Lars Bakklund, Chairman	30	-	-	-	**30**
Lise Von Tangen-Jordan	-	-	-	-	**-**
Baldur Sveinbjørnsson	-	-	-	-	**-**
Øystein Rekdal (incl.in figures above)	30	-	-	-	**30**
Per Erik Sørensen (incl. in figures above)	30	-	-	-	**30**

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

[2)] Baldur Sveinbjørnsson took over as CSO after Øystein Rekdal changed his position in August 2019.

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

[4)] Hamina Patel was working for the Company on a contracted basis and all additional costs are carried by the director's company (social fees, pension, withholding tax etc.) until April 30, 2019. From then Hamina Patel has been a regular employee of Lytix. Other remuneration could also include refund of travel and other expenses. Hamina resigned in September and worked until end of December 2019.

Besides this, Lytix paid the invoices amounting to NOK 1.2 mill to her company, StratiPhy Consulting Ltd., for the services provided up to and including April 2019.

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

[6)] Nomination Committee was changed during 2019. From December 2019, the committee has the following 3 members – Lars Bakklund (Chairman), Lise Von Tangen-Jordan and Baldur Sveinbjørnsson.

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

Besides the stock option programs, 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.

	2019	2018
Shares controlled by the management team and board members		
Management team:		
Øystein Rekdal, CEO	118,630	118,630
Board members (non-executive):		
Espen Johnsen, Chairman	1,211,592	1,211,592
Gert W. Munthe, Chairman (as of December 2019)	2,154,527	2,154,527
Bernt Endrerud	1,608,080	1.608,080
No. of shares controlled by the management team and board members	5,092,829	**5,092,829**

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

2018	Opening balance	Granted	Lapsed/ Forfeited	Ending balance
Options held by the management team				
Espen Johnsen, Chairman	-	600,000	-	600,000
Edwin Klumper, CEO	100,000	88,135	-	188,135
Øystein Rekdal, CSO	95,830	168,135	(35,250)	228,715
Gjest Breistein, CFO	15,420	88,135	-	103,555
No. of options owned by the management team	**211,250**	**944,405**	**(35,250)**	**1,120,405**

The figures in the table above are different than those presented in Annual Report 2018. This is because the Annual Report 2018 included the stock options based on share issue which was not completed by end of 2019.

The Company operates three equity-settled share-based remuneration scheme for employees. See note 15.

NOTE 6 – FINANCE INCOME AND EXPENSES

(in NOK thousands)	2019	2018
Financial income		
Interest income	461	360
Foreign exchange gains	79	282
Other financial income	344	473
Fair value gain on warrants	-	248
Total financial income	**884**	**1,364**

(in NOK thousands)	2019	2018
Financial expenses		
Foreign exchange losses	338	474
Other financial expenses	-	37
Total financial expenses	**338**	**511**

NOTE 7 – TAX

(in NOK thousands)	2019	2018
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)	2019	2018
Pre-tax profit	(32,415)	(61,515)
Income taxes at 22 % / 23 %	**(7,131)**	**(14,148)**
Changes in unrecognized deferred tax asset	6,669	9,090
Change in tax rate	-	6,059
Non-deductible expenses	463	(1,001)
Tax expense	**-**	**-**

From January 1, 2019 the tax rate in Norway was changed from 23% to 22 %, and from January 1, 2020 the tax rate in Norway remains the same i.e. 22 %. There is no effect in this year's tax expense because deferred tax from tax losses carried forward is not recognized. Deferred tax relates to the following:

(in NOK thousands)	Balance sheet		Change	
	2019	2018	2019	2018
Deferred tax assets				
Property, plant and equipment	36	261	-225	(249)
Net tax on losses carried forward	139,955	131,061	6,894	9,338
Deferred tax assets	**139,991**	**133,323**	**6,669**	**9,090**
Net deferred tax assets	139,991	133,323	6,669	9,090
Net deferred tax assets not recognized	(139,991)	(133,323)	(6,669)	(9,090)
Net recognized deferred tax assets	**-**	**-**	**-**	**-**

Deferred tax assets on losses carried forward, in total NOK 140 million as at December 31, 2019 (2018: NOK 133 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 636 million as at December 31, 2019 (2018: NOK 605 million) which has no due date.

