Lytix Biopharma

ONCOLYTIC PEPTIDES FIRST

Annual Report 2018

CONTENTS

DIRECTORS' REPORT FOR 2018

2018 was a memorable and very busy year for Lytix Biopharma AS ("Lytix" or the "Company"). Main events during 2018:

- Lytix had planned to do a listing of the Company at Nasdaq First North Premier in Stockholm late 2017/early 2018. In Q1 2018 the listing was cancelled 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. All shareholders who had participated in the IPO guarantee was invited.

- The investors who participated in the private placement committed to subscribe for shares of an amount of NOK 11.4 million in the next share issue, and in total NOK 32.4 million was raised in that next share issue.

- In April/May Lytix was through a cost cutting process focusing on key value driving projects. Staff was reduced, a new Board of Directors installed, and a new strategic plan was created based on the latest clinical data, the latest development in the immuno oncology field as well as advice from key opinion leaders.

- Gjest Breistein was appointed new CFO per September 1, 2018, succeeding Torbjørn Furuseth.

- The Phase I study with LTX-315 was completed, and positive top-line data showed that local injections with LTX-315 activates the immune system by generating the right killer T cells against the patient's own cancer. The best results were shown in melanoma patients (skin cancer) and sarcoma patients (cancer from the connective tissue) with clear signs of systemic effects on distant non-injected tumor lesions. This complete dataset was used to write the Clinical Study Report (CSR) - a legal document and part of a future commercial license.

- A Phase II study in soft-tissue sarcoma was opened (at Herlev hospital in Denmark) with the aim to demonstrate that strong immunological responses can be turned into better patient outcomes. The sarcoma study is using a technique called Adoptive T Cell Transfer (ATCT). ATCT with LTX-315 treatment works in the following order: 1. LTX-315 is injected into the tumor to generate the right killer T cells; 2. A few weeks later a surgeon removes the tumor; 3. In the lab killer T cells are isolated and cultured to massive amounts (billions of killer T cells); 4. Billions of killer T cells are reinfused into the patient's blood; and 5. The killer T cells circulate in the blood searching for and killing cancer cells. The ATCT study runs at the Center for Cancer Immune Therapy (CCIT) in Copenhagen, a world-class center for ATCT.

- Lytix presented scientific data at the most important international cancer congresses: AACR in April, Chicago; ASCO in June, Chicago; and SITC in November, Washington. Lytix presented to the business community at Jefferies in London in November and at NALS in New York. The scientific data and new strategy were very well received.

- A patent for LTX-315 in Europe was granted. In addition to 9 patents in other key markets (including US, Canada, Japan, and Australia), this patent will further strengthen the protection of Lytix' intellectual property rights in the field of anti-cancer peptides and related therapies.

Lytix is looking forward to an even busier 2019 with a focus to drive positive patient data in the sarcoma study, increase its financial position, and close co-development deals with pharmaceutical partners.

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 to retain 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 Group's 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 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Lytix' subsidiary Amicoat AS was demerged to current shareholders as per 1 January 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 as per 1 January 2017. The decision to carry out these transactions was made in December 2016 and was finalized in January 2017. As a consequence, the distribution was highly probable as of 31 December 2016 and the assets and liabilities related to the transactions are classified as held for distribution to owners (see note 3 and 25).

Operating income

Revenue for 2018 for the Group amounted to NOK 337 thousand compared to NOK 1,059 thousand in 2017. Other income, mainly public grants, amounted to NOK 11,501 thousand for 2018 compared to NOK 38,694 thousand for 2017.

Operating expenses

Total operating expenses decreased to NOK 74,206 thousand in 2018 from NOK 92,010 thousand in 2017 for the Group. Loss from operations for the Group amounted to NOK 62,368 thousand in 2018 compared to NOK 52,256 thousand in 2017. Lytix constituted NOK 74,206 thousand in operating expenses in 2018 (2017: NOK 92,010 thousand) and NOK 62,368 thousand in loss from operations for 2018 (2017: NOK 77,862 thousand).

Net financial items

Net financial items for the Group amounted to NOK 853 for 2018 compared to NOK (18,601) thousand for 2017. Lytix' net financial items constituted NOK 853 thousand in 2018 (2017: negative NOK 18,501 thousand). The negative net financial items in 2017 is a result of the exchange of warrants and the restructuring of the guarantee setup.

Net result

The loss for the period was NOK 61,515 thousand for 2018 compared to a loss of NOK 63,355 thousand for 2017. Lytix' loss for the period was NOK 61,515 thousand in 2018 (2017: NOK 96,363 thousand).

Financial position and cash flow

Cash and cash equivalents were NOK 49,621 thousand for the Group at the end of 2018 compared to NOK 34,957 thousand end of 2017. Cash position for Lytix was NOK 49,621 thousand by the end of 2018 (2017: NOK 34,957 thousand).

Total liabilities for the Group were NOK 21,849 thousand in 2018, including accrued, non-invoiced cost from ongoing projects (2017: 35,301 thousand). Total liabilities for Lytix constituted NOK 17,849 thousand by the end of 2018 (2017: NOK 35,301 thousand).

Shareholders' equity for the Group was NOK 37,050 thousand at the end of 2018, compared to NOK 11,791 thousand at the end of 2017. For Lytix, the equity position by year-end was positive with NOK 41,051 thousand in 2018 (2017: NOK 11,791 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 2018 result

The Group's annual result amounted to a loss of NOK 61,515 thousand. For Lytix the loss was NOK 61,515 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. 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 is planned to be conducted as one or several share issue(s) toward one single investor or a defined club of investors. The Company has engaged Swedbank to assist as the financial advisor. The share issue is planned to be finalized within end of 2019.

Non-financial risks

Technology risk

The Group's lead product candidate, LTX-315, is still at a relatively early stage (Phase II) 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; Hamina Patel, Chief Medical Officer; Øystein Rekdal, Chief Scientific Officer and Gjest Breistein, Chief Financial Officer. Lytix has the same management team.

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

The Group rents office in Oslo and laboratory facilities in the Oslo Cancer Cluster Incubator.

Health, safety and environment (HSE)

At the end of 2018, the Group had 9 employees (constituting 8 man-years), including both regular employees on payroll as well as contracted personnel - a decrease since 2017. The working environment is good. No accidents or injuries were reported in 2018. Absence due to illness was all short term and minimal, and in line with 2017.

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 0 % of the Board members and 25 % 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 30 October 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.

Board of Directors of Lytix Biopharma AS

The composition of the Board of Directors is as follows:
Espen Johnsen (Chair), Gert Wilhelm Munthe, Debasish Roychowdhury and Bernt Endrerud.

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

The Board of Directors held 11 Board meetings during the fiscal year 2018.

Significant events after 31 December 2018

There have been no material events occurring between the balance sheet date and the date when the accounts were presented providing new information about the conditions prevailing on the balance sheet date.

Oslo, May 28, 2019

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	2018	2017
Revenue	*2*	337	1,059
Other operating income	*3,4,20*	11,501	38,694
Total operating income		**11,838**	**39,754**
Payroll and related expenses	*6,18*	(19,496)	(21,427)
Depreciation and amortization expenses	*9*	(6)	(14)
Direct R&D expenses		(39,898)	(46,793)
Other expenses	*5,17,19*	(14,806)	(23,775)
Total operating expense		**(74,206)**	**(92,010)**
Loss from operations		**(62,368)**	(52,256)
Financial expenses	*7*	(511)	(21,157)
Financial income	*7*	1,364	2,556
Net financial items		**853**	**(18,601)**
Gain from distribution of associate	*20*	-	1,428
Loss before tax		**(61,515)**	**(69,429)**
Tax expense	*8*	-	-
Loss for the period from continuing operations		**(61,515)**	**(69,429)**
Profit/(Loss) for the period from discontinued operations	*20*	-	6,073
Loss for the period		**(61,515)**	**(63,355)**
Attributable to:			
Non-controlling interests		-	-
Equity holders of the parent		(61,515)	(63,355)

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		**(61,515)**	**(63,355)**

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in NOK thousands)	Notes	31.12.2018	31.12.2017
Assets			
Non-current assets			
Property, plant and equipment	9	-	6
Total non-current assets		-	6
Current assets			
Trade and other receivables	1,13	9,278	12,129
Cash and cash equivalents	1,14	49,621	34,957
Total current assets		**58,900**	**47,086**
Total assets		**58,900**	**47,092**
Shareholders equity and liabilities			
Issued capital and reserves			
Share capital	16	2,249	1,234
Share premium reserve	16	34,801	10,557
Equity contributed by Lytix Biopharma shareholders		**37,050**	**11,791**
Non-controlling interests		-	-
Total equity		**37,050**	**11,791**
Liabilities			
Current liabilities			
Paid-in share capital, unregistered	16	4,000	-
Trade payables	1	13,184	11,652
Other current liabilities	1,15	4,665	16,173
Other current financial liabilities	1,21	-	7,456
Total current liabilities		**21,849**	**35,301**
Total liabilities		**21,849**	**35,301**
Total equity and liabilities		**58,900**	**47,092**

Oslo, May 28, 2019

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	2018	2017
Cash flows from operating activities			
Loss for the period from continuing operations		(61,515)	(69,429)
Profit/(Loss) for the period from discontinued operations	*20*	-	6,073
Adjustments for:			
Depreciation and amortization expenses	*9,10*	6	14
Interest received		-	(304)
Share of profit and gain from associate	*20*	-	(1,428)
Share-based payment expense	*18*	3,495	1,030
Increase/decrease in trade and other receivables		2,850	(3,560)
Increase/decrease in trade and other payables		(17,452)	23,931
Distribution of LTX-109	*20*		(26,000)
Cash generated from operations		**(72,616)**	**(69,671)**
Income tax paid	*8*	-	-
Net cash flows from operations		**(72,616)**	**(69,671)**
Investing activities			
Demerger of subsidiary	*20*	-	(408)
Interest received		-	304
Net cash from /(used) in investing activities		**-**	**(104)**
Financing activities			
Proceeds from share issue	*16*	87,280	87,095
Net cash from/(used in) financing activities		**87,280**	**87,095**
Net increase in cash and cash equivalents		14,664	17,320
Cash and cash equivalents at the beginning of the period	*14*	34,957	17,637
Cash and cash equivalents at the end of the period		**49,621**	**34,957**
Cash from discontinued operations		-	-
Cash at the end of the period		**49,621**	**34,957**

GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in NOK thousands)	Notes	Share capital	Share premium reserve	Equity contributed by Lytix Biopharma shareholders	Non-controlling interest	Total equity
Balance at January 1, 2018		**1,234**	**10,557**	**11,791**	**-**	**11,791**
Comprehensive income for the period						
Loss for the period from continuing operations	*16*	-	(61,515)	**(61,515)**	-	**(61,515)**
Other comprehensive income		-	-	**-**	-	**-**
Total comprehensive income for the period			**(61,515)**	**(61,515)**	**-**	**(61,515)**
Contributions by owners	*16*	1,015	83,284	**84,299**	-	**84,299**
Transaction costs	*16*	-	(1,020)	**(1,020)**	-	**(1,020)**
Share based payment	*18*	-	3,495	**3,495**	-	**3,495**
Total contributions by and distributions to owners		**1,015**	**85,759**	**86,774**	**-**	**86,774**
Balance at December 31, 2018		**2,249**	**34,801**	**37,050**	**-**	**37,050**

(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 for the period	-	-	-	-	-
Total comprehensive income for the period	**-**	**(63,355)**	**(63,355)**	**-**	**(63,355)**
Contributions by owners	334	90,405	90,738	-	90,738
Transaction costs	(102)	(35,947)	(36,049)	41	(36,008)
Capital contributions from minorities	-	(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**

NOTES TO THE ANNUAL ACCOUNTS 2018

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 address is located in Sykehusvegen 23, 9019 Tromsø. Lytix Biopharma is a private clinical-stage biotech company developing proprietary oncolytic peptides as a novel immune therapy to fight cancer. The lead compound, LTX-315, turns cold tumors hot providing access to antigens and tumor infiltrating lymphocytes (TILs) using the patient's own tumor as source.

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 28, 2019.

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 two new standard or interpretations effective for the first time for periods beginning on or after January 1, 2018 that was assessed as potentially having a significant effect. None of the amendments to Standards that are effective from that date had a significant effect on the Group's financial statement:

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaced IAS 39 Financial Instrument: recognition and Measurement. The measurement of the Group's financial instruments is unchanged under IFRS 9 Financial Instruments. The implementation had no effect to the opening balance. For more information, please see section "Financial instruments" on the next page and Note 1.