NOTE 8 – PROPERTY PLANT AND EQUIPMENT

(in NOK thousands)	Machinery and equipment	Total 2019	Machinery and equipment	Total 2018
Carrying amount January 1	-	-	6	6
Additions	-	-	-	-
Depreciation	-	-	(6)	(6)
Carrying value December 31	**-**	**-**	**-**	**-**
As at 1 January				
Acquisition cost	-	-	2,479	2,479
Accumulated depreciation and write-downs	-	-	(2,479)	(2,479)
Carrying amount January 1	**-**	**-**	**-**	**-**
As at December 31				
Acquisition cost	-	-	2,479	2,479
Accumulated depreciation and write-downs	-	-	(2,479)	(2,479)
Carrying amount December 31	**-**	**-**	**-**	**-**

NOTE 9 – INTANGIBLE ASSETS

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

NOTE 10 – TRADE AND OTHER RECEIVABLES

(in NOK thousands)	2019	2018
Trade receivables	48	229
Less: provisions for impairment of trade receivables	-	-
Trade receivables, net	**48**	**229**
Government grants	3,631	6,442
VAT	245	362
Prepayments	445	465
Other receivables	269	1,780
Total trade and other receivables	**4,638**	**9,278**

NOTE 11 – CASH AND CASH EQUIVALENTS

(in NOK thousands)	2019	2018
Cash and cash equivalents		
Employee withholding tax	750	750
Variable rate bank accounts	12,046	48,871
Total cash and cash equivalents	**12,796**	**49,621**

NOTE 12 – OTHER CURRENT LIABILITIES

(in NOK thousands)	2019	2018
Other current liabilities		
Accrual for annual leave	754	1,152
Other accruals	1,383	2,243
Tax and social security payments	873	1,165
Other payables	32	105
Total other current liabilities	**3,042**	**4,665**

NOTE 13 – EQUITY AND SHARE CAPITAL

(in NOK thousands)	Share capital	Share premium	Paid-in share capital – Unreg.	Total equity
Balance at January 1, 2019	**2,249**	**34,801**	**4,000**	**41,051**
Registration of share issue	40	3,960	(4,000)	-
Loss for the period	-	(32,415)	-	(32,415)
Share based payments	-	5,762	-	5,762
Administration charges from share issue	-	(5)	-	(5)
Balance at December 31, 2019	**2,289**	**12,103**	**-**	**14,393**

Share capital at December 31, 2019 is NOK 2,289,378 (December 31, 2018: NOK 2,249,378), being 22,893,784 ordinary shares at a nominal value of NOK 0.1. All shares carry equal voting rights.

	2019	2018
Change in the number of shares during the period was as follows		
Ordinary shares at January 1	22,893,784	12,335,388
Issue of ordinary shares by Share Issue I - Private Placement A[1)]	n/a	6,069,782
Issue of ordinary shares by Share Issue I - Private Placement B[2)]	n/a	843,750
Issue of ordinary shares by Share Issue II[3)]	n/a	3,244,864
Ordinary shares per 31.12.2018	**22,893,784**	**22,493,784**
Issue of ordinary shares by Share Issue III – Not registered per December 31, 2018[4)]	n/a	400,000
Sum	**22,893,784**	**22,893,784**

[1)] In April 2018, 6,069,782 shares were subscribed for in a private placement among existing shareholders at a share price of NOK 7,5 for total gross proceeds of NOK 45.5 million. The share issue was approved by the extraordinary General Meeting April 24, 2018. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in May 8, 2018.

[2)] In addition to the new share issues in April 2018, there was a conversion of outstanding guarantee fees into shares capital by issuance of 843,750 shares at a share price of NOK 7,5 for the outstanding amount of NOK 6.3 million. The share issue was approved by the extraordinary General Meeting April 24, 2018. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in May 19, 2018.

[3)] In June 2018, the share capital was further increased by issuance of 3,244,864 shares, which were subscribed for in a private placement among existing shareholders at a share price of NOK 10 for total gross proceeds of NOK 32.4 million. The share issue was approved by the Annual General Meeting held on June 26, 2018. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises in July 2018.

[4)] In December 2018, the Board indicated the needs of funds and discussed the possibility for a private placement towards an existing investor, who was interested to invest in the Company. The Board resolved the resolution regarding a private placement by subscription of new shares under the existing authorization from the general meeting dated June 26, 2018. The share capital was increased with 400,000 shares and subscribed at a share price of NOK 10. The share issue was approved by the Board of Directors in the meeting held on December 3, 2018. The contribution was confirmed and registered in the Norwegian Register of Business Enterprises on January 8, 2019.

Top 20 shareholders as of December 31, 2019:

No.	Shareholders	No. of shares	Percentage share of total no. of shares
1	Taj Holding AS	3,668,291	16 %
2	North Murray AS	2,154,527	9 %
3	3 T produkter AS	1,725,431	8 %
4	Care Holding AS	1,608,080	7 %
5	Picasso Kapital AS	1,122,860	5 %
6	Jakob Hatteland Holding AS	1,000,000	4 %
7	Brødrene Karlsen Holding AS	709,273	3 %
8	Dansk Bank International S.A.	685,184	3 %
9	Mikael Lönn	616,967	3 %
10	Lysnes Invest AS	615,654	3 %
11	Norinnova Invest AS	557,510	2 %
12	Per Strand Eiendom AS	496,350	2 %
13	Hopen Invest AS	481,117	2 %
14	LMK Forward AB	420,363	2 %
15	Kvasshøgdi AS	326 950	1 %
16	Jahatt AS	250,000	1 %
17	Kreftforeningen	218,000	1 %
18	Frewi AS	200,010	1 %
19	Harila Invest AS	192,680	1 %
20	4 LB Invest AS	160,040	1 %
	Total no. of shares for top 20 shareholders	**17,209,287**	**76 %**
	Total no. of shares for the other shareholders	5,684,497	24%
	Total no. of shares	**22,893,784**	**100 %**