IFRS 15 Revenue from contracts with customers 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 Group 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 Standard had no effect on the Group's financial statements, as the Group had no revenue from contracts with customers. For more information, please see Note 2.

New standards, interpretations and amendments

There was one new standard or interpretation effective for the first time for periods beginning on or after January 1, 2019 that is assessed to potentially have a significant effect. **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. For the analysis of the impact of the new standard, please see Note 17.

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, in accordance with IFRS 15 Revenue from contracts with customers.

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 2018 and 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 instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Group´s financial assets are: Trade receivables and cash and cash equivalents.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics and the Group’s business model for managing them. Apart from trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The Group considers measuring its financial assets in four other categories if the criteria’s in IFRS 9 is met:

- Financial assets at amortized cost
- Financial assets at fair value through OCI
- Equity instruments designated at fair value through OCI
- Derivatives at fair value designated as hedging instruments

All financial assets are currently measured as its fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group’s consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either
- the Group has transferred substantially all the risks and rewards of the asset, or
- the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Derivatives are recognized initially at fair value. Loans, borrowings and payables are recognized at fair value net of directly attributable transaction costs. The Group´s financial liabilities are: Trade payables, other payables and other current financial.

Loans, borrowings and payables

Payables are measured at their nominal amount when the effect of discounting is not material.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 Group 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 605 million (NOK 538 million in 2017) and a total deferred tax asset not recognized of NOK 133 million (NOK 124 million in 2017) (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.

The Group has no intangible assets as all ongoing projects have been classified as research. Therefore, there are no intangible assets in accordance with IAS 38 Intangible Assets.

Discontinued operations/held for distribution

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.

After the demerger in 2017, 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. 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 is planned to be conducted as one or several share issue(s) toward one single investor or a defined club of investors. The Company has engaged Swedbank to assist as the financial advisor. The share issue is planned to be finalized within end of 2019.

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’s finance function 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 2018 or 2017 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 2018	Gain/Loss 2017
EUR	+/- 10 %	(738)	(839)
GBP	+/- 10 %	(58)	(279)
CHF	+/- 10 %	-	(117)
SEK	+/- 10 %	(4)	(251)
USD	+/- 10 %	(101)	(109)

The 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 Group raised NOK 51 million in a private placement in April 2018. A part of this placement was result of conversion of guarantee fees into share capital. The Group raised further equity in June 2018 with gross proceeds of NOK 32 million. One of the Company's shareholder showed interest to invest NOK 4 million. The Board passed the resolution and raised the share capital with the equivalent amount. This share issue was registered in January 2019. The cash position of the Group at year end 2018 for continuing operations was NOK 50 million, compared to NOK 35 million in 2017.

Interest rate risk

The 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 1.4 million in financial income in 2018 and NOK 2.6 million in 2017.

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.

Financial instruments by category

(in NOK thousands) **At December 31, 2018**	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Held for sale	Total
Assets					
Financial assets held for sale	-	-	-	-	**-**
Derivatives	-	-	-	-	**-**
Trade receivables and other receivables	9,278	-	-	-	**9,278**
Cash and cash equivalents	49,621	-	-	-	**49,621**
Total	**58,900**	**-**	**-**	**-**	**58,900**

(in NOK thousands) **At December 31, 2018**	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities				
Financial assets held for sale	-	-	-	**-**
Derivatives	-	-	-	**-**
Trade payables and other payables (excluding statutory obligations)	-	-	16,846	**16,846**
Total	**-**	**-**	**16,846**	**16,846**

(in NOK thousands) At December 31, 2017	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Held for sale	Total
Assets					
Financial assets held for sale	-	-	-	-	**-**
Derivatives	-	-	-	-	**-**
Trade receivables and other receivables	12,129	-	-	-	**12,129**
Cash and cash equivalents	34,957	-	-	-	**34,957**
Total	**47,086**	**-**	**-**	**-**	**47,086**

(in NOK thousands) At December 31, 2017	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities	Total
Liabilities				
Financial assets held for sale	-	-	-	**-**
Derivatives	-	-	-	**-**
Trade payables and other payables (excluding statutory obligations)	7,456	-	26,243	**33,699**
Total	**7,456**	**-**	**26,243**	**33,699**

NOTE 2 - REVENUE

(in NOK thousands)	2018	2017
Revenue		
Provision of services	-	-
Other	337	1,059
Total Revenue	**337**	**1,059**

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 net gain on disposal of tangible assets that were already depreciated fully.

NOTE 3 – OTHER OPERATING INCOME

(in NOK thousands)	2018	2017
Other operating income		
Government grants recognized in profit and loss	11,486	12,694
Net gain on disposal of intangibles assets	-	26,000
Other	15	-
Other operating income	**11,501**	**38,694**

Other revenue consists of rental revenue for office space.

NOTE 4 – GOVERNMENT GRANTS

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

(in NOK thousands)	2018	2017
Government grants		
Tax refund SkatteFUNN (across all R&D activities)	6,819	7,040
Innovation Norway	-	684
The Norwegian Research Council (BIA grant)	4,667	4,970
Government grants	**11,486**	**12,694**

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 5 – OTHER OPERATING EXPENSES

(in NOK thousands)	2018	2017
Other operating expenses comprise:		
Consultancy fees and external personnel	8,146	13,691
Ordinary lease payments (note 17)	2,012	2,111
Expenses related to intellectual property rights	-	2,598
Other operating expenses	4,648	5,375
Other operating expenses	**14,806**	**23,775**

(in NOK thousands)	2018	2017
Specification of the auditor's fee		
Statutory audit	375	976
Other assurance services	-	-
Other non-assurance services	9	518
Tax consultant services	126	97
Total auditor's fee	**510**	**1,591**

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	13,021	16,804
Defined contribution pension cost	641	619
Share-based payment expense (note 18)	3,495	1,030
Social security contributions and similar taxes	2,221	2,123
Other personnel costs	118	850
Total payroll and related expenses	**19,496**	**21,427**

The number of man-years employed during the year:

	2018	2017
Number of man-years employed:	11	13

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 management consists of the Group Directors and had the following remuneration in 2018:

(in NOK thousands)	Salary	Pension cost	Share-based payments	Other remuneration	Total
Management team:					
Edwin Klumper, CEO	3,268	46	549	8	**3,871**
Øystein Rekdal, CSO	1,842	72	369	11	**2,294**
Hamina Patel, CMO[1]	-	-	-	2,991	**2,991**
Gjest A. Breistein, CFO	1,140	70	122	10	**1,342**
Board members (non-executive):					
Espen Johnsen, Chairman	-	-	1,673	-	**1,673**
Gert W. Munthe, member	300	-	-	-	**300**
Bernt Endrerud, member	-	-	-	-	**-**
Debasish F. Roychowdhury, member	200	-	-	-	**200**
Nomination Committee:					
Per Erik Sørensen	30	-	-	-	**30**
Lars Bakklund[2]	-	-	-	-	**-**
Claus Flinder[2]	20	-	-	-	**20**
Øystein Rekdal (incl.in figures above)	20	-	-	-	**20**

[1)] Hamina is 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)] Claus Flinder was replaced by Lars Bakklund in June 2018.

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.

For 2017, the remuneration was as follows:

(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 is 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 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

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

	2018	2017
Shares controlled by the management team and board members		
Management team:		
Øystein Rekdal, CSO	118,630	118,630
Board members (non-executive):		
Espen Johnsen, Chairman	1,211,592	806,130
Gert W. Munthe	2,154,527	2,007,540
Bernt Endrerud	1,608,080	773,430
No. of shares controlled by the management team and board members	5,092,829	**3,705,730**

2018	Opening balance	Granted	Lapsed	Ending balance
Options held by the management team				
Espen Johnsen, Chairman	-	600,000	-	600,000
Edwin Klumper, CEO	100,000	188,135	-	288,135
Øystein Rekdal, CSO	95,830	186,739	-35,250	247,319
Gjest Breistein, CFO	15,420	138,135	-	153,555
No. of options owned by the management team	**211,250**	**1,113,009**	**-35,250**	**1,289,009**

2017	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 Group operates three equity-settled share-based remuneration scheme for employees. See note 18.

NOTE 7 – FINANCIAL INCOME AND EXPENSES

(in NOK thousands)	2018	2017
Financial income		
Interest income	360	304
Foreign exchange gains	282	187
Other financial income	473	-
Fair value gain on warrants	248	2,065
Total financial income	**1,364**	**2,556**

(in NOK thousands)	2018	2017
Financial expenses		
Foreign exchange losses	474	847
Other financial expenses	37	101
Restructuring expenses	-	13,002
Guarantee fee (note 21)	-	7,207
Total financial expenses	**511**	**21,157**

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. The outstanding 2% of the warrants have expired in 2018. No warrants were used until they expired on December 20, 2018.

NOTE 8 - TAX

(in NOK thousands)	2018	2017
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)	2018	2017
Pre-tax profit (including discontinued operations)	(61,515)	(63,335)
Income taxes at 23 % / 24 %	**(14,148)**	**(15,205)**
Changes in unrecognized deferred tax asset	9,090	18,503
Change in tax rate	6,059	5,401
Demerger of Amicoat AS	-	1,714
Non-deductible expenses	(1,001)	(10,414)
Tax expense	**-**	**-**

From January 1, 2018 the tax rate in Norway was 23 %, and from January 1, 2019 the tax rate in Norway was reduced to 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:

	Consolidated balance sheet		Change	
(in NOK thousands)	2018	2017	2018	2017
Deferred tax assets				
Property, plant and equipment	261	510	(249)	271
Net tax on losses carried forward	133,061	123,723	9,338	(18,774)
Deferred tax assets	**133,323**	**124,233**	**9,090**	**(18,503)**
Net deferred tax assets	133,323	124,233	9,090	(18,503)
Net deferred tax assets not recognized	(133,323)	(124,233)	(9,090)	18,503
Net recognized deferred tax assets	**-**	**-**	**-**	**-**

Net deferred tax assets on losses carried forward amount to NOK 133 million as at December 31, 2018 (2017: NOK 124 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 605 million as at December 31, 2018 (2017: NOK 538 million) which has no due date.

NOTE 9 – PROPERTY PLANT AND EQUIPMENT

(in NOK thousands)	Machinery and equipment	Total 2018	Machinery and equipment	Total 2017
Carrying amount 1 January	6	6	20	20
Additions	-	-	-	-
Depreciation	(6)	(6)	(14)	(14)
Carrying value 31 December	**0**	**0**	**6**	**6**
As at 1 January				
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 1 January	**6**	**6**	**20**	**20**
As at 31 December				
Acquisition cost	2,479	2,479	**2,479**	2,479
Accumulated depreciation and write-downs	(2,479)	(2,479)	(2,473)	(2,473)
Carrying amount 31 December	**0**	**0**	**6**	**6**

NOTE 10 – INTANGIBLE ASSETS

The Group has no intangible assets as all ongoing projects have been classified as research. Therefore, there are no intangible assets in accordance with IAS 38 Intangible Assets.

NOTE 11 – SUBSIDIARIES

The subsidiary Amicoat AS was demerged to current shareholders in 2017. Its main operations were antimicrobial technology, and the Group had ownership interest and voting power on 92 % previous to the demerger. For more information, please see note 20.

NOTE 12 – INVESTMENTS IN ASSOCIATES

The associated company Pharmasum Therapeutics AS was demerged to Pharma Holdings AS in 2017. The primary business of Pharmasum Therapeutics AS was pharmaceutical development for the treatment of dementia. For more information, please see note 20.

NOTE 13 – TRADE AND OTHER RECEIVABLES

(in NOK thousands)	2018	2017
Trade receivables	229	765
Less: provisions for impairment of trade receivables	-	-
Trade receivables, net	**229**	**765**
Government grants	6,442	7,040
VAT	362	1,013
Prepayments	465	162
Other receivables	1,780	3,149
Total trade and other receivables	**9,278**	**12,129**

The Group has not made any impairment provisions for bad debt in 2018 or 2017.

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
2018	229	-	229	-	-	-
2017	765	569	295	-	-	-

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

NOTE 14 – CASH AND CASH EQUIVALENTS

(in NOK thousands)	2018	2017
Cash and cash equivalents		
Employee withholding tax	750	1,071
Variable rate bank accounts	48,871	33,886
Total cash and cash equivalents	**49,621**	**34,957**

NOTE 15 – OTHER CURRENT LIABILITIES

(in NOK thousands)	2018	2017
Other current liabilities		
Accrual for annual leave	1,152	1,269
Other accruals	2,243	269
Tax and social security payments	1,165	1,582
Other payables	105	13,056
Total other current liabilities	**4,665**	**16,173**

The decrease in other payables is mainly due to liabilities related to the IPO process in 2017.