NOTE 14 – LEASES

The Company has 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)	2019	2018
Operating leases		
Ordinary lease payments	1,918	2,012
Total operating leases	**1,918**	**2,012**

(in NOK thousands)	2019	2018
Within 1 year	1,200	1,275
1 to 5 years	800	2,206
After 5 years	-	-
Sum	**2,000**	**3,480**

The Company moved in 2018 to Hoffsveien 4 in Oslo. The previous office rentals in Oslo and Tromsø have been terminated.

NOTE 15 – SHARE OPTION PROGRAMS

Since 2013 Lytix has established six share-based incentive programs (A, B, C, D, Chairman and Strategic advisors) for the Company's management, employees and consultants to the Company, under which the entity receives services from employees as consideration for equity instruments in Lytix Biopharma AS. The incentive programs consist of share options. A description of the 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”). The expiry date for program A was December 31, 2018, thus there are no outstanding options as at December 31, 2019.

Incentive Program B 2016/2021

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

Incentive Program C 2016/2021

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

Incentive Program D 2018/2023

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

Incentive Program Chairman 2018/2023 & 2019/2025

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

Incentive Program Strategic advisors 2019/2024

On June 12, 2019, the board of directors of the Company decided to implement a share option program of 467,220 share options (”Incentive Program Strategic advisors”) to certain strategic advisors. The expiry date for program Strategic advisors is June 12, 2024. The options are subject to quarterly vesting over two years. A total of 175,208 options in program Strategic advisors vested during 2019.

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

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

	Program D		Chairman		Strategic advisors	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1, 2018	**-**	**-**	**-**	**-**	**-**	**-**
Granted during the period	20.0	761,860	25.0	600,000	-	-
Forfeited during the period	-	-	-	-	-	-
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	-	-	-	-	-	-
Outstanding at December 31, 2018	**20.0**	**761,860**	**25.0**	**600,000**	**-**	**-**
Outstanding at January 1, 2019	**20.0**	**761,860**	**25.0**	**600,000**	**-**	**-**
Granted during the period	-	-	12.0	600,000	12.0	467,220
Forfeited during the period	20.0	(88,135)	25.0	(600,000)	-	-
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	-	-	-	-	-	-
Outstanding at December 31, 2019	**20.0**	**673,725**	**12.0**	**600,000**	**12.0**	**467,220**

	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, 2018	**70.0**	**160,980**	**35.0**	**227,340**	**27.2**	**80,000**
Granted during the period	-	-	-	-	-	-
Forfeited during the period	-	-	35.0	(90,320)	27.2	(30,000)
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	70.0	(160,980)	-	-	-	-
Outstanding at December 31, 2018	**-**	**-**	**35.0**	**137,020**	**27.2**	**50,000**
Outstanding at January 1, 2019	**-**	**-**	**35.0**	**137,020**	**27.2**	**50,000**
Granted during the period	-	-	-	-	-	-
Forfeited during the period	-	-	35.0	(50,000)	27.2	(50,000)
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	**-**	**-**	-	-	-	-
Outstanding at December 31, 2019	**-**	**-**	**35.0**	**87,020**	**-**	**-**

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

Equity settled	Program D	Chairman	Strategic advisors
Option pricing model used		Black & Scholes	
Weighted average share price at grant date (NOK)	10.0	10.0/12.0	12.0
Exercise price (NOK)	20.0	25.0/12.0	12.0
Expected volatility	58.4 %	58.4 %	58.4 %
Expected dividend growth rate	0	0	0
Risk-free interest rate	1.5 %	1.5 %/1.3%	1.2 %

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 %

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)	2019	2018
Equity settled schemes	5,762	3,495
Total remuneration expense	**5,762**	**3,495**

NOTE 16 – EVENTS AFTER THE REPORT DATE

Lytix has completed two share issues in 2020. In February 2020, Lytix raised NOK 35 million through a private placement. In March 2020 the Company raised NOK 5 million in a repair issue. 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

Statsautoriserte revisorer
Ernst & Young AS

Roald Amundsens Plass 1, NO-9008 Tromsø
Postboks 1212, NO-9262 Tromsø

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Lytix Biopharma AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Lytix Biopharma AS, which comprise the balance sheet as at 31 December 2019, statement of comprehensive income and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

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

Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

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

Tromsø, 28 May 2020
ERNST & YOUNG AS

Kai Astor Frøseth

Kai Astor Frøseth
State Authorised Public Accountant (Norway)