NOTE 16 – SHARE CAPITAL AND SHAREHOLDER INFORMATION

(in NOK thousands)	Share capital	Share premium	Retained earnings	Total equity
Balance at January 1, 2018	**1,234**	**10,557**	**-**	**11,791**
Registration of share issue	1,015	82,265	-	83,280
Loss for the period	-	(61,515)	-	(61,515)
Share based agreement	-	3,495	-	3,495
Balance at December 31, 2018	**2,249**	**34,801**	**-**	**37,050**

Share capital at December 31, 2018 is NOK 2,249,378 (December 31, 2017: NOK 1,233,539), being 22,493,784 ordinary shares at a nominal value of NOK 0.1. All shares carry equal voting rights.

The Group has NOK 4,000,000 in paid-in share capital registered as a liability at year-end 2018 as the capital increase was not registered in the Norwegian company register before January 8th 2019.

	2018	2017
Change in the number of shares during the period was as follows		
Ordinary shares at January 1	12,335,388	1,001,806
Issue of ordinary shares before split[5)]	n/a	193,444
Issue of ordinary shares by Share Issue I - Private Placement A[1)]	6,069,782	n/a
Issue of ordinary shares by Share Issue I - Private Placement B[2)]	843,750	n/a
Issue of ordinary shares by Share Issue II[3)]	3,244,864	n/a
Sum	**22,493,784**	**1,195,750**
Share split	n/a	11,957,500
Issue of ordinary shares after share split[5)]	n/a	377,888
Ordinary shares per 31.12.2018	**22,493,784**	**12,335,388**
Issue of ordinary shares by Share Issue III – Not registered per December 31, 2018[4)]	400,000	n/a
Sum	**22,893,784**	**12,335,388**

[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.

[5)] On January 16, 2017, the Board of Directors approved the demerger plan with Amicoat Holding AS and Pharma Holdings AS. 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. In addition, there was an increase in share capital by issue of new shares and they were subscribed for in a private placement among existing shareholders.

Moreover, the General Meeting decided to make a share split in 2017. 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.

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.

Top 20 shareholders per December 31,2018

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	10 %
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	Jakon Hatteland Holding AS	1,000,000	3 %
7	Brødrene Karlsen Holding AS	709,273	3 %
8	Dansk Bank International S.A.	685,184	3 %
9	Mikael Lönn	616,967	3 %
10	Lynes Invest AS	615,654	2 %
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	Jahatt AS	250,000	1 %
16	Kreftforeningen	218,000	1 %
17	Frewi AS	200,010	1 %
18	Harila Invest AS	192,680	1 %
19	4 LB Invest AS	160,040	1 %
20	Norinnova Technology Transfer AS	155,790	1 %
	Total no. of shares for top 20 shareholders	**17,038,127**	**76 %**
	Total no. of shares for the other 292 shareholders	5,455,657	24%
	Total no. of shares (312 shareholders)	**22,493,784**	**100 %**

NOTE 17 – LEASES

(in NOK thousands)	2018	2017
Operating leases		
Ordinary lease payments	2,012	2,111
Total operating leases	**2,012**	**2,111**

(in NOK thousands)	2018	2017
Within 1 year	1,275	2,079
1 to 5 years	2,206	3,106
After 5 years	-	-
Sum	**3,480**	**5,185**

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

Effect of IFRS 16 Lease

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27. Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard sets out principles for recognition, measurement, presentation and disclosure of leases for both parties in a lease, i.e. the customer (lessee) and provider (lessor). The new standard requires that the lessee recognizes assets and liabilities for most leases, which is a significant change from current policies. For lessors, IFRS 16 essentially continues existing principles from IAS 17. In line with this, a lessor shall continue to classify their leases as operating leases or finance leases and report these two types of leases separately.

The standard is effective for annual periods beginning on or after 1 January 2019 and the Group expects to implement the standard by applying the modified retrospective approach.

IFRS 16 is considered to be applicable for the rental agreement in Hoffsveien 4 in Oslo and for the incubator rental agreement with Oslo Cancer Cluster Incubator AS. Shared cost is expensed as incurred, and therefore not included in the calculation of the effect of IFRS 16.

It is expected that IFRS 16 will have the following effect:

Non-current assets increase with NOK 2.5 million. Liabilities increase with NOK 2.5 million. The equity ratio will be reduced to 60 % from 63 % in 2018. Equity will not be changed due to IFRS 16.

The discount rate applied to calculate the use of the assets will be decided in accordance with IFRS 16.26.

NOTE 18 – SHARE OPTION AGREEMENT

Since 2013 Lytix has established five share-based incentive programs (A, B, C, D and Chairman) 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, 2018.

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, 2018, a total of 137,020 share options were reserved for certain specific individuals. A total of 90,320 share options are forfeited because the individual is no longer employed by the Company. The expiry date for program B is December 31, 2021.

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 50,000 share options were reserved for certain specific individuals. A total of 30,000 share options are forfeited because the individual is no longer employed by the Company. The expiry date for program C is December 31, 2021.

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, 2018, a total of 993,253 share options were reserved for certain specific individuals, whereof 761,860 were allotted to these individuals through share option agreements. The remaining 231,393 options are subject to successful share issue. The expiry date for program D is May 1, 2023.

In all programs above, 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.

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.

Incentive Program Chairman 2018/2023

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 is May 1, 2023.

2018 (1/2)	Program D		Chairman	
	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**

2018 (2/2)	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**

A total of 50,000 of the options granted for program B, and 50,000 of the options granted for program C 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.

For program D, a total of 432,200 of the options granted during the period is subject to a vesting period. The options are subject to quarterly vesting up until the expiry date. A total of 25,424 options in program D vested during 2018.

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	70.0	(94,030)	35.0	(28,000)	-	-
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	-	-	-	-	-	-
Outstanding at December 31, 2017	**70.0**	**160,980**	**35.0**	**227,340**	**27.2**	**80,000**

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:

2018 Equity settled	Program D	Chairman
Option pricing model used	Black & Scholes	
Weighted average share price at grant date (NOK)	10.0	10.0
Exercise price (NOK)	20.0	25.0
Expected volatility	58.4 %	58.4 %
Expected dividend growth rate	0	0
Risk-free interest rate	1.5 %	1.5 %

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 %

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of comparable companies.

The share-based remuneration expense comprises:

(in NOK thousands)	2018	2017
Equity settled schemes	3,495	1,030
Total remuneration expense	**3,495**	**1,030**

NOTE 19 – TRANSACTIONS WITH RELATED PARTIES

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

(in NOK thousands)	2018	2017
GHW Consulting AB (Håkan Wickholm)	2,333	4,108
Nirvan Consultants LLC (D. F. Roychowdhury)	-	411

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)	2018	2017
GHW Consulting AB (Håkan Wickholm)	-	534
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. 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)	2018	2017
Revenue	-	93
Other operating income	-	399
Total operating income	**-**	**491**
Payroll and related expenses	-	(499)
Other expenses	-	(2,806)
Total operating expenses	**-**	**(3,305)**
Profit/(Loss) from operations	**-**	**(2,814)**
Net financial items	-	(33)
Gain from distribution of associate	-	8,920
Profit before tax	**-**	**6,073**
Tax expense	-	-
Loss for the period from discontinued operations	**-**	**6,073**
Earnings per share		
Basic, profit/(loss) for the year from discontinued operations (NOK)	-	0.5
Diluted, profit/(loss) for the year from discontinued operations (NOK)	-	0.5

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)	2018	2017
The net cash flows incurred by Amicoat AS are as follows:		
Operating	-	(2,134)
Investing	-	-
Financing	-	-
Net cash (outflow)/inflow	**-**	**(2,134)**

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”.

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)	2018	2017
Share of post-tax profits of equity accounted investments	-	-
Gain from distribution of associate	-	1,428

NOTE 21 – GUARANTEE COMMITMENT

The two financing rounds conducted in the 2017 Q1 and 2017 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 had at December 31, 2017 a subscription commitment for the public listing of NOK 43,616 thousand. The accounting effects are a result of this being conducted in 2017 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 9,774 warrants is estimated to be NOK 248 thousand.

No warrants have been exercised in 2018 and the 9,774 outstanding warrants expired on December 20, 2018.

(in NOK thousands)	2018	2017
Other current financial liabilities		
Guarantee fee (note 7)	-	7,207
Outstanding warrants	-	248
Other current financial liabilities	**-**	**7,456**

NOTE 22 – CONTINGENT LIABILITIES

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

NOTE 23 – EVENTS AFTER THE REPORT DATE

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

PARENT FINANCIAL STATEMENTS

PARENT STATEMENT OF COMPREHENSIVE INCOME

(in NOK thousands)	Notes	2018	2017
Revenue	*1*	337	1,453
Other operating income	*2,3*	11,501	12,694
Total operating income		**11,838**	**14,147**
Payroll and related expenses	*5,16*	(19,496)	(21,427)
Depreciation and amortization expenses	*8,9*	(6)	(14)
Direct R&D expenses		(39,898)	(46,793)
Other expenses	*4,15,17*	(14,806)	(23,775)
Total operating expense		**(74,206)**	**(92,010)**
Loss from operations		**(62,368)**	**(77,862)**
Financial expenses	*6*	(511)	(21,057)
Financial income	*6*	1,364	2,556
Net financial items		**853**	**(18,501)**
Loss before tax		**(61,515)**	**(96,363)**
Tax expense	*7*	-	-
Loss for the period		**(61,515)**	**(96,363)**
Transfers:			
Transfers to/from reserves		(61,515)	(96,363)
Transfers to/from other equity		-	-
Total transfers and allocations		**(61,515)**	**(96,363)**

PARENT STATEMENT OF FINANCIAL POSITION

(in NOK thousands)	Notes	31.12.2018	31.12.2017
Assets			
Non-current assets			
Property, plant and equipment	*8*	-	6
Total non-current assets		**-**	**6**
Current assets			
Trade and other receivables	*11*	9,278	12,129
Cash and cash equivalents	*12*	49,621	34,957
Total current assets		**58,900**	**47,086**
Total assets		**58,900**	**47,092**
Shareholders equity and liabilities			
Issued capital and reserves			
Share capital		2,249	1,234
Paid-in share capital, unregistered	*14*	4,000	-
Share premium reserve		34,801	10,557
Total equity	***14***	**41,051**	**11,791**
Liabilities			
Current liabilities			
Trade payables		13,184	11,672
Other current liabilities	*13*	4,665	16,173
Other current financial liabilities	*19*	-	7,456
Total current liabilities		**17,849**	**35,301**
Total liabilities		**17,849**	**35,301**
Total equity and liabilities		**58,900**	**47,092**

Oslo, May 28, 2019

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	2018	2017
Cash flows from operating activities			
Loss for the period		(61,515)	(96,363)
Adjustments for:			
Depreciation and amortization expenses	*8,9*	6	14
Interest received	*6*	-	(304)
Share-based payment expense	*16*	3,495	1,030
Increase/decrease in trade and other receivables		2,850	1,595
Increase/decrease in trade and other payables		(17,452)	23,949
Cash generated from operations		**(72,616)**	(70,079)
Income tax paid	*7*	-	-
Net cash flows from operations		**(72,616)**	(70,079)
Investing activities			
Demerger of subsidiary	*18*	-	(408)
Interest received	*6*	-	304
Net cash from /(used) in investing activities		**-**	(104)
Financing activities			
Proceeds from share issue	*14*	87,280	87,095
Net cash from/(used in) financing activities		**87,280**	87,095
Net increase in cash and cash equivalents		14,664	16,912
Cash and cash equivalents at the beginning of the period		34,957	18,045
Cash and cash equivalents at the end of the period		**49,621**	34,957

NOTES TO THE ANNUAL ACCOUNTS 2018

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, 2019.

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 is planned to be conducted as one or several share issue(s) toward one single investor or a defined club of investors. The Company has engaged Swedbank to assist as the financial advisor. The share issue is planned to be finalized within end of 2019.

NOTE 1 - REVENUE

(in NOK thousands)	2018	2017
Revenue		
Provision of services	-	-
Other	337	1,453
Total Revenue	**337**	**1,453**

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.

NOTE 2 – OTHER OPERATING INCOME

(in NOK thousands)	2018	2017
Other operating income		
Government grants recognized in profit and loss	11,4986	12,694
Other	15	-
Other operating income	**11,501**	**12,694**

NOTE 3 – GOVERNMENT GRANTS

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

(in NOK thousands)	2018	2017
Government grants		
Tax refund (across all R&D activities)	6,819	7,040
Innovation Norway	-	684
The Norwegian Research Council (BIA grant)	4,667	4,950
Other operating income	**11,486**	**12,694**

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)	2018	2017
Specification of the auditor's fee		
Statutory audit	375	976
Other non-assurance services	9	518
Tax consultant services	126	97
Total auditor's fee	**510**	**1,591**

VAT is not included in the fees specified above.

NOTE 5 – PAYROLL AND RELATED EXPENSES

(in NOK thousands)	2018	2017
Payroll and related expenses, including directors, comprise:		
Wages and salaries	13,021	16,804
Defined contribution pension cost	641	619
Share-based payment expense (note 16)	3,495	1,030
Social security contributions and similar taxes	2,221	2,123
Other personnel costs	118	850
Total payroll and related expenses	**19,496**	**21,427**

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:

	2018	2017
Number of man-years employed	11	13

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

Management remuneration 2018

(in NOK thousands)	Salary	Pension cost	Share-based payments	Other remuneration	Total
Management team:					
Edwin Klumper, CEO	3,268	46	549	8	**3,871**
Øystein Rekdal, CSO	1,842	72	369	11	**2,294**
Hamina Patel, CMO[1]	-	-	-	2,991	**2,991**
Gjest A. Breistein, CFO	1,140	70	122	10	**1,342**
Board members (non-executive):					
Espen Johnsen, Chairman	-	-	-	1,673	**1,673**
Gert W. Munthe, member	300	-	-	-	**300**
Bernt Endrerud, member	-	-	-	-	**-**
Debasish F. Roychowdhury, member	200	-	-	-	**200**
Nomination Committee:					
Per Erik Sørensen	30	-	-	-	**30**
Lars Bakklund[2]	-	-	-	-	**-**
Claus Flinder[2]	20	-	-	-	**20**
Øystein Rekdal (incl.in figures above)	20	-	-	-	**20**

[1)] Hamina is 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.). Other remuneration could also include refund of travel and other expenses.

[2)] Claus Flinder was replaced by Lars Bakklund in June 2018.

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.

	2018	2017
Shares controlled by the management team and board members		
Management team:		
Øystein Rekdal, CSO	118,630	118,630
Board members (non-executive):		
Espen Johnsen, Chairman	1,211,592	806,130
Gert W. Munthe	2,154,527	2,007,540
Bernt Endrerud	1,608,080	773,430
No. of shares controlled by the management team and board members	5,092,829	**3,705,730**

2018	Opening balance	Granted	Lapsed	Ending balance
Options held by the management team				
Espen Johnsen, Chairman	-	600,000	-	600,000
Edwin Klumper, CEO	100,000	188,135		288,135
Øystein Rekdal, CSO	95,830	186,739	-35,250	247,319
Gjest Breistein, CFO	15,420	138,135		153,555
No. of options owned by the management team	**211,250**	**1,113,009**	**-35,250**	**1,289,009**

2017	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 16.

NOTE 6 – FINANCE INCOME AND EXPENSE

(in NOK thousands)	2018	2017
Financial income		
Interest income	360	304
Foreign exchange gains	282	187
Foreign exchange gains	473	-
Fair value gain on warrants	248	2,065
Total financial income	**1,364**	**2,556**

(in NOK thousands)	2018	2017
Financial expenses		
Foreign exchange losses	474	847
Other financial expenses	37	1
Restructuring expenses	-	13,002
Guarantee fee (note 19)	-	7,207
Total financial expenses	**511**	**21,057**

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. The outstanding 2% of the warrants have expired in 2018. No warrants were used until they expired on December 20, 2018.

NOTE 7 – TAX

(in NOK thousands)	2018	2017
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)	2018	2017
Pre-tax profit (including discontinued operations)	(61,844)	(96,363)
Income taxes at 23 % / 24 %	**(14,224)**	**(23,127)**
Changes in unrecognized deferred tax asset	9,090	20,218
Change in tax rate	6,059	5,401
Non-deductible expenses	(1,001)	-2,492
Tax expense	-	-

From January 1, 2018 the tax rate in Norway was to 23 %, and from January 1, 2019 the tax rate in Norway was reduced to 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	
	2018	2017	2018	2017
Deferred tax assets				
Property, plant and equipment	261	510	-249	(271)
Net tax on losses carried forward	131,061	123,723	9,338	(20,489)
Deferred tax assets	**133,323**	**124,233**	**9,090**	**(20,218)**
Net deferred tax assets	133,323	124,233	9,090	(20,218)
Net deferred tax assets not recognized	(131,323)	(124,233)	(9,090)	20,218
Net recognized deferred tax assets	-	-	-	-

Deferred tax assets on losses carried forward, in total NOK 133 million as at December 31, 2018 (2017: NOK 124 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 605 million as at December 31, 2018 (2017: NOK 538 million) which has no due date.

NOTE 8 – PROPERTY PLANT AND EQUIPMENT

(in NOK thousands)	Machinery and equipment	Total 2018	Machinery and equipment	Total 2017
Carrying amount January 1	6	6	20	20
Additions	-	-	-	-
Depreciation	(6)	(6)	(14)	(14)
Carrying value December 31	**-**	**-**	**6**	**6**
As at 1 January				
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 January 1	**6**	**6**	**20**	**20**
As at December 31				
Acquisition cost	2,479	2,479	2,479	2,479
Accumulated depreciation and write-downs	(2,479)	(2,479)	(2,473)	(2,473)
Carrying amount December 31	**-**	**-**	**6**	**6**

NOTE 9 – INTANGIBLE ASSETS

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

NOTE 10 – SUBSIDIARIES AND ASSOCIATES

The subsidiary Amicoat AS was demerged to current shareholders in 2017. Its main operations were antimicrobial technology, and the Group had ownership interest and voting power on 92 % previous to the demerger.

NOTE 11 – TRADE AND OTHER RECEIVABLES

(in NOK thousands)	2018	2017
Trade receivables	229	765
Less: provisions for impairment of trade receivables	-	-
Trade receivables, net	**229**	**765**
Government grants	6,442	7,040
VAT	362	1,013
Prepayments	465	162
Other receivables	1,780	3,149
Total trade and other receivables	**9,278**	**12,129**

NOTE 12 – CASH AND CASH EQUIVALENTS

(in NOK thousands)	2018	2017
Cash and cash equivalents		
Employee withholding tax	750	1,071
Variable rate bank accounts	48,871	33,886
Total cash and cash equivalents	**49,621**	**18,045**

NOTE 13 – OTHER CURRENT LIABILITIES

(in NOK thousands)	2017	2017
Other current liabilities		
Accrual for annual leave	1,152	1,269
Other accruals	2,243	269
Tax and social security payments	1,165	1,582
Other payables	105	13,056
Total other current liabilities	**4,665**	**16,173**

NOTE 14 – EQUITY AND SHARE CAPITAL

(in NOK thousands)	Share capital	Share premium	Paid-in share capital – Unreg.	Total equity
Balance at January 1, 2018	**1,234**	**10,557**	**-**	**11,791**
Registration of share issue	1,015	82,265	-	83,280
Paid-in share capital – Unregistered	-	-	4,000	4 000
Loss for the period	-	(61,515)	-	(61,515)
Share based payments	-	3,495	-	3,495
Balance at December 31, 2018	**2,249**	**34,801**	**4,000**	**41,051**

Share capital at December 31, 2018 is NOK 2,249,378 (December 31, 2017: NOK 1,233,539), being 22,493,784 ordinary shares at a nominal value of NOK 0.1. All shares carry equal voting rights.

	2018	2017
Change in the number of shares during the period was as follows		
Ordinary shares at January 1	12,335,388	1,001,806
Issue of ordinary shares before split5)	n/a	193,444
Issue of ordinary shares by Share Issue I - Private Placement A1)	6,069,782	n/a
Issue of ordinary shares by Share Issue I - Private Placement B2)	843,750	n/a
Issue of ordinary shares by Share Issue II3)	3,244,864	n/a
Sum	**22,493,784**	**1,195,750**
Share split	n/a	11,957,500
Issue of ordinary shares after share split5)	n/a	377,888
Ordinary shares per 31.12.2018	**22,493,784**	**12,335,388**
Issue of ordinary shares by Share Issue III – Not registered per December 31, 20184)	400,000	n/a
Sum	**22,893,784**	**12,335,388**

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.

[5)] On January 16, 2017, the Board of Directors approved the demerger plan with Amicoat Holding AS and Pharma Holdings AS. The share capital of the Company 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. In addition, there was an increase in share capital by issue of new shares and they were subscribed for in a private placement among existing shareholders.

Moreover, the General Meeting decided to make a share split in 2017. 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.

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.

Top 20 shareholders as of December 31, 2018:

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	10 %
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	Jakon Hatteland Holding AS	1,000,000	3 %
7	Brødrene Karlsen Holding AS	709,273	3 %
8	Dansk Bank International S.A.	685,184	3 %
9	Mikael Lönn	616,967	3 %
10	Lynes Invest AS	615,654	2 %
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	Jahatt AS	250,000	1 %
16	Kreftforeningen	218,000	1 %
17	Frewi AS	200,010	1 %
18	Harila Invest AS	192,680	1 %
19	4 LB Invest AS	160,040	1 %
20	Norinnova Technology Transfer AS	155,790	1 %
	Total no. of shares for top 20 shareholders	**17,038,127**	**76 %**
	Total no. of shares for the other 292 shareholders	5,455,657	24%
	Total no. of shares (312 shareholders)	**22,493,784**	**100 %**

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)	2018	2017
Operating leases		
Ordinary lease payments	2,012	2,111
Total operating leases	**2,012**	**2,111**

(in NOK thousands)	2018	2017
Within 1 year	1,275	2,079
1 to 5 years	2,206	3,106
After 5 years	-	-
Sum	**3,480**	**5,185**

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

NOTE 16 – SHARE OPTION AGREEMENT

Since 2013 Lytix has established five share-based incentive programs (A, B, C, D and Chairman) 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, 2018.

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, 2018, a total of 137,020 share options were reserved for certain specific individuals. A total of 90,320 share options are forfeited because the individual is no longer employed by the Company. The expiry date for program B is December 31, 2021.

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 50,000 share options were reserved for certain specific individuals. A total of 30,000 share options are forfeited because the individual is no longer employed by the Company. The expiry date for program C is December 31, 2021.

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, 2018, a total of 993,253 share options were reserved for certain specific individuals, whereof 761,860 were allotted to these individuals through share option agreements. The remaining 231,393 options are subject to successful share issue. The expiry date for program D is May 1, 2023.

In all programs above, 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.

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.

Incentive Program Chairman 2018/2023

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 is May 1, 2023.

2018 (1/2)	Program D		Chairman	
	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**

2018 (2/2)	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**

A total of 50,000 of the options granted for program B, and 50,000 of the options granted for program C 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.

For program D, a total of 432,200 of the options granted during the period is subject to a vesting period. The options are subject to quarterly vesting up until the expiry date. A total of 25,424 options in program D vested during 2018.

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	70.0	(94,030)	35.0	(28,000)	-	-
Exercised during the period	-	-	-	-	-	-
Lapsed during the period	-	-	-	-	-	-
Outstanding at December 31, 2017	**70.0**	**160,980**	**35.0**	**227,340**	**27.2**	**80,000**

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:

2018 Equity settled	Program D	Chairman
Option pricing model used	Black & Scholes	
Weighted average share price at grant date (NOK)	10.0	10.0
Exercise price (NOK)	20.0	25.0
Expected volatility	58.4 %	58.4 %
Expected dividend growth rate	0	0
Risk-free interest rate	1.5 %	1.5 %

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 %

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of comparable companies.

The share-based remuneration expense comprises:

(in NOK thousands)	2018	2017
Equity settled schemes	3,495	1,030
Total remuneration expense	**3,495**	**1,030**

NOTE 17 – TRANSACTIONS WITH RELATED PARTIES

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

(in NOK thousands)	2018	2017
GHW Consulting AB (Håkan Wickholm)	2,333	4,108
Nirvan Consultants LLC (D. F. Roychowdhury)	-	411

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 Company has the following balances with related parties

(in NOK thousands)	2018	2017
GHW Consulting AB (Håkan Wickholm)	-	534
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 in 2017, 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 9,774 remaining warrants is estimated to be NOK 248 thousand.

No warrants have been exercised in 2018 and the outstanding 9,774 warrants expired on December 20, 2018.

(in NOK thousands)	2018	2017
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

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

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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

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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 2018, statement of comprehensive income, statements of cash flows and changes in equity 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 2018, 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 2018, 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 2018 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.

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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, 29 May 2019
ERNST & YOUNG AS

Kai Astor Frøseth

Kai Astor Frøseth
State Authorised Public Accountant (Norway)

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